

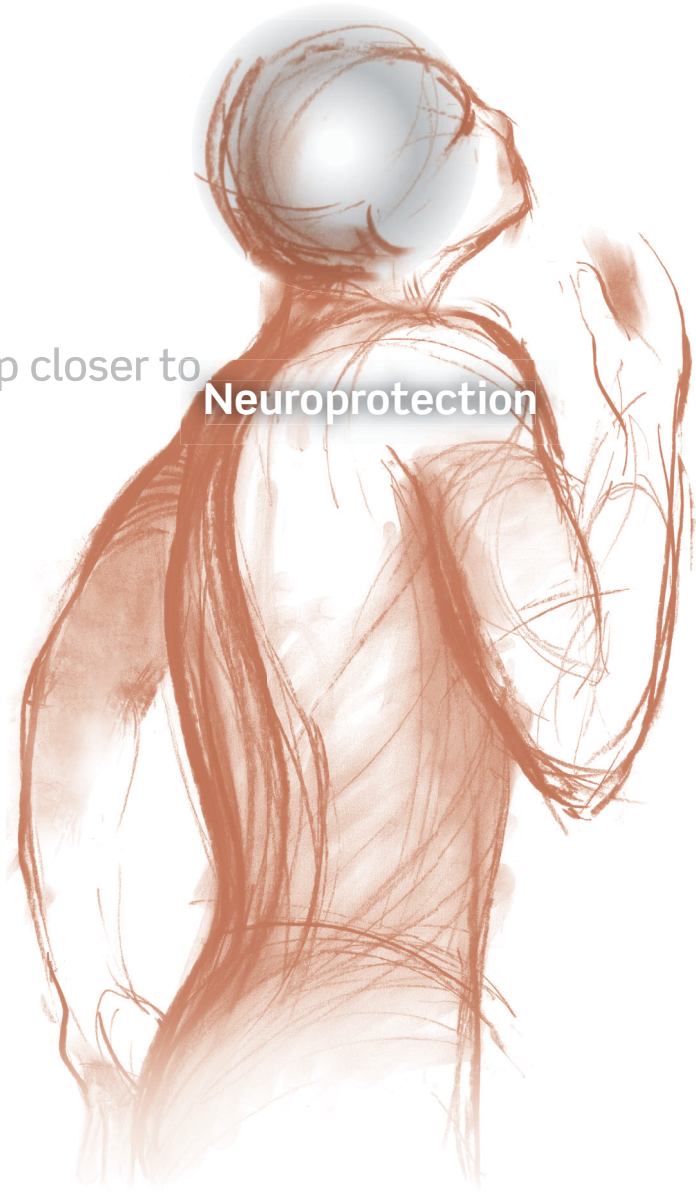
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Allon
Therapeutics Inc.

First Quarter Report
March 31, 2006



One step closer to **Neuroprotection**



Letter to the Shareholders

Your company has continued to achieve its milestones during the first quarter as it pursues its goal to develop drugs that halt or prevent serious degenerative diseases and injury to the central nervous system.

Progress on drug development programs included:

- Publication of results from a Phase Ia human clinical trial showing AL-208 to be safe and well tolerated in the target population;
- Commencement of dosing in a Phase Ib human clinical trial seeking to demonstrate multiple-dose safety with AL-208;
- Completion of planning for a Phase II human clinical trial seeking to show AL-208 efficacy in mild cognitive impairment (MCI) associated with coronary artery bypass graft surgery (CABG); and
- Completion of additional pre-clinical work to better define the pharmacokinetics and pharmacodynamics of AL-108, as well as to broaden its safety profile. The next step for this drug is a Phase Ib human clinical trial to show multiple-ascending dose safety in patients most at risk for Alzheimer's disease.
- Also during the first quarter, the Company appointed Dr. Martin Barkin, one of Canada's most respected biotechnology and life science executives, to the Board of Directors.

Unique Portfolio of Drug Compounds

Allon is developing drugs that protect against neurodegenerative conditions. Allon's compounds treat the causes of neurodegenerative conditions, while therapies currently available to patients address only the symptoms.

Allon's compounds are also unique because they have shown efficacy in 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 multiple 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 (intranasal administration) and AL-208 (intravenous administration), 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. AL-108 was given to five groups of six healthy adults in a double-blind, placebo-controlled, randomized and ascending dose study to evaluate safety and pharmacokinetics. The dosing was well tolerated by all subjects and no meaningful side effects were observed.

We have since completed additional pre-clinical work to better understand how the drug moves through the body and crosses the blood brain barrier. Having completed this work, the next step for this drug is

to commence a Phase Ib, multiple ascending dose trial. We expect to start this clinical trial during the third quarter.

We believe this progress will be considered encouraging by the 16 million Alzheimer's patients in the seven major pharmaceutical markets who currently have no effective treatment and must rely on drugs that marginally treat only symptoms.

AL-208

During the first quarter, Allon published results from a Phase I clinical trial evaluating AL-208 as a treatment for MCI associated with CABG. AL-208 was administered to six dose groups totalling 48 healthy adults and two additional dose groups totalling 16 healthy elderly adults in a single-dose, double-blind, placebo controlled, randomized, sequential and ascending study to evaluate primarily the safety and pharmacokinetics. The drug was found to be safe and well tolerated in this population.

The success of this trial will allow us to proceed into a Phase II clinical trial to assess the efficacy of this product in MCI post-CABG. We expect the trial will commence by the middle of the year, consistent with our previous guidance.

Also in the first quarter, we announced the commencement of a Phase Ib multiple ascending dose clinical trial with this drug. We do not need to complete this trial to commence the Phase II trial, but opted to complete it to preserve the considerable opportunity to use this drug in diseases or injuries where multiple doses are required. We expect to complete this trial during the second quarter and publish results in the third quarter.

Approximately 500,000 patients in the United States and 800,000 patients worldwide undergo bypass surgery every year. The potential post-bypass MCI market is estimated to be over \$500 million annually. Currently, there is no therapy available that ameliorates or treats the cognitive damage associated with bypass surgery.

Board Appointment

During the first quarter, we announced the appointment of Dr. Martin Barkin to our Board of Directors. Dr. Barkin, CEO of DRAXIS Health Inc., is among North America's most respected life science executives. In addition to the considerable achievements at DRAXIS, a leading biotechnology company traded on both the TSX and NASDAQ, Dr. Barkin has also served as CEO of Canada's largest trauma hospital, Deputy Minister of Health in Ontario, and in several advisory or fiduciary roles in the life science sector.

Presentations

During the quarter company executives attended five investor and scientific conferences. These conferences provided Allon the opportunity to present updates on our clinical and corporate milestones as well as our research and clinical development programs. These conferences included: 27th Annual Winter Neuropeptide Meeting In Breckenridge, CO (January); BioPartnering North America in Vancouver, BC (February); Drug Discovery, Development & Delivery for Chronic Neurodegenerative Disease in New York, NY (February); Strategic Research Institute's "CNS Diseases Congress: Alzheimer's Disease Track" conference in Cambridge, MA (March); and Management Forum on Nasal Delivery in London, UK (March).

Subsequent Events

In May, Allon presented data at an IBC's TIDES 2006 conference in Carlsbad, California. The pre-clinical study confirmed that Allon's drug candidates penetrate the blood brain barrier, have a well-understood bioavailability and reach their target therapeutic areas in the central nervous system. It also showed that the intranasal administration of AL-108 and the intravenous administration of AL-208 appeared rapidly in the plasma, cerebrospinal fluid and the brain.

Additional investor and scientific conferences company executives attended include BIO 2006 in Chicago from April 9 to 12, and BioFinance in Toronto from May 2 to 4.

Your management team continues to meet our milestones and advance the clinical promise of Allon's technology. We are doing this while using our financial and human resources in a prudent and focussed fashion. We remain on track to achieve the remainder of our published milestones for this year. We believe this is good news for the millions of people around the world suffering from neurodegenerative conditions and for our shareholders alike.

Respectfully,

A handwritten signature in black ink, appearing to read "G. McCauley", written in a cursive style.

Gordon C. McCauley
President & CEO

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months ended March 31, 2006

The following information should be read in conjunction with the unaudited consolidated financial statements and related notes for the Company for the first quarter (Q1 2006) operations ended March 31, 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.

May 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 Company™) and based in Vancouver.

During Q1, 2006, the Company achieved several milestones towards its goal of developing drugs to halt or prevent the progression of serious degenerative diseases. Allon announced the results from the Phase I study for AL-208, intended as a treatment for MCI post-CABG. The results of the study, for which dosing was completed in the fourth quarter of 2005 (Q4 2005), demonstrated AL-208 to be safe and well tolerated by all study participants, including healthy adults and healthy elderly adults. The Company believes the data from the Phase I study provides the necessary safety coverage required to proceed with a Phase IIa clinical trial for MCI post-CABG which Allon plans to conduct during 2006.

During the quarter, Allon also commenced a Phase Ib clinical trial for AL-208. The multiple, ascending dose clinical trial was designed to evaluate the safety, tolerability and pharmacokinetics of AL-208 as a treatment for neurodegenerative diseases where multiple doses are required. The study is comprised of healthy elderly and diabetic participants. Allon expects to complete dosing in the Phase Ib trial during the second quarter of 2006 (Q2 2006) and release data in the third quarter of 2006 (Q3 2006).

During Q1 2006, Allon completed additional pre-clinical work to support the clinical development for its AL-108 product, being developed as a treatment for Alzheimer's disease. The next step for AL-108 is to initiate a Phase Ib trial in the second half of 2006, in the population most at risk for developing AD.

RESULTS OF OPERATIONS

For the three months ended March 31, 2006 the Company reported a net loss of \$1,644,839 (\$0.05 per share) compared to a loss of \$1,203,815 (\$0.04 per share) for the same period in 2005 (Q1 2005). The

loss before the effect of income tax recovery was \$1,794,376 compared to a loss of \$1,677,899 in 2005. The increased pre-tax loss of \$116,477 over the comparable three months ended Q1 2005 related to lower than expected drug development costs offset by increased administrative costs required to support Allon's drug development programs.

EXPENSES

RESEARCH AND DEVELOPMENT

For the three month period ended March 31, 2006, research and development expenses were \$1,175,031 compared to \$1,315,715 in Q1 2005. The decrease over Q1 2005 relates to the timing of clinical trial expenses.

During Q1 2006, Allon commenced a Phase Ib clinical trial and continued preparations for a Phase II trial for AL-208 and completed additional pre-clinical testing for AL-108. On March 27, 2006, Allon began dosing patients in a Phase Ib multiple ascending dose clinical trial designed to evaluate the safety, tolerability and pharmacokinetics of AL-208 as a treatment for neurodegenerative diseases where multiple doses are required. During the quarter, Allon entered into an agreement with a contract research organization (CRO) and continued the preparatory work for a Phase IIa clinical trial of AL-208, indicated for MCI post-CABG. Pre-clinical testing of AL-108 added to the Company's understanding of how the drug moves through the body and crosses the blood brain barrier. The next step for this drug is to commence a Phase Ib multiple ascending dose trial in the second half of 2006.

Research and development expenses for Q1 2005 included costs associated with the commencement and completion of the Phase Ia clinical trial for AL-108, completion of pre-clinical work in preparation for an Investigational New Drug Application (IND) for AL-208 that was filed in Q2 2005, and further scientific research on the Company's compounds. During the first quarter of last year, the Company also purchased sufficient drug product to support the pre-clinical and clinical development of AL-108 and AL-208 for 2005.

GENERAL AND ADMINISTRATIVE

For the three month period ended March 31, 2006, general and administrative expenses were \$531,247 compared to \$320,895 in Q1 2005. The \$210,352 increase over Q1 2005 relates to increased staff and infrastructure required to support Allon's drug development programs and compensation expenses incurred in the quarter but related to the achievement of 2005 milestones. General and administrative costs are expected to decrease in Q2 2006.

AMORTIZATION

Amortization expenses for the three months ended March 31, 2006 increased to \$157,085 compared to \$135,409 in Q1 2005. The \$21,676 increase from prior year primarily resulted from a 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.

OTHER INCOME/(EXPENSES)

For the three months ended March 31, 2006, the Company earned other income of \$68,987 compared to \$94,120 in Q1 2005. During Q1 2006, net interest earned from short term investments and cash balances was \$78,080 compared to \$60,541 for the same period in 2005. Higher interest revenues are attributed to higher rates of return on investments. For the three months ended March 31, 2006, Allon recorded a foreign exchange gain of \$42,829 that resulted from gains on US dollar investments, offset by losses on translation of US balances. During the same period in 2005, the Company recorded a gain of \$62,125 that resulted primarily from the translation of financial statements to Canadian dollars. Stock based compensation expense increased to \$51,922 in Q1 2006 from \$26,435 in Q1 2005. The increased expense is the result of options issued to new and existing employees and directors in accordance with Allon's compensation policy. During Q1 2005, the Company incurred a \$2,111 expense for the write down of marketable securities. No further write downs are expected as the Company disposed of all marketable securities during 2005 and currently holds all short term investments in high-grade, liquid commercial paper and other low risk 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)

	March 31, 2006	Dec. 31, 2005	Sept 30, 2005	June 30, 2005
Interest income	\$78	\$75	\$58	\$26
Loss before unrealized gains (losses) on investments	\$(1,645)	\$(1,592)	\$(1,492)	\$(1,259)
Write-down and unrealized gains (losses) on investments	nil	nil	nil	\$2
Loss for the quarter	\$(1,645)	\$(1,592)	\$(1,492)	\$(1,261)
Loss per share	\$(0.05)	\$(0.05)	\$(0.05)	\$(0.05)
	March 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004
Interest income and management fees	\$64	\$12	\$112	\$117
Loss before unrealized gains (losses) on investments	\$(1,202)	\$(1,110)	\$75	\$(156)
Write-down and unrealized gains (losses) on investments	\$2	\$37	\$(431)	\$(13)
Loss for the quarter	\$(1,204)	\$(1,073)	\$(356)	\$(169)
Loss per share	\$(0.04)	\$(0.05)	\$(0.04)	\$(0.02)

For the quarter ended June 30, 2004, the Company had earnings from investments and management fees of \$117K. Operating expenses, comprised of general and administrative and amortization expenses, totaled \$283K. With the addition of stock based compensation expense and write down of marketable securities, partly offset by a gain on investments, the total loss per quarter was \$169K or \$0.02 per share.

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 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.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2006, the Company had cash and short-term investments of \$7,308,466 compared to \$9,519,838 at December 31, 2005. Short-term investments are held in high-grade, liquid commercial paper and other low risk investments. At March 31, 2006 maturities on investments ranged from 30 days to 5 months to match the Company's future cash requirements.

The Company had working capital of \$7.0 million at March 31, 2006. 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 March 31, 2006 and expected interest income will be sufficient to fund operations and commitments into the second half of 2007.

OUTSTANDING SHARE CAPITAL

At March 31, 2006, the Company had 33,386,711 common shares outstanding. Each common share entitles the holder to one vote per share. At March 31, 2006, the Company had 3,033,497 options outstanding, of which 2,241,547 were exercisable into an equivalent number of the Company's common shares at exercise prices ranging from \$0.001 to \$1.72. See Note 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 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. In the first quarter of 2005, the Company adopted the recommendation of the Canadian Institute of Chartered Accountants (CICA) Handbook Accounting Guideline ACG-15, consolidation of Variable Interest Entities. This adoption of a new accounting standard has not had any impact on operating results.

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

	March 31, 2006	December 31, 2005
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 331,570	\$ -
Short-term investments	6,976,896	9,545,304
Accounts receivable	63,423	112,549
Prepaid expenses and deposits	215,030	84,304
	<u>7,586,919</u>	<u>9,742,157</u>
Long term receivable	41,403	40,424
Property, plant and equipment	56,896	81,186
Intangible assets	6,949,475	7,076,648
	<u>7,047,774</u>	<u>7,197,958</u>
	<u>\$ 14,634,693</u>	<u>\$ 16,940,115</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank Indebtedness	\$ -	\$ 25,466
Accounts payable and accrued liabilities	580,370	1,117,872
	<u>580,370</u>	<u>1,143,338</u>
Future income tax liability	-	149,537
Shareholders' equity:		
Share capital (note 3)	27,025,231	27,025,231
Additional paid-in capital	945,397	893,475
Deficit	(13,916,305)	(12,271,466)
	<u>14,054,323</u>	<u>15,647,240</u>
	<u>\$ 14,634,693</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)

Three months ended March 31, 2006 and 2005

	2006	2005
Expenses:		
Research and development	1,175,031	1,315,715
General and administrative	531,247	320,895
Amortization	157,085	135,409
	1,863,363	1,772,019
Other (income)/expense:		
Net interest revenue	(78,080)	(60,541)
Foreign exchange gain	(42,829)	(62,125)
Stock-based compensation expense	51,922	26,435
Write down marketable securities	-	2,111
	(68,987)	(94,120)
Loss before income taxes	(1,794,376)	(1,677,899)
Future income tax recovery (note 5)	149,537	474,084
Loss for the period	(1,644,839)	(1,203,815)
Deficit, beginning of period	(12,271,466)	(6,722,099)
Deficit, end of period	\$(13,916,305)	\$ (7,925,914)
Loss per share:		
Basic	\$ (0.05)	\$ (0.04)
Weighted average number of common shares outstanding	33,386,711	27,231,711

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

Consolidated Statements of Cash Flows
(Unaudited)

Three months ended March 31, 2006 and 2005

	2006	2005
Cash flows provided by (used in):		
Operations:		
Loss for the period	\$ (1,644,839)	\$ (1,203,815)
Items not involving cash:		
Amortization	157,085	135,409
Stock-based compensation	51,922	26,435
Write down marketable securities	-	2,111
Future income tax recovery	(149,537)	(474,084)
Change in non-cash operating working capital	(620,081)	174,908
	<u>(2,205,450)</u>	<u>(1,339,036)</u>
Investments:		
Short-term investments	2,568,408	640,765
Purchase of property, plant and equipment	(5,922)	(2,693)
	<u>2,562,486</u>	<u>638,072</u>
Financing:		
Bank indebtedness	(25,466)	-
Convertible promissory note payable	-	3,836
Proceeds from issuance of common shares	-	6,633
	<u>(25,466)</u>	<u>10,469</u>
Increase in cash for the period	331,570	(690,495)
Cash and cash equivalents, beginning of period	-	963,403
Cash and cash equivalents, end of period	<u>\$ 331,570</u>	<u>\$ 272,908</u>
Supplementary information:		
Cash received during the period for:		
Interest	\$ 155,378	\$ 14,598

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

Three months ended March 31, 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 continuation of the Company's research and development activities and the commercialization of its products in development are dependent upon the Company's ability to successfully complete its research and development programs and finance its cash requirements primarily through equity financing. The Company's current level of cash and short-term investments exceeds the amount required to execute the Company's current planned expenditures for the next 12 months.

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 March 31, 2006 and for all periods presented) have been made. Interim results are not necessarily indicative of results for a full year.

2. Significant accounting policies:

These interim financial statements are prepared by applying the same accounting policies and methods of their application as the annual financial statements of the Company, except the following:

Change in accounting estimate.

Effective January 1, 2006, the Company changed its estimate of the salvage values associated with the depreciable tangible assets. Management determined that there would be no residual life for furniture and equipment and computer hardware and software. Accordingly, the Company changed the method used to account for depreciation of property, plant and equipment from declining balance to straight line. The change in estimate does not result in a material difference or change in the earnings per share reported in prior years. The effect of the change in accounting estimate has been applied prospectively.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

Three months ended March 31, 2006 and 2005

3. 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 March 31, 2006	33,386,711	\$27,025,231

(c) Stock options:

The Company has reserved 4,000,000 common shares for issuance under its Stock Option Plan ("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.

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

	Number of common shares under option	Weighted average exercise price
Outstanding, December 31, 2005	2,533,497	\$ 0.67
Granted	500,000	1.05
Exercised	-	-
Cancelled	-	-
Outstanding, March 31, 2006	3,033,497	\$ 0.73
Exercisable, March 31, 2006	2,211,547	\$ 0.62

(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.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

Three months ended March 31, 2006 and 2005

4. Stock-based compensation:

The Company recognized \$51,922 in compensation expense for the quarter ended March 31, 2006 (2005 - \$26,435) 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 101%, risk free interest rate 3.34% and expected remaining life of 2.51 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 March 31, 2006: dividend yield 0%, expected volatility 75%, risk free interest rate 3.98% and expected remaining life of 4.20 years. 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 March 31, 2006			Options exercisable March 31, 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	7.95	\$ 0.12	1,427,697	\$ 0.11
\$1.00-1.05	895,000	9.43	1.03	138,850	1.00
\$1.50-1.72	670,000	4.85	1.67	645,000	1.67
	3,033,497	7.70	\$ 0.73	2,211,547	\$ 0.62

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

Three months ended March 31, 2006 and 2005

4. Stock-based compensation (continued):

	Three months ended March 31, 2006	Three months ended March 31, 2005
Loss for the period – as reported	\$(1,644,839)	\$ (1,203,815)
Loss for the period – pro forma	(1,650,057)	(1,231,299)
Loss per common share – as reported	(0.05)	(0.04)
Loss per common share – pro forma	(0.05)	(0.05)

5. 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 recognizes 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.

6. 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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