

**ANNUITY AND LIFE RE (HOLDINGS), LTD.
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2017

**ANNUITY AND LIFE RE (HOLDINGS), LTD.
AND SUBSIDIARY**

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INDEPENDENT AUDITORS' REPORT

To the Shareholder and Directors of Annuity and Life Re (Holdings), Ltd.

We have audited the accompanying consolidated financial statements of Annuity and Life Re (Holdings), Ltd. (the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of (loss) income and comprehensive income, changes in shareholder's equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Annuity and Life Re (Holdings), Ltd. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

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Emphasis of Matter

Without qualifying our opinion, we draw attention to Notes 3, 4, 5 and 13 in the consolidated financial statements. The Company has made investments in Tethys Petroleum Limited, a related party, which comprise: common shares recorded at fair value of \$231,443; a debenture recorded at face value of \$1,760,978; loans recorded at face value of \$3,177,839; and related interest receivable of \$617,848.

The Q3 financial results and management discussion and analysis filed with the Canadian securities regulatory authority includes the following disclosures regarding going concern:

“The Management and the Board has considered the Company’s current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the condensed consolidated interim financial statements in determining the ability of the Company to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the nine months ended September 30, 2017. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

Although these condensed consolidated interim financial statements have been prepared on a going concern basis in accordance with IFRS, which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they come due, events and uncertainties which are discussed below raise significant doubt about the Company’s ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.”

No adjustment has been made to the value of the debenture and loans as a result of the going concern matter.

Arthur Morris & Company Limited

Hamilton, Bermuda
April 30, 2018

**ANNUITY AND LIFE RE (HOLDINGS), LTD.
AND SUBSIDIARY**

CONSOLIDATED BALANCE SHEETS

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

ASSETS	2017	2016
Cash and cash equivalents	294,261	379,712
Investments (note 3)	5,711,250	5,079,985
Debenture (note 4)	1,760,978	1,760,978
Loans receivable (note 5)	3,842,839	3,842,839
Interest receivable (notes 4 and 5)	677,555	162,271
Due from Pope Investments II LLC (note 7)	-	647,827
Other assets	5,816	17,448
TOTAL ASSETS	12,292,699	11,891,060
LIABILITIES		
Reserve for losses and loss expenses (note 6)	95,962	95,962
Due to affiliates (note 7)	250,000	250,000
Accounts payable and accrued expenses	32,195	37,591
TOTAL LIABILITIES	378,157	383,553
SHAREHOLDERS' EQUITY		
Share capital (note 8)	5,017,500	5,017,500
Treasury stock (note 9)	(18,166,954)	(18,166,954)
Additional paid-in-capital (notes 8 and 9)	32,583,633	32,583,633
Accumulated other comprehensive income	1,592,521	692,015
Deficit	(9,112,158)	(8,618,687)
TOTAL SHAREHOLDER'S EQUITY	11,914,542	11,507,507
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	12,292,699	11,891,060

**ANNUITY AND LIFE RE (HOLDINGS), LTD.
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CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND COMPREHENSIVE INCOME

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

UNDERWRITING INCOME	2017	2016
Premiums written	-	-
Change in unearned premiums	-	-
Net premiums earned	-	-
UNDERWRITING EXPENSES		
Losses and loss expenses	-	-
Acquisition costs	-	-
Commutation expense	-	-
Profit commission	-	-
Total underwriting expenses	-	-
NET UNDERWRITING (LOSS) INCOME	-	-
NET INVESTMENT INCOME (note 3)	606,320	876,653
INCOME BEFORE OPERATING EXPENSES	606,320	876,653
OPERATING EXPENSES (note 13)	(1,099,791)	(273,015)
NET (LOSS) INCOME	(493,471)	603,638
OTHER COMPREHENSIVE INCOME		
Holding gain on investments arising during the year	900,506	821,266
COMPREHENSIVE INCOME	407,035	1,424,904
Earnings per share	\$ (0.10)	\$ 0.12

**ANNUITY AND LIFE RE (HOLDINGS), LTD.
AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN
SHAREHOLDER'S EQUITY**

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

	2017	2016
Share capital		
Balance at beginning and end of year (5,017,500 shares at \$1 par)	5,017,500	5,017,500
<hr/>		
Treasury stock		
Balance at beginning of year	(18,166,954)	(18,166,954)
Shares purchased during the year	-	-
Balance at end of year	(18,166,954)	(18,166,954)
<hr/>		
Additional paid-in-capital		
Balance at beginning and end of year	32,583,633	32,583,633
Additional paid-in-capital during the year	-	-
Balance at end of year	32,583,633	32,583,633
<hr/>		
Accumulated other comprehensive income		
Balance at beginning of year	692,015	(129,251)
Change in accumulated other comprehensive income	900,506	821,266
Balance at end of year	1,592,521	692,015
<hr/>		
Deficit		
Balance at beginning of year	(8,618,687)	(9,222,325)
Net (loss) income for the year	(493,471)	603,638
Balance at end of year	(9,112,158)	(8,618,687)
<hr/>		
TOTAL SHAREHOLDER'S EQUITY	\$ 11,914,542	\$ 11,507,507

**ANNUITY AND LIFE RE (HOLDINGS), LTD.
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CONSOLIDATED STATEMENTS OF CASH FLOWS

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income for the year	\$ (493,471)	\$ 603,638
Adjustments to reconcile net income from continuing operations to cash used in operating activities:		
Net realized (gain) loss on sale of investments	(71,677)	80,099
Changes in assets and liabilities:		
Interest receivable	(515,284)	(4,589)
Other assets	11,632	(17,448)
Due from Pope Investments II LLC	647,827	(128,303)
Accounts payable and accrued expenses	(5,396)	(266,481)
NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	(426,369)	266,916
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(225,030)	(269,810)
Proceeds from sale of investments	565,948	1,034,836
Loans issued	-	(665,000)
NET CASH PROVIDED BY INVESTING ACTIVITIES	340,918	100,026
 (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (85,451)	 366,942
CASH AND CASH EQUIVALENTS – Beginning of year	379,712	12,770
CASH AND CASH EQUIVALENTS – End of year	\$ 294,261	\$ 379,712

**ANNUITY AND LIFE RE (HOLDINGS), LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

1. BUSINESS ACTIVITY

Annuity and Life Re (Holdings), Ltd. (“Holdings”) was incorporated under the laws of Bermuda on December 2, 1997. Its principal activity is that of investment holding.

Holdings was wholly owned by Pope Investments II LLC, a managed limited liability company registered in Delaware. In 2013, the Board of Directors of Holdings approved the transfer of all its common shares from Pope Investments II LLC to Wilson & Co., a nominee company owned by HSBC Bermuda Custody Services for and on behalf of National Financial Services, with the intent of allowing more liquidity to the Company’s investors.

The financial statements include the accounts of Holdings and its wholly owned subsidiary, Annuity and Life Reassurance, Ltd. (“ALRE”), a Class 3A and Class C insurer under the Insurance Act, 1978 of Bermuda and related regulations. ALRE has not written any long-term business since December 31, 2005 and does not intend to continue writing any long-term business in the near future. Effective August 1, 2013, ALRE entered into a commutation and release agreement with Alterra Bermuda Limited, in respect of the Property Quota Share Retrocession Agreement which both parties entered into in January 1, 2010. The commutation and release agreement mutually releases both parties from any and all past, present and future payment obligations in connection with the Retrocession agreement.

Holdings and ALRE are collectively referred to herein as the “Company.”

In 2012, the Company obtained a waiver on the qualified investor restriction, effectively allowing the Company’s listed securities to be held by the general public, subject to a few requirements imposed on regular publicly listed entities in the BSX.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

The significant accounting policies are as follows:

(a) Basis of consolidation

The consolidated financial statements include the accounts of Holdings and ALRE. All significant inter-company accounts and transactions have been eliminated upon consolidation.

**ANNUITY AND LIFE RE (HOLDINGS), LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Cash and cash equivalents

Cash and cash equivalents are carried at market value, and consist of money market funds and short-term investments, with original maturities of 90 days or less.

(c) Premiums written

Premiums are recognized as revenue on a pro-rata basis over the periods of the respective policies or contracts of reinsurance. The portion of premiums that will be earned in the future are deferred and reported as unearned premiums. Premiums which are subject to adjustment are estimated based upon available information. Any variances from the estimates are recorded in the periods in which they become known.

(d) Reserve for losses and loss expenses

Long-term Business

The development of reserves for policy benefits and for claims incurred but not reported ("IBNR") for the Company's long-term products requires management to make estimates and assumptions regarding mortality, lapse, persistency, expenses and investment experience. Such estimates are primarily based on historical experience and information provided by ceding companies. Actual results could differ materially from those estimates. Management monitors actual experience and, where circumstances warrant, revises its assumptions and the related reserve estimates. In certain instances, the Company continues to be liable for claims arising on novated contracts which pre-date the novation agreement.

General Business

The liability for losses and loss adjustment expenses in relation to the Company's general reinsurance activities included an amount determined from loss reports and individual cases received from the ceding reinsurer and an amount, based on past experience and based on the study performed by an independent actuary, for losses incurred but not reported. These liabilities were commuted on August 1, 2013.

(e) Acquisition costs and profit commission

Acquisition costs, primarily commission and brokerage expenses, represent those costs which vary with and are primarily related to the acquisition of the general reinsurance contracts. These costs are deferred and are amortized over the period during which related premiums are earned.

Profit commission is accrued in accordance with the terms of the Property Quota Share retrocession agreement in an amount based upon the net income on the contract as recorded in the financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Investments

Investments are carried at their fair value with the unrealized gain or loss reported as accumulated other comprehensive income on the consolidated balance sheets. A decline in the fair value of any available for sale security below its cost that is deemed other than temporary is charged to earnings, resulting in the establishment of a new cost basis for the security.

Realized gains and losses on investments are recognized in the consolidated statements of (loss) income and comprehensive income using the specific identification method. Interest income is recognized on an accrual basis.

Other-than-temporary Impairments on Investments

An impairment is considered to be other-than-temporary if the Company (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the Company does not intend to sell). A "credit loss" is recognized when the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security. If there is intent to sell the impaired security, then the full OTTI is recognized in earnings in the period. If there is no intent to sell the impaired security but there is a credit loss then the credit loss portion of the unrealized loss is recognized in earnings with the remainder recognized in other comprehensive income. In 2015, the Company recognized an other-than-temporary impairment in the amount of \$4,661,890. No impairment was recognized in 2017.

(g) Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. While management believes that the amounts included in the consolidated financial statements reflect the Company's best estimates and assumptions, actual results could differ from these estimates.

**ANNUITY AND LIFE RE (HOLDINGS), LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

3. INVESTMENTS

The cost, gross unrealized gains, gross unrealized losses and market value of investments are as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Net Market Value
<u>2017</u>				
Equities	\$ 4,118,729	\$ 2,428,496	\$ (835,975)	\$ 5,711,250
<u>2016</u>				
Equities	\$ 4,387,970	\$ 1,354,085	\$ (662,070)	\$ 5,079,985

The Company adopted the provisions of Accounting Standards Codification Topic ("ASC") No. 820 - "Fair Value Measurements" (ASC No 820). Under ASC No. 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation approaches. ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 assets and liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these assets and liabilities does not entail a significant degree of judgment.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in U.S. dollars)

3. INVESTMENTS (continued)

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The categorization of the Company's financial assets recorded at fair value based upon the fair value hierarchy as at December 31, 2017 are as follows:

Description	Level 1	Level 2	Level 3	Total
Equity securities, available for sale	\$ 5,711,250	-	-	\$ 5,711,250
Debenture	-	-	1,760,978	1,760,978
Loans receivable	-	-	3,842,839	3,842,839
Interest receivable	-	-	677,555	677,555

There were no transfers between levels for the years ended December 31, 2017 and 2016.

Net investment income comprised of:

	2017	2016
Interest income	\$ 534,643	\$ 512,861
Realized gain (loss) on sale of investments	71,677	(80,099)
Other Income	-	443,891
	<u>\$ 606,320</u>	<u>\$ 876,653</u>

4. DEBENTURE

A 9% unsecured Convertible Debenture due on June 30, 2017 was provided by Tethys Petroleum Ltd. ("Tethys") As at December 31, 2017, the interest receivable relating to bonds amounted to \$254,378 (2016 - \$84,544).

On December 19, 2016, the Company and Tethys entered into an Amendment to Unsecured Convertible Agreement to extend the maturity date to January 27, 2020, waive any defaults for interest payments, amend the interest rate to 4% if the Debenture is repaid in Ordinary shares and revise Company's conversion option price from \$0.10 to \$0.031. The amended agreement was approved the in a meeting held on January 27, 2017 by the shareholders of Tethys, excluding Annuity and its affiliates.

Tethys Petroleum Limited is a related party – see note 7.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

5. LOANS RECEIVABLE

The Loan Receivable comprise of \$665,000 (2016 - \$665,000) loan to Multivir, Inc. that accrues a 6% interest per annum and \$3,177,839 (2016 - \$3,177,839) 8% unsecured Loan note with warrants from Tethys due on January 27, 2020. As at December 31, 2017, the interest receivable relating to the loans is \$423,177 (2016 - \$77,727).

On December 19, 2016, the Company and Tethys entered into an Amendment Agreement to Loan Agreement to extend the maturity date to January 27, 2020, waive any defaults for interest payments, amend the interest rate to 9% and add a conversion feature to the Loan whereby the Company has the option to convert the any part of the loan into ordinary shares at the conversion price of \$0.031 per share. If the loan is converted the interest rate is adjusted to 4% for the purpose of the conversion. The amended agreement was approved the in a meeting held on January 27, 2017 by the shareholders of Tethys, excluding Annuity and its affiliates.

On December 19, 2016 the Company entered into a Prepayment Notice and Waiver agreement with Tethys whereby \$322,169 of the loan was converted into 20,227,854 ordinary shares.

Tethys Petroleum Limited is a related party – see note 7.

6. RESERVE FOR LOSSES AND LOSS EXPENSES

The movement in the reserve for losses and loss expenses is summarized as follows:

	2017	2016
Long Term Business		
Provisions, beginning of year	\$ 95,962	\$ 95,962
Losses incurred related to prior years	-	-
Losses paid related to prior years	-	-
Provisions, end of year	<u>\$ 95,962</u>	<u>\$ 95,962</u>
General Business		
Provisions, beginning of year	\$ -	\$ -
Losses incurred related to prior years	-	-
Losses paid related to prior years	-	-
Provisions, end of year	<u>-</u>	<u>-</u>
Total reserve for loss and loss expenses	<u>\$ 95,962</u>	<u>\$ 95,962</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

7. RELATED PARTY BALANCES AND TRANSACTIONS

These represent borrowings to and from Pope Investments II LLC in the normal course of business operation. These are interest-bearing borrowings as shown in Due from Pope Investments II LLC amounting to \$Nil (2016 - \$647,827) with terms summarized as follows:

	(Loan 1)	(Loan 2)	(Loan 3)
Effective Date	February 26, 2015	April 21, 2015	July 7, 2016
Principal	\$300,000.00	\$200,000.00	\$100,000.00
Interest Rate	5% per annum	5% per annum	5% per annum
Maturity	5 days after written demand	5 days after written demand	5 days after written demand

ALRE received \$661,658 in full payment of these loans and accrued interest during the year.

William P. Wells is a director and shareholder of the Company and a director and the Chairman of Tethys. At December 31, 2017 the Company held approximately 6% of the issued ordinary shares of Tethys. If the Company were to fully exercise its option to convert the debenture and loan into ordinary shares, its holding would increase to approximately 29%.

8. SHARE CAPITAL

Effective September 21, 2011, Holdings increased its authorized share capital to 100,000,000 shares of \$1 par value from authorized shares of 100 of \$1 par value. As at December 31, 2017, Holdings had issued 5,017,500 shares (2016 - 5,017,500).

9. TREASURY STOCK

In June 2014, the Company applied for a repurchase of 2,395,625 of its own shares from Wilson & Co. The application was approved and executed within the facilities of the Bermuda Stock Exchange. Total cost of the repurchase amounted to \$17,687,505. The said repurchase was funded in part through settlement of intercompany accounts between the Company and ALRE via dividend-in-specie, receipt of contributed surplus amounting to \$15,420,000, and settlement of intercompany accounts between the Company and Pope Investments II LLC. The repurchase is reflected as treasury stock at cost in the shareholder's equity.

In August 2014, the Company applied for another repurchase of 84,309 of its own shares from Wilson & Co. The application was approved and executed within the facilities of the Bermuda Stock Exchange. Total cost of the repurchase amounted to \$639,449. The repurchase is reflected as treasury stock at cost in the shareholder's equity.

No additional repurchases in 2017.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

10. STATUTORY REQUIREMENTS AND DIVIDEND RESTRICTIONS

ALRE is required to comply with the provisions of the Companies Act that regulate the payment of dividends and the making of distributions from contributed surplus. ALRE may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that: (i) the relevant company is, or would be after the payment, unable to pay its liabilities as they become due; or (ii) the realizable value of the relevant Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

ALRE must maintain long-term business assets of a value of at least \$500,000 greater than its long-term business liabilities. It is prohibited from declaring or paying dividends unless the value of its long-term business assets exceed the amount of its long-term business liabilities (as certified by an approved actuary), by the amount of the dividend and by at least \$500,000. Additionally, the amounts of any such dividend must not exceed the aggregate of those excess and other funds properly available for the payment of dividends, including funds arising out of its business aside from its long-term business. Any dividends paid out of contributed capital and in excess of 15% of the prior year's shareholder's capital must be approved by the Bermuda Monetary Authority.

In relation to its general business, ALRE as of December 31, 2017, met the required Minimum General Business Solvency Margin and the required Minimum Liquidity Ratio.

The required Minimum General Business Solvency Margin as of December 31, 2017 was \$1,000,000 (2016 - \$1,000,000) and the statutory capital and surplus at that date was \$11,921,846 (2016 - \$11,995,425).

The Minimum Liquidity Ratio is the ratio of the insurer's relevant assets to its relevant liabilities; the minimum allowable ratio is 75%. The Company's relevant assets in relation to its general business as of December 31, 2017 was \$11,598,803 (2016 - \$10,537,098) and 75% of its relevant liabilities as of December 31, 2017 was \$200,334 (2016 - \$204,381).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

11. TAXATION

The effective tax rate provided for in the consolidated financial statements is computed at a rate of zero. The Company's operations are based in Bermuda and as a result income is exempt from taxation. There is no income or capital gains tax payable by the Company.

Under current Bermuda law, the Company received from the Bermuda Minister of Finance, under The Exempted Undertakings Tax Protection Act 1966 of Bermuda, assurances to the effect that in the event of there being enacted by Bermuda any legislation imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax shall not be applicable to them or to any of their respective operations or to their shares, debentures or other obligations until March 31, 2035.

Tax Related Risks and Uncertainties

As required by the uncertain tax position guidance in Accounting Standards Codification ("ASC") 740 - "Income Taxes, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company applied the uncertain tax position guidance in ASC 740 to all tax positions for which the statute of limitations remained open. There were no changes to the Company's unrecognized tax benefit liability because the Company believes, more likely than not, that all tax positions would be sustained upon audit.

12. FINANCIAL INSTRUMENTS AND RELATED RISKS

The Company's financial instruments consist of cash and cash equivalents, investments, loans receivable, due from Pope Investments LLC, reserve for losses and loss expenses, due to affiliate and accounts payable and accrued expenses.

The carrying value of cash and cash equivalents and accounts payable and accrued expenses approximates fair value due to their short term nature.

The carrying value of investments is at fair value based on available market information.

The amount due from Pope Investments II LLC and due to affiliate is not at fair value. The terms are set out in Note 7.

**ANNUITY AND LIFE RE (HOLDINGS), LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

12. FINANCIAL INSTRUMENTS AND RELATED RISKS (continued)

The carrying value of reserves for losses and loss expenses is not at fair value and is recorded using management's best estimate together with the recommendations of the actuaries of the ultimate cost of settlement of losses.

The Company's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The most significant types of financial risks to which the Company is exposed to are market risk, credit risk and interest rate risk.

The nature and extent of the financial instruments outstanding at the balance sheet date and the risk management policies employed by the Company are discussed below:

(a) Market risk

The prices of the financial instruments in which the Company may invest can be highly volatile. Price movements are influenced by, among other things, changing supply and demand relationships, trade, fiscal programs and policies of governments, national and international political and economic events and policies.

(b) Credit risk

A concentration of credit risk exists when there are significant contracts with individual counterparties or when groups of issuers or counterparties have similar business characteristics that would cause their ability to meet contract commitments to be adversely affected, in a similar manner, by changes in the economy or other market conditions. The Company conducts business with financial institutions believed to be well established and monitors credit risk on both an individual and group counterparty basis.

(c) Interest rate risk

The Company is exposed to interest rate risk on cash and cash equivalents held at financial institutions and note receivables with third parties. The Company is subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates. The Company manages this risk by depositing cash in established financial institutions in economically stable countries and evaluating the financial position of the third parties involved.

**ANNUITY AND LIFE RE (HOLDINGS), LTD.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

13. CONTINGENCIES

The Company's assets include debenture and loans receivable from Tethys, an oil and gas company incorporated in the Cayman Islands and operating within the Republic of Kazakhstan, Republic of Tajikistan and Georgia. Tethys was delisted from the Toronto Stock Exchange on March 23, 2018 and is now listed on the TSX Venture Exchange with ticker TPL.H.

The 2017 third quarter financial results and management discussion and analysis filed with the Canadian securities regulatory authority on November 14, 2017 includes the following disclosures regarding going concern:

"The Management and the Board has considered the Company's current activities, funding position and projected funding requirements for the period of at least twelve months from the date of approval of the condensed consolidated interim financial statements in determining the ability of the Company to adopt the going concern basis in preparing the condensed consolidated interim financial statements for the nine months ended September 30, 2017. The Company currently does not have sufficient funding to fund its obligations for the next twelve months.

Although these condensed consolidated interim financial statements have been prepared on a going concern basis in accordance with IFRS, which contemplates the realisation of assets and settlement of liabilities in the normal course of business as they come due, events and uncertainties which are discussed below raise significant doubt about the Company's ability to continue as a going concern, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern."

No adjustment has been made to the recorded value of the loans and debentures as a result of the going concern matter.

The Company is a petitioner to the following litigations which are currently on foot before the Supreme Court of Bermuda:

- a. a minority shareholder proceeding under section 111 of the Companies Act 1981 brought by the Company against Full Apex (Holdings) Limited and certain shareholders of that company as Respondents (the "Full Apex matter").

The possible contingent liabilities arising from the Full Apex matter would be adverse costs orders in favor of the Respondents if the Company were to be unsuccessful.

- b. a minority shareholder proceeding under section 111 of the Companies Act 1981 brought by the Company against Kingboard Copper Foil Holdings Limited ("Kingboard") and certain shareholders of that company as Respondents (the "Kingboard matter").

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AND SUBSIDIARY**

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December 31, 2017 and December 31, 2016

(Expressed in U.S. dollars)

13. CONTINGENCIES (continued)

The possible contingent liabilities arising from these actions would be adverse costs in favour of the Respondents if the Company were to be unsuccessful. The company won the substantive hearing in November 10, 2015. In 2016, the company recognized Other Income of \$443,891 comprising the return of legal costs as awarded by the court. An appeal was heard before the Court of Appeals in Bermuda on March 27, 2017, which the Company lost. Operating expenses include legal fees of \$705,171 related to the appeal and the award of costs to Kingboard. Although the company lost the appeal, an out-of-court settlement is being negotiated. In 2017, a settlement was not reached hence the Company filed the appeal before the Privy Council. In April 3, 2018, the Company entered into a settlement agreement. See Note 14.

14. SUBSEQUENT EVENTS

On April 3, 2018, the Company entered into a settlement agreement and release ("Agreement") with Kingboard and certain shareholders of Kingboard. As a result, the Company has forgone the appeal before the Privy Council and sold 17,361,000 Kingboard shares for total aggregate proceeds of \$5,939,150, resulting in a realized a gain of \$3,925,274 from the sale. In addition, the Company was award legal costs in the amount of \$1,700,000. The proceeds from sale and reimbursement of legal costs were receiving in April 2018.

No additional subsequent events require recognition or disclosure.