



**Annuity
& Life Re**

**UNAUDITED
CONDENSED
CONSOLIDATED**

FINANCIAL STATEMENTS

FOR THE QUARTER ENDED

MARCH 31, 2008

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These financial statements should be reviewed in conjunction with the Company's audited financial statements for the year ended 2007.

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

	March 31, 2008	December 31, 2007
<u>ASSETS</u>	(unaudited)	
Cash and cash equivalents	\$ 23,147,899	\$ 29,377,930
Fixed income investments at fair value (amortized cost of \$3,950,803 and \$3,960,193 at March 31, 2008 and December 31, 2007, respectively)	4,131,952	4,028,124
Accrued investment income	91,523	163,263
Assets of discontinued operations-held for sale including cash of \$65,716 and \$4,746,777 at March 31, 2008 and December 31, 2007, respectively)	65,716	80,722,165
Prepaid insurance	-	<u>68,118</u>
TOTAL ASSETS	<u>\$ 27,437,090</u>	<u>\$ 114,359,600</u>
 <u>LIABILITIES</u>		
Reserves for future policy benefits	\$ 421,420	\$ 441,420
Liabilities of discontinued operations-held for sale	36,774	70,142,730
Other reinsurance liabilities	278,580	16,825,788
Accounts payable and accrued expenses	<u>468,261</u>	<u>538,334</u>
TOTAL LIABILITIES	<u>1,205,035</u>	<u>87,948,272</u>
 <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 March 31, 2008 and December 31, 2007)	24,533,811	24,533,811
Additional paid-in capital	335,994,775	335,994,775
Stock warrants	1,350,000	1,350,000
Accumulated other comprehensive income (loss)	181,149	281,209
Accumulated deficit	<u>(335,827,680)</u>	<u>(335,748,467)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>26,232,055</u>	<u>26,411,328</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 27,437,090</u>	<u>\$ 114,359,600</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 2007.

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

	For the Three Months Ended March 31,	
	2008	2007
<u>REVENUES</u>		
Investment income, net of related expenses	\$ 267,983	\$ 413,076
Net realized investment gains (losses)	-	91,456
TOTAL REVENUES	267,983	504,532
<u>BENEFITS AND EXPENSES</u>		
Claims and policy benefits	(11)	25,661
Policy acquisition costs and other insurance expenses	233,287	41,130
Operating expenses	384,883	423,478
TOTAL BENEFITS AND EXPENSES	618,159	490,269
<u>NET INCOME (LOSS) FROM CONTINUING OPERATIONS</u>	(350,176)	14,264
DISCONTINUED OPERATIONS	270,963	44,684
NET INCOME (LOSS)	\$ (79,213)	\$ 58,948
INCOME (LOSS) PER SHARE FROM CONTINUING OPERATIONS		
Basic.....	\$ (0.01)	\$ 0.00
Diluted.....	\$ (0.01)	\$ 0.00
INCOME (LOSS) PER SHARE FROM DISCONTINUED OPERATIONS		
Basic.....	\$ 0.01	\$ 0.00
Diluted.....	\$ 0.01	\$ 0.00
NET INCOME (LOSS) PER COMMON SHARE		
Basic.....	\$ (0.00)	\$ 0.00
Diluted.....	\$ (0.00)	\$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	24,533,811	24,808,811

*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 2007.*

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

	For the Three Months Ended March 31,	
	2008	2007
<u>NET INCOME (LOSS) FOR THE PERIOD</u>	\$ (79,213)	\$ 58,948
<u>OTHER COMPREHENSIVE LOSS</u>		
Unrealized holding gain (loss) on fixed income investments	(100,060)	257,008
Less reclassification adjustment for net realized investment gains (losses) in net income (loss)	-	170,101
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ (179,273)	\$ 145,855

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

	For the Three Months 2008	Ended March 31 2007
<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	24,808,811
Issuance of shares		-
Cancellation of shares		-
Balance at End of Period	<u>24,533,811</u>	<u>24,808,811</u>
<u>Additional paid-in capital</u>		
Balance at beginning of period	335,994,775	334,125,057
Issuance of shares and options		-
Cancellation of shares		-
Balance at End of Period	<u>335,994,775</u>	<u>334,125,057</u>
<u>Stock warrants</u>		
Balance at beginning and end of period	<u>1,350,000</u>	<u>1,350,000</u>
<u>Unamortized stock-based compensation</u>		
Balance at beginning of period	-	-
Amortization of stock-based compensation		-
Balance at End of Period	<u>-</u>	<u>-</u>
<u>Accumulated other comprehensive income (loss)</u>		
Balance at beginning of period	281,209	(188,372)
Net unrealized gain (loss) on fixed income investments	(100,060)	86,907
Balance at End of Period	<u>181,149</u>	<u>(101,465)</u>
<u>Accumulated Deficit</u>		
Balance at beginning of period	(335,748,467)	(315,361,934)
Net income (loss)	(79,213)	58,948
Balance at End of Period	<u>(335,827,680)</u>	<u>(315,302,986)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>\$ 26,232,055</u>	<u>\$ 44,879,417</u>

*See accompanying notes to the unaudited condensed consolidated financial statements.
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ANNUITY AND LIFE RE (HOLDINGS), LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited and in U.S. dollars)

	<u>For the Three Months Ended March 31,</u>	
	<u>2008</u>	<u>2007</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net income (loss) from continuing operations	\$ (350,176)	\$ 14,263
Adjustments to reconcile net income (loss) from continuing operations to cash provided (used) by operating activities:		
Net realized investment (gains) losses	-	(91,456)
Changes in:		
Accrued investment income	71,740	269,920
Other assets	68,118	(204,354)
Reserves for future policy benefits	(20,000)	(38,824)
Amounts due reinsurer	-	-
Other reinsurance liabilities	(16,547,208)	314,578
Accounts payable and accrued expenses	<u>(70,073)</u>	<u>(151,687)</u>
NET CASH PROVIDED (USED) IN OPERATING ACTIVITIES	<u>(16,847,599)</u>	<u>112,440</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sales and maturities of fixed income investments	-	12,188,501
Amortization of premiums on fixed income investments	9,390	17,370
Purchases of fixed-income investments	-	-
Proceeds from sale of subsidiary	10,608,178	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>10,617,568</u>	<u>12,205,872</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Purchase and cancellation of Company stock	-	-
Net proceeds from exercise of company stock options	-	-
NET CASH PROVIDED (USED) IN FINANCING ACTIVITIES	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS CONTINUING OPERATIONS	(6,230,031)	12,318,312
<u>CASH AND CASH EQUIVALENTS CONTINUING OPERATIONS - Beginning</u>	<u>29,377,930</u>	<u>16,412,672</u>
<u>CASH AND CASH EQUIVALENTS CONTINUING OPERATIONS - End</u>	<u>\$ 23,147,899</u>	<u>\$ 28,730,984</u>

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

	For the Three Months Ended March 31,	
	2008	2007
<u>CASH FLOWS FROM DISCONTINUED OPERATIONS</u>		
Cash flows from operating activities	\$ (1,433,754)	\$ (177,062)
Cash flows from investment activities	7,360,871	12,283,380
Cash flows from financing activities	(10,608,178)	-
 NET CASH FROM DISCONTINUED OPERATIONS	 (4,681,061)	 12,106,318
 <u>CASH AND CASH EQUIVALENTS DISCONTINUED OPERATIONS - Beginning</u>	 4,746,777	 1,796,772
 <u>CASH AND CASH EQUIVALENTS DISCONTINUED OPERATIONS - End</u>	 \$ 65,716	 \$ 1,584,778

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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. The Company continues to explore strategic alternatives to attempt to maximize its economic value for stockholders. On February 29, 2008 the Company closed the sale of its U.S. domiciled insurance company.

In addition, the Company may consider cash distributions to stockholders, stock buybacks or similar transactions, to the extent its financial condition allows it to do so and it is not constrained by insurance regulatory or other laws.

3. Cash Distribution to Stockholders

The Company has 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, has not been reflected in these financial statements.

4. Contingencies

In February 2008, the Company resolved its disputes with Transamerica regarding the December 31, 2004 novation of several reinsurance contracts. These disputes had been the subject of arbitration proceedings. The Company agreed to pay a total of \$16.567 million to settle all liabilities related to the novations. Transamerica received \$3 million and \$2.5 million, respectively, in settlement of the F&G and Scottish Re matters. In addition, the Company paid approximately \$11.1 million to Scottish Re. The settlement agreement discharges the Company from any future liabilities from Transamerica and Scottish Re. The Company continues to be liable for any pre-novation issues related to the F&G 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 is also liable for obligations that have been 100% reinsured with third parties in the event the reinsurer is unable or unwilling to pay its obligations.

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.