

LETTER TO SHAREHOLDERS

Dear Shareholders:

During the Third Quarter, your Company continued to advance its clinical and financial objectives for 2009.

Certainly, every shareholder remains vitally interested in our progress toward securing a pharmaceutical partnership for the commercialization of our lead product davunetide as a treatment for Alzheimer's disease and for the cognitive impairment associated with schizophrenia. Your management team has been focused intently on this issue and we remain confident that an appropriate deal will be struck.

We are also making significant progress toward our objective of adding value to davunetide by demonstrating its efficacy as a treatment in other diseases where we can make achieve commercial success independent of a pharma partnership. In particular, I want to provide an update on progress achieved to develop davunetide as the first effective treatment for a number of brain disorders broadly categorized as frontotemporal dementia (FTD).

No effective treatment is currently available for FTD, an aggressive form of early-onset dementia. These patients are typically between 45 and 65 years of age, are institutionalized about three years after diagnosis and die about five years after diagnosis.

About half of FTD cases have pathologies involving impairment of the brain protein tau. Our preclinical and clinical data provides strong scientific evidence that davunetide is the most advanced tau therapy in the world and may be effective in treating this population. Furthermore, we believe that FTD is an indication that would qualify for orphan drug status. Orphan drug status brings commercial benefits and patent protection that makes targeting small indications economically attractive for drug companies.

Our clinical team has expended significant effort to prepare for a clinical trial in FTD. In addition to assembling an advisory committee of the world leaders in this area, we have carefully designed the trial and investigated fully the sites where it should be run.

Patient trials will begin in the Fourth Quarter when clinical investigators at the University of California at San Francisco's (UCSF) Memory and Aging Center, one of several leading U.S. medical centres participating in Allon's FTD program, begin treating a small number of patients who have Progressive Supranuclear Palsy (PSP), one type of FTD. This study will help Allon and the clinical investigators validate the trial design and prepare for the larger Phase II clinical trial that we expect to begin early in 2010.

PSP is a degenerative brain disease that is often characterized by progressive difficulty with balance and walking, eye movement abnormalities, and cognitive and personality changes.

The pathology of Alzheimer's disease and many forms of FTD has some similarities, including the presence of altered forms of the brain protein tau. In Alzheimer's, altered tau forms tangles, part of the well-established plaques and tangles hallmarks of Alzheimer's pathology. PSP is associated with tau pathology, unlike Alzheimer's disease in which both amyloid and tau pathology is identified.

Allon has shown that decreasing the levels of impaired tau with davunetide preserved the memory of mice bred to replicate Alzheimer's or PSP pathology. Allon's preclinical studies have also shown that

davunetide preserved the memory and learning function of mice bred to replicate the impaired tau pathology associated with PSP.

We expect that efficacy in PSP will define the opportunity to use davunetide in other FTD subtypes that are tauopathies.

As I have said previously, physicians and researchers who specialize in FTD are enthusiastic about evaluating davunetide in FTD patients, primarily because about 50% of FTD and related disorders are tauopathies, or tau-related diseases — and Allon's technology is recognized as the most clinically advanced tau-related therapy.

In addition to PSP, FTD encompasses several cognitive disorders, including behavioral variant-frontotemporal dementia, semantic dementia and progressive nonfluent aphasia, and corticobasal degeneration.

Other progress during the quarter included the following:

Partnership discussions

Active discussions are continuing with several major pharmaceutical companies with the objective of completing a partnership for the development and commercialization of davunetide. The Company remains confident that positive Phase IIa clinical trial results in patients with amnesic mild cognitive impairment, a precursor to Alzheimer's disease, and in patients with schizophrenia, reported in 2008 and 2009 respectively, will lead to a partnership that values davunetide appropriately. The Company will not proceed with additional clinical trials in Alzheimer's or schizophrenia until a partnership has been concluded.

Product optimization

The Company is continuing its program to optimize the formulation of davunetide for use in future clinical trials. The optimization work is being done to enhance administration convenience and cost effectiveness prior to commercialization and involves adjusting the dosing concentrations of the drug. This process was initiated following the previously successful Phase II clinical trials and will be completed prior to commencing the Phase II clinical trial in FTD or additional trials in Alzheimer's or schizophrenia.

Pipeline opportunities

The Company continues to explore opportunities to enhance its product pipeline by in-licensing or acquiring one or more promising technologies or products that are complementary to Allon's existing pipeline and business strategy. The Company will provide updates on these discussions if and when they advance materially.

Schizophrenia data presentation

Complete results from a Phase IIa clinical trial evaluating davunetide as a treatment for the cognitive impairment suffered by schizophrenia patients will be presented in December 2009 to the annual meeting of the American College of Neuropsychopharmacology. Allon released top-line data from this trial July 9, 2009 demonstrating that davunetide had a statistically significant positive impact on the capacity of schizophrenia patients to carry out important activities in their daily lives.

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. Data from a companion study to the Phase

Ila trial that looked at changes in brain imaging in a small subset of the patients in the main trial has not yet been analyzed.

Cash management

The Company continues to manage its financial resources prudently and expects existing cash of \$13 million at September 30, 2009 will be sufficient to fund clinical and corporate activities into the first half of 2011.

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

Respectfully,

"Gordon C. McCauley"

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 nine months ended September 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.

November 9, 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 nine months ended September 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's drug, davunetide intranasal, has demonstrated human efficacy in amnesic mild cognitive impairment (aMCI), a precursor to Alzheimer's disease (AD), and in schizophrenia cognitive impairment. Allon has Phase II human efficacy programs pursuing large underserved markets, including: Alzheimer's disease, frontotemporal dementia, and schizophrenia-related 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 and davunetide intravenous, 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	Phase IIa clinical trial in amnesic mild cognitive impairment	Study completed. Data released in Q1 2008
		Phase II clinical trial in schizophrenia-related cognitive impairment	Study completed. Top-line results released in Q3 2009
		Phase II clinical trial in frontotemporal dementia	Commencement expected in Q4 2009
		Phase I human CSF pharmacokinetic clinical trial	Study completed. Data released in Q3 2008
	davunetide intravenous	Phase II clinical trial MCI-CABG	Study completed, data released Q3 2008

ADNF	AL-309	Pre-clinical stage	Pre-clinical pharmacology and toxicology ongoing
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THIRD 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, 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 was the primary outcome. Davunetide intranasal did not show significance on this measure.

RESULTS OF OPERATIONS

Allon reported a net loss of \$1,550,965 (\$0.02 per share) for the three months ended September 30, 2009, compared to a net loss of \$2,309,735 (\$0.03 per share) for the three months ended September 30, 2008, representing a decrease in net loss of \$758,770. For the nine months ended September 30, 2009, Allon reported a net loss of \$4,765,494 (\$0.06 per share), compared to a net loss of \$9,373,295 (\$0.15 per share) for the nine months ended September 30, 2008, representing a decrease in net loss of \$4,607,801. The following is a description of the significant variances from the comparable period in 2008.

RESEARCH AND DEVELOPMENT

For the three and nine months ended September 30, 2009, research and development expenses were \$715,867 and \$2,456,448 compared to \$1,673,805 and \$7,129,114 for the three and nine months ended September 30, 2008. The decline in research and development expenses resulted from a decrease in clinical trial activity. During the first nine months 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

Davunetide intranasal 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 as a treatment for amnesic mild cognitive impairment (aMCI), a precursor to Alzheimer's disease, and a Phase II clinical trial evaluating davunetide intranasal as a treatment for

schizophrenia-related cognitive impairment. Development costs for davunetide intranasal were \$0.2 million and \$0.9 million during the three and nine months ended September 30, 2009.

Alzheimer's disease

On February 26, 2008, the Company released results of a Phase IIa clinical trial showing that davunetide intranasal 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 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 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 was the primary outcome. Davunetide intranasal did not show significance on this measure. The trial was largely funded and managed by the Treatment Units for Research on Neurocognition and Schizophrenia (TURNNS).

Davunetide intravenous

On August 28, 2008, the Company released data from a Phase IIa clinical trial evaluating the potential of the Company's drug davunetide intravenous 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 nor patients given placebo were significantly impaired by the surgery — and that a single-dose of davunetide intravenous had no observable effect probably because no functional deficit was present. The trial demonstrated that davunetide intravenous was safe and well-tolerated.

The Company plans to eventually develop davunetide intravenous as a second generation Alzheimer's drug administered by another route as a complement to davunetide intranasal. The Company has not incurred any significant expenses related to davunetide intravenous in the first nine months of 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 nine months ended September 30, 2009, general and administrative expenses were \$650,527 and \$1,949,392 compared to \$872,355 and \$2,463,100 for the three and nine months ended September 30, 2008. The decrease of \$221,828 and \$513,708 compared to 2008 resulted from reduced expenditures on corporate travel and a reduction of consulting fees.

AMORTIZATION

Amortization expense for the three and nine months ended September 30, 2009 was \$136,490 and \$409,950 compared to \$136,570 and \$411,935 for the three and nine months ended September 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

The Company's other income and expenses are primarily comprised of interest income and foreign exchange gains and losses. The Company earned interest revenue of \$16,110 and \$91,714 during the three and nine months ended September 30, 2009 compared to \$142,172 and \$305,247 for the same period in 2008. Reduced interest earnings resulted from significantly lower interest rates in 2009 compared to the same period in 2008.

Foreign exchange translation loss was \$64,191 and \$41,418 for the three and nine months ended September 30, 2009. This compared to gains of \$239,701 and \$346,172 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. During the second and third quarters of 2009, the U.S. dollar declined significantly against the Canadian dollar resulting in foreign exchange losses on the Company's U.S. dollar cash and cash equivalents. This compared to foreign exchange gains in the same periods in 2008 when the U.S. dollar appreciated against the Canadian dollar. The Company also has lower amounts of U.S. dollar holdings in 2009 compared to the same period in 2008 which mitigated the effects of fluctuation in the exchange rate.

QUARTERLY INFORMATION

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

(in thousands, except per share data)

	Sep 30, 2009	Jun 30, 2009	Mar 31, 2009	Dec 31, 2008
Interest income and other income	\$ 16	\$ 32	\$ 44	\$ 130
Research and development expenses	\$ 716	\$ 542	\$ 1,199	\$ 1,505
Net loss for the quarter	\$ (1,551)	\$ (1,205)	\$ (2,010)	\$ (1,938)
Loss per share – basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.03)	\$ (0.02)

	Sep 30, 2008	Jun 30, 2008	Mar 31, 2008	Dec 31, 2007
Interest income and other income	\$ 133	\$ 52	\$ 100	\$ 162
Research and development expenses	\$ 1,674	\$ 1,691	\$ 3,765	\$ 3,294
Net loss for the quarter	\$ (2,310)	\$ (2,714)	\$ (4,350)	\$ (4,069)
Loss per share – basic and diluted	\$ (0.03)	\$ (0.05)	\$ (0.07)	\$ (0.07)

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 balances. At September 30, 2009, the Company had accumulated a deficit of \$50,214,395. 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 nine months ended September 30, 2009, operating activities used cash of \$1,504,581 and \$5,740,749 compared to \$2,602,056 and \$9,889,126 used in operations for the three and nine months ended September 30, 2008. Cash used in operating activities reflects the net loss of \$1,550,965 and \$4,765,494 for the three and nine months ended September 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 nine months ended September 30, 2009, investing activities used cash of \$2,511 and \$336,012 compared to cash provided by investing activities of \$1,068,854 and \$7,995,791 for the three and nine months ended September 30, 2008. The difference is primarily the result of the sale of short term investments during 2008 whereas there was no short term investments in 2009 as the Company's investments had shorter maturities and were classified as cash equivalents.

There was no financing activity during the first three quarters of 2009 as compared to 2008 when the Company completed a bought deal financing in the third quarter that resulted in net proceeds of \$18.4 million dollars. At September 30, 2009, the Company had cash and cash equivalents of \$13,016,738 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 and low risk investments which may include commercial paper, government bonds and money market funds and 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 biotechnology or 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 \$3.5 million of the \$13.0 million cash on hand. The Company has no off-balance sheet arrangements.

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

(in thousands)

	2009	2010	2011	2012-2013	Total
Pre-Clinical initiatives	\$ 28	\$ 176	\$ -	\$ -	\$ 204
Clinical initiatives	\$ 2,380	\$ 753	\$ 3	\$ -	\$ 3,136
Capital and Licensing	\$ -	\$ 16	\$ 16	\$ 32	\$ 64
Other	\$ 27	\$ 89	\$ -	\$ -	\$ 116
Total Company Commitments	\$ 2,435	\$ 1,034	\$ 19	\$ 32	\$ 3,520

OUTSTANDING SHARE CAPITAL

At September 30, 2009, the Company had 78,066,666 common shares outstanding. Each common share entitles the holder to one vote per share. At September 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 expire 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 nine months ended September 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 announced 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 has undertaken a preliminary analysis of the differences between IFRS and the Company's accounting policies and of the various accounting alternatives available at the changeover date. For the remainder of 2009 and into early 2010, the Company will continue to monitor IFRS standards for changes and carry out impact assessments. The Company will also make accounting policy choices and prepare its accounting system accordingly, to enable preparation of opening financial positions under IFRS for 2010. It is not practical at this time to quantify the impact of the adoption of IFRS. 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 nine months ended September 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 nine months ended September 30, 2009 and 2008

(Unaudited)

ALLON THERAPEUTICS INC.

Consolidated Balance Sheets
(Unaudited)

	September 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$13,016,738	\$19,093,499
Accounts receivable	16,690	168,350
Prepaid expenses and deposits	207,523	340,891
Drug supplies (note 3)	2,466,614	2,182,656
	<u>15,707,565</u>	<u>21,785,396</u>
Non-current assets:		
Property and equipment	35,327	48,411
Intangible assets	5,244,027	5,632,819
Drug supplies (note 3)	327,938	-
	<u>\$ 21,314,857</u>	<u>\$ 27,466,626</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 245,853	\$ 1,910,071
Shareholders' equity:		
Share capital (note 4)	69,110,562	69,110,562
Additional paid-in capital (note 4)	2,172,837	1,894,894
Deficit	(50,214,395)	(45,448,901)
	<u>21,069,004</u>	<u>25,556,555</u>
	<u>\$ 21,314,857</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"

Frank A. Holler, Director

"C. Michael O'Brian"

C. Michael O'Brian, Director

ALLON THERAPEUTICS INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit
(Unaudited)

Three and nine months ended September 30, 2009 and 2008

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Expenses:				
Research and development	\$ 715,867	\$ 1,673,805	\$ 2,456,448	\$ 7,129,114
General and administrative	650,527	872,355	1,949,392	2,463,100
Amortization	136,490	136,570	409,950	411,935
	<u>1,502,884</u>	<u>2,682,730</u>	<u>4,815,790</u>	<u>10,004,149</u>
Other expense/(income):				
Interest and other income	(16,110)	(133,294)	(91,714)	(284,682)
Foreign exchange loss/(gain)	64,191	(239,701)	41,418	(346,172)
	<u>48,081</u>	<u>(372,995)</u>	<u>(50,296)</u>	<u>(630,854)</u>
Net and comprehensive loss for the period	(1,550,965)	(2,309,735)	(4,765,494)	(9,373,295)
Deficit, beginning of period	(48,663,430)	(41,200,427)	(45,448,901)	(34,136,867)
Deficit, end of period	<u>\$(50,214,395)</u>	<u>\$(43,510,162)</u>	<u>\$(50,214,395)</u>	<u>\$(43,510,162)</u>
Loss per common share:				
Basic and diluted (note 6)	\$ (0.02)	\$ (0.03)	\$ (0.06)	\$ (0.15)

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

Consolidated Statements of Cash Flows
(Unaudited)

Three and nine months ended September 30, 2009 and 2008

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Cash provided by (used in):				
Operations:				
Net loss for the period	\$(1,550,965)	\$(2,309,735)	\$(4,765,494)	\$(9,373,295)
Items not involving cash:				
Amortization	136,490	136,570	409,950	411,935
Stock-based compensation	87,436	97,880	277,943	279,072
Unrealized loss/(gain) on short-term investments	-	8,877	-	8,780
Change in non-cash operating working capital	(177,542)	(535,648)	(1,663,148)	(1,215,618)
	(1,504,581)	(2,602,056)	(5,740,749)	(9,889,126)
Investments:				
Sales of short-term investments	-	1,079,973	-	8,012,256
Purchase of property and equipment	(2,511)	(11,120)	(8,074)	(16,466)
Purchase of drug supplies	-	-	(327,938)	-
	(2,511)	1,068,853	(336,012)	7,995,790
Financing:				
Proceeds from issuance of common shares, net of issue costs	-	18,435,976	-	18,435,976
		18,435,976		18,435,976
Increase/(decrease) in cash and cash equivalents for the period	(1,507,092)	16,902,773	(6,076,761)	16,542,640
Cash and cash equivalents, beginning of period	14,523,830	3,250,457	19,093,499	3,610,590
Cash and cash equivalents, end of period	\$13,016,738	\$20,153,230	\$ 13,016,738	\$ 20,153,230
Supplementary information:				
Interest received	\$ 16,110	\$ 74,880	\$ 127,527	\$ 239,663

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 nine months ended September 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 September 30, 2009, the Company held \$2,466,614 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 September 30, 2009.

(d) Additional paid in capital:

Additional paid in capital increased by \$87,436 during the three months ended September 30, 2009 and by \$277,943 during the nine months ended September 30, 2009 to \$2,172,837 as a result of stock-based compensation.

5. Stock-based compensation:

The Company recognized \$87,436 and \$227,943 in stock-based compensation expense for the three and nine month periods ended September 30, 2009 compared to \$97,880 and \$279,072 for three and nine month periods ended September 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 September 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 September 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, September 30, 2009	6,371,600	\$ 0.82
Exercisable, September 30, 2009	3,436,775	\$ 0.76

The following table summarizes stock options outstanding at September 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	6.15	\$ 0.22	1,439,100	\$ 0.12
\$ 1.00 – 1.72	4,132,500	6.88	1.15	1,997,675	1.22
	6,371,600	6.63	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 and expected future stock price volatility. 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 nine month period ending September 30, 2009.

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

	<u>Employees & Directors</u>		<u>Contractors</u>	
	2009	2008	2009	2008
Dividend yield	-	0%	0%	0%
Expected volatility	-	64%	75%	64%
Risk free interest rate	-	2.97%	1.65%	3.14%
Expected life in years	-	5.00	2.48	2.77

6. Net loss per common share:

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

	Three months ended September 30, 2009	Three months ended September 30, 2008	Nine months ended September 30, 2009	Nine months ended September 30, 2008
Net loss for the period	(1,550,965)	(2,309,735)	(4,765,494)	(9,373,295)
Weighted average number of common shares outstanding	78,066,666	75,167,153	78,066,666	64,439,659
Net loss per common share	(0.02)	(0.03)	(0.06)	(0.15)

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.