



**Annuity
& Life Re**

**UNAUDITED
CONDENSED
CONSOLIDATED**

FINANCIAL STATEMENTS

FOR THE QUARTER ENDED

MARCH 31, 2007

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

	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Cash and cash equivalents	\$ 30,315,762	\$ 18,209,444
Fixed income investments at fair value (amortized cost of \$15,549,548 and \$27,680,196 at March 31, 2007 and December 31, 2006, respectively)	15,448,083	27,491,824
Accrued investment income	417,723	686,394
Receivable for reinsurance ceded	72,140,194	72,982,368
Other reinsurance receivables		
Other assets	408,708	102,177
Total Assets	\$ 118,732,470	\$ 119,462,207
Liabilities		
Reserves for future policy benefits	\$ 72,619,770	\$ 73,492,568
Amounts due reinsurer		
Other reinsurance liabilities	356,095	325,487
Accounts payable and accrued expenses	877,187	910,590
Total Liabilities	73,853,052	74,728,645
Stockholders' Equity		
Preferred shares (par value \$1.00; 50,000,000 shares authorized; no shares outstanding)	-	-
Common shares (par value \$1.00; 100,000,000 shares authorized; 24,808,811 and 24,793,811 shares outstanding at March 31, 2006 and December 31, 2005, respectively)	24,808,811	24,808,811
Additional paid-in capital	334,125,057	334,125,057
Stock warrants	1,350,000	1,350,000
Accumulated other comprehensive loss	(101,465)	(188,372)
Accumulated deficit	(315,302,986)	(315,361,934)
Total Stockholders' Equity	44,879,417	44,733,562
Total Liabilities and Stockholders' Equity	\$ 118,732,469	\$ 119,462,207

See accompanying notes to unaudited condensed consolidated financial statements

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

	For the Three Months Ended March 31,	
	2007	2006
Revenues		
Investment income, net of related expenses.....	\$ 553,364	\$ 572,813
Net realized investment gains (losses)	170,101	(360,863)
Total Revenues	<u>723,465</u>	<u>211,950</u>
Benefits and Expenses		
Claim and policy benefits.....	41,819	(199,164)
Policy acquisition costs and other insurance expenses	41,130	(523,837)
Operating expenses.....	581,568	1,269,503
Total Benefits and Expenses	<u>664,517</u>	<u>567,502</u>
Net income (loss).....	<u>\$ 58,948</u>	<u>\$ (355,552)</u>
Net income (loss) per common share		
Basic	\$ -	\$ (0.01)
Diluted	\$ -	\$ (0.01)

See accompanying notes to unaudited condensed consolidated financial statements

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

	For the Three Months Ended March 31,	
	2007	2006
Net income (loss) for the period	\$ 58,948	\$ (355,552)
Other comprehensive loss:		
Unrealized holding gains (losses) on securities arising during the period	257,088	(81,966)
Less reclassification adjustment for realized gains (losses) in net income (loss).....	170,101	(360,863)
Other comprehensive income (loss)	86,907	278,897
Total Comprehensive Income (Loss)	\$ 148,855	\$ (76,655)

See accompanying notes to unaudited condensed consolidated financial statements

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

	For the Three Months Ended March 31,	
	2007	2006
Preferred shares par value \$1.00		
Balance at beginning and end of period	\$ -	\$ -
Common shares par value \$1.00		
Balance at beginning of period.....	\$ 24,808,811	\$ 24,793,811
Issuance of shares.....	-	15,000
Balance at end of period.....	<u>24,808,811</u>	<u>24,808,811</u>
Additional paid-in capital		
Balance at beginning of period.....	\$ 334,125,057	\$ 334,123,757
Cancellation of stock based compensation	-	1,300
Balance at end of period.....	<u>334,125,057</u>	<u>334,125,057</u>
Stock Warrants		
Balance at beginning and end of period.....	<u>1,350,000</u>	<u>1,350,000</u>
Unamortized stock based compensation		
Balance at beginning of period.....	\$ -	\$ (22,800)
Cancellation of stock based compensation	-	-
Amortization of stock based compensation	-	22,800
Balance at end of period.....	<u>-</u>	<u>-</u>
Accumulated other comprehensive income		
Balance at beginning of period.....	\$ (188,372)	\$ (837,723)
Net unrealized gains on fixed income investments.....	86,907	278,897
Balance at end of period.....	<u>(101,465)</u>	<u>(558,826)</u>
Accumulated Deficit		
Balance at beginning of period.....	\$ (315,361,934)	\$ (314,232,904)
Net income (loss).....	58,948	(355,552)
Balance at end of period.....	<u>(315,302,986)</u>	<u>(314,588,456)</u>
Total Stockholders' Equity	<u>\$ 44,879,417</u>	<u>\$ 45,136,586</u>

See accompanying notes to unaudited condensed consolidated financial statements

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

	For the Three Months Ended March 31,	
	2007	2006
Cash flows from operating activities		
Net income (loss)	\$ 58,948	\$ (355,552)
Adjustments to reconcile net (loss) income to cash used from operating activities:		
Net realized investment gains.....	(170,101)	360,863
Amortization of premiums on fixed-income investments	17,370	42,145
Amortization of stock based compensation	-	22,800
Changes in:		
Accrued investment income	266,671	778,376
Other reinsurance receivables	832,174	1,335,918
Other assets.....	(306,531)	(171,815)
Reserves for future policy benefits.....	(872,798)	(1,318,720)
Other reinsurance liabilities.....	30,608	(1,347,227)
Accounts payable and accrued expenses.....	(33,403)	(3,264,002)
Net cash used by operating activities	<u>\$ (177,062)</u>	<u>\$ (3,917,214)</u>
Cash flows from investing activities		
Proceeds from sales and maturity of fixed-income investments	\$ 12,283,380	\$ 2,582,432
Purchase of fixed-income investments.....	-	-
Net cash provided by investing activities	<u>1 2,283,380</u>	<u>2,769,234</u>
Decrease in cash and cash equivalents	12,106,318	(1,319,782)
Cash and cash equivalents, beginning of period	<u>18,209,444</u>	<u>19,277,490</u>
Cash and cash equivalents, end of period	<u>\$ 30,315,762</u>	<u>\$ 17,957,708</u>

See accompanying notes to unaudited condensed consolidated financial statements

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 subsidiaries: Annuity and Life Reassurance, Ltd., which is licensed under the laws of Bermuda as a long term insurer; and Annuity and Life Re America, Inc., an insurance holding company based in the United States, and Annuity and Life Reassurance America, Inc., a life insurance company domiciled in the United States. Holdings, Annuity and Life Reassurance, Ltd., Annuity and Life Re America, Inc. and Annuity and Life Reassurance America, Inc. 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 will generate operating revenue for the Company. The Company’s only source of revenue in 2007 is investment income.

Due to the absence of ongoing insurance operations, the Company has significantly reduced its operations including terminating certain employees, reducing the size of the Board of Directors, and moving to smaller office space. Because the Company continues to have residual commitments and contingencies as described Note 5 it does not expect to immediately wind-down or dissolve the Company or its subsidiaries. The Company continues to explore strategic alternatives to attempt to maximize its economic value for stockholders. The Company has engaged UBS Securities LLC (“UBS”) (see Note 3). The Company is currently in exclusive discussions with an unrelated third party regarding the possible 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 or by its obligations under the Master Agreement with Wilton Re.

On February 2, 2006, the Company announced that it was filing a Form 15 with the Securities and Exchange Commission (“SEC”). The effect of this filing was to terminate the Company’s reporting obligations under the Securities Exchange Act of 1934 and to terminate the registration of its common stock. Under the SEC’s rules, a company with fewer than 300 record holders may voluntarily terminate the registration of its securities by filing a Form 15 with the SEC. The Company currently has fewer than 300 record holders. The Company’s reporting obligations were terminated immediately upon the filing of the Form 15. The Company also anticipates, but cannot guarantee, that its shares will continue to trade on the over-the-counter market and be quoted in the Pink Sheets’ quotation system under the trading symbol ANNRF.PK.

3. Income (Loss) per Common Share

The following table sets forth the computation of basic and diluted income (loss) per common share for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	2006
Net income (loss)	\$ 58,948	\$ (355,552)
Basic and diluted:		
Weighted average number of common shares outstanding	28,808,811	25,377,486
Net income (loss) per common share	\$ 0.00	\$ (0.01)

At March 31, 2007, 3,556,317 warrants and 124,000 options were outstanding. The calculation of the diluted loss per common share for the three months ended March 31, 2006 does not include the incremental number of shares from the assumed exercise of options and warrants, or the vesting of unvested restricted stock grants because the inclusion of these potential common shares would be considered antidilutive.

The following tables set forth the pro forma computation of basic and diluted income per share after accounting for stock option grants made prior to the Company's January 1, 2003 adoption of the prospective method described in Statement of Financial Accounting Standards ("SFAS") No. 148 for the three month periods ended March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	2006
Net income (loss) - as reported	\$ 58,948	\$ (355,665)
Stock option expense recognized	-	22,800
Pro forma effect on net income of applying fair value accounting to all stock option grants	-	(22,800)
Net income (loss) – pro forma.....	<u>\$ 58,948</u>	<u>\$ (355,665)</u>
Net income (loss) per common share – as reported:		
Basic and diluted	\$ 0.00	\$ (0.01)
Net income (loss) per common share - pro forma:		
Basic and diluted	\$ 0.00	\$ (0.01)

The stock-based compensation expense, including restricted common stock issued to employees, for the three months ended March 31, 2007 and 2006 was zero and \$22,800, respectively.

4. Accounting Standards

Financial Accounting Standards Board Interpretation (FIN) No. 48

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement of Accounting Standards (SFAS)

No. 109” (the “Interpretation”), The Interpretation establishes of all entities a minimum threshold for financial statement recognition of the benefit of tax position, and requires certain expanded disclosures. The Interpretation is effective for fiscal years beginning after December 15, 2006, and is to be applied to all open tax years as of the date of the effect. The company is in the process of evaluating the impact of the application of the Interpretation to its consolidated financial statements. The Company does not expect the adoption of the Interpretation to have a material impact on its consolidated financial statements.

Share-Based Payments

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment” (“SFAS No. 123R”). SFAS No. 123R replaces SFAS No. 123 "Accounting for Stock-Based Compensation" and supersedes APB opinion No. 25 "Accounting for Stock Issued to Employees". SFAS No. 123R requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments granted to employees and is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. Because the Company applies fair value accounting to all employee stock options granted or modified subsequent to December 31, 2002, the impact of this statement will be to record compensation expense utilizing fair value accounting for awards vesting on or after July 1, 2005 that were granted on or before December 31, 2002. The pro forma table in Note 3 illustrates the impact of SFAS 123 on the Company’s unaudited condensed consolidated statement of operations; The Company adopted SFAS No. 123R on January 1, 2005. The Company did not make option grants in the three months ended March 31, 2007 or in 2006.

Emerging Issues Task Force

The Emerging Issues Task Force (“EITF”) of the FASB issued EITF Issue No. 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments” in late 2003. The Company has adopted the provisions of EITF Issue NO 03-1 as required on June 30, 2004.

5. Contingencies

The Company is 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 employment agreements with certain of its employees, including obligations to make severance payments under certain circumstances. These amounts have not yet been reflected in the Balance Sheet. The amount of funds that may be available for distribution from its subsidiaries to the Company and its stockholders will also likely be limited by continuing regulatory requirements, policyholder obligations and normal working capital requirements.

The Master Agreement with Wilton Re includes mutual indemnification provisions covering, among other things, all costs and expenses arising or resulting from any breach of any representation or warranty, any breach of any covenant and certain excluded liabilities. The Company’s liability if a breach of the Master Agreement occurs is the costs and expenses greater than \$25,000 up to a maximum of \$2,000,000. In accordance with the Master Agreement, the Company’s two operating subsidiaries are required to maintain statutory capital and surplus of at least \$2,000,000 for 18 months following the Closing Date,

and the Company has agreed not to take any action that would reduce the statutory capital and surplus of these subsidiaries below such levels.

The Company and Transamerica entered into an Agreement to novate the Company's reinsurance contracts with F&G and Scottish Re to Transamerica effective December 31, 2004. The Company is currently in a dispute with Transamerica concerning both the F&G and Scottish Re aspects of the novation.

With respect to F&G, Transamerica contends that there should be adjustments to the policy benefit reserves transferred to Transamerica. Specifically, Transamerica seeks an adjustment of \$6 million. The Company believes that such an adjustment is unwarranted. Pursuant to the governing contract, the parties have agreed to submit the dispute to an independent actuary for determination.

With respect to Scottish Re, Transamerica has alleged that the Company's disclosures in connection with the novation were insufficient, and has claimed damages of more than \$40 million. Those claims were to be heard in an arbitration hearing in April, 2007. However, the arbitration hearing has now been taken off the calendar pending negotiations.

The Company believes that Transamerica's position with respect to both the F&G and Scottish Re books is without merit. The Company cannot predict the outcome of the actuarial proceeding with respect to the F&G book, or an arbitration with respect to the Scottish Re book. As a result, the Company cannot predict the impact either aspect of the dispute may have on its financial position.

The Company has also learned that Scottish Re has made adjustments to its billing methodology for 2004 and 2005. These adjustments indicate that the Company may have received overpayments of premiums and / or may not have been billed for claims for which it is responsible. In October 2006, Scottish Re provided a summary of the adjustments it has made and late in March 2007 it provided a further updated summary. Approximately \$11 million would be related to the period prior to the novation. (It appears that most of these adjustments are included in Transamerica's arbitration claim.) The Company has not been provided any data or back-up in order to validate the adjustments and no additional liability has been established at this time. The Company cannot predict the timing or magnitude of any required adjustments related to the Scottish Re treaty, nor the impact these adjustments may have on its financial position.

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