**CATCo Reinsurance Opportunities Fund Ltd. ("the Company")**

**Update on Side Pocket Investments**

To: SFM, London Stock Exchange and Bermuda Stock Exchange      Date: 14 October 2011

**Further update on Christchurch (New Zealand) earthquake:**

The Current Portfolio continues to have potential exposure to the New Zealand earthquake in its Rest of World risk pillar for holders of Ordinary Shares.

Following the Christchurch earthquake in New Zealand which occurred on 22 February 2011, on the basis of expected loss analyses released to the market by EQECAT and AIR which all indicated that the attachment triggers in our reinsurance contracts would not be breached, we issued the recurring statement that "the Managers have no reason to believe that there are any potential losses to their reinsurance portfolio resulting from this event given where our Reinsurance Agreement loss event deductibles are set." Over a nine month period, however, Christchurch has been impacted by three significant earthquakes which have presented the insurance industry with a unique challenge in determining where the allocation of loss really occurred and quantifying the incremental damage and losses, from the September 2010, February and June 2011 events.

A significant driver of the damage in the February 2011 earthquake was the amplification of soft soils in the Christchurch area. Reports from the February earthquake note more ground failures (landslides, liquefaction) from that event, and several collapses. Especially notable was the renewed damage to utilities (water, electricity), which were promptly repaired after the September 2010 event.

A sequence of events of this type of severity falls outside of the planning scenarios for the insurance adjusters, regulators, and contractors that are working to restore properties. Areas of uncertainty include the treatment of deductibles (one, two or three), limits, and the interaction of policies that have renewed in the interval between the February and June 2011 events.

Initial loss estimates suggested the February 2011 earthquake would result in US$3-5bn of insured losses. Although the New Zealand Prime Minister and Insurance Council of New Zealand initially stated this was too high; other industry figures suggested the damage was likely to be in the millions rather than billions because so much damage had already incurred in the earlier September 2010 earthquake. However, liquefaction in Christchurch was much greater than catered for in the modelling, and modelling error seems to have arisen in the areas of construction quality, business interruption and the interaction between private insurance and the New Zealand Earthquake Commission. Today, loss estimate revisions for the February 2011 New Zealand earthquake suggest insured losses of US$15bn, representing a 300% increase on the highest initial loss estimate.

Given the level of increase in expected insured loss, the Managers of the Company are working with senior management at the reinsured party to determine the level, if any, of exposure the Company may have to this specific event. To date, the Company has not received any loss advice relating to the New Zealand earthquakes. The Board of Directors, and the Managers, would prefer to resolve such ambiguity ahead of the 1 January retrocessional renewal cycle and to release the capital allocated to a side pocket investment from the February 2011 event which represents a maximum 'capped' exposure of 4.5% of gross expected return for 2011. The Managers have further meetings with the reinsured party in October 2011 and hope to provide further clarity of any potential or realised exposure thereafter once the situation has more clarity.

**Further update on Tohoku (Japan) earthquake and tsunami:**

The Current Portfolio continues to have potential exposure to the Japan earthquake in its Japanese Earthquake and Japanese All Natural Perils risk pillars. The Managers have further meetings with the reinsured parties in October 2011 and thereafter hope to provide further information on any potential or realised exposure once the situation has more clarity.

Whilst the Board, and Managers, do not believe these events to have any significant impact to the Company, for illustrative purposes only, should either the New Zealand or the Japanese earthquakes lead to a 'complete loss' to either the Rest of World or the Japanese risk pillars (and based on the presumption of no further events and reliance on existing portfolio protections), then the hypothetical maximum annualised gross returns for Ordinary Shareholders would be either 17% or 16%, respectively. If both the New Zealand and the Japanese earthquakes led to complete losses (and presuming that no other event occurred), then the hypothetical annualised gross return from the Current Portfolio for Ordinary Shareholders would be 11%. C Shareholders have no exposure to the New Zealand or the Japanese earthquakes and expected returns remain unchanged.

**For further information, please contact:**

Jason Bibb
CATCo Investment Management Ltd
Telephone: +1 (441) 531 2227
Email: jason.bibb@catcoim.com

David Benda / Hugh Jonathan
Numis Securities Limited
Telephone: +44 (0) 20 7260 1000

Michael Toyer / John Whiley
Prime Management Ltd
Tel: +1 (441) 295 0329