



**Annuity
& Life Re**

**UNAUDITED
CONDENSED
CONSOLIDATED**

FINANCIAL STATEMENTS

FOR THE QUARTER ENDED

SEPTEMBER 30, 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)

	<u>September 30, 2008</u> (unaudited)	<u>December 31, 2007</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 9,967,787	\$ 29,377,930
Fixed income investments at fair value (amortized cost of \$3,930,752 and \$3,960,193 at September 30, 2008 and December 31, 2007, respectively)	4,037,510	4,028,124
Accrued investment income	79,573	163,263
Assets of discontinued operations-held for sale including cash of \$32,988 and \$4,746,777 at June 30, 2008 and December 31, 2007, respectively)	33,124	80,722,165
Prepaid insurance	<u>118,250</u>	<u>68,118</u>
TOTAL ASSETS	<u>\$ 14,236,244</u>	<u>\$ 114,359,600</u>
<u>LIABILITIES</u>		
Reserves for future policy benefits	\$ 326,653	\$ 441,420
Liabilities of discontinued operations-held for sale	16,165	70,142,730
Other reinsurance liabilities	304,084	16,825,788
Accounts payable and accrued expenses	<u>186,149</u>	<u>538,334</u>
TOTAL LIABILITIES	<u>833,051</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 June 30, 2008 and December 31, 2007)	24,533,811	24,533,811
Additional paid-in capital	323,727,870	335,994,775
Stock warrants	1,350,000	1,350,000
Accumulated other comprehensive income (loss)	106,758	281,209
Accumulated deficit	<u>(336,315,246)</u>	<u>(335,748,467)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>13,403,193</u>	<u>26,411,328</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 14,236,244</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)

	<u>For the Three months Ended September 30,</u>		<u>For the Nine Months Ended September 30</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<u>REVENUES</u>				
Investment income, net of related expenses	\$ 107,616	\$ 428,022	\$ 523,769	\$ 1,260,33
Net realized investment gains (losses)	-	3,323	21,017	94,78
TOTAL REVENUES	107,616	431,345	544,786	1,355,11
<u>BENEFITS AND EXPENSES</u>				
Claims and policy benefits	(0)	5,388	(11)	87,76
Policy acquisition costs and other insurance expenses	330	31,867	236,147	94,69
Operating expenses	375,465	482,161	1,134,409	1,306,40
TOTAL BENEFITS AND EXPENSES	375,795	519,416	1,370,545	1,488,86
<u>NET INCOME (LOSS) FROM CONTINUING OPERATIONS</u>	(268,179)	(88,071)	(825,759)	(133,75)
DISCONTINUED OPERATIONS	(6,929)	(1,569,992)	258,980	(1,557,41)
NET INCOME (LOSS)	\$ (275,108)	\$ (1,658,063)	\$ (566,779)	\$ (1,691,17)
INCOME (LOSS) PER SHARE FROM CONTINUING OPERATIONS				
Basic.....	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ (0.0)
Diluted.....	\$ (0.01)	\$ (0.00)	\$ (0.03)	\$ (0.0)
INCOME (LOSS) PER SHARE FROM DISCONTINUED OPERATIONS				
Basic.....	\$ (0.00)	\$ (0.07)	\$ 0.01	\$ (0.0)
Diluted.....	\$ (0.00)	\$ (0.07)	\$ 0.01	\$ (0.0)
NET INCOME (LOSS) PER COMMON SHARE				
Basic.....	\$ (0.01)	\$ (0.07)	\$ (0.02)	\$ (0.0)
Diluted.....	\$ (0.01)	\$ (0.07)	\$ (0.02)	\$ (0.0)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	24,533,811	24,808,811	24,533,811	24,808,81

*See accompanying notes to the unaudited condensed consolidated financial statements.
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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 September 30,</u>		<u>For the Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<u>NET INCOME (LOSS) FOR THE PERIOD</u>	\$ (275,108)	\$ (1,658,063)	\$ (566,779)	\$ (1,691,171)
<u>OTHER COMPREHENSIVE INCOME (LOSS)</u>				
Unrealized holding gain (loss) on fixed income investments	22,631	283,815	(153,434)	307,584
Less reclassification adjustment for net realized investment gains (losses) in net income (loss)	<u>-</u>	<u>3,324</u>	<u>21,017</u>	<u>94,780</u>
Other Comprehensive Income (Loss)	<u>\$ 22,631</u>	<u>\$ 280,492</u>	<u>\$ (174,451)</u>	<u>\$ 212,804</u>
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ (252,477)</u>	<u>\$ (1,377,571)</u>	<u>\$ (741,230)</u>	<u>\$ (1,478,367)</u>

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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 Nine Months 2008	Ended September 30, 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	-	-
Return of Capital to Shareholders	(12,266,905)	-
Balance at End of Period	<u>323,727,870</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	(174,451)	212,804
Balance at End of Period	<u>106,758</u>	<u>24,432</u>
<u>Accumulated Deficit</u>		
Balance at beginning of period	(335,748,467)	(315,361,934)
Net income (loss)	(566,779)	(1,691,171)
Balance at End of Period	<u>(336,315,246)</u>	<u>(317,053,105)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>\$ 13,403,193</u>	<u>\$ 43,255,195</u>

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

	For the Nine Months Ended September 30,	
	2008	2007
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net income (loss) from continuing operations	\$ (825,759)	\$ (133,775)
Adjustments to reconcile net income (loss) from continuing operations to cash provided (used) by operating activities:		
Net realized investment (gains) losses	(21,017)	(94,780)
Changes in:		
Accrued investment income	83,690	266,289
Other assets	(50,132)	(68,118)
Reserves for future policy benefits	(114,767)	(44,328)
Amounts due reinsurer	-	325,257
Other reinsurance liabilities	(16,521,704)	44,328
Accounts payable and accrued expenses	(352,185)	(375,762)
	(17,801,875)	(80,889)
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sales and maturities of fixed income investments	21,017	13,056,845
Amortization of premiums on fixed income investments	29,441	46,832
Purchases of fixed-income investments	-	-
Proceeds from sale of subsidiary	10,608,179	-
	10,658,637	13,103,677
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Purchase and cancellation of Company stock	-	-
Net proceeds from exercise of company stock options	-	-
Cash distribution to shareholders	(12,266,905)	-
	(12,266,905)	-
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS CONTINUING OPERATIONS		
	(19,410,143)	13,022,788
<u>CASH AND CASH EQUIVALENTS CONTINUING OPERATIONS - Beginning</u>		
	29,377,930	16,412,672
<u>CASH AND CASH EQUIVALENTS CONTINUING OPERATIONS - End</u>		
	\$ 9,967,787	\$ 29,435,460

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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 Nine Months Ended September 30,	
	2008	2007
<u>CASH FLOWS FROM DISCONTINUED OPERATIONS</u>		
Cash flows from operating activities	\$ (1,466,345)	\$ (267,123)
Cash flows from investment activities	\$ 7,360,871	\$ (1,062,695)
Cash flows from financing activities	\$ (10,608,179)	\$ -
NET CASH FROM DISCONTINUED OPERATIONS	(4,713,653)	(1,329,818)
<u>CASH AND CASH EQUIVALENTS DISCONTINUED OPERATIONS - Beginning</u>	4,746,777	1,796,772
<u>CASH AND CASH EQUIVALENTS DISCONTINUED OPERATIONS - End</u>	\$ 33,124	\$ 466,954

*See accompanying notes to the unaudited condensed consolidated financial statements.
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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. Shortly thereafter it dissolved its U.S. holding company and released the former CFO who also had headed up those operations.

The Company is in discussions with a third party regarding the possible sale of the Company. Any such sale would be presented to shareholders for their approval. 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 made a cash distribution (return of capital) of \$0.50 per common share on May 15, 2008.

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 and Scottish Re received \$11.067 million. 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 also 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 successfully executed complete releases on twenty-six such contracts and continues to attempt to

obtain releases on the remaining twelve. There can be no assurance that the Company's efforts will be successful.

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 the Company is involved.