THIRD POINT

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Third Quarter 2012 Investor Letter

Review and Outlook

After a poor Second Quarter in which fears about macroeconomic contagion caused a capital flight from risk assets, the Third Quarter rewarded stock picking and event-driven situations. Mirroring the First Quarter of this year, our portfolio benefitted from strength across strategies, geographies, and sectors. We matched the market's 6.4% gain with significantly less exposure. Remarkably, our best performer was a special situation investigative short which imploded, declining over 50% and contributing nearly 1% to results. Core positions like Delphi, Ally Financial and Gold, which suffered in the Second Quarter, rebounded along with the markets.

As we discuss in more detail below, the Third Quarter provided many opportunities to initiate or size up high-conviction positions. Following an analysis of our performance for the past several years, we have both reduced our overall number of positions and increased the concentration of capital invested in our "best ideas." We expect that the decrease in our equity book's diversification should produce improved but "chunkier" returns, and thus a moderate but acceptable increase in volatility.

During the Third Quarter, we were more bullish than some on the European Union's predicament and found interesting opportunities in credit there, a theme which has rewarded us throughout 2012. Equity positions in more cyclical sectors like energy and financials increased in size, as did gross and net exposure throughout the period. Credit – both corporate and mortgage – continued its standout performance for the year to date, easily outpacing comparable indices.

Against a backdrop of continued macroeconomic and political uncertainty we have great confidence in the individual positions we hold. Our portfolio is filled with compelling, attractively-valued, catalyst-oriented situations that are appropriately sized to our convictions. We protect against worrisome events by opportunistically buying protection inexpensively, maintaining a portfolio of short positions, and taking comfort that our credit portfolio likely will be less volatile and provide dependable cash flows. Keeping in mind the present climate of cross-currents of dovish global monetary policy propping up markets (and incumbent politicians' popularity despite policies effectively transferring wealth from savers to speculators, something lost on most followers of the populist leaders promoting them), anemic growth in the US and Europe, a potential recession in China, and the fallout from the US election, we believe we have struck a decent balance in our portfolio to perform under a variety of scenarios and circumstances.

Quarterly Results

Set forth below are our results through September 30, 2012:

	Third Point Offshore Fund Ltd.	S&P 500
2012 Third Quarter	6.8%	6.4%
2012 Year to Date	10.9%	16.4%
Annualized Return Since Inception*	17.2%	10.0%

*Return from inception, December 1996 for TP Offshore Fund Ltd. and S & P 500.

The top five winners for the quarter were Short A, Delphi Corp, Gold, Apple Inc., and Ally Financial. The top five losers for the period were Government Short A, Enphase Energy, Short B, WellPoint Inc., and ABS Short C.

Assets under management at September 30, 2012 were $9.3 billion. The funds remain closed to new investors with limited exceptions as discussed previously.

Select Portfolio Positions

Credit: Greek Government Bonds

> *"Fix your eyes on the greatness of Athens as you have it before you day by day, fall in love with her, and when you feel her great, remember that this greatness was won by men with courage, with knowledge of their duty, and with a sense of honor in action. . . .So they gave their bodies to the commonwealth and received, each for his own memory, praise that will never die, and with it the grandest of all sepulchers, not that in which their mortal bones are laid, but a home in the minds of men, where their glory remains fresh to stir to speech or action as the occasion comes by."*
>
> -Thucydides. *The History of the Peloponnesian War*, Volume II.43.

> *I give a holler to my sisters on welfare*
> *Tupac cares, if don't nobody else care*
> *And uhh, I know they like to beat ya down a lot*
> *When you come around the block brothas clown a lot*
> *But please don't cry, dry your eyes, never let up*
> *Forgive but don't forget, girl keep your head up*
> *And when he tells you you ain't nuttin don't believe him*
> *And if he can't learn to love you, you should leave him*
> *Cause sista you don't need him*
> *And I ain't tryin to gas ya up, I just call em how I see em…*
> ***I'm tryin' to make a dolla outta fifteen cents**"*
>
> -Shakur, Tupac. "Keep Ya Heads Up."

We have invested profitably in European credit situations in 2012, generating a 35% return on average capital invested over the past six months while nearly tripling our gross investment in the area. Our selective approach to investing in distressed credit during this chaotic time in the region was enabled by two key facets of our investment process, which we have found to be replicable in various stressed environments.

The first is that we often make money in credit situations where our assumptions are not rosy, but simply less draconian than those of a market in panic. This insight holds across not only European situations this year like Itraxx, but also in our subprime MBS positions discussed below, our Chesapeake performing credit trade, and in countless others over time. In the case of the Portuguese bonds investment we detailed in our Second Quarter 2012 letter, which are now the best performing government credit in the world year to date, we did not need to believe that Portuguese bonds were going to return par (or anywhere close to it) to generate an attractive risk-adjusted return. Rather, we simply needed to see something that we believed the market did not, which would result in substantially lower risk premiums assigned to the repayment of these obligations.

The second important element that has contributed to our success in Europe this year is our deep understanding of the complex political and economic issues facing the E.U. that has at times been materially differentiated from that of other market participants. As our investors know, we have invested significant time and resources to analyze the details of the European sovereign debt crisis over the past 12 - 18 months. We are helped in this effort by a well-established team, and an impressive roster of academic, political and economic advisors.

We have consistently believed that eventual ECB participation was the only possible solution to the European crisis and that the December 2011 LTRO represented a distinct shift toward a "do whatever it takes" approach to save the European economic union. This change in policy encouraged our successful investments in Unicredit equity, the Portuguese bonds referenced above, our ITraxx investment, and other European corporate debt. By late in the Second Quarter, we thought the opportunities created by panic and hysteria may have subsided. However, in mid-summer, investors reacted negatively to an announced Spanish bank bailout and hyped European Union summit that failed to produce sufficient action. No longer satisfied with the ECB's virtually unlimited liquidity commitment to banks, bond markets went after Spain, stressing their yields unsustainably and increasing spreads across the Continent once again. Based on our analysis, we anticipated a strong reaction from the ECB and steadily increased our European credit exposures through July and August, including purchases of Greek Government Bonds ("GGBs").

Greece has remained the most stubborn and opaque piece of the European puzzle. The country's grim economic prospects and history of political shenanigans have rendered its assets untouchable to all but a handful of small emerging market distressed investors. In March, Greece's Troika (the European Commission, the International Monetary Fund, and the European Central Bank) of official sector creditors agreed to release the first installment of a €175 billion funding package in exchange for private creditors being haircut to ~25% (this haircut is commonly referred to as the Greek "PSI"). After the money was released, multiple elections caused delays in implementing PSI-mandated budget cuts and left Greece limping into September short on cash and friends while desperately in need of both. The "Strip" of newly-issued Greek Government Bonds given to PSI creditors (20 individual bonds that mostly trade bundled together with an average maturity of ~20 years) traded from ~25 to ~14 cents on the dollar, reflecting harsh recovery expectations for a predicted default. We believed this Strip price implied that a Greek exit from the Euro was a near certainty, which seemed unlikely to us based on our differentiated views of the European situation.

ECB Chief Mario Draghi's campaign to save the Euro began in late July, and reinforced our belief that the probability of a Greek default was overstated by the market. He made it clear on numerous occasions that he intended to remove redenomination risk premia from sovereign markets, namely Spain and Italy. We initiated a position in the GGB Strip at ~17 cents in the Third Quarter based on the view that incremental funding in isolation would likely be enough to drive Strip pricing into the low 20's (where it is today). For the Strip to have substantially more upside, however, Greece must display more resolute program compliance, show some economic recovery, and eventually address its debt sustainability.

In order to fully evaluate the potential remaining upside in the GGB Strip, we sent our well-traveled European credit analyst to Athens. Our meetings convinced us that Greek officials strongly believe that the painful Troika program implementation is a far superior option to leaving the Euro. On that trip we also discovered several "green shoots" emerging in the Greek fiscal position which also appear to be widely ignored by the broader market. Greece has demonstrated impressive spending controls, with its 2012 budget largely on track despite a significant shortfall in receipts due to worse than anticipated economic conditions. While Greece is still grossly overleveraged at 170% debt to GDP and the Strip price appears to anticipate another restructuring which will subordinate private creditors, we believe another PSI is highly unlikely given the Strip's air tight documentation, governed by UK law, which explicitly ranks it *pari passu* with the debt held by the Troika. Even in the event there was a large scale restructuring where both private and official creditors took haircuts of 15% to 25%, it is likely the Strip would still appreciate significantly from 20 as exit yields of 10% to 12% would be reasonable given the country's reduced leverage as a result of any restructuring.

A clear commitment to keeping Greece inside the EU, combined with resolute program compliance, some amount of Official Sector Involvement ("OSI") and a bottoming out in the Greek economy should move the Strip from trading at assumed recovery levels to bonds priced on a yield basis. If in a year from now the Strip's average yield reached 15%, it would be priced at ~30, representing ~50% upside. If in a year from now the Strip were to yield 12.5%, it would be priced at ~40, or ~100% upside. While these scenarios may appear unlikely today, we take comfort in remembering how fast perceptions can change; Portugal's longest dated bond, whose 2037 maturity is 4 years longer than the weighted average maturity of the Strip, had a peak yield of ~11.7% in February 2012 and reached inside of 8% in September. We expect Greece to keep its head up and undergo a similar metamorphosis over the next few quarters. And while we may not achieve the over six-fold return that Mr. Shakur (Tupac) earned plying his trade, we believe the potential risk-adjusted return on GGBs is more favorable, particularly when adjusted for the risk of potential regulatory intervention he faced.

Long Equity: Murphy Oil

Although we've come to the end of the road
Still I can't let you go
It's unnatural, you belong to me,
I belong to you
Come to the end of the road
Still I can't let you go

-Boyz II Men. "End of the Road".

Murphy Oil is a ~$10.4 billion energy company with three primary business segments: Exploration and Production; Refining, which it is in the process of exiting; and Retail and Marketing. Third Point owns a significant stake in Murphy and recently filed for Hart-Scott-Rodino approval to increase our position should we so desire. If Murphy pursues the steps outlined below, we believe its shares could be worth in excess of $90, an increase of about 60% from current levels.

We initiated our investment following a 3-year period in which Murphy's share price declined by ~15% while the SPDR S&P Oil and Gas E&P Index appreciated by ~49%. We believe this lagging performance can be explained partially by Murphy's disparate asset base, which makes the company complex and cumbersome to value. This issue has been exacerbated by management's decision to repeatedly delay spinning off its retail business. Investors in Murphy have grown frustrated, particularly given the obvious merits of the spin due to the large multiple disparity between the retail business and the core E & P business.

We believe Murphy can take four easy steps to unlock the latent value in its lagging shares, and we have shared these proposals with Murphy's management team previously:

1) **Spin-Off Its Retail Business:** Murphy's retail business consists of a network of over 1,100 fuel stations, the majority of which are located on or near Wal-Mart store sites. The business generated EBITDA of $363 million in 2011 and has relatively low ongoing capital requirements, making it highly cash generative. On the company's 2011 Third Quarter earnings call, management indicated they were evaluating a separation of the retail business. After 9 months of consideration, management recently said that they were not interested in pursuing a retail spin at this time on account of the unit's "underperformance".

   We believe forgoing this accretive spin-off would be a major missed opportunity. Both public company comparables like Alimentation Couche-Tard, Casey's General Stores, and Susser Holdings and a forecasted dividend yield analysis suggest the retail business would be worth $2.3 - $2.8 billion if separated into a standalone public company. A spin-off in this valuation range would be worth $12 - $14 per share.

   At this point, it appears sentimental attachment by management and the Murphy family is driving a stubborn desire to hold onto these and other non-strategic assets, creating a significant drag on enterprise value. While we hope that reason and a desire to create shareholder value will prevail over sentimentality and inaction, we have filed HSR to keep our options open should our discussions with the board and management not bear fruit for Murphy's owners.

2) **Sell Its Canadian Natural Gas Assets:** Murphy owns ~145,000 net acres in the Montney play in British Columbia. Investors may recall our description of the Montney opportunity in our Second Quarter 2012 Investor Letter's discussion of our profitable investment in Progress Energy Resources. Western Canadian gas assets have become strategically valuable given the large arbitrage opportunity between LNG prices in Asia in excess of $15/mmbtu, and $1/mmbtu F&D costs in Western Canada. Encana recently sold 164,000 nearby acres in the Montney to Mitsubishi for C$2.9 billion, or ~C$16,000 per acre (adjusting for the present value of drilling carry). Applying this metric to Murphy's acreage and attributing ~$4k per flowing mcfe/d for existing production would result in a value of ~$3.0 billion, contributing an additional $15 per share. Management has told investors previously that they would require $4.50 gas in order to resume drilling the asset, which may occur in late 2018 based on the current futures curve and assuming a $0.40 AECO/NYMEX basis differential.

3) **Sell Its 5% stake in the Syncrude Oil Sands Project:** In April 2010, ConocoPhillips sold its 9% stake in Syncrude for $4.65 billion. In April 2010, WTI crude prices were $84/bbl vs. $92/bbl currently. Assuming a similar purchase price, we believe Murphy's Syncrude stake would be worth $2.6 billion, or an additional $13 per share.

4) **Complete UK Refining Business Exit**: According to management, this exit is currently tying up about $500 million in working capital.

These four transactions could generate pre-tax proceeds of $8.4 - $8.9 billion. Assuming 20% tax leakage on the two Canadian asset sales, we arrive at $7.3 - $7.8 billion in after-tax proceeds, or roughly $37 - $40 per share. Third Point estimates that the associated EBITDA with the assets sales is $750 million or ~20% of our 2013 EBITDA forecast for Murphy. Based on a current enterprise valuation of $10.4 billion, our analysis suggests investors are paying only $2.6 - 3.1 billion for the balance of Murphy's assets, which we estimate could generate $2.9 billion in EBITDA in 2013.

This "new", slimmed-down Murphy has tremendous upside. Based on May 2012 company guidance, new Murphy could grow production at a 14% CAGR from 2012 to 2015, with oil and oil-indexed gas making up over 85% of the production mix. This strong, "oily" growth profile is bolstered by an industry-leading Eagleford shale position, where Murphy has over 220,000 net acres, the majority of which are located in the oil and wet gas windows of Karnes, Dimmitt, McMullen, LaSalle, Atascosa and Webb Counties. Murphy also has a collection of cash-generative Malaysian assets comprised of high-margin oil and oil-linked natural gas production with several development opportunities.

Assuming new Murphy trades at an extremely conservative 3.5x EBITDA multiple, we estimate total value of $91 - $94 per share after these four steps are completed. We hope that management ultimately decides to take up our suggestions, and act on its own to benefit all shareholders. In any event, as mentioned above, HSR approval, once obtained, will provide us maximum flexibility with the position.

Equity: AIG

We originally purchased AIG shares in March after identifying the US Treasury's impending sales of its AIG holdings as an instance of one of our favorite types of investments: "forced" (or non-economically-motivated) selling. We determined Treasury was both anchored to its $29 cost basis and intent on exiting its position as soon as possible, allowing us to purchase AIG at a discount to intrinsic value. In addition to the forced selling dynamic that created the opportunity, we believed AIG's substantial capital return – manifested as buybacks in the Treasury's offering – provided downside protection. Finally, we also liked the technical bid for AIG shares coming out of the offering, as its index weighting would increase with the reduction in government-owned shares, forcing index-sensitive investors to grow their position in the equity.

We soon realized that our initial thesis for AIG was only the prologue. Rather than simply a chance to create value from a short-term dislocation in pricing due to forced selling, AIG was actually more similar to another type of Third Point investment: a post-reorg equity newly emerged, with all of the attendant upside. We continued to accumulate AIG shares in Treasury's offerings in the second and third quarters, as well as in the open market, considering it a cheap restructured equity that was rationalizing its non-core operations while executing an operational turnaround. So while many investors argue the most recent placement from the Treasury was the last of AIG's main catalysts, we were not "renters" and instead view AIG as a core, event-driven investment with attractive post-reorg equity-like characteristics.

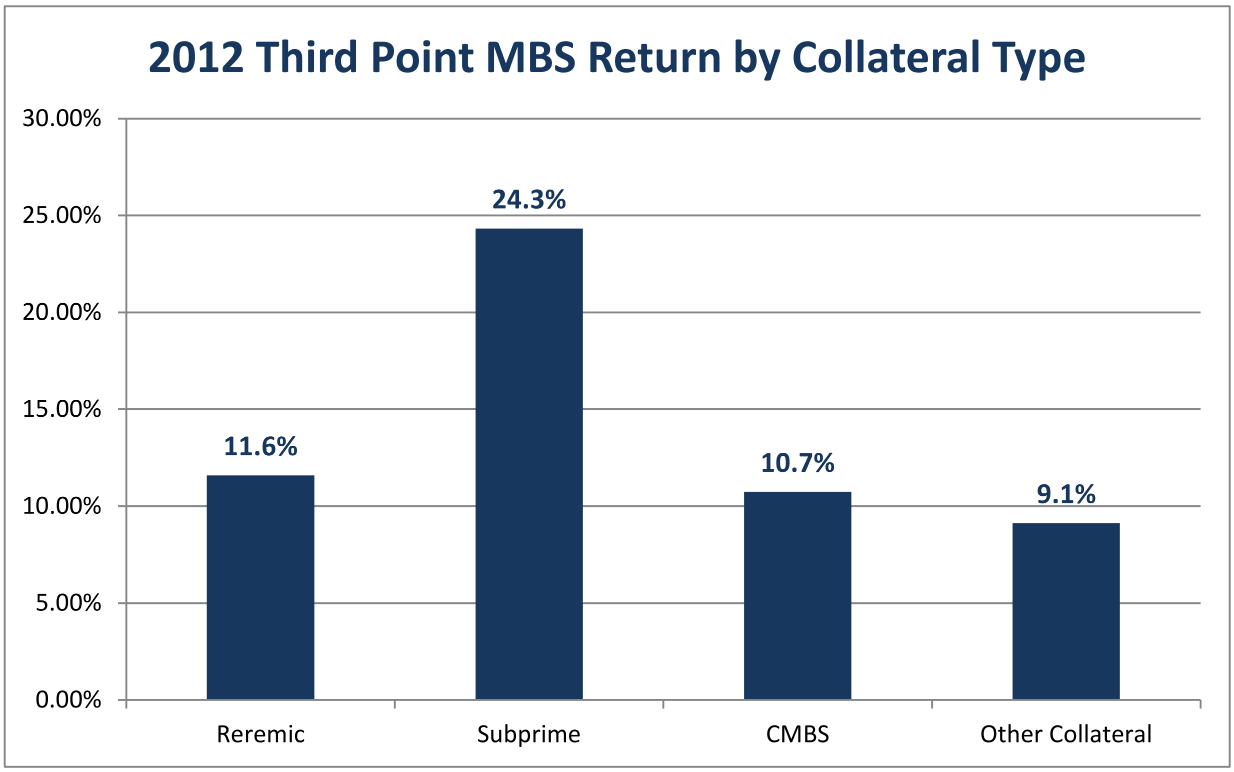
In the near term, we believe AIG's continued portfolio optimization should free up additional excess capital that, subject to regulatory approval, likely can be returned to shareholders. In December, AIG's lockup in its listed, non-core Asian life insurance business, AIA, will expire, allowing the company to monetize its unencumbered 13.7% interest worth some USD $6.1 billion at recent market valuations. Further, we believe the sale, spin, or listing of ILFC, AIG's aircraft lessor subsidiary, will not only generate $5+ billion in excess capital but also simplify the group's structure, reducing cost of capital.

Longer term, we believe the company's operational turnaround will help AIG realize its intrinsic value, as Chartis, AIG's property and casualty arm, improves its return on equity to the targeted 10 - 12% by 2015. To achieve this ROE target, Chartis's management, led by the talented Peter Hancock, is emphasizing international and shorter tail consumer property lines, while investing in new policy administration and back office systems. We believe this ROE target is achievable, and view the early evidence as promising: a ~300 bps year-over-year improvement in Chartis' Q2'12 ex-cat loss ratio to 65.2% and a ~100 bps year-over-year increase in consumer share of premiums to 39% in Q2. We are further encouraged that Chartis' turnaround has the wind at its back with the mid to high single digit pricing growth in the property and casualty insurance industry.

Treasury's ultimate sale of its remaining 16% stake in AIG will serve as a critical catalyst for the company, allowing initiation of a dividend, a change in management's compensation structure to a more standard incentive-based bonus payout model, and the removal of the "overhang" of Treasury ownership. Given these multiple paths to value creation, we believe AIG's current valuation at ~10x consensus 2013 earnings and 0.5x pro forma tangible book value of $65 per share has significant upside from these levels.

Asset Backed Securities Portfolio

Undoubtedly investors have seen a flurry of news articles about improvement in housing prices and correspondingly identifying mortgage-backed securities as the hottest area for credit investing. Our portfolio, representing ~15% of our invested capital, has returned ~15% YTD on average exposure and we are on track this year to generate the kind of returns we delivered in 2009 and 2010 in this area. All of our collateral types have generated positive returns this year, as shown below.



[Source: Third Point LLC]

The hype around mortgages in 2012 has allowed us to take advantage of the capital surge into the asset class. Effusive pricing has provided opportunities to trade around our existing bonds profitably, while also offering attractive short trades. Both our overall position count and our portfolio composition have been fairly steady throughout the year. We have sold 100 bonds and purchased 135 new ones with similar characteristics but more appealing terms, increasing overall exposure by about $325 million. Nearly 50% of our portfolio is in Re-REMIC positions that have an average of current yield and yield to maturity in the high-teens. Most of the remaining portfolio is invested in 2005-issued

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subprime mezzanine bonds where we believe the market assumptions about default rates remain too high.

We believe the biggest risks to our mortgage portfolio remain technical ones. The market's herd mentality applies in both directions and a flight of capital from the asset class could comprise liquidity and pricing, which we witnessed in the latter half of 2011. We continue to watch for signs of fundamental dislocation via government intervention, particularly for the threat of eminent domain actions by local authorities, however take comfort that initiatives of this kind would ultimately be stopped by the courts as unconstitutional. We expect overall asset-backed exposure will remain at these levels or grow in our portfolio for the balance of 2012, and are looking forward to increasing opportunities in the CMBS space in 2013 and beyond.

Business Updates

New Addition to the Analyst Team

We are pleased to welcome Greg Zolman to Third Point, where he will focus on Technology, Media & Telecom. Before joining Third Point, Greg was a Vice-President at Serendiv Capital, an event-driven long/short equity fund founded by former Atticus investment professionals, and an Analyst at Zilkha Investments, a long/short equity hedge fund. Greg worked as an Associate in Investment Banking at Morgan Stanley focusing on Media and Telecom, after receiving his M.B.A. from the Vanderbilt Owen Graduate School of Management. Before business school and after graduating *cum laude* from Vanderbilt with a B.S. in Economics, Greg spent three years as a professional Quarterback in the National Football League. He is also a welcome addition to the Third Point Triathlon team.

Sincerely,

Third Point LLC

Third Point LLC ("Third Point" or "Investment Manager") is an SEC-registered investment adviser headquartered in New York with approximately $9.3 billion under management. Third Point is primarily engaged in providing discretionary investment advisory services to its proprietary private investment funds (each a "Fund" collectively, the "Funds"). Third Point's Funds currently consist of Third Point Offshore Fund, Ltd. ("TP Offshore"), Third Point Ultra Ltd., ("TP Ultra Ltd."), Third Point Partners L.P. ("TP Partners LP") and Third Point Partners Qualified L.P. Third Point also currently manages three separate accounts. The Funds and any separate accounts managed by Third Point are generally managed as a single strategy while TP Ultra Ltd. has the ability to leverage the market exposure of TP Offshore.

All performance results are based on the NAV of fee paying investors only and are presented net of management fees, brokerage commissions, administrative expenses, and accrued performance allocation, if any, and include the reinvestment of all dividends, interest, and capital gains. While performance allocations are accrued monthly, they are deducted from investor balances only annually (quarterly for Third Point Ultra) or upon withdrawal. The performance results represent fund-level returns, and are not an estimate of any specific investor's actual performance, which may be materially different from such performance depending on numerous factors. All performance results are estimates and should not be regarded as final until audited financial statements are issued.

The performance data presented represents that of Third Point Offshore Fund Ltd. All P&L or performance results are based on the net asset value of fee-paying investors only and are presented net of management fees, brokerage commissions, administrative expenses, and accrued performance allocation, if any, and include the reinvestment of all dividends, interest, and capital gains. The performance above represents fund-level returns, and is not an estimate of any specific investor's actual performance, which may be materially different from such performance depending on numerous factors. All performance results are estimates and should not be regarded as final until audited financial statements are issued. Exposure data represents that of Third Point Offshore Master Fund L.P.

While the performances of the Funds have been compared here with the performance of a well-known and widely recognized index, the index has not been selected to represent an appropriate benchmark for the Funds whose holdings, performance and volatility may differ significantly from the securities that comprise the index. Investors cannot invest directly in an index (although one can invest in an index fund designed to closely track such index).

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Information provided herein, or otherwise provided with respect to a potential investment in the Funds, may constitute non-public information regarding Third Point Offshore Investors Limited, a feeder fund listed on the London Stock Exchange, and accordingly dealing or trading in the shares of that fund on the basis of such information may violate securities laws in the United Kingdom and elsewhere.