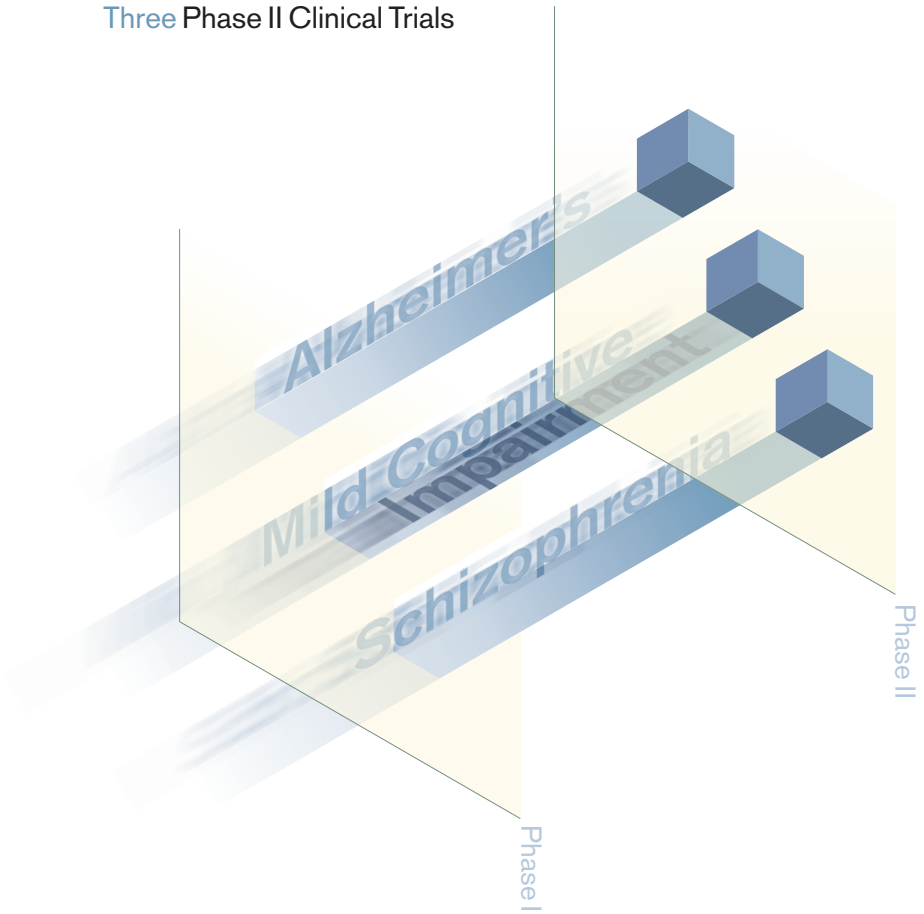


Three Phase II Clinical Trials



Corporate Profile

Allon Therapeutics Inc. is a Canadian biotechnology company developing drugs that treat the causes of neurodegenerative conditions such as Alzheimer's disease, mild cognitive impairment and schizophrenia-related cognitive impairment. Allon has two technology platforms derived from neuroprotective proteins that are formed naturally in the brain. Compounds from these two platforms have demonstrated broad efficacy in numerous pre-clinical models of neurodegenerative diseases. Allon launched two Phase II clinical trials in 2006 and will begin a third Phase II trial in mid-2007.

- As part of the Company's program to develop AL-108 as a disease-modifying treatment for Alzheimer's disease, a Phase II trial is currently evaluating AL-108 in patients with amnesic mild cognitive impairment, a precursor to Alzheimer's.
- AL-208 is being evaluated as a treatment for the mild cognitive impairment experienced by patients who undergo coronary artery bypass graft (MCI-CABG) surgery. The Company expects to release efficacy data from this trial in late 2007.
- The third Phase II trial will evaluate AL-108 as a treatment for schizophrenia-related cognitive impairment, a condition considered the most significant roadblock for schizophrenia patients' return to productivity.

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 Shareholders

Dear Shareholders:

In the first quarter of 2007 your company made meaningful progress in a number of key areas. In particular, we made significant advances in our three Phase II clinical programs and received very strong external validation. We continued our focus on execution and have already achieved several of our stated milestones for 2007, continuing on our track record of execution as a public company. We continue to direct our capital resources to build value in our R&D programs and move forward toward human efficacy data and ultimately an efficacious therapy for the millions of people suffering with neurodegenerative diseases.

The quarter started with the selection of our drug AL-108 for a Phase II trial in schizophrenia-related cognitive impairment by the United States National Institute of Mental Health funded project, Treatment Units for Research on Neurocognition and Schizophrenia (TURNIS). The trial is scheduled to begin in the middle of 2007 and will be evaluating AL-108 as a treatment for schizophrenia-related cognitive impairment. We believe that this selection is important validation of the underlying mechanism of action of this drug which gives it potential as a therapy for schizophrenia-related cognitive impairment.

Shortly after the TURNIS announcement, The Michael J. Fox Foundation (MJFF) selected this same drug from over 300 applicants to receive funding for preclinical research in Parkinson's disease. Successful results will allow Allon to progress directly into a Phase II human efficacy trial, evaluating AL-108 as a treatment for Parkinson's disease. Again, we believe that this grant is important validation of the broad potential of this drug and the clinical strategy that management has adopted.

In the clinic, we began enrolling patients in the Phase II human efficacy trial in Alzheimer's disease. This drug, AL-108, is beginning to attract significant attention in the Alzheimer's community around the world, and in the United States in particular, as the strength of the pre-clinical data becomes better understood.

Similarly, we announced that the AL-108 Phase Ib multiple ascending dose trial met all of its objectives. The study confirmed the safety profile for AL-108 and also preserves the opportunity to continue advancing future indications directly into a Phase II trial, such as Parkinson's disease.

Allon also progressed into the randomized portion of our ongoing Phase II human efficacy trial in mild cognitive impairment associated with coronary artery bypass graft (MCI-CABG) surgery. The progress confirms the safety profile of the drug in a very sick patient population, and also preserves the opportunity to use it in the other diseases and conditions where we have shown pre-clinical efficacy.

In March, our VP Research and CSO, Illana Gozes, was invited to present at the 8th International Conference on Alzheimer's and Parkinson's Diseases in Salzburg, Austria, presenting additional data demonstrating that the Company's compounds act on a fundamental mechanism that is common to many neurodegenerative diseases and conditions. Professor Gozes presented two additional times during the quarter, at the Alzheimer's Drug Discovery Foundation conference on Drug Discovery in Neurodegeneration in New York, and the 3rd Annual Heart and Brain meeting in Tel Aviv.

In addition to our progress scientifically and in the clinic, we presented for the first time at BIO CEO in New York, and were also invited to speak at the Leerink Swan Alzheimer's conference that featured only seven companies in North America.

Subsequent to quarter end we announced that the Company had entered into a "bought deal" agreement for gross proceeds of \$15.0 million. Once closed, this financing will substantially improve the Company's capital resources and will provide us the opportunity to exploit the full potential of our drugs and pursue further opportunities to enhance the business in a disciplined manner.

Over the course of 2007 we expect to see continued progress. The remainder of the year will be an important period for your company as we advance further down the path in all three of our Phase II efficacy trials and continue to exploit fully the long term potential of our drugs.

Respectfully,

A handwritten signature in black ink, appearing to read "G. McCauley". The signature is fluid and cursive, with a prominent initial "G" and a long, sweeping underline.

Gordon C. McCauley
President & CEO

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION & ANALYSIS

The following information should be read in conjunction with the 2006 audited consolidated financial statements and related notes for the Company for the first quarter (Q1 2007) operations ended March 31, 2007, as well as the audited annual financial statements, their accompanying notes and management's discussion and analysis for the year ended December 31, 2006 included in our Annual Report (2006 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.

May 14, 2007

OVERVIEW

Allon Therapeutics Inc. is a clinical-stage Canadian biotechnology company developing drugs that protect against neurodegenerative conditions which impact the body's central nervous system. Allon has three Phase II clinical programs in Alzheimer's disease (AD), mild cognitive impairment associated with coronary artery bypass graft (MCI-CABG) surgery and schizophrenia-related cognitive impairment. Allon is listed on the Toronto Stock Exchange under the trading symbol "NPC" (Neuro Protection Company™) and based in Vancouver.

Allon's compounds come from two technology platforms, activity dependent neuroprotective protein (ADNP) and activity dependent neurotrophic factor (ADNF) which are neuroprotective proteins that are formed naturally in the brain. Allon's compounds are derived from either ADNP or ADNF and have demonstrated broad efficacy in numerous pre-clinical models of neurodegenerative diseases. Allon's clinical drug compounds, AL-108 and AL-208 are both derived from the ADNP platform as is preclinical candidate AL-408. Two additional preclinical compounds, AL-309 and AL-209 are derived from the ADNF platform.

The following table summarizes the development status of each of our research and development programs:

Platform	Compound	Stage of Development	Current Status
ADNP	AL-108	Phase II Clinical Trial Amnesic MCI/Alzheimer's	Enrollment initiated Q1 2007
	AL-108	Phase II Clinical Trial Schizophrenia-related cognitive impairment	IND active, enrollment expected to commence mid 2007

	AL-208	Phase II Clinical Trial Mild Cognitive Impairment associated with coronary artery bypass graft (MCI- CABG) surgery	Completed open label safety portion, randomized portion started Q1 2007
	AL-408	Pre-Clinical Stage	Pre-clinical studies ongoing
ADNF	AL-309	Pre-Clinical Stage	IND enabling Studies ongoing
	AL-209	Pre-Clinical Stage	Pre-clinical studies ongoing

FIRST QUARTER 2007 ACHIEVEMENTS

During the first quarter of 2007, the following significant events occurred:

- The Company announced on January 8th that the United States National Institute of Mental Health-funded project, Treatment Units for Research of Neurocognition on Schizophrenia (TURNS) has selected Allon's drug for Phase II clinical trials. The Phase II trial is evaluating the Company's product AL-108, as a treatment for schizophrenia-related cognitive impairment;
- Allon began enrolling patients in its Phase II human efficacy trial in Alzheimer's;
- Progressing AL-208 into the randomized portion of its Phase II human efficacy trial evaluating the Company's product AL-208 as a treatment for the mild cognitive impairment that commonly occurs following coronary artery bypass graft (MCI-CABG) surgery;
- The Michael J. Fox Foundation selected Allon from hundreds of applicants to receive funding for preclinical research to evaluate the effectiveness of AL-108 as a treatment for Parkinson's disease;
- On March 7th, 2007 Allon announced that the results of the completed Phase Ib clinical trial of their product AL-108 met all of its objectives. The trial confirmed that AL-108 is safe and well tolerated in 32 healthy elderly subjects after seven days of dosing; and
- Further to the announced collaboration with the TURNS group, Allon successfully filed an IND (Investigational New Drug) application with the United States Food and Drug Administration (FDA) to begin human clinical trials evaluating the Company's drug as a treatment for schizophrenia-related cognitive impairment.

RESULTS OF OPERATIONS

Allon reported a net loss of \$2,818,519 (\$0.06 per share) for the three months ended March 31, 2007 (Q1 2007) compared to \$1,644,839 (\$0.05 per share) for the three months ended March 31, 2006 (Q1 2006). The \$1,173,680 increased loss is mainly the result of increased clinical activity in Q1 2007 compared to Q1 2006 as the Company has two ongoing Phase II clinical studies which were not initiated until Q2 and Q4 2006 respectively. The increase is also partially a result of the \$149,537 future income tax recovery in Q1 2006 which offset non cash expenses as compared to nil in Q1 2007. The future tax liability, which resulted from the 2004 purchase of medical technology, was fully recovered in the first quarter of 2006.

EXPENSES

RESEARCH AND DEVELOPMENT

For the three month period ended March 31, 2007, research and development expenses were \$2,061,861 compared to \$1,175,031 in Q1 2006. The \$886,830 increase over Q1 2006 relates to the Company's advancement of its clinical and drug development programs in two ongoing Phase II trials, primarily the upfront costs associated with the AL-108 Alzheimer's trial.

Clinical stage compounds:

AL-108

AL-108 is an intranasally formulated, eight amino acid neuroprotective peptide from the ADNP platform. AL-108 is currently in Phase II clinical development for Alzheimer's disease and the Company expects to initiate a Phase II trial for schizophrenia-related cognitive impairment in the middle of 2007. The development of AL-108 accounted for \$1.09 million of the Company's research and development expenses in the quarter highlighted by the progress outlined below.

Alzheimer's disease

In the fourth quarter of 2006, Allon initiated a Phase II trial of AL-108 in patients with amnesic MCI, often a precursor to Alzheimer's disease. The Company commenced enrollment during the first quarter of 2007 and expects to significantly advance this Phase II trial during 2007 in order to have results in the first half of 2008.

Allon also released results from the AL-108 Phase Ib clinical trial confirming that AL-108 was safe and well tolerated in healthy, elderly adults after seven days of dosing. Results also validated the pharmacokinetic profile of AL-108 to support long-term use as well as confirm the doses selected for the Phase II clinical trials.

Allon expects that the results of the ongoing Phase II trial will support further clinical development in Alzheimer's and MCI. The Phase II trial is a multi-center, double-blind, randomized, placebo-controlled, multiple-dose study to evaluate the safety, tolerability and effect on cognitive function of AL-108 after 12 weeks of intranasal administration in patients with amnesic MCI aged 55 to 85 years. Approximately 15 clinical sites in the United States will participate.

Schizophrenia-related cognitive impairment

During Q1 2007, Allon successfully filed an IND application with the FDA which will allow the Company to proceed in a Phase II clinical trial to evaluate AL-108 as a treatment for schizophrenia-related cognitive impairment. The trial is expected to begin by the middle of 2007 and will be conducted by TURNS. The clinical trial will involve daily administration of AL-108 to 60 schizophrenia patients at eight sites in the United States over a period of 12 weeks. The randomized, placebo controlled clinical trial will assess cognition in patients taking AL-108 compared to those in the control group.

AL-208

AL-208 is an intravenously delivered, eight amino acid peptide also from the ADNP platform and currently in clinical trials for MCI-CABG. Expenditures on the AL-208 program accounted for \$0.59 million of Allon's Q1 2007 research and development expenses based on the progress outlined below.

In Q1 2007, Allon announced that it had successfully completed the open label safety portion of this trial allowing for enrollment in the randomized portion to commence. In total, approximately 200 patients will be treated with AL-208 (or placebo) during surgery. The patients will be assessed using standard cognitive tests, administered several weeks after surgery, to determine the impact on cognitive function of patients treated with AL-208 versus patients in the control group. The trial will be conducted in approximately 20 hospitals in the US and Canada. Allon expects the results of this trial will support further clinical development in MCI-CABG and potentially other acute neurodegenerative diseases such as stroke and traumatic brain injury.

Preclinical stage compounds:

AL-309

AL-309 is a D-amino acid derivative of AL-209 that has shown oral bioavailability, a property that may provide alternative opportunities for chronic daily dosing. It has demonstrated efficacy in animal models related to Alzheimer's disease and fetal alcohol syndrome. During Q1 2007, Allon released new data confirming the oral bioavailability of AL-309 in preclinical studies. AL-309 is in preclinical development, with IND-enabling studies scheduled to be completed in 2007.

AL-209

AL-209 is a nine amino acid peptide that has demonstrated potent neuroprotective effects in a number of neurodegenerative disease models such as Alzheimer's disease, fetal alcohol syndrome and amyotrophic lateral sclerosis (ALS). The product is currently in preclinical development.

AL-408

AL-408 is a D-amino acid derivative of AL-108. It has demonstrated neuroprotective effects in neurodegenerative animal models of Alzheimer's disease and fetal alcohol syndrome. Furthermore, the compound has also shown to be orally available, which makes it a suitable drug candidate for chronic neurodegenerative disease indications.

GENERAL AND ADMINISTRATIVE

For the three month period ended March 31, 2007, general and administrative expenses were \$585,367 compared to \$531,247 in Q1 2006. The \$54,120 increase over Q1 2006 relates to increased personnel and contracted resources, shareholder services and filing fees incurred to increase the Company's investor base and related communications. The increase was partly offset by lower recruiting fees from those incurred in Q1 2006.

AMORTIZATION

Amortization expenses for the three month period ended March 31, 2007 were \$136,430 compared to \$157,085 in Q1 2006. The \$20,655 decrease from prior year primarily resulted from a prior year, one-time adjustment of \$23,092 to amortization expense. The adjustment occurred due to change in method used to account for depreciation of property, plant and equipment from declining balance to straight line. The change in method resulted from a change in the accounting estimate of the salvage value of depreciable tangible assets and was accounted for prospectively. The Company does not expect the change in estimate to have a material impact in future periods.

OTHER EXPENSES / (INCOME)

For the three month period ended March 31, 2006, the Company incurred other expenses of \$34,861 compared to earning other income of \$68,987 in Q1 2006. The \$103,848 increase in expense is primarily due to increased stock based compensation and foreign exchange loss, partly offset by increased interest income on cash and short-term investments.

During Q1 2007, stock based compensation expense increased to \$95,859 from \$51,922 in Q1 2006. The increased expense is the result of the vesting of options issued in prior years to new and existing employees and directors in accordance with Allon's compensation policy. For the three months ended March 31, 2007, Allon recorded a foreign exchange loss of \$48,353 that primarily resulted from the translation of US balances. During the same period in 2006, the Company recorded a gain of \$42,829 that resulted from gains on US dollar investments, partly offset by losses on translation of US balances. Interest earned from short-term investments and cash balances was \$109,351 during Q1 2007 compared to \$78,080 for the same period in 2006. Higher interest revenues are attributed to increased cash and short-term investment balances during the quarter and higher rates of return on 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)

	Mar 31, 2007	Dec 31, 2006	Sept 30, 2006	Jun 30, 2006
Interest income	\$ 109	\$ 65	\$ 66	\$ 59
Loss for the quarter	\$ (2,819)	\$ (3,579)	\$ (1,976)	\$ (1,984)
Loss per share	\$ (0.06)	\$ (0.09)	\$ (0.06)	\$ (0.06)
	Mar 31, 2006	Dec 31, 2005	Sept 30, 2005	Jun 30, 2005
Interest income	\$ 78	\$ 75	\$ 56	\$ 25
Loss before tax recovery and write down of investments	\$ (1,794)	\$ (2,271)	\$ (1,633)	\$ (1,416)
Future income tax recovery	\$ 149	\$ 679	\$ 141	\$ 157
(Write-down) investments	-	-	-	\$ (2)
Loss for the quarter	\$ (1,645)	\$ (1,592)	\$ (1,492)	\$ (1,261)
Loss per share	\$ (0.05)	\$ (0.05)	\$ (0.05)	\$ (0.05)

(in thousands, except per share data)

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 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. 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 the quarter ended December 31, 2006, Allon completed dosing for a Phase Ib multiple, ascending dose clinical trial of AL-108 and completed dosing for the safety portion of a Phase II clinical trial for AL-208 indicated for MCI post-CABG. Allon filed an IND, received approval and began a Phase II clinical trial of AL-108, indicated for MCI, an Alzheimer's related condition. The Company also completed a \$10.0 million equity financing.

During the quarter ended March 31, 2007, Allon commenced patient enrollment for its Phase II trial of AL-108 indicated for Alzheimer's and filed an IND which will allow the Company to proceed in a Phase II clinical trial to evaluate AL-108 as a treatment for schizophrenia-related cognitive impairment. Allon released results from the AL-108 Phase Ib clinical trial confirming that the administration of multiple doses of AL-108 were safe and well tolerated in healthy, elderly adults. On completion of the safety portion of the AL-208 Phase II MCI-post-CABG Allon commenced enrollment for the randomized portion of the study.

LIQUIDITY

At March 31, 2007 the Company had cash and short-term investments of \$7,827,345 compared to \$10,369,753 at December 31, 2006. Short-term investments are held in high-grade, liquid commercial paper and other low risk investments. At March 31, 2007 maturities on investments ranged from 30 days to 4 months.

On May 8, Allon announced that it entered into a bought deal agreement with a syndicate of underwriters. Under the agreement, the syndicate has agreed to purchase 12,500,000 units (the "Units") at a price of \$1.20 per Unit, resulting in gross proceeds of \$15 million. The transaction is subject to the receipt of all necessary regulatory and stock exchange approvals.

There were 2.5 million stock options exercisable at prices between \$.001 and \$1.72 per share and 6.2 million warrants outstanding and exercisable at a price of \$1.00. If all outstanding stock options and warrants were exercised, proceeds of \$1.6 million and \$6.2 million would be generated respectively.

CAPITAL RESOURCES

The Company had working capital of \$6.8 million at March 31, 2007, a decrease of \$2.6 million from December 31, 2006. The decrease was in large part due to significant up-front costs associated with the initiation of enrollment for the AL-108 Phase II clinical trial.

With the advancement of two of its drug programs into Phase II clinical trials, Allon has entered into contracts that will remain in effect over several reporting periods. These contracts are performance based with payment subject to the achievement of clinical trial milestones and may be cancelled with written notice.

The Company believes that its cash and short-term investments as at March 31, 2007 and expected interest income will be sufficient to fund operations and commitments into the middle of 2008.

OUTSTANDING SHARE CAPITAL

At March 31, 2007, the Company had 45,927,336 common shares outstanding. Each common share entitles the holder to one vote per share. At March 31, 2007, the Company had 3,758,497 options outstanding, of which 2,492,447 were exercisable into an equivalent number of the Company's common shares at exercise prices ranging from \$0.001 to \$1.72. See Note 4 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 have not changed from 2006 and are disclosed in the Management's Discussion and Analysis of Financial Condition and Operations section and the annual consolidated financial statements contained in the 2006 Annual Report.

RISKS AND UNCERTAINTIES

As previously described, cash on hand, together with expected interest income is expected to be sufficient to fund operations to mid 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 2006 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.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to Multilateral Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators' rules and forms.

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2007 and concluded that they provide reasonable assurance that material information relating to the Company was made known to them and reported as required.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of the company's financial reporting and the preparation of financial statements in compliance with Canadian generally accepted accounting principles.

No matter how well an internal control system is designed and operated, it can provide only reasonable, not absolute, assurance that it will prevent or detect all misstatements, due to error or fraud, from occurring in the financial statements due to the inherent limitations of any internal control system.

Our Chief Executive Officer and Chief Financial Officer are also responsible for the design of internal controls required in order to provide reasonable assurance that processes used for preparation of financial statements and financial reporting for external purposes are reliable and in accordance with Canadian GAAP. They have evaluated the design of our internal controls and procedures over financial reporting as of the end of the period covered by the annual filings, and believe the design to be sufficient to provide such reasonable assurance.

There were no changes in the company's internal controls over financial reporting that occurred during the three months ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

SUBSEQUENT EVENTS

On May 8, Allon announced that it entered into a bought deal agreement with a syndicate of underwriters. Under the agreement, the syndicate has agreed to purchase 12,500,000 units (the "Units") at a price of \$1.20 per Unit, resulting in gross proceeds of \$15 million.

Each Unit will consist of one common share of the Corporation (a "Common Share") and one half of one Common Share purchase warrant. Each whole warrant will entitle the holder thereof to purchase one Common Share at an exercise price of \$1.65 for a term of 24 months.

The underwriters will have the option, exercisable for a period of 30 days after the closing date, to acquire up to an additional 1,875,000 units or up to 937,500 common share purchase warrants (representing 15 per cent of the offering) issued by the corporation on the closing date at the issue price to cover over-allotments, if any.

The net proceeds of the offer will be used for general corporate purposes.

The transaction is subject to the receipt of all necessary regulatory and stock exchange approvals.

ALLON THERAPEUTICS INC.

Consolidated Balance Sheets

	March 31, 2007	December 31, 2006
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 6,429,058	\$ 10,369,753
Short-term investments	1,398,287	-
Accounts receivable	56,161	202,854
Prepaid expenses and deposits	334,165	251,531
	<u>8,217,671</u>	<u>10,824,138</u>
Long term receivable	21,693	21,180
Property, plant and equipment	54,428	57,535
Intangible assets	6,436,652	6,564,591
	<u>6,512,773</u>	<u>6,643,306</u>
	<u>\$ 14,730,444</u>	<u>\$ 17,467,444</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Unearned revenue	\$ 75,877	\$ -
Accounts payable and accrued liabilities	1,325,051	1,429,588
	<u>1,400,928</u>	<u>1,429,588</u>
Shareholders' equity:		
Share capital (note 4)	36,416,556	36,402,236
Additional paid-in capital	1,186,996	1,091,137
Deficit	(24,274,036)	(21,455,517)
	<u>13,329,516</u>	<u>16,037,856</u>
	<u>\$ 14,730,444</u>	<u>\$ 17,467,444</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)

Three months ended March 31, 2007 and 2006

	2007	2006
Expenses:		
Research and development	2,061,861	1,175,031
General and administrative	585,367	531,247
Amortization	136,430	157,085
	<u>2,783,658</u>	<u>1,863,363</u>
Other expense / (income):		
Net interest revenue	(109,351)	(78,080)
Foreign exchange loss / (gain)	48,353	(42,829)
Stock-based compensation expense (note 5)	95,859	51,922
	<u>34,861</u>	<u>(68,987)</u>
Loss before income taxes	(2,818,519)	(1,794,376)
Future income tax recovery (note 7)	-	149,537
Loss for the period	(2,818,519)	(1,644,839)
Deficit, beginning of period	(21,455,517)	(12,271,466)
Deficit, end of period	<u>\$(24,274,036)</u>	<u>\$(13,916,305)</u>
Loss per share:		
Basic	\$ (0.06)	\$ (0.05)

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

Consolidated Statements of Cash Flows
(Unaudited)

Three months ended March 31, 2007 and 2006

	2007	2006
Cash flows provided by (used in):		
Operations:		
Loss for the period	\$ (2,818,519)	\$ (1,644,839)
Items not involving cash:		
Amortization	136,430	157,085
Stock-based compensation	95,859	51,922
Future income tax recovery	-	(149,537)
Change in non-cash operating working capital	34,886	(620,081)
	(2,551,344)	(2,205,450)
Investments:		
Short-term investments	(1,398,287)	2,568,408
Purchase of property, plant and equipment	(5,384)	(5,922)
	(1,403,671)	2,562,468
Financing:		
Bank indebtedness	-	(25,466)
Proceeds from issuance of common shares	14,320	-
	14,320	(25,466)
Increase in cash for the period	(3,940,695)	331,570
Cash and cash equivalents, beginning of period	10,369,753	-
Cash and cash equivalents, end of period	\$ 6,429,058	\$ 331,570
Supplementary information:		
Cash received during the period for:		
Interest	\$ 77,412	\$ 155,378

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

Three months ended March 31, 2007 and 2006

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.

2. Significant accounting policies:

These interim financial statements are prepared following accounting policies and methods of their application consistent with the Company's audited annual financial statements and notes for the year ended December 31, 2006 except as described in note 2(b).

(a) Accounting changes:

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of The Canadian Institute of Chartered Accountants' Handbook ("CICA Handbook") section 1506, Accounting Changes ("Section 1506"). The new standard allows for voluntary changes in accounting policy only when changes result in the financial statements providing reliable and more relevant information. The standard requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes. The adoption of Section 1506 effective January 1, 2007 has had no material impact on these unaudited interim financial statements.

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(b) Financial instruments:

Effective January 1, 2007, the Company adopted the new recommendations of the CICA Handbook Section 1530, Comprehensive Income ("Section 1530"); Section 3855, Financial Instruments – Recognition and Measurement ("Section 3855"); Section 3861, Financial Instruments – Disclosure and Presentation ("Section 3861"); Section 3251, Equity ("Section 3251"); Section 3865, Hedges ("Section 3865"). These sections provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives. Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity, from transactions and other events and circumstances from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian GAAP.

Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook Sections had no impact on opening deficit.

- (i) Under Section 3855, financial instruments must be classified into one of five categories: held-for trading, held-to maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with change in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash, cash equivalents and short term investments as held-for-trading, which are measured at fair value. The affect of the change in accounting for cash equivalents and short term investments is not material. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities.

Section 3855 requires that the Company identify embedded derivatives that require separation from the related host contract and measure those embedded derivatives at fair value. Subsequent change in fair value of embedded derivatives is recognized in the consolidated statement of operations and deficit in the period the change occurs.

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The Company identified and measured all embedded derivatives that required separation and determined the fair value of those embedded derivatives at January 1, 2007 and March 31, 2007 are not material to the financial statements.

- (ii) Section 3865 establishes standards for the presentation of equity and changes in equity during the reporting period. This Section requires an enterprise to present a separate component of equity for each category of equity that is of a different nature, including the separation of net income, other comprehensive income, other changes in retained earnings, changes in contributed surplus, changes in share capital, and changes in reserves. For the quarter ended March 31, 2007, there were no additional items requiring separate disclosure.
- (iii) Non-monetary transactions. Effective January 1, 2007, the Company adopted the new recommendations of CICA Handbook Section 3831, Non-monetary Transactions prospectively. The purpose is to disclose information that enables users of the financial statements to understand the effects of a non-monetary transaction on the financial statements. This standard requires all non-monetary transactions be measured at their fair value unless: the transaction lacks commercial substance; the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange; neither the fair value of the asset received nor the fair value of the asset given up is reliably measurable; or the transaction is a non-monetary non-reciprocal transfer to owners. The adoption of this standard had no impact on the Company's financial statements.

3. Unearned revenue:

On January 24, the Company announced that it received a grant from The Michael J. Fox Foundation for Parkinson's Research (MJFF) to evaluate the effectiveness of AL-108 in pre-clinical models of Parkinson's disease. During Q1 2007, the Company received a portion of the grant, totaling \$111,878. Of this amount, \$36,001 was applied to offset research expenses incurred for the study of Parkinson's. The remaining balance of the initial portion, \$75,877, is recorded as unearned revenue to be applied to offset research expenses as incurred. Any amounts not used within one year of the grant date are to be repaid to MJFF. The Company expects to use the total amount of the grant.

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4. 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, 2006	45,911,711	\$ 36,402,236
Shares issued	15,625	15,625
Share issue costs	-	(1,305)
Balance March 31, 2007	45,927,336	\$36,416,556

In addition to the shares issued and outstanding, the Company holds 74,000 shares, valued at \$92,500, in trust. The Company intends to collapse the trust in 2007 and return the shares to treasury.

(c) Equity Financing:

On November 14 and 29, 2006, Allon closed an equity financing consisting of 12,525,000 common shares offered at a price of \$0.80 per share. Shares were issued for gross proceeds of \$10,020,000, less issue costs of \$642,995 for net proceeds of \$9,377,005.

(d) Warrants:

As part of its equity financing Allon issued 5,625,000 share purchase warrants on November 14, 2006 and 637,500 share purchase warrants on November 29, 2006 for a total of 6,262,500 share purchase warrants outstanding at December 31, 2006. Each warrant entitles the holder, on exercise, to purchase one share of the Company at a price of \$1.00 for a period of 24 months following the date of issue. As of March 31, 2007 the Company had 6,246,875 warrants outstanding.

On March 31, 2006, the remaining 1,510,000 warrants of an initial 4,000,000 warrants issued as part of an \$8,000,000 private placement in conjunction with the acquisition of Allon USA in September 2004, expired.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
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5. Stock-based compensation:

The Company recognized \$95,859 in compensation expense for the quarter ended March 31, 2007 (2006 - \$51,922) relating to awards granted to employees and non employees under its stock option plan.

(a) Stock options:

The Company Stock Option Plan, "the 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.

The Company Stock Option Plan is based on a rolling percentage of options issuable of up to 10% of the Company's outstanding shares. As of March 31, 2007, the Company had 45,927,336 shares issued and outstanding resulting in current authorization to issue a maximum of 4,592,734 options under the Plan.

The 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.

During Q1 2007, the Company granted 50,000 options. The options all had terms of ten years, with vesting periods conditional on the achievement of performance objectives. The options entitle holders to purchase shares of the Company at a price of \$1.00.

Stock option activity from December 31, 2006 to March 31, 2007 is as follows:

	Number of common shares under option	Weighted average exercise price
Outstanding, December 31, 2006	3,708,497	\$ 0.76
Granted	50,000	1.00
Exercised	-	-
Cancelled	-	-
Outstanding, March 31, 2007	3,758,497	\$ 0.76
Exercisable, March 31, 2007	2,492,447	\$ 0.63

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5. Stock-based compensation (continued):

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 issued after 2002 is estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	March 31, 2007	March 31, 2006
Dividend yield	0.0%	0.0%
Expected volatility	84%	94%
Risk-free interest rate	3.56%	3.49%
Expected life	1.8 years	2.2 years
Fair value per share	\$ 0.49	\$ 0.48

The estimated fair value of options granted to the Company's employees and directors is calculated at the grant date and amortized on a straight line basis over the vesting period of the options. The date of measure used to calculate the estimated fair value of options issued to non-employees is the balance sheet date.

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

Range of exercise prices	Options outstanding			Options exercisable	
	March 31, 2007			March 31, 2007	
	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	6.95	\$ 0.12	1,468,497	\$ 0.12
\$1.00-1.72	2,290,000	8.14	1.18	1,023,950	1.38
	3,758,497	7.93	\$ 0.76	2,492,447	\$ 0.63

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6. Loss per share:

The following table sets forth the computation of loss per common share:

	Three months ended March 31, 2007	Three months ended March 31, 2006
Loss for the period	\$ (2,818,519)	\$ (1,644,839)
Weighted average number of common shares outstanding	45,912,405	33,386,711
Loss per common share	(0.06)	(0.05)

7. 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.

8. Related party transactions:

On October 31, 2006, Allon loaned \$143,155 to a Senior Officer of the Company. The loan was subject to an annual interest rate of 5.25%, consistent with market rates at the time the loan was granted. The loan was repaid, with interest, on February 2, 2007.

During the three months ended March 31 2007, Allon paid one of its Board members \$12,500 to provide consulting services to assist the Company with general research and the advancement of its drug development programs.

Allon receives annual installments of \$25,000 related to the 2004 sale of two investment management subsidiaries to a privately held company, owned by the Chairman and a Company director. At March 31, 2007, the amount receivable was \$50,000, discounted to a present value of \$45,564 of which \$23,871 is a short term receivable, due in September 2007 and included in accounts receivable. The balance, \$21,693, is a long term receivable with payment due in September 2008.

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9. Subsequent events:

On May 8, Allon announced that it entered into a bought deal agreement with a syndicate of underwriters. Under the agreement, the syndicate has agreed to purchase 12,500,000 units (the "Units") at a price of \$1.20 per Unit, resulting in gross proceeds of \$15 million.

Each Unit will consist of one common share of the Corporation (a "Common Share") and one half of one Common Share purchase warrant. Each whole warrant will entitle the holder thereof to purchase one Common Share at an exercise price of \$1.65 for a term of 24 months.

The underwriters will have the option, exercisable for a period of 30 days after the closing date, to acquire up to an additional 1,875,000 units or up to 937,500 common share purchase warrants (representing 15 per cent of the offering) issued by the corporation on the closing date at the issue price to cover over-allotments, if any.

The net proceeds of the offer will be used for general corporate purposes.

The transaction is subject to the receipt of all necessary regulatory and stock exchange approvals.



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