



**Annuity  
& Life Re**

**UNAUDITED  
CONDENSED  
CONSOLIDATED**

**FINANCIAL STATEMENTS**

**FOR THE QUARTER ENDED**

**MARCH 31, 2006**

## INDEX TO FINANCIAL INFORMATION

### PAGE

Unaudited Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets March 31, 2006 and December 31, 2005 .....	1
Condensed Consolidated Statements of Operations Three Months ended March 31, 2006 and March 31, 2005 .....	2
Condensed Consolidated Statements of Comprehensive (Loss) Income Three Months ended March 31, 2006 and March 31, 2005 .....	3
Condensed Consolidated Statements of Changes in Stockholders' Equity Three Months ended March 31, 2006 and March 31, 2005 .....	4
Condensed Consolidated Statements of Cash Flows Three Months ended March 31, 2006 and March 31, 2005 .....	5
Notes to Unaudited Condensed Consolidated Financial Statements .....	6

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

	March 31, 2006 (Unaudited)	December 31, 2005
<b>Assets</b>		
Cash and cash equivalents .....	\$ 17,957,708	\$ 19,277,490
Fixed income investments at fair value (amortized cost of \$30,190,894 and \$66,104,138 at March 31, 2006 and December 31, 2005, respectively) .....	29,632,068	65,266,415
Accrued investment income .....	367,238	1,145,614
Receivable for reinsurance ceded .....	75,109,819	76,341,602
Other reinsurance receivables .....	428,508	104,135
Other assets .....	<u>428,508</u>	<u>256,693</u>
Total Assets .....	<u>\$ 123,495,341</u>	<u>\$ 162,391,949</u>
 <b>Liabilities</b>		
Reserves for future policy benefits .....	\$ 76,157,319	\$ 77,476,039
Amounts due reinsurer .....	395,526	32,929,104
Other reinsurance liabilities .....	<u>1,805,910</u>	<u>1,742,753</u>
Accounts payable and accrued expenses .....	<u>78,358,755</u>	<u>5,069,912</u>
Total Liabilities .....	<u>78,358,755</u>	<u>117,217,808</u>
 <b>Stockholders' Equity</b>		
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	24,793,811
Additional paid-in capital .....	334,125,057	334,123,757
Stock warrants .....	1,350,000	1,350,000
Unamortized stock based compensation .....	(558,826)	(22,800)
Accumulated other comprehensive loss .....	(314,588,456)	(837,723)
Accumulated deficit .....	<u>(314,588,456)</u>	<u>(314,232,904)</u>
Total Stockholders' Equity .....	<u>45,136,586</u>	<u>45,174,141</u>
Total Liabilities and Stockholders' Equity .....	<u>\$ 123,495,341</u>	<u>\$ 162,391,949</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 March 31,	
	2006	2005
<b>Revenues</b>		
Net premiums .....	\$ -	\$ 5,488,266
Investment income, net of related expenses .....	572,813	1,666,008
Net realized investment (losses) gains .....	(360,863)	401,150
Net change in fair value of embedded derivatives .....	-	487,145
Surrender fees and other revenues .....	-	30,636
Total Revenues .....	211,950	8,073,205
<b>Benefits and Expenses</b>		
Claim and policy benefits .....	(199,164)	4,602,443
Interest credited to interest sensitive products .....	-	369,178
Policy acquisition costs and other insurance expenses .....	(523,837)	1,356,238
Operating expenses .....	1,269,503	2,514,011
Total Benefits and Expenses .....	567,502	8,841,870
<b>Net Loss</b> .....	<b>\$ (355,552)</b>	<b>\$ (768,665)</b>
<b>Net loss per common share</b>		
Basic .....	\$ (0.01)	\$ (0.03)
Diluted .....	\$ (0.01)	\$ (0.03)

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)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Net loss for the period</b> .....	<b>\$ (355,552)</b>	<b>\$ (768,665)</b>
<b>Other comprehensive loss:</b>		
Unrealized holding losses on securities arising during the period.....	(81,966)	(729,057)
Less reclassification adjustment for realized gains (losses) in net (loss) income .....	(360,863)	401,150
Other comprehensive (loss) income .....	278,897	(1,130,207)
<b>Total Comprehensive Loss</b> .....	<b>\$ (76,655)</b>	<b>\$ (1,898,872)</b>

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,	
	2006	2005
<b>Preferred shares par value \$1.00</b>		
Balance at beginning and end of period	\$ -	\$ -
<b>Common shares par value \$1.00</b>		
Balance at beginning of period.....	\$ 24,793,811	\$ 26,338,528
Issuance of shares.....	15,000	-
Balance at end of period .....	<u>24,808,811</u>	<u>26,338,528</u>
<b>Additional paid-in capital</b>		
Balance at beginning of period.....	\$ 334,123,757	\$ 333,810,766
Cancellation of stock based compensation .....	1,300	(3,725)
Balance at end of period .....	<u>334,125,057</u>	<u>333,807,041</u>
<b>Stock Warrants</b>		
Balance at beginning of period.....	\$ 1,350,000	\$ 1,350,000
Issuance of warrants.....	-	-
Balance at end of period .....	<u>1,350,000</u>	<u>1,350,000</u>
<b>Unamortized stock based compensation</b>		
Balance at beginning of period.....	\$ (22,800)	\$ (490,415)
Cancellation of stock based compensation .....	-	3,725
Amortization of stock based compensation.....	22,800	140,090
Balance at end of period .....	<u>-</u>	<u>(346,600)</u>
<b>Accumulated other comprehensive income</b>		
Balance at beginning of period.....	\$ (837,723)	\$ 1,016,260
Net unrealized (losses) gains on fixed income investments.....	278,897	(1,130,207)
Balance at end of period .....	<u>(558,826)</u>	<u>(113,947)</u>
<b>Accumulated Deficit</b>		
Balance at beginning of period.....	\$ (314,232,904)	\$ (295,607,926)
Net loss .....	(355,552)	(768,665)
Balance at end of period .....	<u>(314,588,456)</u>	<u>(296,376,591)</u>
<b>Total Stockholders' Equity .....</b>	<u>\$ 45,136,586</u>	<u>\$ 64,658,431</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)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2005</b>
<b>Cash flows from operating activities</b>		
Net (loss) income .....	\$ (355,552)	\$ (768,665)
Adjustments to reconcile net (loss) income to cash used from operating activities:		
Net realized investment gains.....	360,863	(401,150)
Net change in fair value of embedded derivatives.....	-	(487,145)
Amortization of premiums on fixed-income investments.....	42,145	289,749
Amortization of stock based compensation.....	22,800	140,090
Changes in:		
Accrued investment income .....	778,376	315,066
Deferred policy acquisition costs.....	-	157,634
Other reinsurance receivables .....	1,335,918	3,092,411
Other assets.....	(171,815)	216,951
Reserves for future policy benefits .....	(1,318,720)	(745,055)
Interest sensitive contracts, net of funds withheld .....	-	(179,589)
Other reinsurance liabilities.....	(1,347,227)	(34,596,863)
Accounts payable and accrued expenses .....	(3,264,002)	(4,090,894)
Net cash used by operating activities.....	<u>\$ (3,917,214)</u>	<u>\$ 37,057,460</u>
<b>Cash flows from investing activities</b>		
Proceeds from sales and maturity of fixed-income investments.....	\$ 2,582,432	\$ 17,160,412
Purchase of fixed-income investments .....	-	-
Net cash provided by investing activities .....	<u>2,769,234</u>	<u>17,160,412</u>
Decrease in cash and cash equivalents .....	(1,319,782)	(19,897,048)
Cash and cash equivalents, beginning of period .....	<u>19,277,490</u>	<u>56,394,484</u>
Cash and cash equivalents, end of period.....	<u>\$ 17,957,708</u>	<u>\$ 36,497,436</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. Significant Events

##### *Wilton Re Transaction*

On August 10, 2005, the Company entered into a Master Agreement (the “Master Agreement”) with Prudential Select Life Insurance Company of America (which has subsequently been renamed Wilton Reassurance Company) and Wilton Reinsurance Bermuda Limited (collectively, the “Wilton Subsidiaries”), each a direct or indirect wholly owned operating subsidiary of Wilton Re Holdings, Ltd. The Master Agreement provided for the novation to or 100% coinsurance (the “Coinsurance Agreements”) by the Wilton Subsidiaries of all of the Company’s life and annuity reinsurance treaties identified in the Master Agreement (the “Treaties”), effective as of June 30, 2005 (the “Effective Date”).

The transactions contemplated by the Master Agreement closed on January 17, 2006. Accordingly, the Company transferred the following assets and liabilities to the Wilton Subsidiaries at closing: cash and investments of \$32.9 million, funds withheld at interest of \$58.7 million, future policy benefits liabilities of \$38.3, and interest sensitive contracts liabilities of \$53.3 million. The Company recorded the transactions as of the Effective Date. As of December 31, 2005, the Company recorded a liability of \$32.9 million representing the cash and investments transferred to the Wilton Subsidiaries at closing. As a result of the execution of the Master Agreement, the Company recorded a \$15.2 million loss from operations for the year ended December 31, 2005.

As of the Effective Date, the Company had 28 Treaties in force, all of which were included in the Master Agreement. At the closing twenty (20) Treaties were novated as of the Effective Date. Because the consents of the counterparties to the remaining eight Treaties were not obtained prior to the closing, the Company executed Coinsurance Agreements covering those Treaties with the Wilton Subsidiaries pursuant to the terms of the Master Agreement. As such, approximately \$1.1 billion of the Company’s life insurance in force has been 100% reinsured to the Wilton Subsidiaries as of the effective date. As of March 31, 2006, six (6) Treaties amounting to approximately \$365 million of life insurance in force, remain subject to the Coinsurance Agreements

The Company continues to be bound, as reinsurers, by the original terms of the Treaties with the primary insurer for the six Treaties subject to the Coinsurance Agreements. The appropriate Wilton Subsidiary is, in turn, obligated to reimburse the Company for any payments made under a coinsured Treaty.

For additional information on the effects of the Wilton Re transaction, please see Note 3 to the Company's 2005 Audited GAAP Financial Statements.

### *Termination of Registration of Securities*

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 (loss) income per common share for the three months ended March 31, 2006 and 2005:

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
Net loss	<u>\$ (355,552)</u>	<u>\$ (768,665)</u>
<b>Basic and diluted:</b>		
Weighted average number of common shares outstanding	25,377,486	26,014,845
Net loss per common share	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>

At March 31, 2006, 5,689,713 warrants, 392,702 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, 2006 and 2005:

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
	<u>          </u>	<u>          </u>
Net loss - as reported.....	\$ (355,665)	\$ (768,665)
Stock option expense recognized.....	22,800	44,958
Pro forma effect on net income of applying fair value accounting to all stock option grants.....	<u>(22,800)</u>	<u>(97,987)</u>
Net loss - pro forma .....	<u>\$ (355,665)</u>	<u>\$ (821,694)</u>
<b>Net loss per common share – as reported:</b>		
Basic and diluted.....	\$ (0.01)	\$ (0.03)
<b>Net loss income per common share - pro forma:</b>		
Basic and diluted.....	\$ (0.01)	\$ (0.03)

The stock-based compensation expense, including restricted common stock issued to employees, for the three months ended March 31, 2006 and 2005 was \$22,800 and \$140,090, respectively.

#### **4. Accounting Standards**

##### *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. It contains two aspects that impact the Company. First, it provides details regarding disclosures about unrealized losses on available-for-sale debt and equity securities accounted for under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." These disclosures were effective in annual financial statements for fiscal years ended after December 15, 2003. Second, it provides additional guidance for evaluating whether an investment is other-than-temporarily impaired. This guidance was scheduled to be effective for reporting periods beginning after June 30, 2004. However, the FASB has since determined that a delay in the effective date of these provisions was necessary until it can issue additional guidance on the application of EITF Issue No. 03-1. The Company will assess whether this guidance will have a material impact on the Company's results of operations or financial condition once it is released.

##### *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; SFAS No. 123R will have no impact on the Company's financial position and results of operations.

## **5. Contingencies**

The Company and Transamerica entered into a Novation Agreement to novate the Company's reinsurance contracts with F&G and Scottish Re to Transamerica effective December 31, 2004. In accordance with the terms of the Novation Agreement, the Company and Transamerica have been in discussions regarding possible adjustments to the policy benefit reserves transferred to Transamerica as part of the F&G novation. On March 30, 2005, the Company received a demand letter from Transamerica stating that \$7,000,000 was owed to Transamerica as an adjustment to the F&G policy benefit reserves. On June 14, 2005, the Company received an additional letter from Transamerica revising its original demand to \$6,000,000. The Company and Transamerica were unable to resolve the issues through negotiations and the matter is now in arbitration. Transamerica is seeking to rescind the Novation Agreement or recover damages and interest. The Company believes Transamerica's position is without merit and is working with counsel in presenting its position to the arbitration panel. As of March 31, 2006, the arbitration panel is being selected. It is not known when the arbitration process will conclude or what impact the outcome will have on the financial position of the Company.

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