

advancing in **human** trials

treating the causes of neurodegenerative disease



Corporate Profile

Allon Therapeutics Inc. is a clinical-stage biotechnology company focused on developing the first drugs that impact the progression of neurodegenerative diseases. Allon's drug davunetide has demonstrated human efficacy in amnesic mild cognitive impairment, a precursor to Alzheimer's disease, and schizophrenia-related cognitive impairment. Allon has Phase II human efficacy programs pursuing large underserved markets: Alzheimer's disease, frontotemporal dementia, and schizophrenia-related cognitive impairment.

The Company is listed on the Toronto Stock Exchange under the trading symbol "NPC" (Neuro Protection Company™) and based in Vancouver. For additional information please visit the Company's website: www.allontherapeutics.com.

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LETTER TO SHAREHOLDERS

Dear Shareholders:

Your company made strong progress during the Second Quarter and in the weeks leading up to this Report to Shareholders. Your management team is working diligently to achieve our clinical and financial objectives for 2009.

Our most significant achievement year-to-date is the top-line data from our Phase IIa clinical trial, reported July 9, that demonstrates that our lead neuroprotective drug candidate, davunetide, has a positive impact on the capacity of schizophrenia patients to carry out important activities in their daily lives.

These Phase IIa schizophrenia results reconfirm the potential of davunetide to treat patients suffering from cognitive impairment. Last year Allon reported Phase IIa results showing that davunetide had a positive impact on memory function in patients with amnesic mild cognitive impairment (aMCI), a precursor to Alzheimer's disease (AD).

We believe that these results in schizophrenia patients adds significantly to the potential of davunetide as a treatment for a variety of cognitive impairment disorders — and we anticipate that prospective pharmaceutical partners will see this new schizophrenia data as complementary to the human efficacy data they've already seen from aMCI. Given the scope and scale of the diseases, our next steps in Alzheimer's disease or schizophrenia will be defined in collaboration with a partner.

The Phase IIa schizophrenia trial was managed by TURNS (Treatment Units for Research on Neurocognition and Schizophrenia), with substantial financial support from the National Institute of Mental Health (NIMH), part of the U.S. National Institutes of Health.

The TURNS group intends to present and publish the full results for this trial later this year. In addition, TURNS and Allon collaborated on a companion study looking at changes in brain imaging in a small subset of the patients in the main trial. We look forward to receiving these results from the TURNS consortium and sharing them with you.

Phase II trial in FTD

In addition, we are on schedule to initiate a Phase II human clinical trial later this year to evaluate whether davunetide has the potential to become the first effective treatment for a number of brain disorders broadly categorized as frontotemporal dementia (FTD). The trial will evaluate the effect of davunetide for the treatment of Progressive Supranuclear Palsy (PSP), one type of FTD. A smaller study in other related forms of FTD will be carried out in parallel.

There is significant scientific evidence to suggest that davunetide may be effective for the treatment of FTD. Over half of the cases of FTD are tauopathies, meaning that the mechanism by which we believe davunetide works is critical to this disease. Furthermore, we expect that FTD and/or its subtypes, will qualify for orphan drug status in both North America and Europe. This status brings important competitive advantages.

Product Optimization

Management has also spent considerable effort optimizing the davunetide product for use in future clinical trials. This process involves increasing the concentrations delivered to patients to make dosing more convenient and as cost effective as possible. While there was no specific obligation to

undertake these steps, management felt it prudent to do so now that we have seen multiple signals of human efficacy, and to be sure that all future trials are conducted with the product we intend to take to market. This optimization will necessitate bridging studies that we intend to complete before commencing the PII study in FTD.

In summary, your management team continue to work diligently to exploit the commercial potential of our assets while managing our resources effectively. We look forward to reporting our continued progress.

Respectfully,

A handwritten signature in black ink, appearing to read "G. McCauley", with a stylized flourish at the end.

Gordon C. McCauley
President & CEO

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION & ANALYSIS

The following information should be read in conjunction with the unaudited interim financial statements as at and for the three and six months ended June 30, 2009 and the audited consolidated financial statements and their accompanying notes for the year ended December 31, 2008. 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"), including Allon's Annual Information Form (AIF) can be obtained from SEDAR at www.sedar.com.

August 10, 2009

FORWARD LOOKING STATEMENTS

This Management's Discussion & Analysis (MD&A) contains forward-looking statements that reflect the current view of the Company with respect to future events and financial performance. The forward-looking statements in this MD&A include, but are not limited to, statements regarding: the status of the Company's research and development programs; the Company's expectation regarding the progress of its clinical and pre-clinical programs; the sufficiency of the Company's financial resources to fund operations into 2011; and the Company's future funding requirements. Forward-looking statements include, but are not limited to, those statements set out in this MD&A under "Overview", "Results of Operations", "Liquidity and Capital Resources", "Critical Accounting Policies and Estimates" and "Risks and Uncertainties". The forward-looking statements in this MD&A are based on the Company's current expectations, estimates, projections and assumptions made in light of its experience and its perception of historical trends. Any such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from current expectations. The Company cautions readers that should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. The risks that could cause actual results to differ from current expectations include inherent risks in the biopharmaceutical industry, general economic conditions, government regulations, status of healthcare reimbursements, competition, failure of third parties and subcontractors, failure to recruit or retain required management and employees, reliance on collaborative partners, potential for clinical trial liability, inadequate protection of intellectual property rights, uncertainty in the Company's future financial condition and the impact of foreign currency exchange rates. For additional information with respect to certain of these risk factors, reference should be made to the "Risks and Uncertainties" section of this MD&A, to the notes to the unaudited interim consolidated financial statements as at and for the three and six months ended June 30, 2009, to the "Risk Factors" section in the Company's most recent Annual Information Form, and continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, which are available online at www.sedar.com.

The forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by law, rule or regulation. You should not place undue reliance on forward-looking statements.

OVERVIEW

Allon Therapeutics Inc. is a clinical-stage biotechnology company developing treatments for major neurodegenerative conditions. Allon has Phase II human efficacy programs pursuing large underserved markets: Alzheimer's disease, frontotemporal dementia, and schizophrenia-related cognitive impairment. Allon's drug, davunetide intranasal (AL-108), has demonstrated human efficacy in amnesic mild cognitive impairment (aMCI), a precursor to Alzheimer's disease (AD), and in schizophrenia cognitive impairment. The Company's compounds are derived from two proprietary technology platforms, activity-dependent neuroprotective protein (ADNP) and activity-dependent neurotrophic factor (ADNF), both of which are important for normal brain function. The Company's clinical compounds, davunetide intranasal (AL-108) and davunetide intravenous (AL-208), are both derived from the ADNP platform. Pre-clinical compound AL-309 is derived from the ADNF platform. Because the two platforms are based on different proteins, the drugs from each are different molecules with different therapeutic mechanisms and distinct commercial opportunities.

Status of research and development programs

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

Platform	Compound	Stage of Development	Status
ADNP	davunetide intranasal (AL-108)	Phase IIa clinical trial in amnesic mild cognitive impairment	Study completed. Data released in Q1 2008
		Phase II clinical trial in schizophrenia cognitive impairment	Study completed. Top-line results released in July 2009
		Phase II clinical trial in frontotemporal dementia	Commencement expected in second half of 2009
		Phase II PET imaging clinical trial in Alzheimer's disease	Commencement expected in second half of 2009
	davunetide intravenous (AL-208)	Phase I human CSF pharmacokinetic clinical trial	Study completed. Data released in Q3 2008
		Phase II clinical trial MCI-CABG	Study completed, data released Q3 2008
ADNF	AL-309	Pre-clinical stage	Pre-clinical pharmacology and toxicology ongoing

SECOND QUARTER 2009 ACHIEVEMENTS

- On July 9, 2009, the Company released top-line results from a Phase IIa clinical trial showing that the Company's lead neuroprotective drug candidate, davunetide intranasal (AL-108), has a positive impact on the ability of schizophrenia patients to carry out important activities in their daily lives. Statistically significant efficacy ($p=0.015$) was achieved on the UCSD (University of California at San Diego) Performance-based Skills Assessment (UPSA). The UPSA scale assesses the functional capacity of skills for daily living. In total, six domains were tested in staged tasks: medication management, comprehension/planning, financial, communication, transportation, and household skills. The drug was also evaluated with the MATRICS (Measurement and Treatment Research to Improve Cognition in Schizophrenia) composite battery of tests, the primary outcome. Davunetide intranasal (AL-108) did not show significance on this measure.
- The Company formed a special Steering Committee consisting of leading neurologists and psychiatrists to help the Company design and conduct a Phase II human clinical trial that will evaluate the Company's lead neuroprotective drug candidate, davunetide intranasal (AL-108), as a potential treatment for a number of brain disorders broadly categorized as frontotemporal dementia (FTD). The study will evaluate the effect of davunetide for the treatment of Progressive Supranuclear Palsy (PSP), one type of FTD. A smaller study in other related forms of FTD will be carried out in parallel.
- The European Patent Office issued a notice of allowance for a patent covering the composition and method of use of the Company's neuroprotective compound, davunetide, as a treatment for Alzheimer's disease. The European Patent Office allowable claims also include the composition of matter of the nucleic acid sequence that encodes the ADNP protein and the composition of the ADNP protein, as well as davunetide (NAP) derivatives.

RESULTS OF OPERATIONS

Allon reported a net loss of \$1,204,940 (\$0.02 per share) for the three months ended June 30, 2009, compared to a net loss of \$2,713,823 (\$0.05 per share) for the three months ended June 30, 2008, representing a decrease in net loss of \$1,508,883. For the six months ended June 30, 2009, Allon reported a net loss of \$3,214,529 (\$0.04 per share), compared to a net loss of \$7,063,560 (\$0.12 per share) for the six months ended June 30, 2008, representing a decrease in net loss of \$3,849,031. The following is a description of the significant variances from the comparable period in 2008.

RESEARCH AND DEVELOPMENT

For the three and six months ended June 30, 2009, research and development expenses were \$541,645 and \$1,740,581 compared to \$1,690,702 and \$5,455,310 for the three and six months ended June 30, 2008. The decline in research and development expenses resulted from a decrease in clinical trial activity. During the first half of 2008, the Company had as many as three ongoing Phase II clinical programs, two of which were completed in the first and third quarters of 2008 respectively. Details of the Company's clinical programs are provided below.

Clinical stage compounds:

Davunetide intranasal (AL-108)

Davunetide intranasal (AL-108) is an intranasally formulated, eight amino acid neuroprotective peptide from the ADNP platform. The Company has completed a Phase II clinical trial evaluating

davunetide intranasal (AL-108) as a treatment for amnesic mild cognitive impairment (aMCI), a precursor to Alzheimer's disease, and a Phase II clinical trial evaluating davunetide intranasal (AL-108) as a treatment for schizophrenia-related cognitive impairment. Development costs for AL-108 were \$0.1 million and \$0.7 million during the three and six months ended June 30, 2009.

Alzheimer's disease

On February 26, 2008, the Company released results of a Phase IIa clinical trial showing that davunetide intranasal (AL-108) has a positive impact on memory function in patients with aMCI, a precursor to Alzheimer's. Statistically significant efficacy was achieved on key endpoints that measured short-term recall and working memory, two types of memory that are clinically relevant in AD. The trial also demonstrated that davunetide intranasal (AL-108) was safe and well tolerated by patients.

The Company is currently in the process of seeking a pharmaceutical partnership for the Alzheimer's program and will initiate a Phase IIb study in Alzheimer's upon the completion of a partnership arrangement.

Schizophrenia-related cognitive impairment

On July 9, 2009, the Company released top-line results of a Phase IIa clinical trial showing that davunetide intranasal (AL-108) has a positive impact on the ability of schizophrenia patients to carry out important activities in their daily lives. Statistically significant efficacy ($p=0.015$) was achieved on the UCSD (University of California at San Diego) Performance-based Skills Assessment (UPSA). The UPSA scale assesses the functional capacity of skills for daily living. In total, six domains were tested in staged tasks: medication management, comprehension/planning, financial, communication, transportation, and household skills. The drug was also evaluated with the MATRICS (Measurement and Treatment Research to Improve Cognition in Schizophrenia) composite battery of tests which is the primary outcome. Davunetide intranasal (AL-108) did not show significance on this measure. The trial was largely funded and managed by the Treatment Units for Research on Neurocognition and Schizophrenia (TURNS).

Davunetide intravenous (AL-208)

On August 28, 2008, the Company released data from a Phase IIa clinical trial evaluating the potential of the Company's drug davunetide intravenous (AL-208) to prevent or reduce mild cognitive impairment in patients who undergo coronary artery bypass graft (CABG) surgery. The trial determined that neither patients given davunetide intravenous (AL-208) nor patients given placebo were significantly impaired by the surgery — and that a single-dose of davunetide intravenous (AL-208) had no observable effect probably because no functional deficit was present. The trial demonstrated that davunetide intravenous (AL-208) was safe and well-tolerated.

The Company plans to eventually develop davunetide intravenous (AL-208) as a second generation Alzheimer's drug administered by another route as a complement to davunetide intranasal (AL-108). The Company did not incur any significant expenses related to davunetide intravenous (AL-208) in 2009.

Pre-clinical stage compound:

AL-309

AL-309 is a D-amino acid derivative of AL-209 from the ADNF platform. During the second quarter of 2008, the Company presented pre-clinical data that demonstrates the potential of AL-309 as a

treatment for peripheral neuropathy. Among the major causes of neuropathy are diabetes and cancer chemotherapy. Further pre-clinical development is ongoing.

GENERAL AND ADMINISTRATIVE

For the three and six months ended June 30, 2009, general and administrative expenses were \$548,180 and \$1,298,865 compared to \$894,693 and \$1,590,745 for the three and six months ended June 30, 2008. The decrease of \$346,513 and \$291,880 compared to 2008 resulted from reduced expenditures on business development and investor relations activity.

AMORTIZATION

Amortization expense for the three and six months ended June 30, 2009 was \$136,848 and \$273,460 compared to \$136,876 and \$275,365 for the three and six months ended June 30, 2008. Allon amortizes tangible assets and intellectual property on a straight-line basis. The small decline compared to the previous year was primarily the result of certain assets being fully amortized.

OTHER (INCOME)/EXPENSES

For the three and six months ended June 30, 2009, the Company recognized other income of \$21,733 and \$98,377 compared to \$8,448 and \$257,860 for the three and six months ended June 30, 2008. The Company's other income and expenses comprise primarily interest income and foreign exchange gains and losses. The Company earned interest revenue of \$32,068 and \$75,604 during the three and six months ended June 30, 2009 compared to \$54,411 and \$163,075 for the same period in 2008. Reduced interest earnings resulted from significantly lower interest rates which more than offset higher cash balances.

Foreign exchange translation loss was \$10,335 for the three months ended June 30, 2009, but for the six months ended June 30, 2009 it was a gain of \$22,773. This compared to loss of \$43,357 and gain of \$106,471 for the same periods in 2008. The Company's foreign exchange exposure is primarily limited to translation of U.S. dollar balances in cash and short-term investment accounts to Canadian dollars. Lower foreign exchange gains and losses in 2009 were primarily due to lower amounts of U.S. dollar holdings compared to the same period of 2008.

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, 2009	Mar 31, 2009	Dec 31, 2008	Sep 30, 2008
Interest income and other income	\$ 32	\$ 45	\$ 130	\$ 167
Research and development expenses	\$ 542	\$ 1,199	\$ 1,505	\$ 1,674
Net loss for the quarter	\$ (1,205)	\$ (2,010)	\$ (1,938)	\$ (2,310)
Loss per share – basic and diluted	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ (0.03)

	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007
Interest income and other income	\$ 54	\$ 99	\$ 162	\$ 246
Research and development expenses	\$ 1,691	\$ 3,765	\$ 3,294	\$ 2,128
Net loss for the quarter	\$ (2,714)	\$ (4,350)	\$ (4,069)	\$ (3,242)
Loss per share – basic and diluted	\$ (0.05)	\$ (0.07)	\$ (0.07)	\$ (0.05)

LIQUIDITY AND CAPITAL RESOURCES

The Company's objective is to maintain a sufficient capital base so as to sustain future research and development and business initiatives and to maintain investor, creditor and market confidence. The Company considers the items included in consolidated shareholders' equity as capital and may issue new shares or raise debt in order to maintain its capital structure. However, at this time, the Company has not utilized debt facilities as part of its capital management program. The Company is a research and development stage company and as such funds are primarily invested in research and development initiatives and no dividends are issued to shareholders. The Company does not foresee implementing a dividend program in the near future. Neither Allon nor its subsidiary are subject to any externally imposed capital requirements and the Company does not use financial ratios to manage capital.

Revenue is currently derived from interest earned on cash and short-term investment balances. At June 30, 2009, the Company had accumulated a deficit of \$48,663,430. Losses are expected to continue in the near future as the Company invests in research and development, pre-clinical studies and clinical trials. Since inception, the Company has been financed primarily from public and private sales of equity and interest earned on cash balances and short-term investments.

For the three and six months ended June 30, 2009, operating activities used cash of \$1,517,755 and \$4,236,168 compared to \$3,250,682 and \$7,287,070 used in operations for the three and months ended June 30, 2008. Cash used in operating activities reflects the net loss of \$1,204,940 and \$3,214,529 for the three and six months ended June 30, 2009, adjusted for non-cash items including amortization of tangible and intangible assets, stock based compensation and changes in non-cash working capital.

For the three and six months ended June 30, 2009, investing activities used cash of nil and \$333,501 compared to cash provided by investing activities of \$3,475,205 and \$6,926,937 for the three and six months ended June 30, 2008. The difference is primarily the result of the sale of short term investments during the first and second quarter of 2008 whereas there was no short term investments during the first and second quarter of 2009 as the Company invested in investments with shorter maturities that were classified as cash equivalents.

There was no financing activity during the first and second quarter for both 2009 and 2008. At June 30, 2009 the Company had cash and cash equivalents of \$14,523,830 compared to \$19,093,499 of cash and cash equivalents at December 31, 2008. The company's cash equivalents are held in high-grade, liquid commercial paper, government bonds and other low risk investments which are recorded at fair value.

The Company has 3.4 million stock options exercisable at prices ranging from \$.001 to \$1.72 per share and 571,500 warrants outstanding and exercisable at a price of \$1.05 per share. If all outstanding and exercisable stock options and warrants were exercised, proceeds of \$2.6 million and \$0.6 million would be generated respectively.

Management expects cash on hand and interest revenue to fund operations into 2011. Additional funding requirements in 2011 and beyond will largely depend on research and development initiatives undertaken by the Company. Such funding may be obtained from the issuance of shares in association with an external financing or through a drug development partnership with a major pharmaceutical company. The Company conducted discussions for such a partnership in 2008 and is continuing discussions to date in 2009. There can be no assurance that the Company will be successful in raising any capital through any type of offerings or partnership. Funding may also be obtained, subject to share price, from the issuance of shares from the exercise of outstanding options or warrants.

While advancing its clinical and pre-clinical programs, the Company has entered into contracts that will remain in effect over several reporting periods. The total current and planned commitments account for \$1.13 million of the \$14.5 million cash on hand and are primarily related to the Company's pre-clinical research initiatives. The Company has no off-balance sheet arrangements.

Schedule of contractual and planned commitments as of June 30, 2009

(in thousands)

	2009	2010	2011	2012-2013	Total
Pre-Clinical initiatives	\$ 683	\$ 337	\$ 4	\$ -	\$ 1024
Capital and Licensing	\$ -	\$ 18	\$ 17	\$ 35	\$ 70
Other	\$ 36	\$ -	\$ -	\$ -	\$ 36
Total Company Commitments	\$ 719	\$ 355	\$ 21	\$ 35	\$ 1130

OUTSTANDING SHARE CAPITAL

At June 30, 2009, the Company had 78,066,666 common shares outstanding. Each common share entitles the holder to one vote per share. At June 30, 2009, there were 6,371,600 options outstanding, of which 3,436,775 were exercisable into an equivalent number of the Company's common shares at exercise prices ranging from \$0.001 to \$1.72. The Company also had 571,500 warrants outstanding, entitling holders to purchase one common share of the Company for each warrant held at an exercise price of \$1.05. All warrants are currently exercisable and expires in July 2010.

The Company's shares are listed on the Toronto Stock Exchange and held by a broad base of investors, none of whom exercise significant influence. See Note 4 of the Company's financial statements for more detail regarding outstanding share capital.

RELATED PARTY TRANSACTIONS

In the first quarter of 2009, the Company received US\$113,378 from a Senior Officer of the Company as full repayment of principal and interest on a loan granted during the fourth quarter of 2008. The loan carried an annual interest rate of 5.00%, consistent with market rates at the time of the loan and was related to the 2004 acquisition of Allon Therapeutics, Inc.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting (ICFR) to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. During the six months ended June 30, 2009, there were no significant changes in the Company's internal controls over financial reporting that have materially affected or are reasonably likely to affect the Company's internal controls over financial reporting.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements as well as the reported amount of revenues and expenses during the reporting periods. The reported amounts and note disclosures are determined using management's best estimates based on assumptions that reflect the most probable set of economic conditions and planned course of action. Significant areas requiring the use of management estimates relate to the assessment for impairment and useful lives

of intangible assets, clinical trial accounting including the determination of useful lives of clinical drug supplies, research and development costs and determination of the fair value of stock-based compensation. Management believes that the estimates and assumptions are reasonable based upon information available at the time that these estimates and assumptions were made. Actual results could differ from those estimates used in the preparation of the financial statements. For a full description of the Company's Critical Accounting Policies and Estimates, reference should be made to the "Critical Accounting Policies and Estimates" section of the Company's annual MD&A for the year ended December 31, 2008 filed with Canadian securities regulatory authorities, which is available online at www.sedar.com.

The Company's financial statements have been prepared under the assumption that the Company will continue as a going concern. The eventual profitability of the Company and its ability to continue as a going concern is dependent upon many factors, including its ability to obtain sufficient financing, the 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's existing cash resources are sufficient, in management's opinion, to fund its business into 2011 in accordance with the Company's current business plan. The Company may be required to obtain additional sources of financing in the future to continue its research activities, realize returns on its assets and discharge its liabilities in the normal course of business. There is no guarantee that the Company will be able to raise any capital through any type of offerings.

CHANGE IN ACCOUNTING POLICIES

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The new Section is applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. Upon adoption of Section 3064, EIC 27, *Revenue and Expenditures During the Pre-Operating Period*, will no longer be applicable. The adoption of Section 3064 did not have a material impact on the Company's consolidated financial statements.

On January 20, 2009, the Emerging Issues Committee of the Accounting Standards Board issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. Under EIC-173, an entity is required to take into account its own credit risk as well as the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities. EIC-173 is applicable to interim and annual financial statements for periods ending after January 20, 2009. The adoption of EIC-173 did not have a material impact on the Company's consolidated financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

On February 13, 2008, the Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) will be required for fiscal years beginning on or after January 1, 2011, for publicly accountable profit-oriented enterprises. After that date, IFRS will replace Canadian GAAP for those enterprises. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosures. The Company is in the process of developing a plan for the implementation of IFRS and will assess the impact of the differences in accounting standards on the Company's consolidated financial statements. It is not practically possible to quantify the impact of these differences at this time. The Company expects to make changes to processes and systems before the 2011 fiscal year, in time to

enable the Company to record transactions under IFRS. Training and additional resources will be utilized to ensure timely conversion to IFRS.

In January 2009, the CICA issued Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests*. These Sections replaces Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for the accounting of non-controlling interests in a subsidiary in the consolidated financial statements subsequent to a business combination. These Sections will apply to financial statements relating to the Company beginning on January 1, 2011. The Company is currently evaluating the implications of these new Sections on the consolidated financial statements.

In January 2009, the CICA issued Section 1582, *Business Combinations*. This Section replaces Section 1581, *Business Combinations*. Section 1582 establishes standards for the recognition of business combination. This Section will apply to financial statements relating to the Company beginning on January 1, 2011. The Company is currently evaluating the implications of this new Section on the consolidated financial statement.

RISKS AND UNCERTAINTIES

As previously described, cash and cash equivalents on hand and interest income is expected to be sufficient to fund operations into 2011. 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.

The Company's primary market risk is the exposure to foreign currency exchange rate fluctuations. This risk arises from the Company's holdings of foreign currency denominated cash, accounts payable, cash equivalents, and short-term investments. Changes in foreign currency exchange rates can create significant foreign exchange gains or losses to the Company. The Company's current foreign currency risk is primarily with the U.S. dollar. The Company has minimal exposure to interest rate risks as it does not have long-term financial liabilities.

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.

Additional information with respect to these and other risks affecting the Company is described in the section "Risk Factors" in the Company's most recent Annual Information Form filed with Canadian securities regulatory authorities. Reference should also be made to the notes to the unaudited consolidated financial statements for the three and six months ended June 30, 2009 and to the Company's other continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, which are available online at www.sedar.com.

Interim Consolidated Financial Statements of

ALLON THERAPEUTICS INC.

Three and six months ended June 30, 2009 and 2008

(Unaudited)

ALLON THERAPEUTICS INC.

Consolidated Balance Sheets
(Unaudited)

	June 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 14,523,830	\$ 19,093,499
Accounts receivable	10,463	168,350
Prepaid expenses and deposits	246,837	340,891
Drug supplies (note 3)	2,175,563	2,182,656
	<u>16,956,693</u>	<u>21,785,396</u>
Non-current assets:		
Property and equipment	39,709	48,411
Intangible assets	5,373,624	5,632,819
Drug supplies (note 3)	327,938	-
	<u>\$ 22,697,964</u>	<u>\$ 27,466,626</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 165,431	\$ 1,910,071
Shareholders' equity:		
Share capital (note 4)	69,110,562	69,110,562
Additional paid-in capital (note 4)	2,085,401	1,894,894
Deficit	(48,663,430)	(45,448,901)
	<u>22,532,533</u>	<u>25,556,555</u>
	<u>\$ 22,697,964</u>	<u>\$ 27,466,626</u>

Basis of presentation and going concern (note 1)

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, Comprehensive Loss and Deficit
(Unaudited)

Three and six months ended June 30, 2009 and 2008

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Expenses:				
Research and development	\$ 541,645	\$ 1,690,702	\$ 1,740,581	\$ 5,455,310
General and administrative	548,180	894,693	1,298,865	1,590,745
Amortization	136,848	136,876	273,460	275,365
	1,226,673	2,722,271	3,312,906	7,321,420
Other expense/(income):				
Interest and other income	(32,068)	(51,805)	(75,604)	(151,389)
Foreign exchange loss/(gain)	10,335	43,357	(22,773)	(106,471)
	(21,733)	(8,448)	(98,377)	(257,860)
Net and comprehensive loss for the period	(1,204,940)	(2,713,823)	(3,214,529)	(7,063,560)
Deficit, beginning of period	(47,458,490)	(38,486,604)	(45,448,901)	(34,136,867)
Deficit, end of period	\$(48,663,430)	\$(41,200,427)	\$(48,663,430)	\$(41,200,427)
Loss per common share:				
Basic and diluted (note 6)	\$ (0.02)	\$ (0.05)	\$ (0.04)	\$ (0.12)

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

Consolidated Statements of Cash Flows
(Unaudited)

Three and six months ended June 30, 2009 and 2008

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Cash provided by (used in):				
Operations:				
Net loss for the period	\$(1,204,940)	\$(2,713,823)	\$(3,214,529)	\$ (7,063,560)
Items not involving cash:				
Amortization	136,848	136,876	273,460	275,365
Stock-based compensation	90,146	94,411	190,507	181,192
Unrealized loss/(gain) on short-term investments	-	680	-	(97)
Change in non-cash operating working capital	(539,809)	(768,826)	(1,485,606)	(679,970)
	(1,517,755)	(3,250,682)	(4,236,168)	(7,287,070)
Investments:				
Sales of short-term investments	-	3,478,557	-	6,932,283
Purchase of property and equipment	-	(3,352)	(5,563)	(5,346)
Purchase of drug supplies	-	-	(327,938)	-
	-	3,475,205	(333,501)	6,926,937
Financing:				
	-	-	-	-
Increase/(decrease) in cash and cash equivalents for the period				
	(1,517,755)	224,523	(4,569,669)	(360,133)
Cash and cash equivalents, beginning of period				
	16,041,585	3,025,934	19,093,499	3,610,590
Cash and cash equivalents, end of period				
	\$14,523,830	\$ 3,250,457	\$14,523,830	\$ 3,250,457
Supplementary information:				
Interest received	\$ 48,394	\$ 74,880	\$ 111,417	\$ 192,969

See accompanying notes to consolidated financial statements.

1. Basis of presentation and going concern:

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 accompanying financial statements have been prepared under the assumption that the Company will continue as a going concern. The eventual profitability of the Company and its ability to continue as a going concern is dependent upon many factors, including its ability to obtain sufficient financing, the 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's existing cash resources are sufficient, in management's opinion, to fund its business into 2011 in accordance with the Company's current business plan. The Company may be required to obtain additional sources of financing in the future to continue its research activities, realize returns on its assets and discharge its liabilities in the normal course of business. There is no guarantee that the Company will be able to raise any capital through any type of offerings.

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 for the year ended December 31, 2008 except as described in (a) 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, 2008 included in the Company's 2008 Annual Report. The results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results for the full year.

(a) Adoption of new accounting standards:

In February 2008, the CICA issued Section 3064, *Goodwill and Intangible Assets*. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The new Section is applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. Upon adoption of Section 3064, EIC 27, *Revenue and Expenditures During the Pre-Operating Period*, will no longer be applicable. The adoption of Section 3064 did not have a material impact on the Company's consolidated financial statements.

On January 20, 2009, the Emerging Issues Committee of the Accounting Standards Board issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. Under EIC-173, an entity is required to take into account its own credit risk as well as the credit risk of the counterparty in determining the fair value of financial assets and financial liabilities. EIC-173 is applicable to interim and annual financial statements for periods ending after January 20, 2009. The adoption of EIC-173 did not have a material impact on the Company's consolidated financial statements.

(b) Future changes in accounting policies:

On February 13, 2008, the Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) will be required for fiscal years beginning on or after January 1, 2011, for publicly accountable profit-oriented enterprises. After that date, IFRS will replace Canadian GAAP for those enterprises. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences with respect to recognition, measurement and disclosures. The Company is in the process of developing a plan for the implementation of IFRS and will assess the impact of the differences in accounting standards on the Company's consolidated financial statements. It is not practically possible to quantify the impact of these differences at this time. The Company expects to make changes to processes and systems before the 2011 fiscal year, in time to enable the Company to record transactions under IFRS. Training and additional resources will be utilized to ensure timely conversion to IFRS.

In January 2009, the CICA issued Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-Controlling Interests*. These Sections replaces Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for the accounting of non-controlling interests in a subsidiary in the consolidated financial statements subsequent to a business combination. These Sections will apply to the Company's financial statements beginning on January 1, 2011. The Company is currently evaluating the implications of these new Sections on the consolidated financial statements.

In January 2009, the CICA issued Section 1582, *Business Combinations*. This Section replaces Section 1581, *Business Combinations*. Section 1582 establishes standards for the recognition of business combination. This Section will apply to financial statements relating to the Company beginning on January 1, 2011. The Company is currently evaluating the implications of this new Section on the consolidated financial statement.

3. Drug supplies:

As of June 30, 2009, the Company held \$2,175,563 of drug supplies to be used within the next twelve months and as a result, they are recorded as current assets in the Company's consolidated balance sheet.

The Company also held drug supplies of \$327,938 to be used in future clinical trials beyond the next twelve months. These drug supplies are recorded as non-current assets.

4. Share capital:

(a) Authorized:

Unlimited voting common shares without par value

Unlimited preferred shares, issuable in series

(b) Equity financing:

On July 15, 2008, Allon completed a bought deal public offering of common shares. Allon issued 19,050,000 common shares at a price of \$1.05 per common share, resulting in gross proceeds to Allon of \$20,002,500 less cash issue costs of \$1,570,268 for net

cash proceeds of \$18,432,232. The Company also issued warrants to the underwriters recorded in the amount of \$154,305 as additional costs of the offering. These warrants were valued using the Black-Scholes option pricing model with an expected life of two years and other assumptions consistent with the valuation of stock-based compensation (see Note 5).

(c) Warrants:

As part of the July 15, 2008 equity financing, the Company issued 571,500 share purchase warrants to underwriters of the equity financing. Each whole warrant will entitle the holder thereof to purchase one common share at an exercise price of \$1.05 for a term of 24 months following the date of issue. These are the only warrants outstanding as of June 30, 2009.

(d) Additional paid in capital:

Additional paid in capital increased by \$90,146 during the three months ended June 30, 2009 and by \$190,507 during the six months ended June 30, 2009 to \$2,085,401 as a result of stock-based compensation.

5. Stock-based compensation:

The Company recognized \$90,146 and \$190,507 in stock-based compensation expense for the three and six month periods ended June 30, 2009 compared to \$94,411 and \$181,192 for three and six month periods ended June 30, 2008. Stock-based compensation expenses comprised awards granted to employees and non-employees under the Company's stock option plan.

Stock options:

The Company's Stock Option Plan ("the Plan"), provides for the granting of options for the purchase of common shares of the Company at a purchase price not less than 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, 2009, the Company had 78,066,666 common shares issued and outstanding resulting in current authorization to issue a maximum of 7,806,667 options under the Plan.

Stock option activity from December 31, 2007 to June 30, 2009 is as follows:

	Common shares under option	Weighted average exercise price
Outstanding, December 31, 2007	4,771,600	\$ 0.85
Granted	1,750,000	\$ 0.79
Exercised	-	-
Cancelled	(100,000)	1.12
Outstanding, December 31, 2008	6,421,600	\$ 0.83

Exercisable, December 31, 2008	3,179,775	\$ 0.73
Granted	-	-
Exercised	-	-
Cancelled	(50,000)	1.03
Outstanding, June 30, 2009	6,371,600	\$ 0.82
Exercisable, June 30, 2009	3,436,775	\$ 0.76

The following table summarizes stock options outstanding at June 30, 2009:

Exercise price	Options outstanding			Options exercisable	
	Number of common shares	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 0.001 – 0.40	2,239,100	6.40	\$ 0.22	1,439,100	\$ 0.12
\$ 1.00 – 1.72	4,132,500	7.14	1.15	1,997,675	1.22
	6,371,600	6.88	0.82	3,436,775	0.76

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 is calculated at the grant date and amortized on a straight line basis over the vesting period of the options. The fair value of non-employee awards are estimated each reporting period until the final measurement date. There was no stock option award to employees or directors during the six month period ending June 30, 2009.

The following table summarizes assumptions used in the Black-Scholes option pricing model as of June 30, 2009 and June 30, 2008:

	Employees & Directors		Contractors	
	2009	2008	2009	2008
Dividend yield	-	0%	0%	0%
Expected volatility	-	64%	74%	62%
Risk free interest rate	-	2.96%	1.60%	3.29%
Expected life in years	-	5.00	5.00	5.00

6. Net loss per common share:

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

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Net loss for the period	(1,204,940)	(2,713,823)	(3,214,529)	(7,063,560)
Weighted average number of common shares outstanding	78,066,666	59,016,666	78,066,666	59,016,666
Net loss per common share	(0.02)	(0.05)	(0.04)	(0.12)

7. Related party transactions:

In the first quarter of 2009, the Company received US\$113,378 (CAD\$140,498) from a Senior Officer of the Company as full repayment of principal and interest on a loan granted during the fourth quarter of 2008. The loan carried an annual interest rate of 5.00%, consistent with market rates at the time of the loan and was related to the 2004 acquisition of Allon Therapeutics, Inc.



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