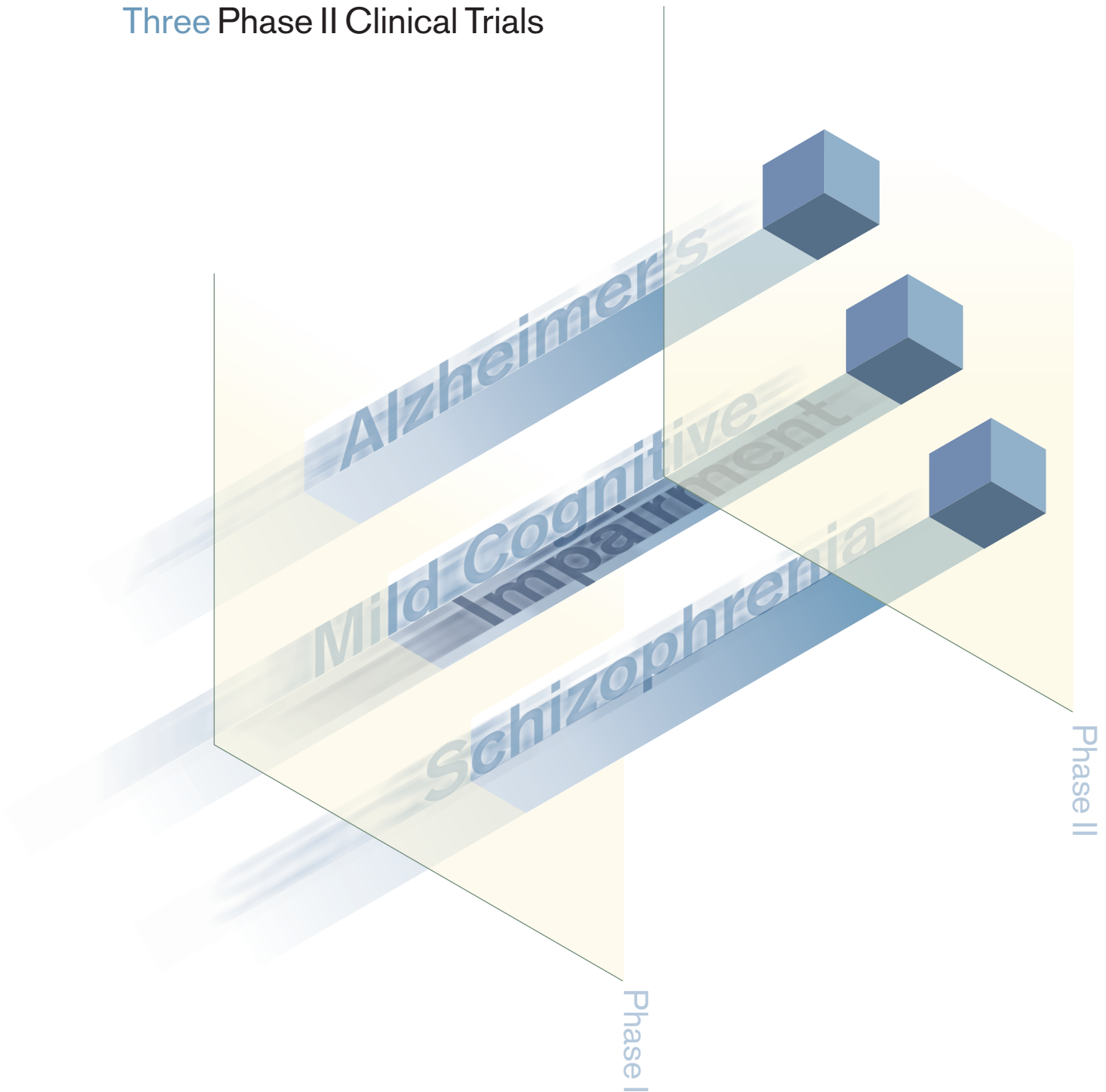


Three Phase II Clinical Trials



Letter to Shareholders

Dear Shareholders,

During the second quarter of 2007 your company continued to advance its three Phase II clinical trials while strengthening our cash position in order to continue to fully exploit the broad opportunity our technology provides. With the progression of enrollment in our ongoing Phase II programs in Alzheimer's and mild cognitive impairment post coronary artery bypass graft (MCI-CABG) surgery and with enrollment expected to commence shortly in our third Phase II program in schizophrenia-related cognitive impairment, we remain on track to deliver three sets of human efficacy data over the next 12 months.

In the clinic, we remain on track in the Phase II human efficacy trial in our Alzheimer's disease program. We continue to expect enrollment in this trial to be completed by the end of 2007 and to release data in the first half of 2008. This represents an extremely significant milestone for Allon in our effort to develop a drug with disease modifying potential in Alzheimer's.

Further, we expect to begin dosing shortly in our second Phase II efficacy trial for AL-108, which is a collaboration with the National Institute of Mental Health (NIHM) funded project TURNS (Treatment Units for Research on Neurocognition and Schizophrenia). This trial is evaluating AL-108 as a treatment for schizophrenia-related cognitive impairment and we expect to commence enrollment during the third quarter of 2007. Subsequent to the quarter end, we announced the addition of an imaging-biomarker component to this study in collaboration with TURNS and with support from the National Association for Research in Schizophrenia and Affective Disorders (NARSAD).

The Company's third Phase II efficacy trial, evaluating AL-208 as a treatment for MCI-CABG continues to enroll patients and is expected to be completed in late 2007. The Company anticipates further updates on its clinical development progress through the remainder of the year.

During the quarter we also announced a bought deal financing that generated gross proceeds of \$15.7 million to the Company. This cash will allow us to continue to aggressively pursue our clinical milestones while advancing our pipeline products and exploring other opportunities that will further advance the business and create value for our shareholders.

The Company was also granted a US patent covering additional composition of matter for the products in the ADNP platform, which continues to broaden and strengthen the intellectual property of Allon's patent portfolio. These claims provide further independent validation of the unique and important nature of these highly novel neuroprotective peptides.

In June, our VP of Drug Development, Bruce Morimoto was invited to give a plenary presentation about Allon's clinical progress and strategy for AL-108 at the 3rd Annual CNS Diseases Congress, in Boston Massachusetts. Dr. Morimoto's presentation addressed and illustrated the neuroprotective effect of Allon's drug, AL-108 and explained the development strategy behind the two Phase II clinical trials, one for Alzheimer's disease and one for schizophrenia-related cognitive impairment.

The remainder of the year is an important period for your company as we progress towards three sets of human efficacy results in our Phase II clinical programs and continue to exploit the broad opportunity this unique class of drugs presents.

Respectfully,

"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, their accompanying notes and management's discussion and analysis for the year ended December 31, 2006 included in our Annual report (2006 Annual Report) as well as related notes for the Company for the second quarter (Q2 2007) and year-to-date (YTD) operations ended June 30, 2007. The financial statements listed have been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts are expressed in Canadian dollars unless otherwise specified. Additional information relating to Allon Therapeutics Inc. ("Allon" or the "Company") can be obtained from SEDAR at www.sedar.com.

August 10, 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 CompanyTM) 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 pre-clinical candidate AL-408. Two additional pre-clinical 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 Amnestic MCI/Alzheimer's	Enrollment initiated Q1 07
	AL-108	Phase II Clinical Trial Schizophrenia-related cognitive impairment	IND active, enrollment expected to commence Q3 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 initiated Q1 07
	AL-408	Pre-clinical Stage	Pre-clinical pharmacology studies ongoing
ADNF	AL-309	Pre-clinical Stage	Pre-clinical studies commenced Q2 07, confirmed oral bioavailability
	AL-209	Pre-clinical Stage	Pre-clinical pharmacology studies ongoing

SECOND QUARTER 2007 ACHIEVEMENTS

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

- Completed a \$15.7 million bought deal equity financing assuring the Company has the resources to fund its operations into 2009;
- Proceeding with patient enrollment for the Phase II human efficacy trial in Alzheimer's;
- Proceeding with the randomized portion of patient enrollment for the Phase II human efficacy trial in MCI-CABG;
- Continued preparations for the initiation of enrollment in the Phase II schizophrenia related cognitive impairment trial;
- Commenced pre-clinical studies for and confirmed the oral bioavailability of AL-309;
- Granted a US patent covering additional composition of matter for the products in Allon's ADNP platform, broadening the intellectual property of the Company's patent portfolio; and
- Presented Allon's clinical progress and strategy for AL-108 at the Leerink Swann Alzheimer's Conference in New York and the 3rd Annual CNS Diseases Congress in Boston.

RESULTS OF OPERATIONS

Allon reported a net loss of \$2,551,517 (\$0.05 per share) for the three months ended June 30, 2007 (Q2 2007) compared to a net loss of \$1,984,335 (\$0.06 per share) for the three months ended June 30, 2006 (Q2 2006). For the six months ended June 30, 2007 (YTD 2007), Allon reported a net loss of \$5,370,036 (\$0.11 per share) compared to a net loss of \$3,629,174 (\$0.11 per share) for the six months ended June 30, 2006 (YTD 2006).

The increased quarter over quarter loss of \$567,182 and year-to-date increased loss of \$1,740,862 relate to the progression of Allon's AL-108 and AL-208 compounds from Phase I to Phase II clinical trials.

During the three months and year-to-date ended June 30, 2007, Allon continued to advance its two Phase II clinical studies with AL-108 and AL-208 and commenced pre-clinical studies of AL-309.

During the three months ended June 30, 2006, Allon completed dosing for a Phase Ib clinical trial of AL-208 and commenced enrollment for its Phase II clinical trial of AL-208. YTD 2006 expenses included the advancement of AL-208 from Phase Ib to Phase II clinical trial, pre-clinical work relating to both AL-108 and AL-208 and preparatory costs for a Phase Ib clinical trial in AL-108 that was conducted during the second half of 2006.

EXPENSES

RESEARCH AND DEVELOPMENT

For the three month period ended June 30, 2007, research and development expenses were \$1,539,929 compared to \$1,215,810 in Q2 2006. The \$324,119 increase over Q2 2006 relates to the Company's advancement of its clinical and drug development programs in two ongoing Phase II clinical trials.

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 third quarter of 2007. The development of AL-108 accounted for \$853,000 of the Company's research and development expenses during Q2 2007 and \$2.0 million year-to-date, highlighted by the progress outlined below.

Alzheimer's disease

During the second quarter, Allon made significant progress on its Phase II trial of AL-108 in patients with amnesic MCI as part of its Alzheimer's development program. The Company continued enrollment and added two sites to the initial 15 sites selected for this trial. Allon expects to significantly advance this trial during the second half of 2007 in order to have results in the first half of 2008.

Year-to-date, 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.

Schizophrenia-related cognitive impairment

During Q2 2007 Allon continued preparations for initiation of enrollment in its Phase II clinical study to evaluate AL-108 as a treatment for schizophrenia – related cognitive impairment. Allon's IND application to commence a Phase II clinical trial was made active by the FDA in the prior quarter. The clinical trial is expected to begin in the third quarter of 2007 and will be conducted by the National Institute of Mental Health – funded project Treatment Units for Research on Neurocognition and Schizophrenia (TURNS). The clinical trial will involve daily administration of AL-108 to 60 schizophrenia patients at 8 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 currently in a Phase II clinical trial for MCI-CABG. Expenditures on the AL-208 program accounted for \$282,000 of Allon's current quarter and \$874,000 of year-to-date research and development expenses based on the progress outlined below.

During the quarter, Allon continued enrolling patients in the randomized portion of the Phase II clinical trial.

Year-to-date, Allon successfully completed the open label safety portion and commenced enrollment in the randomized portion of this clinical trial. 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 is being conducted in 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.

Pre-clinical stage compounds:

AL-309

AL-309 is a D-amino acid derivative of AL-209 from the ADNF platform that has shown robust oral bioavailability, a property that may provide alternative opportunities for chronic daily dosing. AL-309 has demonstrated efficacy in animal models related to Alzheimer's disease and fetal alcohol syndrome. During Q2 2007, Allon released pre-clinical study data confirming that AL-309 enters the brain and that effective concentrations can be detected for extended periods of time. AL-309 is in pre-clinical 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 pre-clinical 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 bioavailable, which makes it a suitable drug candidate for chronic neurodegenerative disease indications.

GENERAL AND ADMINISTRATIVE

For the three month period ended June 30, 2007, general and administrative expenses were \$554,797 compared to \$453,584 in Q2 2006. Year-to-date general and administrative expenses were \$1,140,164 compared to \$984,831 for the same period last year. The \$101,213 increase over Q2 2006 and \$155,333 year-to-date increase over YTD 2006 primarily result from additional resources required to increase corporate development and investor relations activities and costs associated with additional reporting jurisdictions in Canada.

AMORTIZATION

Amortization expense for the three month period ended June 30, 2007 was \$136,569 compared to \$134,070 in Q2 2006. Year-to-date amortization was \$272,999 compared to \$291,155. The \$2,499 increase from Q2 2006 results from an increase in business equipment. The year over year decrease of \$18,156 primarily resulted from a prior year, one-time adjustment of \$23,092 to amortization expense during Q1 2006. 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 EXPENSE/(INCOME)

For the three month period ended June 30, 2006, the Company incurred other expenses of \$320,222 compared to \$180,871 in Q2 2006. Year-to-date, the Company incurred other expenses of \$355,083 compared to \$111,884 for the same period last year. The \$139,351 and \$243,199 increased quarter over quarter and year-to-date expenses are primarily due to increased foreign exchange loss on translation of US balances to Canadian dollars and increased stock based compensation, partly offset by increased interest earned on cash reserves.

The Company earned interest and other income of \$136,735 and \$246,068 during the three and six month periods ended June 30, 2007 compared to \$59,020 and \$137,100 for the same periods last year. Higher interest revenues are attributed to increased cash and short-term investment balances resulting from the \$15.7 million equity financing Allon completed during Q2 2007.

Foreign exchange translation losses were \$392,705 and \$441,059 for the respective three and six month periods ended June 30, 2007 compared to \$190,601 and \$147,772 for the same periods last year. The increased losses primarily resulted from translation of US dollar balances to Canadian dollars. Stock based compensation expenses were \$59,338 and \$155,246 during the respective three and six month periods ended June 30, 2007 compared to \$47,729 and \$99,651 for the same periods last year. 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. During the quarter, the Company incurred a \$4,864 unrealized loss when it fair valued short-term investments, representing an increase of \$3,303 from the Q2 2006 realized loss of \$1,561 on the early redemption of short-term investments.

QUARTERLY INFORMATION

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

(in thousands, except per share data)

	Jun 30, 2007	Mar 31, 2007	Dec 31, 2006	Sept 30, 2006
Interest income	\$ 131	\$ 109	\$ 65	\$ 66
Research and development expenses	\$ 1,540	\$ 2,062	\$ 2,859	\$ 1,472
Loss for the quarter	\$ (2,552)	\$ (2,819)	\$ (3,579)	\$ (1,976)
Loss per share	\$ (0.05)	\$ (0.06)	\$ (0.09)	\$ (0.06)
	Jun 30, 2006	Mar 31, 2006	Dec 31, 2005	Sept 30, 2005
Interest income	\$ 59	\$ 78	\$ 75	\$ 56
Research and development expenses	\$ 1,216	\$ 1,175	\$ 1,841	\$ 989
Loss before tax recovery	\$ (1,984)	\$ (1,794)	\$ (2,271)	\$ (1,633)
Future income tax recovery	-	\$ 149	\$ 679	\$ 141
Loss for the quarter	\$ (1,984)	\$ (1,645)	\$ (1,592)	\$ (1,492)
Loss per share	\$ (0.06)	\$ (0.05)	\$ (0.05)	\$ (0.05)

(in thousands, except per share data)

During the quarter 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.

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.

During the quarter ended June 30, 2007 Allon continued to advance its AL-108 and AL-208 Phase II human efficacy trials and continued preparations for its Phase II clinical trial of AL-108 for schizophrenia-related cognitive impairment. This trial is expected to commence in the United States during Q3 2007. Allon confirmed the oral bioavailability of its AL-309 drug compound which has shown potential as a treatment for chronic central nervous system diseases and injuries. The Company also completed a \$15.7 million bought deal equity financing.

LIQUIDITY

At June 30, 2007 the Company had cash and short-term investments of \$19,243,816 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 which are recorded at fair value. At June 30, 2007 maturities on investments ranged from 30 days to 8 months.

During the quarter ended June 30, 2007 Allon completed a bought deal financing, issuing 13,059,933 units (the "Units"), comprised of one share and one half share purchase warrant at a price of \$1.20 per Unit. An additional 103,699.5 warrants were also purchased as part of the transaction resulting in gross proceeds of \$15.7 million. 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. Allon expects cash on hand and interest revenue to fund operations into 2009.

The Company has 2.5 million stock options exercisable at prices ranging from \$.001 to \$1.72 per share and 12.9 million warrants outstanding and exercisable at prices ranging from \$1.00 to \$1.65. If all outstanding stock options and warrants were exercised, proceeds of \$1.6 million and \$17.2 million would be generated respectively.

CAPITAL RESOURCES

The Company had working capital of \$18.9 million at June 30, 2007, an increase of \$9.5 million from December 31, 2006. The increased working capital results from the completion of the bought deal equity financing that increased cash reserves by \$14.5 million, partly offset by costs associated with ongoing enrollment for the AL-108 and AL-208 Phase II clinical trials.

With the continued advancement of two of its drug programs in three 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 June 30, 2007 and expected interest income will be sufficient to fund operations and commitments into 2009.

OUTSTANDING SHARE CAPITAL

At June 30, 2007, the Company had 58,997,269 common shares outstanding. Each common share entitles the holder to one vote per share. At June 30, 2007, the Company had 3,748,497 options outstanding, of which 2,510,497 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

On January 1, 2007, the Company prospectively adopted new financial reporting standards relating to the recognition and measurement as well as disclosure and presentation of comprehensive income, financial instruments and equity. The Company's estimates have not changed from 2006. The Company's 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 2006 Annual Report and Significant Accounting Policies section of its First Quarter Report.

RISKS AND UNCERTAINTIES

As previously described, the Company believes that cash on hand, together with expected interest income will be sufficient to fund operations into 2009. 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 June 30, 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.

Allon's 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.

Regardless of 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.

There were no changes in the company's internal controls over financial reporting that occurred during the three months ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

ALLON THERAPEUTICS INC.

Consolidated Balance Sheets

	June 30, 2007	December 31, 2006
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,994,778	\$ 10,369,753
Short-term investments	15,249,038	-
Accounts receivable	86,787	202,854
Prepaid expenses and deposits	230,751	251,531
	<u>19,561,354</u>	<u>10,824,138</u>
Long term receivable	22,218	21,180
Property, plant and equipment	46,387	57,535
Intangible assets	6,308,712	6,564,591
	<u>6,377,317</u>	<u>6,643,306</u>
	<u>\$ 25,938,671</u>	<u>\$ 17,467,444</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Unearned revenue (note 3)	\$ 11,754	\$ -
Accounts payable and accrued liabilities	625,871	1,429,588
	<u>637,625</u>	<u>1,429,588</u>
Shareholders' equity:		
Share capital (note 4)	50,863,624	36,402,236
Additional paid-in capital	1,262,975	1,091,137
Deficit	(26,825,553)	(21,455,517)
	<u>25,301,046</u>	<u>16,037,856</u>
	<u>\$ 25,938,671</u>	<u>\$ 17,467,444</u>

See accompanying notes to interim consolidated financial statements.

Approved on behalf of the Board:

"Frank A. Holler"

Frank A. Holler
Director

"C. Michael O'Brian"

C. Michael O'Brian
Director

ALLON THERAPEUTICS INC.

Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

Three and six months ended June, 2007 and 2006

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Expenses:				
Research and development	1,539,929	1,215,810	3,601,790	2,390,841
General and administrative	554,797	453,584	1,140,164	984,831
Amortization	136,569	134,070	272,999	291,155
	<u>2,231,295</u>	<u>1,803,464</u>	<u>5,014,953</u>	<u>3,666,827</u>
Other expense/(income):				
Interest and other income	(136,735)	(59,020)	(246,086)	(137,100)
Foreign exchange loss	392,705	190,601	441,059	147,772
Stock-based compensation (note 5)	59,388	47,729	155,246	99,651
Loss on investments	4,864	1,561	4,864	1,561
	<u>320,222</u>	<u>180,871</u>	<u>355,083</u>	<u>111,884</u>
Loss before income taxes	(2,551,517)	(1,984,335)	(5,370,036)	(3,778,711)
Future income tax recovery (Note 7)	-	-	-	149,537
Net and comprehensive loss for the period	(2,551,517)	(1,984,335)	(5,370,036)	(3,629,174)
Deficit, beginning of period	(24,274,036)	(13,916,305)	(21,455,517)	(12,271,466)
Deficit, end of period	<u>\$(26,825,553)</u>	<u>\$(15,900,640)</u>	<u>\$(26,825,553)</u>	<u>\$(15,900,640)</u>
Loss per common share:				
Basic and diluted (note 6)	\$ (0.05)	\$ (0.06)	\$ (0.11)	\$ (0.11)

See accompanying notes to interim consolidated financial statements.

ALLON THERAPEUTICS INC.

Consolidated Statements of Cash Flows
(Unaudited)

Three and six months ended June 30, 2007 and 2006

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Cash flows provided by (used in):				
Operations:				
Net loss for the period	\$(2,551,517)	\$(1,984,335)	\$(5,370,036)	\$(3,629,174)
Items not involving cash:				
Amortization	136,569	134,070	272,999	291,155
Stock-based compensation	59,388	47,729	155,246	99,651
Future income tax recovery	-	-	-	(149,537)
Change in non-cash operating working capital	(691,041)	(420,476)	(656,155)	(1,040,557)
	(3,046,601)	(2,223,012)	(5,597,945)	(4,428,462)
Investments:				
Sale/(purchase) of short-term investments	(13,850,751)	2,591,586	(15,249,038)	5,159,994
Purchase of property, plant and equipment	(588)	(16,880)	(5,972)	(22,802)
	(13,851,339)	2,574,706	(15,255,010)	5,137,192
Financing:				
Repayment of bank debt	-	-	-	(25,466)
Proceeds from issuance of common shares	14,463,660	-	14,477,980	-
	14,463,660	-	14,477,980	(25,466)
Increase/(decrease) in cash and equivalents for the period	(2,434,280)	351,694	(6,374,975)	683,264
Cash and cash equivalents, beginning of period	6,429,058	331,570	10,369,753	-
Cash and cash equivalents, end of period	\$ 3,994,778	\$ 683,264	\$ 3,994,778	\$ 683,264
Supplementary information:				
Cash received during the year for:				
Interest	\$ 65,609	\$ 29,941	\$ 143,021	\$ 185,319
Income taxes recovered				\$ 149,537

See accompanying notes to interim consolidated financial statements.

ALLON THERAPEUTICS INC.

Statement of Changes in Shareholders' Equity (Unaudited)

Three and six months ended June 30, 2007 and 2006

	Share Capital		Additional Paid In Capital	Accumulated Deficit	Total Shareholders Equity
	Number	Value			
Balance at December 31, 2005	33,386,711	\$27,025,231	\$893,475	\$(12,271,466)	\$15,647,240
Stock based compensation					
Contractors			23,365		23,365
Employees			76,286		76,286
Net loss for the period				(3,629,174)	(3,629,174)
Balance at June 30, 2006	33,386,711	\$27,025,231	\$993,126	\$(15,900,640)	\$12,117,717

	Share Capital		Additional Paid In Capital	Accumulated Deficit	Total Shareholders Equity
	Number	Value			
Balance at December 31, 2006	45,911,711	\$36,402,236	\$1,091,137	\$(21,455,517)	\$16,037,856
Shares issued pursuant to bought deal	13,059,933	15,671,920			15,671,920
Warrants issued pursuant to bought deal			16,592		16,592
Shares issued pursuant to options exercised	10,000	4,000			4,000
Shares issued pursuant to warrants exercised	15,625	15,625			15,625
Share issue costs, financing		(1,230,157)			(1,230,157)
Stock based compensation					
Contractors			54,187		54,187
Employees			101,059		101,059
Net loss for the period				(5,370,036)	(5,370,036)
Balance at June 30, 2007	58,997,269	\$50,863,624	\$1,262,975	\$(24,825,553)	\$25,301,046

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

Three and six months ended June 30, 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 unaudited interim consolidated 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(a) to 2(b) below. These unaudited interim consolidated financial statements do not include all note disclosures required by Canadian generally accepted accounting principles ("Canadian GAAP") for annual financial statements, and therefore should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2006 included in the Company's 2006 Annual Report. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results for the full year.

(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 consolidated financial statements.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

Three and six months ended June 30, 2007 and 2006

(b) Financial instruments:

Effective January 1, 2007, the Company prospectively 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. 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 accounting for 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 changes 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 and therefore measured these assets at fair value. The effect of the accounting change was a year-to-date unrealized loss of \$4,864 on short term investments. 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 changes in fair value of embedded derivatives are recognized in the consolidated statement of operations and deficit in the period the change occurs.

The Company identified and measured all embedded derivatives that required separation and determined the fair value of those embedded derivatives at January 1, 2007 through June 30, 2007 was not material to the financial statements.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

Three and six months ended June 30, 2007 and 2006

- (ii) Section 3251 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 three and six months ended June 30, 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 interim consolidated financial statements.

3. Unearned revenue:

On January 24, 2007 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. A portion of the grant, totaling \$111,878 was received during the quarter ended March 31, 2007. The Company records the grant as a reduction of related research and development expense in the period the expense is incurred. For the three and six months ended June 30, 2007 the Company applied \$64,123 and \$100,124 respectively against research expenses incurred for the study of Parkinson's. The remaining \$11,754 balance of the initial portion received is recorded as unearned revenue to be applied against future research expenses as incurred. Any amounts not used within one year of the grant date are to be repaid to MJFF. The Company anticipates using the total amount of the grant and expects to receive the balance of the grant during the third quarter of 2007.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

Three and six months ended June 30, 2007 and 2006

4. Share capital:

(a) Authorized:

Unlimited voting common shares without par value

Unlimited preferred shares, issuable in series

(b) Equity Financing:

On May 29 and June 22, 2007, Allon closed a bought deal equity financing. The financing consisted of 13,059,933 units (the "Units"), comprised of one share and one half share purchase warrant priced at \$1.20 per Unit and 103,699.5 warrants priced at \$0.16 per warrant for total gross proceeds of \$15,688,512 less issue costs of \$1,228,852 for net proceeds of \$14,459,660. 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 following the date of issue. The amount received for the 103,699.5 warrants of \$16,592 approximates the fair value of the warrants and is recorded as additional paid in capital.

As of June 30, 2007 the Company had warrants outstanding to acquire 12,880,541 common shares at prices ranging from \$1.00 to 1.65 which would result in proceeds of \$17,192,424 if they were exercised in full.

5. Stock-based compensation:

The Company recognized \$59,388 and \$155,247 in compensation expense for the three and six months ended June 30, 2007 respectively (\$47,729 and \$99,651 for the three and six months ended June 30, 2006 respectively) relating to awards granted to employees and non employees under its stock option plan.

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 Plan is based on a rolling percentage of options issuable of up to 10% of the Company's outstanding common shares. As of June 30, 2007, the Company had 58,997,269 common shares issued and outstanding resulting in current authorization to issue a maximum of 5,899,727 options under the Plan.

During the six months ended June 30, 2007, the Company granted 50,000 options with terms of ten years and vesting periods conditional on the achievement of performance objectives.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

Three and six months ended June 30, 2007 and 2006

5. Stock-based compensation (continued):

The options entitle holders to purchase common shares of the Company at a price of \$1.00 per share.

Stock option activity from December 31, 2006 to June 30, 2007 is as follows:

	# of common shares under option	Weighted avg exercise price
Outstanding, December 31, 2006	3,708,497	\$ 0.76
Granted	50,000	1.00
Exercised	(10,000)	0.40
Cancelled	-	-
Outstanding, June 30, 2007	3,748,497	\$ 0.77
Exercisable, June 30, 2007	2,510,497	\$ 0.64

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 estimated fair value of the Company's stock options.

The estimated fair value of options granted to the Company's employees and directors after 2002 is calculated at the grant date and amortized on a straight line basis over the vesting period of the options. The Black-Scholes option-pricing model was used with the following weighted-average assumptions for the six months ended June 30, 2007: dividend yield 0%, expected volatility 87%, risk free interest rate 3.60% and expected remaining life of 1.34 years. The \$0.47 estimated weighted average fair value per option is amortized, on a straight-line basis over the vesting period of the options.

The fair value of each option granted to non-employees after 2002 is estimated as of the balance sheet date, using the Black-Scholes option-pricing model with the following weighted-average assumptions for the six months ended June 30, 2007: dividend yield 0%, expected volatility 67%, risk free interest rate 4.47% and expected remaining life of 3.76 years. The date of measure used to calculate the \$0.56 estimated weighted average fair value of options issued to non-employees is the balance sheet date.

ALLON THERAPEUTICS INC.

Notes to Consolidated Financial Statements
(Unaudited)

Three and six months ended June 30, 2007 and 2006

5. Stock-based compensation (continued):

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

Range of exercise prices	Options outstanding June 30, 2007			Options exercisable June 30, 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	1,458,497	6.71	\$ 0.12	1,458,497	\$ 0.12
\$1.00-1.72	2,290,000	7.83	1.18	1,052,000	1.37
	3,748,497	7.69	\$ 0.77	2,510,497	\$ 0.64

6. Net loss per common share:

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

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Net loss for the period	\$ (2,551,517)	\$(1,984,335)	\$ (5,370,036)	\$(3,629,174)
Weighted average number of common shares outstanding	50,517,110	33,386,711	48,227,478	33,386,711
Net loss per common share	(0.05)	(0.06)	(0.11)	(0.11)

7. Related party transactions:

During the three and six months ended June 30, 2007, Allon paid one of its Board members \$12,500 and \$25,000 respectively to provide consulting services to assist the Company with general research and the advancement of its drug development programs.

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.

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 June 30, 2007, the amount receivable was \$50,000, discounted to a present value of \$46,668 of which \$24,450 is a short term receivable, due in September 2007 and included in accounts receivable. The balance, \$22,218, is a long term receivable with payment due in September 2008.