



**Annuity
& Life Re**

**UNAUDITED
CONDENSED
CONSOLIDATED**

FINANCIAL STATEMENTS

FOR THE QUARTER ENDED

September 30, 2007

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

	September 30, 2007	December 31, 2006
Assets		
Cash and cash equivalents	\$ 29,835,028	\$ 17,064,169
Fixed income investments at fair value (amortized cost of \$3,969,064 and \$16,978,477 at September 30, 2007 and December 31, 2006, respectively)	3,949,065	16,874,570
Discontinued assets held for sale (see Note 6)	81,196,285	84,995,548
Accrued investment income	193,514	459,802
Other assets	136,236	68,118
Total Assets	<u>\$ 115,377,513</u>	<u>\$ 119,462,207</u>
 Liabilities		
Reserves for future policy benefits	\$ 470,782	\$ 515,200
Discontinued liabilities held for sale (see Note 6)	71,080,409	73,381,492
Other reinsurance liabilities	229,130	184,800
Accounts payable and accrued expenses	341,909	647,154
Total Liabilities	<u>72,122,318</u>	<u>74,728,645</u>
 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 shares outstanding at June 30, 2006 and December 31, 2006)	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	24,432	(188,372)
Accumulated deficit	(317,053,105)	(315,361,934)
Total Stockholders' Equity	<u>43,255,195</u>	<u>44,733,562</u>
Total Liabilities and Stockholders' Equity	<u>\$ 115,377,513</u>	<u>\$ 119,462,207</u>

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 September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues				
Net premiums	\$ -	\$ -	\$ -	\$ -
Investment income, net of related expenses	428,022	484,544	1,260,331	1,399,317
Net realized investment (losses) gains	3,323	(73,795)	94,780	(834,601)
Total Revenues	431,345	410,749	1,359,279	564,716
Benefits and Expenses				
Claim and policy benefits	5,388	-	87,763	(449,641)
Policy acquisition costs and other insurance expenses	31,867	142,945	94,695	(366,401)
Operating expenses	482,161	480,013	1,306,409	2,622,260
Total Benefits and Expenses	519,416	622,958	1,488,867	1,806,218
Loss from continuing operations	(88,071)	(212,209)	(133,755)	(1,241,502)
Loss from discontinued operations	(1,569,992)	6,519	(1,557,416)	30,301
Net Loss	\$ (1,658,063)	\$ (205,690)	\$ (1,691,171)	\$ (1,211,201)
Loss from continuing operations				
Basic	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.05)
Diluted	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.05)
Loss from discontinued operations				
Basic	\$ (0.07)	\$ (0.00)	\$ (0.07)	\$ (0.00)
Diluted	\$ (0.07)	\$ (0.00)	\$ (0.07)	\$ (0.00)
Net loss per common share				
Basic	\$ (0.07)	\$ (0.01)	\$ (0.07)	\$ (0.05)
Diluted	\$ (0.07)	\$ (0.01)	\$ (0.07)	\$ (0.05)

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)

	<u>For the Three Months Ended</u> <u>September 30,</u>		<u>For the Nine Months Ended September 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net loss for the period.....	\$ (1,658,063)	\$ (205,690)	\$ (1,691,171)	\$ (1,211,201)
Other comprehensive income (loss):				
Unrealized holding gains (loss) on securities arising during the period	283,815	248,336	307,584	(456,477)
Less reclassification adjustment for realized (loss) gains in net loss.....	<u>3,324</u>	<u>(73,795)</u>	<u>94,780</u>	<u>(1,131,847)</u>
Other comprehensive income (loss).....	<u>\$ 280,492</u>	<u>\$ 322,131</u>	<u>\$ 212,804</u>	<u>\$ 675,370</u>
Total comprehensive income (loss)	<u>\$ (1,377,571)</u>	<u>\$ 116,441</u>	<u>\$ (1,478,367)</u>	<u>\$ (535,831)</u>

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 Nine Months Ended September 30,	
	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.....	212,804	675,370
Balance at end of period.....	<u>24,432</u>	<u>(162,353)</u>
Accumulated Deficit		
Balance at beginning of period.....	\$ (315,361,934)	\$ (314,232,904)
Net income (loss).....	<u>(1,691,171)</u>	<u>(1,211,511)</u>
Balance at end of period.....	<u>(317,053,105)</u>	<u>(315,444,105)</u>
Total Stockholders' Equity.....	<u>\$ 43,255,195</u>	<u>\$ 44,677,410</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 Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities		
Net income (loss)	\$ (1,691,171)	\$ (1,211,201)
Adjustments to reconcile net (loss) income to cash used from operating activities:		
Loss(gain) from discontinued operations	1,557,416	(30,301)
Net realized investment gains.....	(94,780)	834,601
Amortization of premiums on fixed-income investments	46,832	51,302
Amortization of stock based compensation.....	-	22,800
Changes in:		
Accrued investment income	266,288	394,211
Other reinsurance receivables.....	-	8,182
Other assets.....	(68,118)	100,657
Assets of discontinued operations	3,799,263	34,051,962
Liabilities of discontinued operations	(3,858,498)	(34,545,462)
Reserves for future policy benefits	(44,328)	(1,561,984)
Other reinsurance liabilities.....	44,328	50,463
Accounts payable and accrued expenses	(305,245)	(4,276,600)
Net cash used by operating activities	<u>\$ (348,013)</u>	<u>\$ (6,111,370)</u>
Cash flows from investing activities		
Proceeds from sales and maturity of fixed-income investments.....	\$ 12,040,982	\$ 20,455,653
Purchase of fixed-income investments	-	(20,350,733)
Net cash provided by investing activities	<u>12,040,982</u>	<u>104,920</u>
Cash flows from financing activities		
Net proceeds from exercise of company stock options	-	15,000
Net cash provided by financing activities	-	15,000
Increase (decrease) in cash and cash equivalents.....	11,692,969	(5,991,449)
Cash and cash equivalents, beginning of period	<u>18,209,444</u>	<u>17,667,560</u>
Cash and cash equivalents, end of period.....	<u>\$ 29,902,413</u>	<u>\$ 11,676,110</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 subsidiary that continues to operate. The Company has entered into an agreement to sell its U.S. domiciled insurance company to an unrelated third party. The Company has recorded the assets and liabilities and net income or loss for the periods covered by these financial statements as discontinued operations (see Note 6 – Discontinued Operations). The Company engaged UBS Securities LLC (“UBS”) to facilitate the sale (see Note 6).

The Company continues to explore strategic alternatives to attempt to maximize its economic value for stockholders.

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.

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. Loss per Common Share

The following table sets forth the computation of basic and diluted income (loss) per common share for the three and nine months ended September 30, 2007 and 2006:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net loss	<u>\$ (1,658,063)</u>	<u>\$ (205,690)</u>	<u>\$ (1,691,171)</u>	<u>\$ (1,211,201)</u>
Basic and diluted:				
Weighted average number of common shares outstanding	24,808,811	24,808,811	24,808,811	24,808,811
Net loss per common share	<u>\$ (0.07)</u>	<u>\$ (0.01)</u>	<u>\$ (0.07)</u>	<u>\$ (0.05)</u>

At September 30, 2007, 5,556,317 warrants and 124,000 options were outstanding. The calculation of the diluted loss per common share for the three and nine months ended September 30, 2007 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 and six month periods ended September 30, 2007 and 2006:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net loss - as reported	\$(1,658,063)	\$(205,690)	\$(1,691,171)	\$ (1,211,201)
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 loss - pro forma	<u>\$(1,658,063)</u>	<u>\$(205,690)</u>	<u>\$ (1,691,171)</u>	<u>\$(1,211,201)</u>
Net loss per common share – as reported:				
Basic and diluted	\$(0.07)	\$(0.01)	\$ (0.07)	\$ (0.05)
Net loss income per common share - pro forma:				
Basic and diluted	\$(0.07)	\$(0.01)	\$ (0.07)	\$ (0.05)

The stock-based compensation expense, including restricted common stock issued to employees, for the three and nine months ended September 30, 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 September 30, 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. Accordingly,

the Company has accrued a \$490,000 severance payment as part of its discontinued operations (see Note 6 – Discontinued Operations). The remaining severance payments obligations 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.

In 2005, the Company entered in a Master Agreement with Wilton Re which included 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 indemnification provisions of the Master Agreement expired in July 2007 with no reported breach of its provisions

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. However, the actuarial review has not yet been scheduled, pending negotiations between the parties.

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. The arbitration hearing was taken off the calendar pending negotiations. As those negotiations have terminated without a settlement, an arbitration hearing is schedule for the week of March 17, 2008.

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.

6. Discontinued Operations

On August 3, 2007, the Company, together with its wholly owned subsidiary, Annuity & Life Re America, Inc., signed a Stock Purchase Agreement to sell its United States based insurance subsidiary, Annuity and Life Reassurance America, Inc. to an unrelated third party. Upon closing of the sale transaction, the Company expects to dissolve Annuity & Life Re America, Inc. Accordingly, the Company has recorded the financial statement effects of its entire U.S. based operations on its consolidated financial statements as Discontinued Operations- Held for Sale.

Under the terms of the Stock Purchase Agreement the purchaser has agreed to pay the Company \$6,950,000 plus an amount equal to any capital and surplus in excess of \$7,400,000 that is required by the Connecticut Insurance Department. In no event will the purchase price increase to an amount greater than \$11,604,356. In addition, the purchase price will be reduced by \$25,000 for each insurance license in excess of three that is deemed a restricted license at closing. The Company expects to realize proceeds from the sale of \$11,154,551 less \$400,000 in transaction costs. (In February 2006, the Company agreed to continue to retain UBS for financial and market related advice and assistance in exploring strategic alternatives, including a merger of Holdings into another entity, the sale of one or both of its operating subsidiaries or other comparable transactions. The Company agreed to pay UBS a \$10,000 per month retainer fee which shall be offset against a transaction fee of \$500,000 payable upon the closing of a potential transaction.) In total, the Company has recorded a charge to Loss from Discontinued operations of approximately \$1 million as a result of the sale transaction.

The consummation of the sale transaction is subject to certain closing conditions, including the receipt of the approval by the Connecticut Department of Insurance. The parties expect the transaction to close no later than March 31, 2008. The Company expects the operating results of its discontinued operations to remain approximately at break-even.

Upon closing of the sale transaction, the Company expects to dissolve Annuity & Life Re America, Inc. The Company has recorded \$590,000 in severance costs and other expenses to be paid as a result of the dissolution.

The consolidated assets and liabilities of Annuity & Life Re America, Inc. and Annuity & Life Reassurance America, Inc. are comprised of the following at September 30, 2007 and December 31, 2006:

	<u>September 30, 2007</u>	<u>December 31, 2006</u>
Assets		
Cash and cash equivalents	\$ 1,293,931	\$ 1,145,275
Fixed income investments at fair value (amortized cost of \$10,326,515 and \$10,700,272 at September 30, 2007 and December 31, 2006, respectively)	10,372,929	10,617,254
Receivable for reinsurance ceded	69,217,984	72,972,368
Accrued investment income	243,323	226,592
Other assets	68,118	34,059
Total Assets	<u>\$ 81,196,285</u>	<u>\$ 84,995,548</u>
Liabilities		
Reserves for future policy benefits	\$ 69,221,184	\$ 72,977,368
Accrued transaction and other related costs	1,557,434	
Other reinsurance liabilities	133,991	140,687
Accounts payable and accrued expenses	167,800	263,436
Total Liabilities	<u>\$ 71,080,409</u>	<u>\$ 73,381,492</u>