

COMPANY NO. 2709527

REGISTERED OFFICE: Park Gate, 161-163 Preston Road, Brighton, BN1 6AU

RiverStone Holdings Limited

2011 Annual Report

RiverStone Holdings Limited (Company No. 2709527)
Annual Report
For the year ended 31st December 2011

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RiverStone Holdings Limited (Company No. 2709527)
Directors and Administration
For the year ended 31st December 2011

Directors

J. J. Bator
N. C. Bentley
L. A. Hemsley
L. R. Tanzer

Company Secretary

F. Henry

Registered Office

Park Gate
161-163 Preston Road
Brighton
BN1 6AU

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

RiverStone Holdings Limited (Company No. 2709527)

Directors' Report

For the year ended 31st December 2011

The Directors have pleasure in presenting the Annual Report of RiverStone Holdings Limited ("RiverStone Holdings" or "the Company") comprising the Directors' Report together with the audited financial statements for the year ended 31st December 2011.

Ownership

RiverStone Holdings' ultimate parent company is Fairfax Financial Holdings Limited ("Fairfax") which is registered in Canada and is listed on the Toronto Stock Exchange. The registered office of Fairfax is 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada M5J 2N7.

Principal Activity

The main activity of RiverStone Holdings is that of a U.K. holding company for subsidiary undertakings (together "the Group") primarily engaged in the run-off of insurance and reinsurance business and the performance of related services. RiverStone Holdings' primary run-off insurance subsidiary is RiverStone Insurance (UK) Limited ("RiverStone Insurance"). In addition, RiverStone Holdings participates in the Lloyd's market through RiverStone Corporate Capital Limited, which is the sole corporate member of Syndicate 3500, and RiverStone Corporate Capital 2 Limited, which is the sole corporate member of Syndicate 2112.

Effective 1st January 2011, Syndicate 3500 accepted the reinsurance to close of the liabilities of Syndicate 376, a runoff syndicate with underwriting years of 2001 and prior.

RiverStone Holdings' operations are administered by two managing agents. RiverStone Holdings' non-Lloyd's business is managed by RiverStone Management Limited. Lloyd's related business is managed by RiverStone Managing Agency Limited.

Business Review

Results and Performance

The results for the year set out in the profit and loss account on page 9 show a profit before and after taxation for the year of £45.1 million (2010: £12.3 million). The Directors do not recommend the payment of a dividend (2010: Nil).

Shareholders' funds have increased to £214.5 million from £165.7 million at the end of 2010. The increase in shareholders' funds comprises actuarial gains recognised on the pension scheme of £937,000, the profit after taxation of £45.1 million and unrealised foreign exchange gains of £2.7 million.

Principal Risks and Uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to approval by the board of directors of RiverStone Holdings ("the Board") and ongoing review by the Board, executive committees, risk management (including compliance) and assurance. Compliance with regulatory, legal and ethical standards is a high priority for RiverStone Holdings. Its compliance and finance departments take on an important oversight role in this regard. The RiverStone Holdings Group Audit Committee is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively.

RiverStone Holdings Limited (Company No. 2709527)

Directors' Report

For the year ended 31st December 2011

RiverStone Holdings has developed a framework for identifying the risks that it is exposed to and their impact on economic capital. This process is risk based and uses Individual Capital Assessment principles to manage the Group's capital requirements and to ensure that it has the financial strength and capital adequacy for its insurance subsidiaries to support the continued run off of the business and to meet the obligations to policyholders and regulators. The Directors consider that RiverStone Holdings' capital is adequate to meet its business needs.

The principal risks faced by RiverStone Holdings arise from fluctuations in the severity of claims within its subsidiaries compared with expectations, late reporting of claims and inadequate reinsurance protection (including the credit worthiness of major reinsurers) and inadequate reserving.

Strategy and Future Outlook

RiverStone Holdings' primary focus has been, and continues to be, to conduct a timely and efficient run-off of its existing portfolios. RiverStone Holdings continues to work towards a strategy to settle all of the Group's outstanding liabilities and recover its reinsurance assets.

Over the past number of years, RiverStone Holdings and its subsidiaries have acquired a number of run-off portfolios of business either associated with certain Fairfax operations in Europe or from unaffiliated parties. RiverStone Holdings' main focus continues to be the run-off of these portfolios, together with actively seeking to acquire further portfolios of run-off business. In line with this strategy, effective 1st January 2012 Syndicate 3500 accepted the reinsurance to close of the liabilities of Syndicate 3330, a runoff syndicate with underwriting years of 2002 and prior. Also effective 1st January 2012 Syndicate 3500 entered into a transaction to accept the novation of the contracts under which the 2001 and prior years of Syndicate 535 and the 1999 and prior years of Syndicate 1204 were previously closed into Centrewrite Limited.

Effective 1st January 2012, the liabilities of Syndicate 2112 were reinsured to close into Syndicate 3500.

As part of efforts to consolidate the structure of the RiverStone Holdings' group, RiverStone Holdings' subsidiary, Sphere Drake Insurance Limited, was placed in a voluntary, solvent liquidation in September 2011. KPMG were appointed liquidators and it is intended that the liquidation and subsequent dissolution are completed in 2012.

The Board considers that its insurance operations are adequately capitalized based on the remaining risks and level of volatility inherent in its business.

Directors

Directors holding office during the period from 1st January 2011 to the date of this report were as follows:

J. J. Bator
N. C. Bentley
L. A. Hemsley
L. R. Tanzer

RiverStone Holdings has provided an indemnity for its directors which is a qualifying third party indemnity provision for the purposes of Section 234 of the Companies Act 2006.

RiverStone Holdings Limited (Company No. 2709527)
Directors' Report
For the year ended 31st December 2011

Directors' Responsibilities Statement

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of RiverStone Holdings and of the profit or loss of RiverStone Holdings for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that RiverStone Holdings will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of RiverStone Holdings and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of RiverStone Holdings and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Disclosure of Information to Auditors

So far as each person who is noted on page 3 as being a Director at the date of this report is aware, there is no relevant audit information of which RiverStone Holdings' auditors are unaware. Each person noted on page 3 as being a Director at the date of this report has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that RiverStone Holdings' auditors are aware of that information.

By Order of the Board

Park Gate
161-163 Preston Road
Brighton, BN1 6AU



F. Henry
Company Secretary
2nd March 2012

RiverStone Holdings Limited (Company No. 2709527)
Independent Auditors' Report to the Members of RiverStone Holdings Limited
For the year ended 31st December 2011

We have audited the financial statements of RiverStone Holdings Limited for the year ended 31st December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2011 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

RiverStone Holdings Limited (Company No. 2709527)
Independent Auditors' Report to the Members of RiverStone Holdings Limited
For the year ended 31st December 2011

Matters on which we are required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Andrew Moore (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2nd March 2012

RiverStone Holdings Limited (Company No. 2709527)
Profit and Loss Account
For the year ended 31st December 2011

	Note	2011 £'000	2010 £'000
Change in value of subsidiaries		45,000	11,361
Other operating charges		-	-
Operating result on ordinary activities		45,000	11,361
Foreign exchange gains		105	937
Profit on ordinary activities before taxation		45,105	12,298
Taxation on profit on ordinary activities	6	-	-
Profit for the financial year		£ 45,105	£ 12,298

The results above are all derived from continuing operations.

There is no difference between the profit on ordinary activities before taxation and the profit for the financial year reported above and the historical cost equivalent.

RiverStone Holdings Limited (Company No. 2709527)
Statement of Total Recognised Gains and Losses
For the year ended 31st December 2011

	Note	2011 £'000	2010 £'000
Profit for the financial year		45,105	12,298
Actuarial gain recognised in the year on pension scheme	5	937	7,094
Foreign exchange gains	10	<u>2,687</u>	<u>4,246</u>
Total gains recognised during the year		£ <u>48,729</u>	£ <u>23,638</u>

RiverStone Holdings Limited (Company No. 2709527)


Balance Sheet

As at 31st December 2011

	Note	2011 £'000	2010 £'000
Assets			
Fixed Assets			
Investments in subsidiary undertakings	7	313,755	265,358
Current Assets			
Cash at bank and in hand		<u>7</u>	<u>4</u>
Total assets excluding pension asset		313,762	265,362
Pension asset	5	<u>2,663</u>	<u>-</u>
Total assets including pension asset		£ 316,425	£ 265,362
Liabilities			
Capital and reserves			
Called up share capital	9	242,925	241,473
Share premium	10	65,815	65,340
Profit and loss account	10	(94,272)	(141,074)
Total shareholders' funds	10	214,468	165,739
Creditors			
Amounts falling due within one year	11	100,021	96,066
Accruals and deferred income		<u>1,936</u>	<u>1,916</u>
Total liabilities excluding pension liability		316,425	263,721
Pension liability	5	<u>-</u>	<u>1,641</u>
Total liabilities including pension liability		£ 316,425	£ 265,362

The financial statements on pages 9 to 21 were approved by the Board of Directors on 2nd March 2012 and were signed on its behalf by:


L. R. Tanzer
Director


L. A. Hemsley
Finance Director

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2011

1. Accounting Policies

(a) Basis of Accounting

The financial statements are prepared on the going concern basis, under the historical cost convention as modified by the revaluation of investments in subsidiary undertakings and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies are set out below.

The financial statements contain information about RiverStone Holdings Limited ("RiverStone Holdings") as an individual company and do not contain consolidated financial information as the parent of a group. RiverStone Holdings is exempt under section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings (together "the Group") are included by full consolidation in the consolidated financial statements of its parent, Fairfax Financial Holdings Limited ("Fairfax"), a company incorporated in Canada.

(b) Cash flows

RiverStone Holdings is a wholly owned subsidiary of Fairfax and the cash flows of RiverStone Holdings are included in the consolidated group cash flow statement of Fairfax which is publicly available. Consequently RiverStone Holdings is exempt under the terms of Financial Reporting Standard No.1 (revised 1996) 'Cash flow Statements' from publishing a cash flow statement.

(c) Translation of Foreign Currencies

Items included in RiverStone Holdings' financial statements are measured using the currency of the primary economic environment in which it operates. RiverStone Holdings' functional currency is the US Dollar. The financial statements are stated in RiverStone Holdings' presentational currency which is Pounds Sterling. The Sterling to US Dollar rate at year end was 1.5541.

Foreign currency transactions are translated into the functional currency using the average rate of exchange during the year. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account for the period. All exchange differences arising from the translation from functional currency to presentation currency are recognised through the Statement of Total Recognised Gains and Losses as a separate component of equity.

(d) Pensions

RiverStone Holdings is the principal employer for the Group's defined benefit pension scheme. The cost of the pension scheme is analysed between current service cost, past service cost and net return on the pension scheme. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising as a result of the introduction of, or improvement to, retirement benefits, are recognised on a straight-line basis over the period in which the increase in benefits vest.

Net expected return on the pension scheme comprises the expected return on the pension scheme assets less interest on scheme liabilities.

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2011

The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the Statement of Total Recognised Gains and Losses for the period. The attributable deferred taxation is shown separately in the Statement of Total Recognised Gains and Losses. The pension surplus or deficit recognised in the balance sheet is the value of the pension scheme's assets less the present value of the scheme's liabilities.

Further details of the pension scheme are given in Note 5.

(e) **Deferred Taxation**

Deferred tax assets and liabilities are established for differences between amounts reported in the financial statements and amounts reported in RiverStone Holdings' annual corporation tax returns, including revaluation gains and losses on investments. Deferred taxes are calculated at the rates at which it is expected that the tax liability or benefit will arise. Deferred tax assets are recognised to the extent that they are regarded as more likely than not recoverable. Deferred tax balances are not discounted. Movements on deferred tax assets and liabilities are recognised in the profit and loss account, except to the extent that they arise in relation to movements in the Statement of Total Recognised Gains and Losses.

(f) **Investment in subsidiary undertakings**

Unlisted investments in subsidiary undertakings are stated at current net asset value. Any changes in value are recognised in the profit and loss account in the year in which they occur.

2. Acquisition

On 1st October 2010, RiverStone Holdings acquired all of the ordinary share capital of BA International Underwriters Limited, which is the sole corporate member of Syndicate 2112. BA International Underwriters Limited changed its name to RiverStone Corporate Capital 2 Limited immediately after the acquisition by RiverStone Holdings.

The consideration given by RiverStone Holdings was £1, which represented the fair value of BA International Underwriters Limited at the time of the acquisition.

RiverStone Holdings Limited (Company No. 2709527)

Notes to the Financial Statements

For the year ended 31st December 2011

3. Auditors' Remuneration

	2011 £'000	2010 £'000
During the year the Group (including its overseas subsidiaries) obtained the following services from the Group's auditor at costs as detailed below:		
Audit services		
Fees payable to RiverStone Holdings' auditor for the audit of the parent company	1	1
Non-audit services		
Fees payable to RiverStone Holdings' auditor and its associates for other services:		
The audit of RiverStone Holdings' subsidiaries, pursuant to legislation	405	305
Other services pursuant to legislation, including the audit of the regulatory return	77	50
Other services not covered above	5	26
Taxation services	8	12
	<u>£ 496</u>	<u>£ 394</u>

4. Directors

No amounts were charged to RiverStone Holdings in the period in respect of directors' services (2010: Nil).

5. Pension Costs

RiverStone Holdings is the principal employer for the Group's defined benefit scheme ("the Plan"). The Plan was closed to new entrants with effect from 1st January 2003 and its funds are administered by trustees. The Plan is non-contributory for members. Company contributions are paid to the Plan in accordance with the recommendations of an independent actuarial advisor. As the Plan is closed to new entrants, under the method used to calculate pension costs in accordance with FRS17, the cost as a percentage of covered pensionable payroll will tend to increase as the average age of the membership increases.

The plan has two participating employers, RiverStone Management Limited (a wholly owned subsidiary of RiverStone Holdings) and RiverStone Resources LLC. RiverStone Resources LLC is a US subsidiary of RiverStone Holdings' ultimate parent.

The results from the 1st April 2011 actuarial valuation were updated to 31st December 2011 by an independent qualified actuary in accordance with FRS17. As required by FRS17, the defined benefit liabilities have been measured using the projected unit method.

The expected rate of return on assets for the financial year ending 31st December 2011 was 6.1% pa (2010: 6.5% pa). This rate is derived by taking the weighted average of the long term expected rates of return on each of the asset classes in which the Plan invested in 31st December 2010, less an allowance for administration expenses.

RiverStone Holdings Limited (Company No. 2709527)

Notes to the Financial Statements

For the year ended 31st December 2011

The estimated amount of total employer contributions expected to be paid to the plan during 2012 is £4 million (2011 actual £3.9 million).

The participating employers record the contributions paid in respect of the Group's pension costs in their Profit and Loss Accounts. As the principal employer, RiverStone Holdings records the pension surplus or deficit and any movement in that amount in its Profit and Loss Account and Statement of Total Recognised Gains and Losses. RiverStone Holdings recharges the Profit and Loss Account movements in the pension deficit or surplus to the participating employers.

The following table sets out the key FRS17 assumptions used for the Plan.

Assumptions	31 st December 2011	31 st December 2010
Long-term price inflation (RPI)	3.2% pa	3.5% pa
Long-term price inflation (CPI)	2.2% pa	2.8% pa
Discount rate	4.8% pa	5.5% pa
Future pension increases in payment:		
RPI capped at 5%	3.1% pa	3.4% pa
RPI capped at 2.5%	2.2% pa	2.3% pa
CPI capped at 5%	2.2% pa	n/a
CPI capped at 3%	2% pa	2.4% pa
General salary increases	4% pa	5% pa
Life expectancy of male aged 65 in 2011	22.8 years	23.3 years
Life expectancy of male aged 65 in 2031	24.2 years	25.3 years

The amount included in the balance sheet arising from the Group's obligations in respect of the Plan is as follows:

	31 st December 2011 £'000	31 st December 2010 £'000
Present value of defined benefit obligation	(61,880)	(58,137)
Fair value of plan assets	64,543	56,496
Asset (deficit) included in balance sheet	2,663	(1,641)
Related unrecognised deferred tax (liability) asset	(666)	443
Pro forma asset (liability) net of deferred tax	£ 1,997	£ (1,198)

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2011

The total amounts recognised in the Profit and Loss Accounts of RiverStone Holdings and the participating employers are as follows:

	2011	2010
	£'000	£'000
Employer's part of current service cost	890	828
Gain on settlements and curtailments	-	-
Interest cost	3,163	3,134
Expected return on plan assets	(3,491)	(2,990)
Total expense included in profit and loss	£ 562	£ 972

The current allocation of the Plan's assets is as follows:

	31st	31st
	December	December
	2011	2010
Equity instruments	42%	73%
Debt instruments	57%	26%
Cash	1%	1%
	100%	100%

Changes in the present value of the defined benefit obligation are as follows:

	2011	2010
	£'000	£'000
Opening defined benefit obligation	58,137	56,015
Employer's part of current service cost	890	828
Interest cost	3,163	3,134
Contributions from plan members	-	-
Actuarial loss (gain)	1,836	(920)
Benefits paid	(2,146)	(920)
Curtailement (gain) loss	-	-
Closing defined benefit obligation	£ 61,880	£ 58,137

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2011

Changes in the fair value of the Plan assets are as follows:

	2011	2010
	£'000	£'000
Opening fair value of plan assets	56,496	44,668
Expected return on plan assets	3,491	2,990
Actuarial gain	2,773	6,173
Contributions by the employer	3,929	3,585
Contributions by plan members	-	-
Benefits paid	(2,146)	(920)
Closing fair value of plan assets	£ 64,543	£ 56,496

The actual return on the Plan's assets over the year was a gain of £6.3 million (2010: £9.2 million).

The amount recognised in RiverStone Holdings' Statement of Total Recognised Gains and Losses for 2011 is a gain of £937,000 (2010: gain of £7.1 million). The cumulative amount recognised through RiverStone Holdings' Statement of Total Recognised Gains and Losses at 31st December 2011 is a loss of £982,000.

Amounts for the current and previous four periods are as follows:

	31st	31st	31st	31st	31st
	December	December	December	December	December
	2011	2010	2009	2008	2007
	£'000	£'000	£'000	£'000	£'000
Present value of defined benefit obligation	(61,880)	(58,137)	(56,015)	(40,700)	(46,916)
Fair value of plan assets	64,543	56,496	44,668	38,541	35,532
Surplus (Deficit)	£ 2,663	£ (1,641)	£ (11,347)	£ (2,159)	£ (11,384)

History of Experience Gains and Losses:

	31st	31st	31st	31st	31st
	December	December	December	December	December
	2011	2010	2009	2008	2007
	£'000	£'000	£'000	£'000	£'000
Experience adjustments on plan assets					
Amount of gain (loss)	2,773	6,173	1,228	(1,230)	(351)
Percentage of plan assets	4%	11%	3%	(3%)	(1%)
Experience adjustments on plan liabilities					
Amount of gain (loss)	(287)	343	(590)	1,259	-
Percentage of the present value of the plan liabilities	(1%)	1%	(1%)	3%	-

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2011

6. Taxation on Profit on Ordinary Activities

	2011	2010
	£'000	£'000
Current taxation		
UK corporation tax at 26.5% (2010: 28%) based on the profit for the year	(828)	(500)
Current year losses carried forward	828	500
	<u> </u>	<u> </u>
	£ -	£ -

Factors affecting the tax charge for the year

The corporation tax assessed for the year differs to the standard rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are explained below:

	2011	2010
	£'000	£'000
Profit on ordinary activities before taxation	£ 45,105	£ 12,298

	2011	2010
	£'000	£'000
Profit on ordinary activities before taxation multiplied by the UK corporation tax rate of 26.5% (2010: 28%)	11,953	3,443
Timing differences and disallowed expenses	35	31
Non taxable income	(12,816)	(3,912)
Utilisation of tax losses	828	500
	<u> </u>	<u> </u>
Current tax charge for the year	£ -	£ -

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2011

7. Investments in Subsidiary Undertakings

RiverStone Holdings owns, directly or indirectly, all of the ordinary issued share capital of the following companies (none of which are listed). In the opinion of the directors, RiverStone Holdings' investments in subsidiary undertakings are worth not less than the amounts at which they are stated in RiverStone Holdings' company balance sheet.

	Shareholders' Equity at 31 Dec 2010 £'000	Profit And Loss £'000	Foreign Exchange £'000	Other Reserves £'000	Shareholders' Equity at 31 Dec 2011 £'000	Country of Registration
Sphere Drake Insurance Ltd General Insurance	74,736	-	359	-	75,095	England and Wales
Sphere Drake Acquisitions (UK) Ltd Dormant	50	-	-	-	50	England and Wales
RiverStone Management Ltd Run-off Agency	25	-	-	-	25	England and Wales
Sphere Drake Leasing Ltd Leasing Company	-	-	-	-	-	England and Wales
RiverStone Corporate Capital Ltd Corporate member at Lloyd's	16,251	11,241	728	-	28,220	England and Wales
RiverStone Insurance (UK) Ltd General Insurance	175,448	33,214	2,354	501	211,517	England and Wales
RiverStone France SA Run-off Administration	(1,163)	-	-	-	(1,163)	France
RiverStone Managing Agency Ltd Lloyd's Agency	11	-	-	-	11	England and Wales
RiverStone Corporate Capital 2 Ltd Corporate member at Lloyds	-	-	-	-	-	England and Wales
	265,358	44,455	3,441	501	313,755	

8. Deferred Taxation

No deferred tax asset has been recognised in these financial statements as the Directors cannot be certain of an actual tax benefit crystallizing. The potential deferred tax asset not recognised amounts to:

	2011 £'000	2010 £'000
Trading losses available to carry forward	1,456	697
Short term timing differences	483	960
	£ 1,939	£ 1,657

RiverStone Holdings Limited (Company No. 2709527)
Notes to the Financial Statements
For the year ended 31st December 2011

9. Called up Share Capital

	2011	2010
46,606,341 Ordinary Shares of £1	£ <u>46,606,341</u>	£ <u>46,606,000</u>
232,197,136 Ordinary Shares of \$1	\$ <u>232,197,136</u>	\$ <u>232,197,000</u>
82,841,822 Ordinary Shares of \$0.88	\$ <u>72,900,803</u>	\$ <u>72,900,000</u>

In all respects Ordinary US Dollar Shares of \$1 each and Ordinary US Dollar Shares of \$0.88 each rank pari passu with the Ordinary Sterling Shares.

	2011 £'000	2010 £'000
<u>Total allotted and fully paid</u>		
46,606,341 Ordinary Shares of £1	46,606	46,606
232,197,136 Ordinary Shares of \$1	149,410	148,306
82,841,822 Ordinary Shares of \$0.88	46,909	46,561
	£ <u>242,925</u>	£ <u>241,473</u>

10. Reconciliation of Movements in Total Shareholders' Funds

	Share Capital £'000	Share Premium £'000	Profit and Loss Account £'000	2011 Total £'000	2010 Total £'000
As at 1 st January	241,473	65,340	(141,074)	165,739	142,037
Profit for the financial year	-	-	45,105	45,105	12,298
Actuarial gain recognised in the year on pension scheme	-	-	937	937	7,094
Conversion of redeemable shares	-	-	-	-	64
Exchange movements	1,452	475	760	2,687	4,246
As at 31st December	£ <u>242,925</u>	£ <u>65,815</u>	£ <u>(94,272)</u>	£ <u>214,468</u>	£ <u>165,739</u>

11. Other Creditors Including Taxation and Social Security

	2011 £'000	2010 £'000
Due to group undertakings	£ <u>100,021</u>	£ <u>96,066</u>

RiverStone Holdings Limited (Company No. 2709527)
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12. Litigation and Contingent Liabilities

RiverStone Holdings has provided a letter of support to RiverStone Managing Agency Limited whereby funds will be made available to this company to ensure liabilities are met as they fall due for payment.

13. Related Party Transactions and Ultimate Parent Company

RiverStone Holdings is ultimately wholly owned by Fairfax which is registered in Canada and listed on the Toronto Stock Exchange.

Advantage has been taken of the exemption from the requirement to disclose transactions with related parties within the same group as provided by Financial Reporting Standard No. 8 "Related Party Disclosures". This exemption is available for RiverStone Holdings as consolidated financial statements are publicly available for Fairfax.

The financial statements of Fairfax can be obtained from the Corporate Secretary, 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website at www.fairfax.ca.