

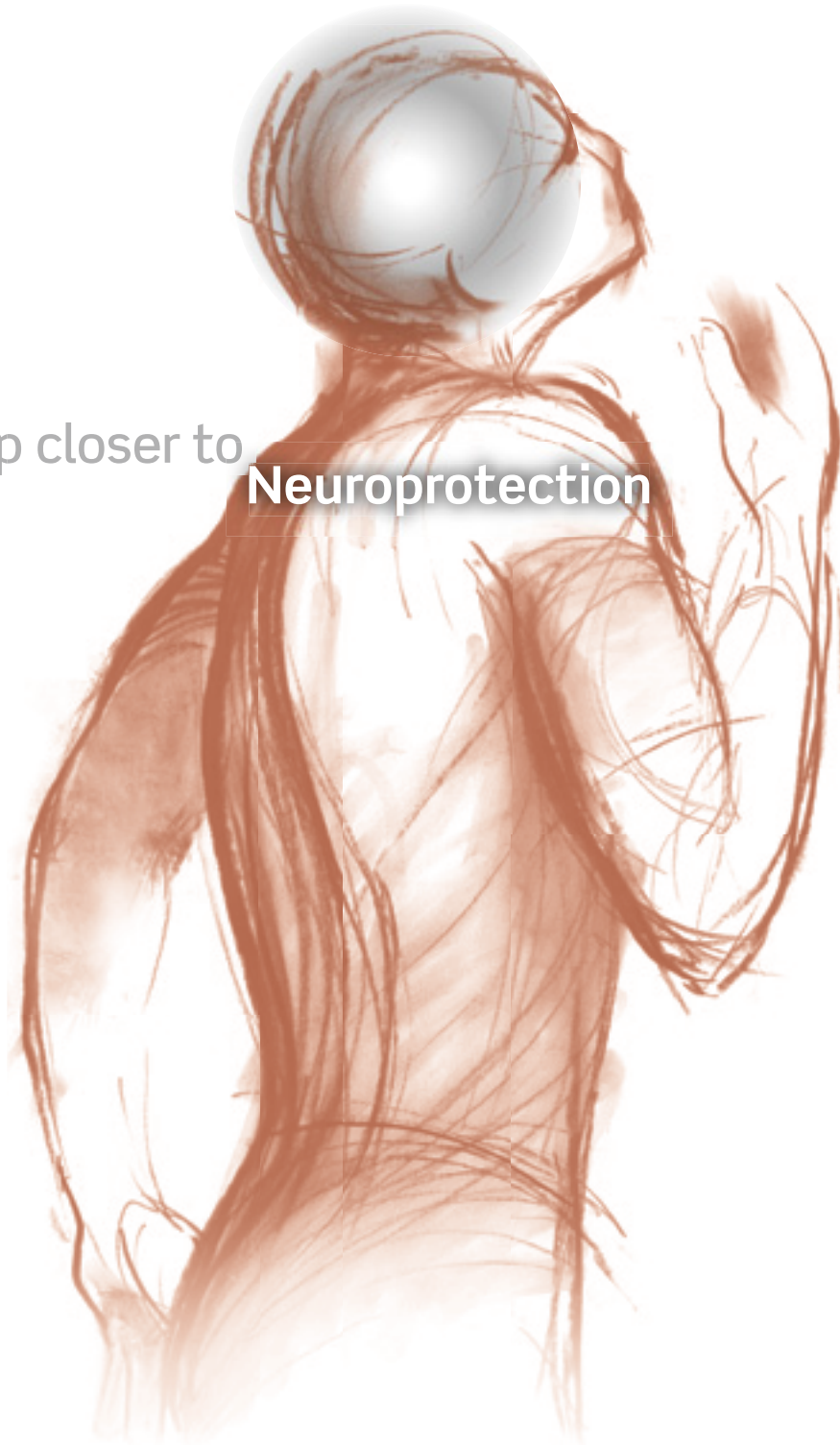
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Allon
Therapeutics Inc.

Second Quarter Report
June 30, 2006



One step closer to
Neuroprotection



Corporate Profile

Allon Therapeutics Inc. is a Canadian Biotechnology company developing drugs that protect against neurodegenerative conditions such as Alzheimer's disease and mild cognitive impairment resulting from coronary artery bypass graft surgery.

Allon's compounds come from two technology platforms derived from neuroprotective proteins that are formed naturally in the brain. These compounds have demonstrated broad efficacy in numerous pre-clinical models of neurodegenerative diseases.

The Company expects to have two products in Phase II human clinical trials by the end of 2006:

- AL-108 is in human clinical trials for Alzheimer's disease. In 2005, Allon completed a Phase Ia clinical trial confirming safety and tolerability in healthy adults. In 2006, the Company will begin and complete a Phase Ib clinical trial and begin a Phase IIa clinical trial.
- AL-208 is in human clinical trials for mild cognitive impairment resulting from coronary artery bypass graft surgery. In 2005, Allon completed a Phase I clinical trial evaluating safety and tolerability in healthy and elderly adults. In 2006 the company commenced and completed a Phase Ib clinical trial and has initiated a Phase II clinical trial.

The Company is listed on the Toronto Stock Exchange under the trading Symbol "NPC" (Neuro Protection Company) and based in Vancouver.

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Letter to the Shareholders

Dear Shareholders:

We are pleased to report that Allon continued to achieve all of its milestones during the second quarter, including the beginning of patient dosing in the Company's first Phase II human clinical trial. The Phase II trial is evaluating the Company's product AL-208 as a treatment for the mild cognitive impairment (MCI) that commonly occurs following coronary artery bypass graft (CABG) surgery.

Other achievements during the quarter included:

- Completion of patient dosing for a Phase Ib human clinical trial evaluating the safety, tolerability and pharmacokinetics of AL-208 as a treatment for neurodegenerative indications where multiple doses are required.
- Presentation of data May 2, 2006 at the conference *TIDES 2006: Oligonucleotide and Peptide Technology and Product Development*, organized by IBC Life Sciences, confirming earlier Allon preclinical studies that the Company's drug candidates penetrate the blood brain barrier and reach their target therapeutic areas in the central nervous system;
- Publication in the Journal of Molecular Neuroscience of preclinical data demonstrating that the cellular mechanism that determines the neuroprotective properties of Allon's clinical-stage products AL-108 and AL-208 also occurs in the Company's pipeline of preclinical-stage product candidates.

We are also on track to complete our other milestones during the remainder of the year, including commencement of Phase Ib and Phase II clinical trials evaluating the Company's product AL-108 as a treatment for Alzheimer's disease.

Our ultimate goal remains the development of drugs that halt or prevent serious degenerative diseases and injury to the central nervous system — in contrast to the therapies currently available to patients that address only the symptoms.

Unique Portfolio of Drug Compounds

Allon's compounds are unique because they have shown efficacy in more than 14 different pre-clinical models of eight central nervous system diseases, disorders or injuries. We are exploiting this broad effectiveness with a clinical strategy to develop our compounds in two different routes of administration — intranasal and intravenous — in disease indications with different outcome measures, and with efficacy results being reported over a reasonable period of time. We believe this strategy builds value into this unique class of compounds and enhances our opportunity to succeed in their development.

Currently we have two compounds, AL-108 and AL-208, in clinical trials.

AL-108

The Company has successfully completed a Phase Ia clinical trial evaluating AL-108 as a treatment for Alzheimer's disease. The dosing was well tolerated by all subjects and no meaningful side effects were observed.

We expect to begin a Phase Ib multiple-ascending dose trial during the third quarter and a Phase II multi-centre trial to evaluate efficacy in an Alzheimer's indication during the fourth quarter.

Subsequent to the quarter end, we released additional pre-clinical data showing that this drug is effective against both of the classic hallmarks of Alzheimer's disease. This development is significant and underlines the potential of this drug.

AL-208

During the second quarter, Allon began dosing patients in a Phase II clinical trial that is evaluating the safety and effectiveness of AL-208 at preventing or reducing MCI on CABG surgery patients aged 65 to 79. Preventing or reducing MCI post-CABG has a potential market estimated at US\$500-million for which there is no available treatment today.

During the first stage of the Phase II trial, the safety of AL-208 will be confirmed at medical centres in the United States in 24 CABG patients at increasing doses.

We announced August 3, 2006 filing of a Clinical Trial Application with Health Canada for approval to add Canadian sites to the second stage of this trial. The second stage will be a placebo-controlled, double-blind, parallel-group evaluation to determine the efficacy of a single dose of AL-208 on a total of 176 patients at up to 20 medical centres in the U.S. and Canada.

Subsequent events

Preclinical data was published in the Journal of Neurochemistry confirming that the Company's clinical-stage products, derived from its proprietary NAP compound, protect brain cells (neurons) through interaction with tubulin, the protein that forms microtubules.

As noted above, Professor Illana Gozes, Chief Scientific Officer of Allon, presented preclinical data July 19, 2006 at the 10th International Conference on Alzheimer's Disease and related disorders in Madrid, Spain. The data demonstrating that the Company's proprietary compound NAP is effective in reducing both amyloid plaques and neurofibrillary tangles in the brain, the two pathologies most closely correlated with Alzheimer's disease in humans.

Preclinical data was published in the July edition of the Journal of Pharmacology and Experimental Therapeutics demonstrating that the Company's proprietary compound NAP may help protect and aid recovery of newborn infants from brain injury caused by respiratory interruption. These injuries are caused by conditions very similar to stroke. As such, this new work validates Allon's other compelling pre-clinical data in stroke.

We look forward to updating shareholders on our continued progress in the weeks and month ahead.

Respectfully,

"Gordon C. McCauley"

Gordon C. McCauley
President & CEO

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION & ANALYSIS

For the three and six months ended June 30, 2006

The following information should be read in conjunction with the unaudited consolidated financial statements and related notes for the Company for the second quarter (Q2 2006) and year to date (YTD) operations ended June 30, 2006, as well as the audited annual financial statements, their accompanying notes and management's discussion and analysis for the year ended December 31, 2005 included in our Annual Report (2005 Annual Report). The financial statements listed have been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts are expressed in Canadian dollars unless otherwise specified. Additional information relating to Allon Therapeutics Inc. ("Allon" or the "Company") can be obtained from SEDAR at www.sedar.com.

August 11, 2006

OVERVIEW

Allon Therapeutics Inc. is a Canadian biotechnology company developing drugs that protect against neurodegenerative conditions such as Alzheimer's disease and mild cognitive impairment (MCI) resulting from coronary artery bypass graft (CABG) surgery. Allon's compounds come from two technology platforms derived from neuroprotective proteins that are formed naturally in the brain. These compounds have demonstrated broad efficacy in numerous pre-clinical models of neurodegenerative diseases. Allon is listed on the Toronto Stock Exchange (TSX) under the trading symbol "NPC" (Neuro Protection CompanyTM) and based in Vancouver.

During the second quarter of 2006, Allon made advancements in several key areas of its drug programs. The Company completed dosing in a Phase Ib clinical trial and commenced enrollment for a Phase II clinical trial for AL-208. Preparatory work continued for two additional clinical trials for AL-108, planned for the second half of 2006. Allon also published important pre-clinical results that confirmed the mechanism of action and neuroprotective activity of its unique class of compounds.

During the quarter, Allon began enrollment for a Phase II clinical trial for AL-208 indicated for MCI post-CABG. This is the first clinical trial that will evaluate the effectiveness of AL-208 with approximately 200 patients being treated with AL-208 or placebo during surgery. The Company anticipates it will release results in the second half of 2007.

Allon completed dosing for a Phase Ib multiple ascending dose clinical trial for AL-208 which was designed to evaluate the safety, tolerability and pharmacokinetics of the compound. The Company expects the trial will provide the necessary safety coverage to proceed in neurodegenerative diseases where multiple doses of AL-208 are required. Allon plans to release the results of this trial in Q3 2006.

During the quarter, preparatory work was completed for a Phase Ib human clinical trial for AL-108, expected to start in Q3 2006. The clinical trial is a multiple-ascending dose safety trial in patients most at risk for Alzheimer's disease. Allon anticipates completing the study in the second half of 2006. The Company also anticipates commencing a Phase IIa clinical trial for AL-108 before the end of 2006.

During the quarter, the Company had results published in the Journal of Neurochemistry that confirmed the mechanism of action of Allon's drugs. Both the intravenous (AL-208) and intranasal (AL-108)

products were shown to penetrate the blood brain barrier and appear rapidly in plasma, cerebrospinal fluid and in the brain. The Company's research confirmed that the neuroprotective activity established in earlier studies extends to all of the Company's compounds. This implies broad neuroprotective activity of all of Allon's proprietary compounds to protect neurons against both acute and chronic degenerative injuries and diseases. Allon's compounds have shown efficacy in 15 different pre-clinical models of nine central nervous system diseases, disorders and injuries.

RESULTS OF OPERATIONS

For the three months ended June 30, 2006, Allon reported a net loss of \$1,984,335 (\$0.06 per share) compared to a net loss of \$1,261,196 (\$0.05 per share) for the three months ended June 30, 2005 (Q2 2005). For the six months ended June 30, 2006 (YTD 2006), Allon reported a net loss of \$3,629,174 (\$0.11 per share) compared to a net loss of \$2,465,011 (\$0.09 per share) for the six months ended June 30, 2005 (YTD 2005).

The increased quarter over quarter loss of \$723,139 includes a \$157,286 difference relating to the Q2 2005 recognition of a future income tax asset to offset a tax liability incurred as a result of the 2004 purchase of medical technology. Each quarter the Company continued to recognize an income tax asset on net losses to the extent that the tax liability was fully offset in Q1 2006. The YTD comparative increased loss of \$1,164,163 includes a \$481,833 difference relating to the recognition of a future income tax asset. The 2006 increased pre-tax losses of \$565,853 for the comparable three months and \$682,330 for the comparable six months reflect the progression of the Company's clinical development programs and increased personnel requirements to support the clinical advancement of both AL-108 and AL-208.

EXPENSES

RESEARCH AND DEVELOPMENT

For the three month period ended June 30, 2006, research and development (R&D) expenses were \$1,215,810 compared to \$830,576 in Q2 2005. The YTD 2006 research and development expenses were \$2,390,841 compared to \$2,146,291 for YTD 2005. The quarter over quarter and YTD increases relate to the timing of clinical trial expenses as well as the advancement and expansion of the clinical development programs for both AL-108 and AL-208.

During Q2 2006 R&D expenses relating to the development of AL-208 increased by \$633K compared to Q2 2005 and represented the majority of total R&D expenses. During Q2 2006, expenses were incurred to commence enrollment for a Phase II clinical trial and to complete dosing for a Phase Ib clinical trial compared to Q2 2005 expenses that primarily related to pre-clinical research and filing of the AL-208 IND.

Expenses for the Phase II clinical trial for AL-208, indicated for MCI post-CABG, were incurred to recruit and approve sites and initiate enrollment. Allon plans to complete the clinical trial and publish results in the second half of 2007.

Allon completed dosing for a Phase Ib clinical trial for AL-208; a multiple ascending dose clinical trial designed to evaluate the safety, tolerability and pharmacokinetics of the drug as a treatment for neurodegenerative diseases where multiple doses are required. Allon expects to release the results of this trial in Q3 2006.

During Q2 2006 R&D expenses relating to the development of AL-108 decreased by \$271K compared to Q2 2005. During Q2 2006, expenses were incurred to complete preparatory work for the Phase 1b clinical trial for AL-108 that is expected to start in Q3 2006. During Q2 2005 expenses were primarily incurred to manufacture drug product and to conduct pre-clinical studies.

During Q2 2006 general scientific research expenses increased by \$27K over Q2 2005. Ongoing research during the current quarter demonstrated that the cellular mechanism that gives neuroprotective properties to Allon's clinical-stage products also occurs in the Company's pipeline of pre-clinical stage product candidates.

Overall, YTD 2006 expenses for AL-208 development increased by \$812K compared to YTD 2005 while YTD 2006 expenses for AL-108 development decreased by \$784K compared to YTD 2005. General scientific research expenses for YTD 2006 increased by \$217K over the same period in 2005.

Research and development expenses for YTD 2006 included pre-clinical work for AL-108 and AL-208 that improved the company's understanding of how the drug moves through the body and crosses the blood brain barrier, preparatory work, commencement and completion of dosing for the Phase 1b clinical trial for AL-208, preparatory work and initiation of a Phase II study for AL-208, and preparatory work for a Phase 1b clinical trial for AL-108. The company also incurred expenses to manufacture drug product for ongoing clinical trials.

Research and development expenses for YTD 2005 included the purchase of sufficient drug product to support the Company's drug development programs throughout 2005, commencement and completion of the Phase 1a clinical trial for AL-108, filing of an IND for AL-208, preparatory work for a Q3 2005 Phase I trial for AL-208 and further scientific research required to build on the body of knowledge supporting Allon's unique class of compounds.

GENERAL AND ADMINISTRATIVE

For the three month period ended June 30, 2006, general and administrative expenses were \$453,584 compared to \$360,867 in Q2 2005. The increase of \$92,717 over Q2 2005 relates to increased staff and infrastructure required to support Allon's drug development programs.

For the six month period ended June 30, 2006, general and administrative expense were \$984,831 compared to \$681,762 for YTD 2005. The YTD 2006 increase of \$303,069 over YTD 2005 relates to increased staff and infrastructure and compensation expenses incurred in the first quarter, but related to the achievement of 2005 milestones.

AMORTIZATION

Amortization expenses for the three month period ended June 30, 2006 were \$134,070 compared to \$135,851 in Q2 2005. For the six month period ended June 30, 2006, amortization expenses were \$291,155 compared to \$271,260 for YTD 2005. The YTD 2006 increase of \$19,895 over YTD 2005 primarily resulted from a one-time adjustment of \$23,092 to amortization expense in Q1 2006 relating to a change in estimate of the salvage value of depreciable tangible assets.

OTHER INCOME/(EXPENSES)

For the three month period ended June 30, 2006, the Company incurred other expenses of \$180,871 compared to \$91,188 in Q2 2005. The increased expense of \$89,683 primarily relates to increases in foreign exchange losses that are partially offset by increased interest income from investments.

Foreign exchange losses were \$190,601 in Q2 2006 compared to \$71,403 in Q2 2005 and resulted from loss on US dollar investments, partially offset by gain on translation of US balances compared to the same period last year when foreign exchange losses were limited to translation of US balances. In Q2 2006 net interest earned on short term investments and cash balances was \$59,020 compared to \$25,241 in Q2 2005. The increased income of \$33,779 is due to improved rates of return on short term investments and cash.

For the six month period ended June 30, 2006, the Company incurred other expenses of \$111,884 compared to other income of \$2,932 for YTD 2005. The increased expense of \$114,816 primarily relates to increases in foreign exchange loss and stock based compensation that are partially offset by increases in net interest income. A YTD increase of \$138,494 in foreign exchange loss over YTD 2005 resulted from loss on US dollar investments, partially offset by gain on translation of US balances compared to the same period last year when foreign exchange loss was limited to translation of US balances. An increase of \$29,800 in stock based compensation expense for YTD 2006 over YTD 2005 reflects the issuance of options to new and existing employees and directors in accordance with Allon's compensation policy and increased staffing levels required to support the advancement of the Company's drug development programs. Net interest from short term investments and cash balances increased by \$51,318 due to improved rates of return on short term investments.

QUARTERLY INFORMATION

The following is selected quarterly financial information for Allon, for the eight most recently completed quarters:

(in thousands, except per share data)

	June 30, 2006	March 31, 2006	Dec. 31, 2005	Sept 30, 2005
Interest income	\$59	\$78	\$75	\$58
Loss before tax recovery	\$(1,984)	\$(1,794)	\$(2,271)	\$(1,633)
Future Income Tax Recovery	-	149	679	141
Loss for the quarter	\$(1,984)	\$(1,645)	\$(1,592)	\$(1,492)
Loss per share	\$(0.06)	\$(0.05)	\$(0.05)	\$(0.05)
	June 30, 2005	March 31, 2005	Dec. 31, 2004	Sept. 30, 2004
Interest income and management fees	\$26	\$64	\$12	\$112
Profit/(Loss) before tax recovery and unrealized gain (losses) on investments	\$(1,416)	\$(1,676)	\$(1,468)	\$75
Future Income Tax Recovery	157	474	358	-
(Write-down) and unrealized gains/(losses) on investments	\$(2)	\$(2)	\$37	\$(431)
Loss for the quarter	\$(1,261)	\$(1,204)	\$(1,073)	\$(356)
Loss per share	\$(0.05)	\$(0.04)	\$(0.05)	\$(0.04)

In the three months ended September 30, 2004, the Company divested the investment management assets consisting of two wholly-owned subsidiaries and the investment management contract of a fund. The gains from the sale of the two subsidiaries and the contract were more than offset by the write-down of the remainder of the Company's corporate investments. These transactions were part of a change of business which saw the Company acquire Allon USA, a San Diego based biotechnology company, and change its name to Allon Therapeutics Inc. in order to focus the Company on the development of Allon's technology.

The three months ended December 31, 2004 was the first quarter in which the operations of the Company were focused on the development of its neuroprotective compounds. The majority of the Company's expenses were in research and development and no management fees were earned.

In the three months ended March 31, 2005, the Company was focused on Phase I clinical trials for AL-108, pre-clinical work for the AL-208 IND and further scientific research for the Company's unique class of compounds. The majority of the company's expenses were in research and development.

In the three months ended June 30, 2005, the Company completed pre-clinical animal studies to confirm that both AL-108 and AL-208 penetrate the blood brain barrier to reach their target therapeutic areas in the central nervous system. The Company filed an IND for its second product, AL-208, seeking approval to begin human clinical trials evaluating it as a treatment for MCI post-CABG. The company also completed preparatory work for both the AL-108 Phase Ib and AL-208 Phase I trials, scheduled to begin in Q3 2005.

In the three months ended September 30, 2005, the Company received FDA approval and initiated Phase I human clinical trials to evaluate AL-208 as a treatment for MCI post-CABG. During Q3 2005

the Company graduated from a venture issuer to the TSX exchange and completed a \$6.3 million private placement.

During the quarter ended December 31, 2005, the Company completed dosing in its Phase I clinical study for AL-208 as a treatment for MCI associated with CABG. Eight dose groups including healthy adults and healthy elderly adults were dosed, intravenously. The Company also conducted further pre-clinical work to add to the extensive body of research underlying its human clinical development program and to obtain data for the next stage of drug development. Animal studies confirmed that both AL-108 and AL-208 penetrate the blood brain barrier and rapidly reach their target therapeutic areas in the central nervous system.

During the first quarter of 2006, the Company announced the results of its AL-208 Phase I clinical trial for which dosing was completed in Q4 2005. Results demonstrated that AL-208 was safe and well tolerated by all study participants. During the quarter, Allon expanded the AL-208 development program by commencing a Phase Ib multiple ascending dose clinical trial, to test the drug as a treatment for neurodegenerative diseases requiring multiple doses. This trial commenced on March 27, 2006. The Company also completed additional pre-clinical work to support the clinical development for its AL-108 product, being developed as a treatment for Alzheimer's disease.

During the quarter ended June 30, 2006, Allon completed dosing for its AL-208 Phase Ib multiple ascending dose clinical trial, initiated in Q1 2006, and began patient enrollment for a Phase II clinical trial for AL-208 indicated for MCI post-CABG. The company completed preparatory work for a Phase Ib multiple ascending dose clinical trial for AL-108, indicated for Alzheimer's disease and scheduled to commence in Q3 2006.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2006, the Company had cash and short-term investments of \$5,068,574 compared to \$7,308,466 at March 31, 2006 and \$9,519,838 at December 31, 2005. Short-term investments are held in high-grade, liquid commercial paper and other low risk investments. As investments mature, balances may be re-invested for periods of up to one year to match the Company's future cash requirements. At June 30, 2006 maturities on investments ranged from 30 days to 2 months.

At June 30, 2006, the Company had working capital of \$5.2 million. There were 2.2 million stock options exercisable at prices between \$0.001 and \$1.72 per share. If all outstanding stock options were exercised, proceeds of \$1.4 million would be generated.

The Company believes that its cash and short-term investments as at June 30, 2006 and expected interest income will be sufficient to fund operations and commitments into the second half of 2007.

OUTSTANDING SHARE CAPITAL

At August 11, 2006, the Company had 33,386,711 common shares outstanding. Each common share entitles the holder to one vote per share. At June 30, 2006, the Company had 3,243,497 options outstanding, of which 2,236,547 were exercisable into an equivalent number of the Company's common shares at exercise prices ranging from \$0.001 to \$1.72. See Note 2 of the Company's financial statements for more detail regarding outstanding share capital.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's critical accounting policies and estimates are disclosed in the Management's Discussion and Analysis of Financial Condition and Operations section and the annual consolidated financial statements contained in the 2005 Annual Report.

RISKS AND UNCERTAINTIES

As previously described, cash on hand, together with expected interest income is expected to be sufficient to fund operations and commitments into the second half of 2007. Funding needs may, however, vary depending on a number of factors including progress in research and development, the cost associated with completing clinical trials and the regulatory approval process and the costs of enforcing and prosecuting patent claims and other intellectual property rights.

In general, prospects for companies in the biopharmaceutical industry may be regarded as uncertain given the nature of the industry, therefore, investments in such companies should be regarded as highly speculative. In the future, the Company will need to raise additional funds to continue research and development and clinical trials necessary for market approval. The company cannot guarantee that financing will be available or that terms for additional financing will be favourable.

Risks and uncertainties related to the Company's financial performance and certain industry factors are discussed in detail in the Management's Discussion and Analysis section of the 2005 Annual Report.

This discussion and analysis and other sections of the financial statements contain forward looking statements, which are based on the Company's current expectations and assumptions and are subject to a number of risk factors and uncertainties that could cause actual results to differ materially from those anticipated. Given these risk factors and uncertainties, readers are cautioned not to place undue reliance on such forward-looking information. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

ALLON THERAPEUTICS INC.

Consolidated Balance Sheets

	June 30, 2006	December 31, 2005
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 683,264	\$ -
Short-term investments	4,385,310	9,545,304
Accounts receivable	87,328	112,549
Prepaid expenses and deposits	557,914	84,304
	<hr/> 5,713,816	<hr/> 9,742,157
Long term receivable	42,406	40,424
Property, plant and equipment	66,579	81,186
Intangible assets	6,822,602	7,076,348
	<hr/> 6,931,587	<hr/> 7,197,958
	\$ 12,645,403	\$ 16,940,115
<hr/>		
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank Indebtedness	\$ -	\$ 25,466
Accounts payable and accrued liabilities	527,686	1,117,872
	<hr/> 527,686	<hr/> 1,143,338
Future income tax liability	-	149,537
Shareholders' equity:		
Share capital (note 2)	27,025,231	27,025,231
Additional paid-in capital	993,126	893,475
Deficit	(15,900,640)	(12,271,466)
	<hr/> 12,117,717	<hr/> 15,647,240
	\$ 12,645,403	\$ 16,940,115
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See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

Frank A. Holler
Director

C. Michael O'Brian
Director

ALLON THERAPEUTICS INC.

Consolidated Statements of Operations and Deficit
(Unaudited)

For the three and six months ended June 30, 2006 and 2005

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Expenses:				
Research and development	1,215,810	830,576	2,390,841	2,146,291
General and administrative	453,584	360,867	984,831	681,762
Amortization	134,070	135,851	291,155	271,260
	<u>1,803,464</u>	<u>1,327,294</u>	<u>3,666,827</u>	<u>3,099,313</u>
Other (income)/expense:				
Interest	(59,020)	(25,241)	(137,100)	(85,782)
Foreign exchange (gain)/loss	190,601	71,403	147,772	9,278
Stock-based compensation	47,729	43,416	99,651	69,851
(Gain)/Loss on investments	1,561	(342)	1,561	(342)
Write-down of marketable securities	-	1,952	-	4,063
	<u>180,871</u>	<u>91,188</u>	<u>111,884</u>	<u>(2,932)</u>
Loss before income taxes	(1,984,335)	(1,418,482)	(3,778,711)	(3,096,381)
Future income tax recovery (Note 4)	-	157,286	149,537	631,370
Loss for the period	(1,984,335)	(1,261,196)	(3,629,174)	(2,465,011)
Deficit, beginning of period	(13,916,305)	(7,925,914)	(12,271,466)	(6,722,099)
Deficit, end of period	<u>\$(15,900,640)</u>	<u>\$(9,187,110)</u>	<u>\$(15,900,640)</u>	<u>\$(9,187,110)</u>
Loss per share:				
Basic	\$ (0.06)	\$ (0.05)	\$ (0.11)	\$ (0.09)

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

Consolidated Statements of Cash Flows (Unaudited)

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Cash flows provided by (used in):				
Operations:				
Loss for the period	\$(1,984,335)	\$(1,261,196)	\$(3,629,174)	\$(2,465,011)
Items not involving cash:				
Amortization	134,070	135,851	291,155	271,260
Stock-based compensation	47,729	43,416	99,651	69,851
Write-down of marketable securities	-	1,952	-	4,063
Future income tax recovery	-	(157,286)	(149,537)	(631,370)
Change in non-cash operating working capital	(420,476)	(341,010)	(1,040,557)	(166,102)
	(2,223,012)	(1,578,273)	(4,428,462)	(2,917,309)
Investments:				
Short-term investments	2,591,586	1,395,418	5,159,994	2,036,183
Purchase of property, plant and equipment	(16,880)	(17,530)	(22,802)	(20,223)
	2,574,706	1,377,888	5,137,192	2,015,960
Financing:				
Repayment of bank debt	-	-	(25,466)	-
Convertible promissory note payable	-	73	-	3,909
Proceeds from issuance of common shares	-	14	-	6,647
	-	87	(25,466)	10,556
Increase (decrease) in cash for the period	351,694	(200,298)	683,264	(890,793)
Cash and cash equivalents, beginning of period	331,570	272,908	-	963,403
Cash and cash equivalents, end of period	\$ 683,264	\$ 72,610	\$ 683,264	\$ 72,610
Supplementary information:				
Cash received during the year for:				
Interest	\$ 29,941	\$ 11,628	\$ 185,319	\$ 26,226

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

For the three and six months ended June 30, 2006 and 2005

1. **Basis of presentation:**

Allon Therapeutics Inc. ("Allon" or the "Company"), is a public company incorporated under the Canada Business Corporations Act. Allon is a biopharmaceutical company engaged in the development of drugs to treat neurodegenerative diseases and disorders.

The eventual profitability of the Company and its ability to continue as a going concern is dependent upon many factors, including amongst other things, obtaining appropriate financing as required, successful development of its products, and receiving regulatory approvals. In addition, the biotechnology industry is subject to rapid and substantial technological change which could reduce the marketability of the Company's technology. The Company will be required to obtain additional sources of financing in order to continue its research activities, its issuance and maintenance of patents, realize returns on its assets and discharge its liabilities in the normal course of business.

These unaudited interim consolidated financial statements have been prepared by management in accordance with generally accepted accounting principles in Canada for interim financial information. These interim results do not include all disclosures required for annual financial statements and therefore should be read in conjunction with the Company's audited financial statements and notes included as part of the Company's 2005 Annual Report filed with the appropriate Canadian securities commissions.

In the opinion of management, all adjustments (including reclassifications and normal recurring adjustments necessary to present fairly the financial position, results of operations and deficit, and cash flows at June 30, 2006 and for all periods presented) have been made. Interim results are not necessarily indicative of results for a full year.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

For the three and six months ended June 30, 2006 and 2005

2. Share capital:

- (a) Authorized:
- Unlimited voting common shares without par value
 - Unlimited preferred shares, issuable in series
- (b) Common shares issued and outstanding:

	Shares	Amount
Balance December 31, 2005	33,386,711	\$ 27,025,231
Shares issued	-	-
Balance June 30, 2006	33,386,711	\$27,025,231

(c) Stock options:

The Company Stock Option Plan ("Plan") provides for the granting of options for the purchase of common shares of the Company at the fair market value of the Company's stock at the grant date. Stock options are granted to both employees and non-employees. The Company's Board of Directors has discretion as to the number, vesting period, and expiry dates of stock options granted.

At the Annual General Meeting, held on June 1, 2006, shareholders voted to amend the Plan from a fixed amount of 4,000,000 options issuable to a share option plan ("2006 Plan") based on a rolling percentage of options issuable of up to 10% of the Company's outstanding shares. All outstanding options under the former Plan were transferred into the 2006 Plan. As of June 30, 2006, the Company had 33,386,711 shares issued and outstanding resulting in current authorization to issue a maximum of 3,338,671 options under the 2006 Plan.

Stock option activity from December 31, 2005 to June 30, 2006 is as follows:

	Number of common shares under option	Weighted average exercise price
Outstanding, December 31, 2005	2,533,497	\$ 0.67
Granted	710,000	1.05
Exercised	-	-
Cancelled	-	-
Outstanding, June 30, 2006	3,243,497	\$ 0.75
Exercisable, June 30, 2006	2,236,547	\$ 0.63

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

For the three and six months ended June 30, 2006 and 2005

2. Share capital (continued):

(d) Warrants:

On September 28, 2004, the Company issued 4,000,000 warrants as part of an \$8.0 million private placement in conjunction with the acquisition of Allon USA. In August 2005, 2,490,000 warrants were cancelled as part of the \$6.3 million private placement. Warrants were given a deemed value of \$0.05. The remaining 1,510,000 warrants expired on March 31, 2006. The Company currently has no outstanding warrants.

3. Stock-based compensation:

The Company recognized \$47,729 in compensation expense for the quarter ended June 30, 2006 (2005 - \$43,416) relating to awards granted to employees and non employees under its stock option plan.

The fair value of share based awards is determined using the Black-Scholes option pricing model. Like other accepted option valuation models, the Black-Scholes model was developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. The Black-Scholes option pricing model is also based on several highly subjective assumptions including the expected life of the option, expected future stock price volatility and fair value of the Company's stock at the date of grant of the stock options. Changes in these assumptions can materially affect the measure of the estimated fair value of the Company's stock options.

The fair value of options granted to employees is calculated at the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield 0%, expected volatility 96%, risk free interest rate 3.45% and expected remaining life of 2.07 years. The fair value is amortized, on a straight-line basis over the vesting period of the options. The fair value of each option granted to non-employees is estimated as of the balance sheet date, using the Black-Scholes option-pricing model with the following weighted-average assumptions for the quarter ended June 30, 2006: dividend yield 0%, expected volatility 72%, risk free interest rate 4.22% and expected remaining life of 4.04 years. The date of measure used to calculate the estimated fair value of options issued to non-employees is the balance sheet date.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

For the three and six months ended June 30, 2006 and 2005

3. Stock-based compensation (continued):

The following options are outstanding under the Company's stock option plan:

Range of exercise prices	Options outstanding June 30, 2006			Options exercisable June 30, 2006	
	Number of common shares issuable	Weighted average remaining life	Weighted average exercise price	Number of common shares issuable	Weighted average exercise price
\$0.001-0.66	1,468,497	7.70	\$ 0.12	1,427,697	\$ 0.11
\$1.00-1.05	1,105,000	9.26	1.03	138,850	1.00
\$1.50-1.72	670,000	4.60	1.67	670,000	1.67
	3,243,497	7.59	\$ 0.75	2,236,547	\$ 0.63

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Loss for the period – as reported	\$ (1,984,335)	\$(1,261,196)	\$ (3,629,174)	\$(2,465,011)
Loss for the period – pro forma	(1,989,553)	(1,266,414)	(3,634,392)	(2,497,712)
Loss per common share – as reported	(0.06)	(0.05)	(0.11)	(0.09)
Loss per common share – pro forma	(0.06)	(0.05)	(0.11)	(0.09)

4. Future income taxes:

As part of the acquisition of Allon USA, the Company incurred a future income tax liability for the temporary difference arising from the financial statement carrying amount of the acquired medical technology and its respective tax basis. The Company recognized a future income tax asset to the extent of offsetting future income tax liabilities. During the quarter ended March 31, 2006, the future income tax liability was reduced to nil.

5. Segmented information:

Management has determined that the Company operates in one industry segment, being the development of biopharmaceutical products. Substantially all of the Company's operations, assets and employees are located in Canada and the United States.

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