



**Annuity
& Life Re**

**UNAUDITED
CONDENSED
CONSOLIDATED**

FINANCIAL STATEMENTS

FOR THE QUARTER ENDED

JUNE 30, 2009

INDEX TO FINANCIAL INFORMATION

PAGE

| | |
|---|---|
| Unaudited Condensed Consolidated Financial Statements | |
| Condensed Consolidated Balance Sheets June 30, 2009 and December 31, 2008 | 1 |
| Condensed Consolidated Statements of Operations Three Months and Six Months ended June 30, 2009 and June 30, 2008 | 2 |
| Condensed Consolidated Statements of Comprehensive Income (Loss) Three Months and Six Months ended June 30, 2009 and June 30, 2008 | 3 |
| Condensed Consolidated Statements of Changes in Stockholders' Equity Six Months ended June 30, 2009 and June 30, 2008 | 4 |
| Condensed Consolidated Statements of Cash Flows Six Months ended June 30, 2009 and June 30, 2008 | 5 |
| Notes to Unaudited Condensed Consolidated Financial Statements | 7 |

These financial statements should be reviewed in conjunction with the Company's audited financial statements for the year ended 2008.

ANNUITY AND LIFE RE (HOLDINGS), LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in U.S. dollars)

| | June 30, 2009 | December 31, 2008 |
|---|----------------------|--------------------------|
| <u>ASSETS</u> | (unaudited) | |
| Cash and cash equivalents | \$ 12,567,429 | \$ 9,828,046 |
| Fixed income investments at fair value (amortized cost of \$0 and \$3,920,283 at June 30, 2009 and December 31, 2008, respectively) | - | 4,132,607 |
| Accrued investment income | 2,271 | 51,240 |
| Prepaid insurance and legal fees | 266,911 | 148,484 |
| TOTAL ASSETS | \$ 12,836,611 | \$ 14,160,377 |
| <u>LIABILITIES</u> | | |
| Reserves for future policy benefits | \$ 99,273 | \$ 310,837 |
| Other reinsurance liabilities | 201,178 | 213,913 |
| Accounts payable and accrued expenses | 132,476 | 761,686 |
| TOTAL LIABILITIES | 432,927 | 1,286,436 |
| <u>STOCKHOLDERS' EQUITY</u> | | |
| Preferred shares (par value \$1.00; 50,000,000 shares authorized; no shares issued or outstanding) | - | - |
| Common shares (par value \$1.00; 100,000,000 shares authorized; 24,533,811 issued and outstanding at June 30, 2008 and December 31, 2007) | 24,533,811 | 24,533,811 |
| Additional paid-in capital | 323,727,869 | 323,727,869 |
| Additional paid-in capital stock warrants | 1,350,000 | 1,350,000 |
| Accumulated other comprehensive income (loss) | - | 212,325 |
| Accumulated deficit | (337,207,996) | (336,950,064) |
| TOTAL STOCKHOLDERS' EQUITY | 12,403,684 | 12,873,941 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 12,836,611 | \$ 14,160,377 |

See accompanying notes to the unaudited condensed consolidated financial statements. These financial statements should be reviewed in conjunction with the Company's audited financial statements for the year ended 2008.

ANNUITY AND LIFE RE (HOLDINGS), LTD.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited and in U.S. dollars)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|-------------------------------------|---------------------|-----------------------------------|---------------------|
| | 2009 | 2008 | 2009 | 2008 |
| <u>REVENUES</u> | | | | |
| Investment income, net of related expenses | \$ 5,716 | \$ 148,170 | \$ 23,998 | \$ 416,153 |
| Net realized investment gains (losses) | 185 | 21,017 | \$ 205,683 | 21,017 |
| TOTAL REVENUES | 5,901 | 169,187 | 229,681 | 437,170 |
| <u>BENEFITS AND EXPENSES</u> | | | | |
| Claims and policy benefits | (200,000) | - | (200,000) | (11) |
| Policy acquisition costs and other insurance expenses | - | 2,530 | - | 235,817 |
| Operating expenses | 288,433 | 374,061 | 687,613 | 758,944 |
| TOTAL BENEFITS AND EXPENSES | 88,433 | 376,591 | 487,613 | 994,750 |
| <u>NET INCOME (LOSS) FROM CONTINUING OPERATIONS</u> | (82,532) | (207,404) | (257,932) | (557,580) |
| <u>DISCONTINUED OPERATIONS</u> | - | (5,054) | - | 265,909 |
| NET INCOME (LOSS) | \$ (82,532) | \$ (212,458) | \$ (257,932) | \$ (291,671) |
| INCOME (LOSS) PER SHARE FROM CONTINUING OPERATIONS | | | | |
| Basic..... | \$ (0.00) | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| Diluted..... | \$ (0.00) | \$ (0.01) | \$ (0.01) | \$ (0.02) |
| INCOME (LOSS) PER SHARE FROM DISCONTINUED OPERATIONS | | | | |
| Basic..... | \$ - | \$ (0.00) | \$ - | \$ 0.01 |
| Diluted..... | \$ - | \$ (0.00) | \$ - | \$ 0.01 |
| NET INCOME (LOSS) PER COMMON SHARE | | | | |
| Basic..... | \$ (0.00) | \$ (0.01) | \$ (0.01) | \$ (0.01) |
| Diluted..... | \$ (0.00) | \$ (0.01) | \$ (0.01) | \$ (0.01) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 24,533,811 | 24,533,811 | 24,533,811 | 24,533,811 |

*See accompanying notes to the unaudited condensed consolidated financial statements.
These financial statements should be reviewed in conjunction with the Company's audited financial statements for the year ended 2008.*

ANNUITY AND LIFE RE (HOLDINGS), LTD.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited and in U.S. dollars)

| | <u>For the Three Months Ended June 30,</u> | | <u>For the Six Months Ended June 30,</u> | |
|---|--|---------------------|--|---------------------|
| | <u>2009</u> | <u>2008</u> | <u>2009</u> | <u>2008</u> |
| <u>NET INCOME (LOSS) FOR THE PERIOD</u> | \$ (82,532) | \$ (212,458) | \$ (257,932) | \$ (291,671) |
| <u>OTHER COMPREHENSIVE INCOME (LOSS)</u> | | | | |
| Unrealized holding gain (loss) on fixed income investments | (199,815) | (76,005) | (206,642) | (176,065) |
| Reclassification adjustment for net realized investment gains (losses) in net income (loss) | <u>(185)</u> | <u>(21,017)</u> | <u>(205,683)</u> | <u>(21,017)</u> |
| TOTAL COMPREHENSIVE INCOME (LOSS) | <u>\$ (282,532)</u> | <u>\$ (309,480)</u> | <u>\$ (670,257)</u> | <u>\$ (488,753)</u> |

*See accompanying notes to the unaudited condensed consolidated financial statements.
These financial statements should be reviewed in conjunction with the Company's audited financial statements for the year ended 2008.*

ANNUITY AND LIFE RE (HOLDINGS), LTD.
CONDENSED CONSOLIDATED STATEMENTS OF
CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited and in U.S. dollars)

| | For the Six Months 2009 | Ended June 30, 2008 |
|---|----------------------------|------------------------|
| <u>Preferred shares par value \$1.00</u> | | |
| Balance at beginning and end of period | \$ - | \$ - |
| <u>Common shares par value \$1.00</u> | | |
| Balance at beginning of period | 24,533,811 | 24,533,811 |
| Issuance of shares | - | - |
| Cancellation of shares | - | - |
| Balance at End of Period | <u>24,533,811</u> | <u>24,533,811</u> |
| <u>Additional paid-in capital</u> | | |
| Balance at beginning of period | 323,727,869 | 335,994,775 |
| Return of Capital to Shareholders | - | (12,266,905) |
| Issuance of shares and options | - | - |
| Cancellation of shares | - | - |
| Balance at End of Period | <u>323,727,869</u> | <u>323,727,870</u> |
| <u>Additional paid-in capital stock warrants</u> | | |
| Balance at beginning and end of period | <u>1,350,000</u> | <u>1,350,000</u> |
| <u>Accumulated other comprehensive income (loss)</u> | | |
| Balance at beginning of period | 181,149 | 281,209 |
| Net unrealized gain (loss) on fixed income investments | (181,149) | (197,082) |
| Balance at End of Period | <u>-</u> | <u>84,127</u> |
| <u>Accumulated Deficit</u> | | |
| Balance at beginning of period | (336,950,064) | (335,748,467) |
| Net income (loss) | (257,932) | (291,671) |
| Balance at End of Period | <u>(337,207,996)</u> | <u>(336,040,138)</u> |
| TOTAL STOCKHOLDERS' EQUITY | <u>\$ 12,403,684</u> | <u>\$ 13,655,670</u> |

*See accompanying notes to the unaudited condensed consolidated financial statements.
These financial statements should be reviewed in conjunction with the Company's audited financial statements for the year ended 2008.*

ANNUITY AND LIFE RE (HOLDINGS), LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in U.S. dollars)

| | <u>For the Six Months Ended June 30,</u> | |
|--|--|----------------------|
| | <u>2009</u> | <u>2008</u> |
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | | |
| Net income (loss) from continuing operations | \$ (257,932) | \$ (557,580) |
| Adjustments to reconcile net income (loss) from continuing operations to cash provided (used) by operating activities: | | |
| Net realized investment (gains) losses | (205,683) | (21,017) |
| Changes in: | | |
| Accrued investment income | 48,969 | 98,767 |
| Other assets | (118,427) | (121,082) |
| Reserves for future policy benefits | (211,565) | (114,768) |
| Other reinsurance liabilities | (12,735) | (16,496,440) |
| Accounts payable and accrued expenses | (629,210) | (394,081) |
| NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES | (1,386,583) | (17,606,201) |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | | |
| Proceeds from sales and maturities of fixed income investments | 4,125,966 | 21,017 |
| Amortization of premiums on fixed income investments | - | 19,093 |
| Purchases of fixed-income investments | - | - |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 4,125,966 | 40,110 |
| <u>CASH FLOWS FROM FINANCING ACTIVITIES</u> | | |
| Purchase and cancellation of Company stock | - | - |
| Proceeds from sale of subsidiary | - | 10,608,178 |
| Net proceeds from exercise of company stock options | - | - |
| Cash distribution to shareholders | - | (12,266,905) |
| NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES | - | (1,658,727) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS CONTINUING OPERATIONS | 2,739,383 | (19,224,818) |
| <u>CASH AND CASH EQUIVALENTS CONTINUING OPERATIONS - Beginning</u> | | |
| | 9,828,046 | 29,377,930 |
| <u>CASH AND CASH EQUIVALENTS CONTINUING OPERATIONS - End</u> | | |
| | \$ 12,567,429 | \$ 10,153,112 |

*See accompanying notes to the unaudited condensed consolidated financial statements.
These financial statements should be reviewed in conjunction with the Company's audited financial statements for the year ended 2008.*

ANNUITY AND LIFE RE (HOLDINGS), LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, Continued
(Unaudited and in U.S. dollars)

| | For the Six Months Ended June 30, | |
|---|--|---------------------|
| | 2009 | 2008 |
| <u>CASH FLOWS FROM DISCONTINUED OPERATIONS</u> | | |
| Cash flows from operating activities | \$ - | \$ (1,466,481) |
| Cash flows from investment activities | \$ - | 7,360,871 |
| Cash flows from financing activities | \$ - | <u>(10,608,179)</u> |
| | | |
| NET CASH FROM DISCONTINUED OPERATIONS | - | (4,713,789) |
| | | |
| <u>CASH AND CASH EQUIVALENTS DISCONTINUED OPERATIONS - Beginning</u> | - | <u>4,746,777</u> |
| | | |
| <u>CASH AND CASH EQUIVALENTS DISCONTINUED OPERATIONS - End</u> | <u>\$ -</u> | <u>\$ 32,988</u> |

*See accompanying notes to the unaudited condensed consolidated financial statements.
These financial statements should be reviewed in conjunction with the Company's audited financial statements for the year ended 2008.*

ANNUITY AND LIFE RE (HOLDINGS), LTD.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business

Annuity and Life Re (Holdings), Ltd. (“Holdings”) was incorporated on December 2, 1997 under the laws of Bermuda. Holdings provides annuity and life reinsurance to insurers and reinsurers through its wholly-owned subsidiary, Annuity and Life Reassurance, Ltd., which is licensed under the laws of Bermuda as a long term insurer. Holdings and Annuity and Life Reassurance, Ltd. are collectively referred to herein as the “Company.”

2. Basis of Presentation and Management’s Plans

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As a result of significant operating losses, the Company became unable to meet its monetary obligations under certain reinsurance treaties in 2002. Since that time, the Company has negotiated termination, recapture, and novation or coinsurance agreements for all reinsurance treaties with the applicable counterparties or independent third parties. As of December 31, 2006, there were no reinsurance agreements in force that generate operating revenue for the Company. The Company’s only source of revenue is investment income.

Due to the absence of ongoing insurance operations, the Company has significantly reduced its operations including terminating employees, reducing the size of the Board of Directors, and moving to smaller office space. Because of statutory requirements, the wind-down or dissolution of the Company is not imminent. On February 29, 2008 the Company closed the sale of its U.S. domiciled insurance company.

On July 15, 2009 the Company announced that its Board of Directors had executed an amalgamation agreement with Pope Limited and Pope Limited's sole shareholder, Pope Investments II LLC.

The amalgamation agreement will now be proposed for approval by the Company’s shareholders. A proxy and accompanying proxy statement will be mailed out in the near future pursuant to which shareholders will be invited to vote on the proposed amalgamation. If approved, each outstanding common share of the Company would be replaced by a cash payment of the amalgamation consideration. The amalgamation consideration will be subject to adjustment based on the actual shareholders’ equity at closing. As such, the amalgamation consideration per common share of the Company cannot be precisely determined at this time, although, based on recent financial results, it is estimated to be in the range of \$0.43 to \$0.44 per share.

Further details will be provided in the proxy and accompanying proxy statement which will be mailed to all shareholders.

3. Cash Distribution to Stockholders

The Company declared a cash distribution (return of capital) of \$0.50 per common share to be made on May 15, 2008 to stockholders of record as of April 30, 2008. The total payout, \$12,266,905.50, was reflected in the June 30, 2008 financial statement.

4. Contingencies

In February 2008, the Company paid a total of \$16.6 million to Transamerica Occidental Life Insurance Company (“Transamerica”) and Scottish Life Re Corporation (“Scottish”) in settlement of balances relating to

several reinsurance contracts which were previously novated to Transamerica under the terms of a novation agreement dated January 31, 2005 and effective December 31, 2004. The settlement included previously unbilled charges which pre-dated the novation agreement as well as an adjustment to the novation settlement. The Company was released from any further liability regarding the Scottish contracts novated to Transamerica but remains responsible for any pre-novation activity on the other novated contract.

The Company may be subject to contingencies for amounts that may be due under previously terminated or recaptured reinsurance agreements relating to deaths that occurred prior to such terminations or recaptures.

The Company has continuing obligations under an employment agreement with its CEO, including obligations to make severance payments under certain circumstances. These amounts have not yet been reflected in the balance sheet.

There are no arbitrations or other legal proceedings currently in process in which we are involved.