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

Preliminary 2012 portfolio and side pocket investment update

To: SFM, London Stock Exchange and the Bermuda Stock Exchange Date: 9 January 2012

Key points:

- 2012 Investment Portfolio has been fully invested at attractive premiums, resulting in enhanced expected returns.

- Side pocket update
  - Loss estimates associated with New Zealand and Japan have been implemented; and
  - Delay to the settlement of the SP Investment and the resulting conversion of the C Shares.

The Company's Ordinary Shareholders are indirectly exposed to potential losses arising from the New Zealand earthquake that occurred on 22 February 2011 and the Japan earthquake on 11 March 2011 (respectively, "NZ Exposures" and "Japan Exposures") through the CATCo Reinsurance Fund Ltd - Diversified Fund (the "Master Fund") and ultimately through CATCo-Re Ltd. ("CATCo-Re").

Due to the uncertainty in valuing this exposure and the tenure of these contracts, the Master Fund's Board of Directors had designated the Master Fund's potential NZ Exposures and Japan Exposures as a Side Pocket ("SP Investment").

As a result, Master Fund Shares that were issued to Master Fund Shareholders after 31 March 2011 would participate fully in the Master Fund's portfolio, except that they will not have any NZ Exposures or Japan Exposures and will accordingly not participate in any losses or premiums attributable to such exposures. The Company's C Shares operate in the same way and have no exposure to these events.

The Company's Investment Managers have recently had meetings with the reinsurance counterparties that have NZ and Japan Exposures included in the Side Pocket Investment and further information has been received.

As announced on 12 October 2011 *(copied in the notes to this announcement)* there has been a significant growth of insured loss related to the NZ Exposure.

Following the meetings that have taken place, the reinsurance counterparty has advised CATCo-Re that they have, or intend to, fully reserve for a 100% loss on the NZ Exposure. As a consequence, the Master Fund's Board of Directors will include this retrocessional reinsurance loss reserve provision in the Net Asset Value calculation at 31 December 2011.

This is a retrocessional reinsurance loss reserve, and not a crystalised loss, as CATCo-Re's protections are based on the reinsurance counterparties actual paid claims. Based on the most recent reinsurance counterparty loss advice, they have not made any actual claims payments to the affected insureds.

CATCo-Re has two separate contracts, transacted with different reinsurance counterparties, for its Japan Exposure. It is understood that, a leading Japanese insurance company, that buys the industry's largest property catastrophe reinsurance programme, has disclosed to its reinsurers that its total claims 'estimate' from the Japanese earthquake is rising from 635bn yen ($8.4bn) to 890bn yen ($11.4bn).

Even though CATCo-Re has certain retrocessional protections standing before its retrocession reinsurance exposure, the Master Fund's Board of Directors, together with the Investment Managers, believe that, as the reinsured loss continues to increase in relation to the Japan Exposure, implementing a retrocession reinsurance reserve of 30% of the Japan Exposure would be prudent.

As a consequence, the Master Fund's Board of Directors will include this retrocessional reinsurance loss reserve provision in the Net Asset Value calculation at 31 December 2011.

This is a retrocessional reinsurance loss reserve and not a crystalised loss as CATCo Re's protections are based on the reinsurance counterparties paid claims. Whilst we believe this retrocessional reinsurance loss reserve is prudent, there can be no guarantee that this will be CATCo-Re's final exposure as the final insured loss from the event could increase, or decrease, over time.

It was the Company's intention to settle CATCo-Re's exposure to the NZ and Japan Exposures before the 31 December to enable the Side Pocket Investment to be realised and the SP Investment exchanged for Master Fund Shares.

This would have also led to any C Shares issued throughout 2011 to be converted into Ordinary Shares. However, based on the new information received from our reinsurance counterparties in mid-December, this will no longer be possible, and the side pocket investments will remain in place until more formal information becomes available from the reinsurance counterparties.

For the Ordinary Shares, as highlighted previously and for illustrative purposes only, should the New Zealand or the Japanese earthquakes lead to a 'complete loss' to either the Rest of World or the Japanese risk pillars, then the 2011 maximum annualised gross returns would be either 18 per cent. or 5 per cent., respectively. If both the New Zealand and the Japanese earthquakes lead to complete losses, then the 2011 annualised gross return from the 2011 Portfolio would be approximately 0 per cent.

The SP Investment NAV has benefited from its projected returns as the remainder of the risk period expired with no further losses.

As a result of this, and beneficial contract loss provisions, the total assets now exceed the potential maximum loss for the NZ and Japan Exposures by 18.64 per cent. and this surplus has been converted into Master Fund Shares as of the 31 Dec 2011 as per the Offering Memorandum*.

*In accordance with the Offering Memorandum ("OM"), Side Pocket Investments ("SP Shares") will remain in place until a Valuation Recognition Event occurs at which point such SP shares are subsequently re-converted to the ordinary Shares. Upon a valuation recognition event all or a portion of the SP shares will be re-converted to Ordinary Shares. As defined in the OM a Valuation Recognition Event can include a situation where 'any obligation to pay out under such SP shares has expired or been significantly reduced.'

Given the most recent indications provided by the reinsurance counterparties to CATCo-Re, it is difficult to give an indication as to timing for the settlement of the SP Investment and the resulting conversion of the C Shares. The Company will ensure that any progress is provided in the Monthly Insight Reports provided to all investors.

Commenting on today's announcement, Anthony Taylor, Chairman of CATCo said:

“With approximately $105bn in insured natural catastrophe losses, 2011 ranks as the most expensive year for the insurance industry, exceeding 2005's natural catastrophe losses of $101bn, which included hurricanes Katrina, Wilma and Rita.

“In 2011, moderate hurricane losses have kept costs from escalating even further. If Japan had been as well insured as other countries with high seismic risk, such as New Zealand, the overall industry cost would have been much higher.

“The Board, in light of the market backdrop, is very encouraged by the returns achieved in the first year of trading.”

Tony Belisle, CEO of CATCo Investment Management Ltd, said:

“The Investment Manager Team is very pleased at generating the returns achieved amidst a difficult catastrophic environment, particularly with reference to the comparative peer group and global equity markets.

“As a consequence of the severe industry losses in 2011, we expect the 2012 portfolio to generate significantly higher returns than were available in January 2011. A formal portfolio announcement will be made in the coming weeks and detailed in the Company's January Monthly Insight Report *(produced in early February)*.

-Ends-

For further information, please contact:

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

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

Notes:

On 12 October 2011, the Company's Board of Directors announced that:

"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.

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."