

- ♦ Strong risk adjusted full year results of US\$ 11.9% net of fees (C\$ 12.3% net);
- ♦ Robust Alpha Fund results allowed it to place 3rd in the best new hedge fund category by the Hedge Fund Hotel group in Canada;
- ♦ Multi-strategy market neutral approach resulted in very low annualized volatility of 5.4% and solid risk adjusted returns.

Formula Growth Alpha Fund 4th Quarter and 2013 Results

Dear Investors,

Quarterly and Full Year Review

For the full year 2013, the Alpha Fund generated a net US\$ +11.9 return (C\$ 12.3% net), while maintaining an average net exposure to the market of negative 1.9%. We are very pleased with our second full year of performance in this strategy and are especially proud of the strong risk adjusted returns. The annualized daily volatility of the fund was 5.4%, roughly half and a third of the S&P500 and the Russell 2000 respectively. Strong security selection allowed us to participate in the markets upside while effective shorts and portfolio hedges provided positive results for our investors, namely during periods of market weakness such as in June and August. Low volatility, strong downside protection and security selection enabled us to finish 2013 with a Sharpe Ratio of 3.0.

In 2013, stock markets generated strong returns as market participants shrugged off macro concerns which had dominated news headlines since 2008. Market returns this year were in part driven by an increase in company earnings per share and an increase in the earnings multiple, a sign of rising confidence from investors. This increase was fuelled by better expected economic growth from developing markets, fund flows away from the bond markets, and the increase in liquidity made available by Central Banks around the world. Given the market's strong returns in 2013 and the start of the Federal Reserve reducing its support through Quantitative Easing, the probability of downside moves have increased and more volatility could be expected in 2014.

Against the backdrop of potentially more volatile markets, the Alpha Fund continues to focus on its primary mandate of capital preservation. As you may recall the primary value added of the fund originates from our bottom-up stock picking process which has been honed for over 53+ years at Formula Growth. This process seeks for Alpha Short and Alpha Long opportunities in order to generate positive absolute returns irrespective of the overall market direction. Furthermore, our risk mitigation tools which include portfolio hedges and pair trades (stocks which are bought or shorted to offset a specific systematic risk), are designed to help mitigate market dislocations. These four tools (Alpha Longs, Alpha Shorts, Hedges and Pair Trades) have for the past two

years helped us compound approximately 68% of the S&P500 TR returns with very limited losses in periods of market weakness. For example, the largest market drawdown in the past two years occurred in the 3rd and 4th quarter of 2012 with the S&P500 and Russell 2000 down 7.7% and 11.0% respectively. Over the same time period, the Fund had lost 2.3% and was able to capture the upside once markets began to recover.

Relative Return Analysis

| | Full Year 2013 | | | Strategy Inception-to-Date | | |
|---------------------------------------|----------------|--------|--------|----------------------------|--------|---------|
| | Alpha II | S&P500 | R2000 | Alpha II | S&P500 | R2000 |
| Statistical Analysis | | | | | | |
| Annualized Deviation of Daily Returns | 5.4% | 11.1% | 14.8% | 7.2% | 11.9% | 16.0% |
| Sharpe Ratio based on Daily Returns | 3.0 | 2.6 | 2.5 | 2.9 | 1.7 | 1.6 |
| Strategy Correlation | | 14.1% | 18.7% | | 37.5% | 39.8% |
| Up Market Analysis | | | | | | |
| Number of Up Days | 151 | 147 | 146 | 296 | 279 | 267 |
| Largest Daily Gain | 1.5% | 2.5% | 2.8% | 2.7% | 2.5% | 2.9% |
| Strategy % Up Capture | | 14.6% | 11.2% | | 32.7% | 21.3% |
| Down Market Analysis | | | | | | |
| Number of Down Days | 101 | 105 | 105 | 206 | 223 | 235 |
| Largest Daily Loss | (1.1%) | (2.5%) | (3.8%) | (1.6%) | (2.5%) | (3.8%) |
| Largest Draw Down from Peak | (3.0%) | (5.8%) | (5.4%) | (6.5%) | (9.9%) | (12.9%) |
| Strategy % Down Capture | | (8.7%) | (6.4%) | | 9.6% | 3.2% |

In Q4, the fund maintained an average net exposure to the market of -1.9% and generated positive returns of 3.9% net of fees (C\$ 4.1% net) vs. 10.5% for the SP500 and 8.7% for the Russell 2000. For the period, volatility of the Alpha Fund was well below major market index averages, with annualized daily volatility of 5.7% vs. 10.4% for the SP500 and 14.5% for the Russell 2000. For most of the year, returns were uncorrelated when compared to the SP500. Instead of being driven by the daily whims of market participants, daily fund returns were the expression of what our stock picking generated on any given day.

As market returns were strong throughout 2013 we feel important to highlight the defensive nature of the Alpha Fund, and would point to the negative downside capture of -8.7% by the Fund versus the S&P500. This measure means that on average, if the market was down 1% the fund was up 0.08%. The attributes of low volatility, low correlation and negative downside capture, should continue to serve our investors well in periods of market stress or dislocation.

Portfolio Positioning

Our positioning for the fourth quarter and full year varied only slightly, maintaining a mostly neutral positioning to the market throughout the year and focusing on strong stock selection instead of market timing. Only at the end of December did we decrease our net exposure to -5.7% as we were getting increasingly worried about consumer data. Our Alpha Long exposure remained mostly constant in the mid 60's as we sold profitable investments and were able to find replacements with good upside potential. This process is getting harder as the market enters its 5th year of the current bull market. Profitable short investment were challenging to hold as markets continued their march upwards. We will strive in 2014 to replace a portion of our hedges with potential Alpha Shorts in search for positive absolute returns.

Strategy Breakdown

| | Sep-30 | Q4 Avg. | Dec-31 | YTD Avg. |
|-------------|--------|---------|--------|----------|
| Pair Trade | 2.5% | 3.3% | 0.0% | 8.6% |
| Hedge | 51.7% | 56.0% | 56.6% | 46.5% |
| Alpha Long | 66.1% | 65.4% | 63.4% | 59.1% |
| Alpha Short | 12.7% | 11.8% | 12.4% | 15.4% |

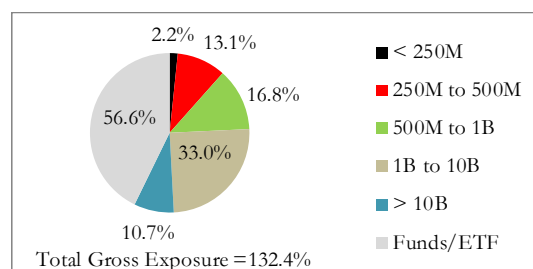
Market and Beta Exposure

| | Sep-30 | Q4 Avg. | Dec-31 | YTD Avg. |
|--------------|---------|---------|---------|----------|
| Gross Long | 66.4% | 67.3% | 63.4% | 63.8% |
| Gross Short | (66.6%) | (69.1%) | (69.1%) | (65.7%) |
| Net | (0.1%) | (1.9%) | (5.7%) | (1.9%) |
| Total Gross | 133.0% | 136.4% | 132.4% | 129.6% |
| Net Raw Beta | 0.09 | 0.02 | -0.02 | 0.07 |

Positions (Period End) and Returns by Market Cap

| | # of Longs | # of Shorts | Total | Q4 | 2013 |
|--------------|------------|-------------|-----------|-------------|--------------|
| < 250M | 3 | 0 | 3 | (0.1%) | 2.3% |
| 250 to 500M | 9 | 0 | 9 | 1.3% | 6.4% |
| 500M to 1B | 12 | 2 | 14 | 1.9% | 8.1% |
| 1B to 10B | 12 | 13 | 25 | 4.5% | 10.2% |
| > 10B | 4 | 2 | 6 | 1.3% | 2.4% |
| ETF Hedges | 0 | 4 | 4 | (3.4%) | (11.5%) |
| Total | 40 | 21 | 61 | 5.5% | 17.7% |

Market Cap Breakdown (Period End)



Strategy Gross Attribution

| | Q1 | Q2 | Q3 | Q4 | 2013 |
|-------------|--------|--------|--------|--------|---------|
| Pair Trade | 0.6% | (0.1%) | 0.1% | 0.4% | 1.0% |
| Hedge | (4.7%) | (0.4%) | (3.6%) | (3.3%) | (11.5%) |
| Alpha Long | 6.1% | 4.8% | 10.9% | 8.4% | 33.7% |
| Alpha Short | (0.4%) | (0.8%) | (1.2%) | 0.2% | (2.2%) |

Quarterly Portfolio Attribution

During the quarter, 25 individual names contributed more than 10bps to overall return, with 5 of these being new positions initiated during the period. The quarter saw strong contribution from some of our higher conviction position with 4 names contributing over 75bps each to total return.

The Alpha long book had a strong quarter returning 8.4% gross on an average gross exposure of 65.4%. More impressively, the Alpha Short book was profitable, in a market that was up over 10%, returning 0.2% gross on an average gross exposure of 11.8%. Our hedges again outperformed the market losing only 3.3% on gross exposure of 56% and finally our Pair Trades contributed 0.4% in the quarter.

Net Exposure

| | Sep-30 | Q4 Avg. | Dec-31 |
|---------------|--------|---------|--------|
| Cons. Discr. | (4.5%) | (4.2%) | (4.9%) |
| Cons. Staples | (2.8%) | (3.4%) | (2.4%) |
| Energy | 1.6% | 0.1% | (1.3%) |
| Financials | 1.6% | 2.3% | 0.3% |
| Health Care | (0.7%) | (2.4%) | (3.7%) |
| Industrials | (2.9%) | (3.2%) | (2.5%) |
| IT | 2.7% | 6.1% | 7.6% |
| Materials | 5.6% | 3.5% | 1.9% |
| Telecom. | (0.1%) | (0.1%) | (0.2%) |
| Utilities | (0.6%) | (0.5%) | (0.6%) |

Sector Gross Attribution

| | October | November | December | Q4 | 2013 |
|---------------|---------|----------|----------|--------|--------|
| Cons. Discr. | 0.8% | (0.3%) | 0.3% | 0.8% | 5.4% |
| Cons. Staples | (0.0%) | 0.1% | 0.0% | 0.1% | (0.1%) |
| Energy | 3.2% | (0.3%) | (0.2%) | 2.6% | 2.4% |
| Financials | 0.8% | (0.4%) | 0.2% | 0.5% | 2.2% |
| Health Care | 0.3% | (0.1%) | (0.0%) | 0.2% | 0.9% |
| Industrials | 0.6% | 0.4% | (0.2%) | 0.8% | 2.9% |
| IT | (0.6%) | (0.0%) | 0.4% | (0.3%) | 1.4% |
| Materials | 0.7% | (0.2%) | 0.3% | 0.7% | 1.7% |
| Telecom. | (0.0%) | (0.0%) | (0.0%) | (0.0%) | 0.0% |
| Utilities | (0.0%) | (0.0%) | (0.0%) | (0.0%) | (0.1%) |

The major contributors to fourth quarter performance were the Energy Sector adding 2.6%, the Consumer Discretionary Sector and the Industrials sector that both added 0.8% to gross returns.

Energy

While the fund maintained a neutral posture in Energy during the quarter, 4 of our top 10 contributors originated from this sector. The position contributing the most was Clayton Williams Energy with +208bps (CWEI). We had closely followed the stock for several years before investing as our research indicated strong conservatism by the management team and poor coverage which lead the street to misunderstand the company's very large acreage position in the Permian and Eagleford shale oil area. We continue to like the company going forward and it remains a top 10 holding in the Alpha Fund.

Our biggest loss in the quarter came from Goodrich Petroleum which lost 80 bps (net of hedge positions). This higher conviction name had a sharp sell-off when one of their wells encountered some mechanical difficulties causing a knee jerk reaction by investors. Our stop loss process prompted us to cut the position by 1/3. We remain confident in its long term prospects despite the sell-off.

Consumer Discretionary

Despite our conservative positioning arising from expectations of a difficult consumer environment, the sector was our 2nd best during the quarter. Our net exposure levels in the sector remained negative throughout Q4, beginning and ending in the mid 4% range. While our security selection was very strong in Q4, the negative positioning was incorrect with the sector performing strongly. It did however serve us well so far in Q1 2014 as the consumer sector is the worst performing sector so far in the new year.

Our best performing stock contributing +122bps to the total return was Apollo Education, a for profit education company operating primarily in the U.S. as well as internationally. We had extensive involvement in the for profit education space in 2008 and 2009 and know the group very well. We got re-involved in the name at the end of 2012 as we felt that fundamentals were bottoming. Apollo had significantly improved and streamlined the organization and valuation was very compelling at 2 times EBITDA. We felt that as soon as the market got comfort that fundamentals had bottomed, it would re-value the stock higher. We have recently reduced its size to 2% post the significant rally in the stock. We continue to like the stock today and, although it is more reasonably valued at this point, we believe it would need to see enrollments improve for the next leg higher.

1st Quarter 2014 Outlook

Heading into 2014, we are maintaining a neutral exposure to the market. Our most recent bottom up research, where we talk to many companies and peers on a daily basis, pointed to a slight slowdown in consumer economic data between November and January. While this slowdown could be entirely related to the recent cold weather in the United States and Canada, the large increase in equity valuations and the start of the tightening by the Fed could further increase the volatility of the markets. Although we do not currently see the benefits of adding to our market exposure at this point, we may use any sudden increase in volatility to add to core positions or enter into new ideas offering good return prospects. Thus far, our neutral posture has served us well given the rocky start to most equity indices in 2014.

In 2014 we will continue to build on what we have best accomplished so far: attempting to isolate our stock picking process on the long and short side while neutralizing as many market and factor specific risks to the overall portfolio as possible.

Thank you for your confidence,

Formula Growth

- ◆ 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 January 1, 2012, the date of the Strategy'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.
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- ◆ 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.
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