

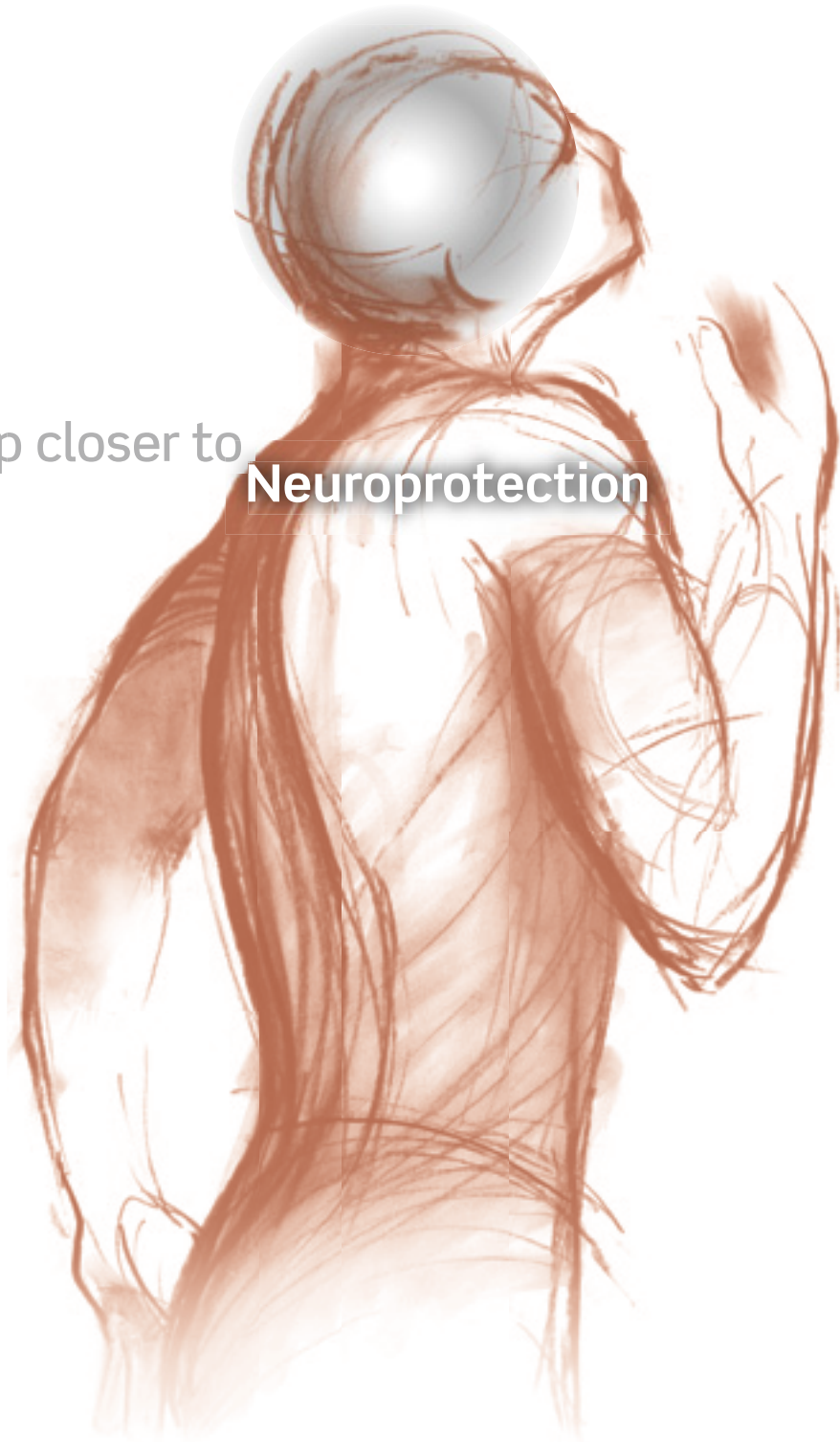
Q3

Allon
Therapeutics Inc.

Third Quarter Report
September 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, mild cognitive impairment, stroke and traumatic brain injury.

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, an eight amino acid peptide formulated intranasally, 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. During the third quarter of 2006, the Company began a Phase Ib clinical trial and completed dosing subsequent to the end of the quarter. The Company plans to begin a Phase IIa clinical trial by year end.
- AL-208, an eight amino acid peptide formulated intravenously, 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:

Your company continued to make strong advances in Q3 2006. We made meaningful progress on clinical, scientific, intellectual property, and financial issues during the quarter all of which reaffirm our commitment to meeting our stated milestones and advancing our products towards our goal of developing therapeutics for the millions of people around the world who suffer from neurodegenerative diseases and conditions.

In clinical terms, we continued the ongoing AL-208 Phase II efficacy trial in mild cognitive impairment after coronary artery bypass graft (MCI-CABG) surgery. That trial is enrolling well in the United States and remains on track to meet our goals. We also received approval to commence Canadian enrolment for this trial which we expect to begin before the end of the year.

Similarly, we began the AL-108 Phase Ib trial in Alzheimer's disease and, subsequent to quarter end, completed dosing that trial. The AL-108 program is on track to commence a Phase II efficacy trial before the end of 2006.

On scientific issues we generated several significant developments during the quarter. Certainly the most important was the data showing that the AL-108 program shows an effect on both of the classic hallmarks of Alzheimer's disease. This data was presented at the international Alzheimer's meeting in Spain and provides significant validation of the broad efficacy and potential of our drugs.

In addition, we also published additional data further defining the mechanism of action of our core compounds and showing further efficacy in a pre-clinical model clearly related to stroke. These data can now be added to the 14 other models of pre-clinical efficacy, in 9 different central nervous system diseases or conditions, where our compounds have demonstrated efficacy.

The large intellectual property estate protecting our work was advanced during the quarter as another patent was issued in the Memory and Learning patent family.

Finally, subsequent to the quarter end we announced the launch and successful conclusion of a first closing of a private placement raising \$9.0 million to continue this work going forward. This financing is important because it will allow the company to continue to meet its milestones and move forward with strength.

Through the remainder of 2006 and 2007 we expect continued meaningful progress on all of these fronts. We expect to continue to meet our clinical milestones as well as consider other relationships that will allow us to exploit the potential of our drugs as fully as possible.

Respectfully,


Gordon C. McCauley
President & CEO

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION & ANALYSIS

For the three and nine months ended September 30, 2006

The following information should be read in conjunction with the unaudited consolidated financial statements and related notes for the Company for the third quarter (Q3 2006) and year to date (YTD 2006) operations ended September 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.

November 14, 2006

OVERVIEW

Allon Therapeutics Inc. is a Canadian biotechnology company developing drugs that protect against neurodegenerative conditions such as Alzheimer's disease, mild cognitive impairment, stroke and traumatic brain injury. 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.

Allon is currently advancing two clinical programs, AL-108 and AL-208. During the third quarter of 2006, significant progress was made to advance both of these programs.

AL-108

AL-108 is an eight amino acid peptide formulated intranasally for the treatment of chronic neurodegenerative conditions. 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. The currently marketed therapies for Alzheimer's disease sell more than \$3-billion and this market is widely expected to grow.

During the third quarter, the Company commenced a Phase Ib multiple ascending dose clinical trial for AL-108 to evaluate its safety and tolerability as a treatment for Alzheimer's disease. Subsequent to the end of the quarter, on November 1, 2006 the Company announced that dosing was completed.

The Company continues to prepare and believes it is on track to commence a Phase II clinical trial in an Alzheimer's indication for AL-108 before the end of 2006.

AL-208

AL-208 is an eight amino acid peptide formulated intravenously for the treatment of acute neurodegenerative insults and conditions. 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

mild cognitive impairment (MCI) in coronary artery bypass graft (CABG) surgery patients. The potential market for treatment of persons suffering from MCI post-CABG is estimated at US\$500-million..

During the first stage of the Phase II trial, conducted in US medical centres, the safety of AL-208 will be confirmed in CABG patients at increasing doses. The second stage will be a placebo-controlled, double-blind, parallel-group evaluation to determine the efficacy of a single dose of AL-208 and will be conducted at 20-25 medical centres in the U.S. and Canada. Approval was received from Health Canada during the quarter to begin enrolling Canadian patients. In total, approximately 200 patients will be treated with AL-208 (or placebo) during surgery. This is the first clinical trial that will evaluate the effectiveness of AL-208. The Company anticipates it will release results in the second half of 2007.

Allon has previously completed a Phase Ia and Ib single and multiple ascending dose clinical trials for AL-208 which were designed to evaluate the safety, tolerability and pharmacokinetics of the compound. The Company expects that these trials will provide the necessary safety coverage to proceed in neurodegenerative diseases where multiple doses of AL-208 are required.

CORPORATE UPDATE

Subsequent to the end of the quarter, on November 14, 2006 the Company announced that it had successfully concluded a first closing of a private placement generating total gross proceeds of \$9.0 million through a syndicate of agents co-led by Blackmont Capital and Clarus Securities and including Sprott Securities. Each unit consists of one common share and one half of one common share purchase warrant and was priced at \$0.80. Each whole warrant entitles the holder to purchase an additional common share of the Company at a price of \$1.00 for a period of 24 months from closing. Proceeds of the financing will be used to fund the ongoing clinical development of AL-108 and AL-208 and for general corporate purposes. The Company expects that inclusive of the net proceeds of the financing, cash and cash equivalents and short term investments on hand will be sufficient to fund the operations of the Company into the middle of 2008.

RESULTS OF OPERATIONS

For the three months ended September 30, 2006, Allon reported a net loss of \$1,975,807 (\$0.06 per share) compared to a net loss of \$1,492,248 (\$0.05 per share) for the three months ended September 30, 2005 (Q3 2005). For the nine months ended September 30, 2006 (YTD 2006), Allon reported a net loss of \$5,604,981 (\$0.17 per share) compared to a net loss of \$3,957,259 (\$0.14 per share) for the nine months ended September 30, 2005 (YTD 2005).

The increased quarter over quarter loss of \$484K includes a \$141K non cash decrease in expenses in Q3 2005 which relate to the recognition of a future income tax asset to offset a tax liability resulting from of the 2004 purchase of medical technology. Each quarter subsequent to the purchase, the Company recognized 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 \$1,648K includes a \$622K difference relating to the recognition of a future income tax asset. The 2006 increased pre-tax losses of \$343K for the comparable three months and \$1,025K for the comparable nine 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 September 30, 2006, research and development (R&D) expenses were \$1,471,652 compared to \$988,691 in Q3 2005. The YTD 2006 research and development expenses were \$3,862,493 compared to \$3,134,982 for the comparable period in 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-208 and AL-108.

Overall, YTD 2006 expenses for AL-208 development increased by \$969K compared to YTD 2005 while YTD 2006 expenses for AL-108 development decreased by \$607K compared to YTD 2005. General scientific research expenses for YTD 2006 increased by \$366K over the same period in 2005.

AL-208

During Q3 2006 R&D expenses relating to the development of AL-208 increased by \$157K compared to Q3 2005. During Q3 2006, Allon continued enrolling patients in the Phase II clinical trial aimed at preventing or reducing MCI post-CABG. This trial accounted for the majority of AL-208 development expenses.

During Q3, 2006, Allon incurred the final expenses associated with the 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. Dosing was completed in the Q2 2006 and the clinical data confirmed that AL-208 was safe and well tolerated in patients.

Expenses incurred during Q3, 2005 related to the commencement of a Phase I human clinical trial in healthy adults and healthy elderly adults to evaluate the safety and pharmacokinetic results of AL-208 as a treatment for MCI post-CABG surgery. During the quarter, Allon started and completed patient enrollment for the single, sequential ascending dose study.

YTD 2006 R&D expenses for AL-208 increased by \$969K over the same period last year. For the nine month period ended September 30, 2006, Allon incurred expenses to commence and complete a Phase Ib clinical trial and commence and advance Phase II clinical trial for AL-208 indicated for MCI post-CABG.

For the nine month period ended September 30, 2005, Allon incurred expenses to purchase sufficient drug product to support the AL-208 drug development program throughout 2005, file an IND, advance pre-clinical and clinical research and initiate dosing in a Phase I clinical trial of AL-208.

AL-108

During Q3 2006 R&D expenses relating to the development of AL-108 increased by \$177K compared to Q3 2005. During Q3 2006, expenses were incurred to initiate a Phase Ib multiple-ascending dose clinical trial for AL-108, being evaluated as a treatment for Alzheimer's disease. Subsequent to the end of the quarter, Allon announced that it had completed dosing for this trial. Allon also incurred expenses in preparation for a Phase II clinical trial of AL-108, expected to begin in the fourth quarter of 2006.

During Q3 2005 expenses were incurred to continue pre-clinical work to enable better understanding of the pharmacokinetics and pharmacodynamics of AL-108 to support the Phase Ib trial commenced in Q3 2006.

YTD 2006 R&D expenses for AL-108 decreased by \$607K over the same period last year. For the nine month period ended September 30, 2006, Allon incurred expenses for additional pre-clinical studies and to commence a Phase Ib clinical trial for AL-108.

For the nine month period ended September 30, 2005, Allon incurred expenses to purchase sufficient drug product to support the AL-108 development program throughout 2005, advanced pre-clinical work and conducted a Phase 1a clinical trial of AL-108.

Scientific Research

During Q3 2006 general scientific research expenses increased by \$150K over Q3 2005. Ongoing pre-clinical work extended the body of research demonstrating the effectiveness of NAP in reducing amyloid plaques and neurofibrillary tangles in the brain, two pathologies most closely correlated with Alzheimer's disease. Research also demonstrated that NAP may help protect and aid recovery from brain injuries caused by respiratory interruption. These injuries are caused by conditions very similar to stroke. As such, this work further validated the Company's other compelling pre-clinical data in stroke.

During Q3 2005, general scientific research expenses were incurred to evaluate the neuroprotective mechanism of Allon's compounds and their potential to protect against and treat a number of neurodegenerative diseases.

YTD 2006 general scientific research expenses increased by \$366 over the same period last year. For the nine month period ended September 30, 2006, Allon incurred expenses to advance and expand the body of pre-clinical work for Allon's clinical-stage products as well as the Company's pipeline of pre-clinical product candidates.

For the nine month period ended September 30, 2005, scientific research expenses were incurred to evaluate the neuroprotective mechanism of Allon's compounds and conduct pre-clinical pharmacology and toxicology experiments. .

GENERAL AND ADMINISTRATIVE

For the three month period ended September 30, 2006, general and administrative expenses were \$392,279 compared to \$402,323 in Q3 2005. The \$10K decrease relates to lower filing fees compared to Q3 2005 when Allon incurred one time listing fees in conjunction with graduation to the Toronto Stock Exchange (TSX), The decrease was partially offset by increased staff and infrastructure required in 2006 to support Allon's drug development programs.

For the nine month period ended September 30, 2006, general and administrative expense were \$1,377,110 compared to \$1,084,085 for the year to date period ended September 30, 2005. The YTD 2006 increase of \$293K 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, partially offset by expenses associated with company graduation to the TSX in September 2005.

AMORTIZATION

Amortization expenses for the three month period ended September 30, 2006 were \$135,990 compared to \$137,344 in Q3 2005. For the nine month period ended September 30, 2006, amortization expenses

were \$427,145 compared to \$408,604 for YTD 2005. The YTD 2006 increase of \$19K over YTD 2005 primarily resulted from a one-time adjustment of \$23K 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 September 30, 2006, the Company earned other income of \$24,114 compared to incurring other expenses of \$104,531 in Q3 2005. The \$129K increase in other revenue primarily relates to a foreign exchange gain of \$6,783 in the current quarter compared to a foreign exchange loss of \$123,992 in Q3 2005. During Q3 2006, the foreign exchange gain resulted from gain on US dollar investments, partially offset by loss on translation of US balances. Q3 2005 foreign exchange losses resulted from loss on US dollar investments, partially offset by gain on translation of US balances. During Q3 2006 net interest earned on short term investments and cash balances was \$66,470 compared to \$56,035 in Q3 2005. The \$10K increase in interest income is due to improved returns on short term investments and cash balances. During Q3 2005, Allon received one time grant revenue of \$15,000, to conduct market research, compared to nil in 2006.

For the nine month period ended September 30, 2006, the Company incurred other expenses of \$87,770 compared to \$101,599 for the year to date period ended September 30, 2005. The \$14K decrease in other expenses primarily relates to increases in interest revenues that are partly offset by increases in stock based compensation and foreign exchange loss. Net interest increased by \$62K due to improved rates of return on short term investments and bank balances. Foreign exchange losses in both 2006 and 2005 resulted from loss on US dollar investments, partially offset by gain on translation of US balances. The YTD 2006 foreign exchange loss increased by \$8K over YTD 2005. An increase of \$28K 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.

QUARTERLY INFORMATION

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

(in thousands, except per share data)

	Sept 30, 2006	June 30, 2006	March 31, 2006	Dec. 31, 2005
Interest	\$66	\$59	\$78	\$75
Loss before tax recovery	\$(1,976)	\$(1,984)	\$(1,794)	\$(2,271)
Future Income Tax Recovery	-	-	149	679
Loss for the quarter	\$(1,976)	\$(1,984)	\$(1,645)	\$(1,592)
Loss per share	\$(0.06)	\$(0.06)	\$(0.05)	\$(0.05)
	Sept 30, 2005	June 30, 2005	March 31, 2005	Dec. 31, 2004
Interest	\$56	\$25	\$61	\$12
Profit/(Loss) before tax recovery and unrealized gain (losses) on investments	\$(1,633)	\$(1,416)	\$(1,676)	\$(1,468)
Future Income Tax Recovery	141	157	474	358
(Write-down) and unrealized gains/(losses) on investments	-	\$(2)	\$(2)	\$37
Loss for the quarter	\$(1,492)	\$(1,261)	\$(1,204)	\$(1,073)
Loss per share	\$(0.05)	\$(0.05)	\$(0.04)	\$(0.05)

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 after the change of business in Q3 2004 from an investment management company to a biotechnology drug development company.. 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.

During the quarter ended September 30, 2006, Allon incurred the final expenses for its Phase Ib clinical trial of AL-208 and continued enrollment in the safety portion of its Phase II clinical trial for AL-208. The Company initiated a Phase 1b multiple-ascending dose clinical trial for AL-108 to evaluate its safety and tolerability as a treatment for Alzheimer's disease. Subsequent to the end of the quarter, on November 1, 2006 the Company announced that dosing was completed. Allon also incurred expenses in preparation for a Phase II clinical trial of AL-108, expected to begin in the fourth quarter of 2006.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2006, the Company had working capital of \$3.4 million and cash resources of \$3.8 million consisting of cash and short-term investments. Aggregate cash resources decreased by \$5.8 million, from \$9.5 million at December 31, 2005, to support continuing clinical studies, research and development initiatives with no cash inflows from financing activities.

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 September 30, 2006 maturities on investments ranged from 30 days to 2 months.

Subsequent to the close of the quarter ended September 30, 2006, the Company issued 11,250,000 common shares and 5,625,000 common share purchase warrants to raise \$9.0 million in the first closing of a private placement. The Company believes that this additional capital, cash and short-term investments as at September 30, 2006, and expected interest income will be sufficient to fund operations and contractual obligations to the middle of 2008.

OUTSTANDING SHARE CAPITAL

At November 13, 2006, the Company had 33,386,711 common shares outstanding for a total of \$27,025,231 in share capital. Each common share entitles the holder to one vote per share. The Company also had 3,263,497 options outstanding, of which 2,256,547 were exercisable into an equivalent number of the Company's common shares at a weighted average price of \$0.64. With the November 14, 2006 issuance of 11,250,000 common shares and 5,625,000 common share purchase warrants in connection with the aforementioned financing, the Company now has 44,636,711 common

shares and 5,625,000 common share purchase warrants outstanding. The warrants expire on November 14, 2008. 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 and cash equivalents and short term investments on hand, net additional proceeds from the financing and interest income will be sufficient to fund operations and contractual obligations to the middle of 2008. 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

	September 30, 2006	December 31, 2005
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,262,651	\$ -
Short-term investments	1,493,162	9,545,304
Accounts receivable	40,359	112,549
Prepaid expenses and deposits	368,959	84,304
	<u>4,165,131</u>	<u>9,742,157</u>
Long term receivable	20,680	40,424
Property, plant and equipment	64,605	81,186
Intangible assets	6,692,530	7,076,348
	<u>6,777,815</u>	<u>7,197,958</u>
	<u>\$ 10,942,946</u>	<u>\$ 16,940,115</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	\$ -	\$ 25,466
Accounts payable and accrued liabilities	751,127	1,117,872
	<u>751,127</u>	<u>1,143,338</u>
Future income tax liability	-	149,537
Shareholders' equity:		
Share capital (note 2)	27,025,231	27,025,231
Additional paid-in capital	1,043,035	893,475
Deficit	(17,876,447)	(12,271,466)
	<u>10,191,819</u>	<u>15,647,240</u>
	<u>\$ 10,942,946</u>	<u>\$ 16,940,115</u>

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 nine months ended September 30, 2006 and 2005

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Expenses:				
Research and development	1,471,652	988,691	3,862,493	3,134,982
General and administrative	392,279	402,323	1,377,110	1,084,085
Amortization	135,990	137,344	427,145	408,604
	<u>1,999,921</u>	<u>1,528,358</u>	<u>5,666,748</u>	<u>4,627,671</u>
Other (income)/expense:				
Interest	(66,470)	(56,035)	(203,570)	(141,817)
Grants		(15,000)		(15,000)
Foreign exchange (gain)/loss	(6,783)	123,992	140,954	133,270
Stock-based compensation	49,909	51,574	149,560	121,425
(Gain)/loss on investments	(770)	-	826	(342)
Write-down of marketable securities	-	-	-	4,063
	<u>(24,114)</u>	<u>104,531</u>	<u>87,770</u>	<u>101,599</u>
Loss before income taxes	(1,975,807)	(1,632,889)	(5,754,518)	(4,729,270)
Future income tax recovery (Note 4)	-	140,641	149,537	772,011
Loss for the period	(1,975,807)	(1,492,248)	(5,604,981)	(3,957,259)
Deficit, beginning of period	(15,900,640)	(9,187,110)	(12,271,466)	(6,722,099)
Deficit, end of period	<u>\$(17,876,447)</u>	<u>\$(10,679,358)</u>	<u>\$(17,876,447)</u>	<u>\$(10,679,358)</u>
Loss per share:				
Basic	\$ (0.06)	\$ (0.05)	\$ (0.17)	\$ (0.14)

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

Consolidated Statements of Cash Flows
(Unaudited)

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Cash flows provided by (used in):				
Operations:				
Loss for the period	\$(1,975,807)	\$(1,492,248)	\$(5,604,981)	\$(3,957,259)
Items not involving cash:				
Amortization	135,990	137,344	427,145	408,604
Stock-based compensation	49,909	51,574	149,560	121,425
Write-down of marketable securities	-	-	-	4,063
Future income tax recovery	-	(140,641)	(149,537)	(772,011)
Change in non-cash operating working capital	481,091	(10,733)	(559,466)	(176,835)
	(1,308,817)	(1,454,704)	(5,737,279)	(4,372,013)
Investments:				
Short-term investments	2,892,148	(4,529,338)	8,052,142	(2,493,155)
Purchase of property, plant and equipment	(3,944)	(2,898)	(26,746)	(23,121)
Proceeds of sale of marketable Securities	-	2,100	-	2,100
	2,888,204	(4,530,136)	8,025,396	(2,514,176)
Financing:				
Repayment of bank debt	-	-	(25,466)	-
Convertible promissory note payable	-	1,551	-	5,460
Proceeds from issuance of common shares	-	6,290,000	-	6,296,647
	-	6,291,551	(25,466)	6,302,107
Increase (decrease) in cash for the period	1,579,387	306,711	2,262,651	(584,082)
Cash and cash equivalents, beginning of period	683,264	72,610	-	963,403
Cash and cash equivalents, end of period	\$ 2,262,651	\$ 379,321	\$ 2,262,651	\$ 379,321
Supplementary information:				
Cash received during the year for:				
Interest	\$ 97,788	\$ 42,830	\$ 283,107	\$ 69,056

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

For the three and nine months ended September 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 cash flows at September 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 nine months ended September 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 September 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 September 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 September 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	730,000	1.05
Exercised	-	-
Cancelled	-	-
Outstanding, September 30, 2006	3,263,497	\$ 0.75
Exercisable, September 30, 2006	2,256,547	\$ 0.64

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

For the three and nine months ended September 30, 2006 and 2005

3. Stock-based compensation:

The Company recognized \$49,909 in compensation expense for the quarter ended September 30, 2006 (2005 - \$51,574) 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 1.81 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 September 30, 2006: dividend yield 0%, expected volatility 70%, risk free interest rate 3.94% and expected remaining life of 4.07 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 nine months ended September 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 September 30, 2006			Options exercisable September 30, 2006	
	Number of common shares issuable	Weighted average remaining life	Weighted average exercise price	Number of common shares issuable	Weighted average exercise price
\$0.001-0.40	1,468,497	7.45	\$ 0.12	1,427,697	\$ 0.11
\$1.00-1.05	1,125,000	9.04	1.03	158,850	1.01
\$1.50-1.72	670,000	4.35	1.67	670,000	1.67
	3,263,497	7.36	\$ 0.75	2,256,547	\$ 0.64

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Loss for the period – as reported	\$ (1,975,807)	\$(1,492,248)	\$ (5,604,981)	\$(3,957,259)
Loss for the period – pro forma	(1,975,807)	(1,497,466)	(5,610,199)	(3,995,178)
Loss per common share – as reported	(0.06)	(0.05)	(0.17)	(0.14)
Loss per common share – pro forma	(0.06)	(0.05)	(0.17)	(0.14)

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.

6. Subsequent events:

On November 14, 2006, the Company issued 11,250,000 common shares and 5,625,000 common share purchase warrants to raise \$9.0 million in the first closing of a private placement. Each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at a price of \$1.00 for a period of 24 months.

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