



Allon Therapeutics Inc.

2009 ANNUAL REPORT



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 lead drug davunetide has demonstrated human efficacy in amnesic mild cognitive impairment, a precursor to Alzheimer's disease, and cognitive impairment associated schizophrenia. Allon is proceeding in advanced clinical trials in an orphan indication, progressive supranuclear palsy (PSP), and will pursue the major markets, Alzheimer's disease

and cognitive impairment associated schizophrenia, with a pharmaceutical partner. 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.

Clinical development

	INDICATION	PRECLINICAL	PHASE 1	PHASE 2	PHASE 3
Davunetide	PSP Alzheimer's Schizophrenia	██████████	██████████	██████████	██████████
2nd generation	Dementias	██████████			
AL 309	Neuropathy	██████████			
AL 408	Neuroprotection	██████			
AL 508	Neuroprotection	██████			

Completed
 Next Steps

Phase 2a data from aMCI study provides human proof of concept for progressive supranuclear palsy and Alzheimer's disease.

HIGHLIGHTS

2009 ACHIEVEMENTS

- **April 14**
Granted U.S. patent broadens ADNF platform
- **May 28**
Granted EU patent for davunetide as treatment for Alzheimer's
- **June 25**
FTD steering committee formed to design clinical trials
- **July 9**
Successful Phase 2a top-line data showed positive impact on schizophrenia
- **October 8**
Granted Canadian patent covers new peptide AL-309
- **December 7**
Successful Phase 2a full data presented at major psychiatry meeting showed positive impact on schizophrenia

2010 Q1 ACHIEVEMENTS

- **January 7**
Granted Japanese patent with broad coverage for two platforms
- **January 12**
Granted U.S. orphan drug status for davunetide as treatment for PSP
- **January 26**
PSP pilot trial launched validating design for Phase 2 trial
- **March 4**
\$10 million standby equity deal
- **March 11**
Phase 1 trial completed which extends davunetide safety profile
- **March 17**
Granted EU orphan drug status for davunetide as treatment for PSP
- **March 30**
Successful schizophrenia imaging data davunetide triggers biomarker
- **April 6**
FDA grants Fast Track Status for davunetide as treatment for PSP

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LETTER TO SHAREHOLDERS

Dear Shareholder:

Two key achievements in 2009 and the first months of 2010 have moved Allon another significant step toward our objective of developing the first drugs to treat the causes of major neurodegenerative diseases, such as Alzheimer's disease, cognitive impairment associated with schizophrenia and other dementias.

The first achievement came from treating schizophrenia patients with our lead neuroprotective drug davunetide. Two trials demonstrated that both the daily functioning of these patients and the chemistry of their brain cells were positively impacted by davunetide. These successful results have validated davunetide's potential to be the first approved drug for cognitive impairment associated with schizophrenia (CIAS). They also add meaningfully to the evidence that this drug works well in humans and in a fashion relevant to major drug markets.

The second achievement was the commencement of our new clinical program to develop davunetide as the first approved treatment for progressive supranuclear palsy (PSP). PSP is one of a group of rapidly progressive and fatal degenerative brain diseases called frontotemporal dementia (FTD). FTD is often mis-diagnosed as Parkinson's or Alzheimer's disease.

These achievements built upon our earlier successes that included Phase 2a clinical trial data showing that davunetide had a statistically significant, dose dependent and durable effect resulting in specific memory improvement in patients with amnesic mild cognitive impairment (aMCI), a precursor to Alzheimer's disease.

We now have a track record of clinical successes, that brings hope to millions of patients and their families who battle these severe and progressive diseases, while also validating the Company's business strategy of building shareholder value by seeking positive results in different clinical indications.

Progressive supranuclear palsy (PSP): A clear path to approval

We believe we have a clear path to develop davunetide as the first approved treatment for PSP and other brain diseases involving impairment of the brain protein tau. Furthermore, we feel that PSP can qualify for approval on the basis of a single clinical trial, which means that the Phase 2 trial we intend to begin during 2010 could be the final trial necessary for approval.

We have these views for several reasons:

- 1) PSP patients have the tau pathology on which davunetide has been shown to work;
- 2) There is a rating scale accepted and validated by regulators that measures clinically relevant outcomes and that can be used in our Phase 2 clinical trial;
- 3) There are no existing efficacious therapies for these patients; and
- 4) Davunetide as a treatment for PSP has been granted Orphan Drug designation in the world's two largest pharmaceutical markets, the United States and the European Union. Davunetide has also been granted Fast Track status in the U.S. for the treatment of PSP.

PSP is devastating for thousands of middle-age patients and their families and we are deeply motivated to help them. At the same time, meeting the desperate need for a treatment is a significant business opportunity for Allon made more attractive by Orphan Drug designation.

It is also important to note that this next trial will not just provide data for a potential approval, but will also define the opportunity in other tau-related diseases, such as several other types of FTD, as well as Alzheimer's and schizophrenia.

Approximately 20,000 and 50,000 persons in the U.S. and EU respectively have PSP, which is often characterized by progressive difficulty with balance and walking, eye movement abnormalities, and cognitive and personality changes. Patients are typically diagnosed when they are between 45 and 65 years of age. PSP is associated with progressive disability and death often a little more than three years following onset. The disease is slightly more common in men than women, but there are no known geographical, occupational or racial patterns.

FTD, including PSP, gradually damages or shrinks the front of the brain - the frontal and anterior temporal lobes. Patients gradually lose the ability to behave appropriately, empathize with others, learn, reason, make judgments, communicate and carry out daily activities. FTD affects approximately 400,000 people in the EU, 250,000 Americans and 25,000 Canadians a year, or about 6.7 people per 100,000 among people ages 45 to 64. In people under age 60, FTD is the most common cause of early-onset dementia.

FTD can be mistaken for Alzheimer's disease, Parkinson's disease, or a primarily psychiatric disorder like depression, manic-depression, obsessive-compulsive disease or schizophrenia. There is no treatment that can prevent or repair the damage. The Company's clinical program in PSP/FTD builds on positive animal studies and Phase 2a human clinical trial data in patients with aMCI, a precursor to Alzheimer's. These data support the hypothesis that davunetide halts the formation of neurofibrillary tangles in brain cells caused by tau impairment.

We are pleased that one of the world's leading FTD medical teams, from the University of California San Francisco Memory and Aging Center, will be managing our initial two PSP clinical trials.

TO DATE OUR ACHIEVEMENTS IN THIS PROGRAM ARE:

- On January 12, 2010, we announced that the United States Food and Drug Administration (FDA) granted Orphan Drug designation to davunetide for the treatment of PSP.
- On January 26, 2010, we announced commencement of a pilot clinical trial sponsored by the Memory and Aging Center to validate the trial design for a larger Phase 2 PSP clinical trial scheduled to begin this year. Trial investigators are among the leading experts in the field, including Drs. Bruce Miller and Adam Boxer of the Memory and Aging Center.
- On March 11, we announced completion of a Phase 1 clinical trial that began enrolling patients January 28, 2010. The resulting data expanded the demonstrated safety range and pharmacokinetic profile of davunetide at dosage levels higher than previously used in the Company's clinical trials.
- On March 17, we announced that the EU granted Orphan Drug Status to davunetide for the treatment of PSP.
- On April 6, we announced that the FDA had granted Fast Track status to davunetide for the treatment of PSP.

As I said above, our major next step will be to begin the larger Phase 2 clinical trial in patients with PSP later this year.

Cognitive impairment associated with schizophrenia (CIAS)

The millions of people afflicted with schizophrenia suffer from psychosis, for which there are sales of approved drugs of more than \$6 billion, and from cognitive impairment, for which there are no approved drugs. Physicians and scientists who specialize in schizophrenia say this cognitive impairment is the biggest impediment to schizophrenia patients managing their lives and to making fulfilling contributions to society.

In 2009, we released Phase 2a clinical trial data showing that 12 weeks of treatment with davunetide achieved statistically significant measurable positive treatment effects in schizophrenia patients with cognitive impairment. These patients showed improvements in their functional capacity to carry out important activities in their daily lives.

The 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.

In early 2010, we released top-line results from an imaging study of the brains of schizophrenia patients showing that 12 weeks of treatment with davunetide resulted in statistically significant increased levels of a biomarker (N-acetyl aspartate, or NAA) that is an important indicator of brain cell health.

The imaging study specifically measured NAA from the dorsolateral prefrontal cortex, an area of the brain known to be affected in schizophrenia patients generally and in cognitive impairment associated with schizophrenia particularly. These results were obtained with the same davunetide doses that were shown to be therapeutic in the Phase 2a trial. Furthermore, these results appear to correlate to the behavioural outcomes that were demonstrated with davunetide in schizophrenia patients.

The imaging study was carried out by Columbia University in New York City and the New York Psychiatric Institute (NYPI), with funding from the Research Foundation for Mental Hygiene and from Allon.

Dr. Jeffrey Lieberman, chairman of the department of psychiatry at Columbia University School of Physicians and Surgeons and Director of the NYPI, said the imaging results are consistent with the hypothesis - supported by Allon's animal studies and human clinical trials - that davunetide improves brain cell function by repairing and stabilizing microtubules, the protein strands that comprise brain cell structure.

OTHER ACHIEVEMENTS

Allon's other achievements in 2009 and in early 2010 included:

Financial prudence

The Company continued its record of prudent financial management over the past year.

- At December 31, 2009, we had cash and cash equivalents of \$11 million, sufficient to execute our business plan into 2011.
- On March 4, 2010, we announced a \$10 million three-year standby equity distribution agreement (SEDA) with YA Global Master SPV Ltd., a fund managed by Yorkville Advisors, LLC. This equity facility provides us with a flexible, low-cost source of capital, in an amount and at the time of our choosing, with a built-in minimum price.

Patent protection

We continued our vigorous protection of our neuroprotection technology over the past year with additional patents granted in the U.S., the EU, Canada and Japan relating to our proprietary peptides for the treatment and prevention of neurodegenerative disease.

Industry liaison

- In November 2009, davunetide was selected as one of the Top 10 partnership candidates at the 2009 Windhover Therapeutic Areas Partnership Conference in Boston, MA. In addition, over the past year, the Company presented updates to bio investors, pharma executives and scientists at 12 international conferences.
- In February 2009, the Company's investor relations program was ranked by IR Magazine's survey of Canadian investors and analysts as the Best Overall Investor Relations Program for small-cap Canadian companies.

Going forward

While many small companies in our sector were stopped in their tracks by the economic recession of 2008-2009, we were able to continue our clinical successes and prudent financial management during this period.

Although we constantly seek to align our shareholder value with our clinical successes, we must acknowledge the shortfall that is currently reflected in the price of our shares. We believe that Allon is effectively positioned to regain this lost ground, and indeed increase our value as we progress toward approval of davunetide. We continue to focus on generating hard data -- more positive clinical results -- because these data are the one thing that defines the opportunity for approval and ultimately value in the equity market.

I am grateful for the dedication our employees, the wisdom of our directors and the support of our shareholders -- and I look forward to reporting the results of our further endeavours as they occur in the coming months.

Respectfully,

“Gordon C. McCauley”

Gordon C. McCauley
President & CEO
March 31, 2010

MANAGEMENT'S DISCUSSION & ANALYSIS

The following information should be read in conjunction with the 2009 audited consolidated financial statements and their accompanying notes for the year ended December 31, 2009. 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.

March 5, 2010

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 audited consolidated financial statements for the year ended December 31, 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, has demonstrated human efficacy in amnesic mild cognitive impairment (aMCI), a precursor to Alzheimer's disease (AD), and in cognitive impairment associated with schizophrenia (CIAS). Allon has advanced clinical development programs pursuing large underserved markets, such as Alzheimer's disease and CIAS and in orphan markets, such as frontotemporal dementias. 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. Because the two platforms are based on different proteins, the drugs from each are different molecules with different therapeutic mechanisms and distinct commercial opportunities. Clinical-stage drugs based on davunetide are derived from ADNP, while preclinical stage drug AL-309 is derived from ADNF. Davunetide is targeted at Alzheimer's disease, CIAS and frontotemporal dementia and is administered intranasally. ADNF drug candidate AL-309 is targeted for the treatment of peripheral neuropathies and has characteristics that allow it to be developed for multiple routes of administration based on bioavailability studies using oral, intranasal, or subcutaneous administration.

Mechanism of Action: The Tangles Pathway

Neuroprotection is needed in chronic degenerative conditions such as Alzheimer's disease, frontotemporal dementia and CIAS. Preventing the loss of neurons from these and other neurodegenerative conditions is the critical goal of neuroprotection.

Neurofibrillary tangles are a result of hyperphosphorylation of the tau protein which is associated with microtubule networks in neurons. Patients with Alzheimer's disease and a number of other forms of dementia have large numbers of tangles and high levels of hyperphosphorylated tau. The Company's compounds have been shown to reduce tau hyperphosphorylation and restore microtubular structure in animals. The Company's studies have also shown that animals treated with its compounds have improved cognitive performance compared to the untreated group. Neurofibrillary tangles are one of the two classic pathology hallmarks of Alzheimer's disease, while the other classic hallmark is beta amyloid plaques. Of these two hallmarks, tangles are most closely associated with cognition. The Company's compound has been shown in animal studies to reduce both tangles and plaques, with the greater reduction occurring with tangles.

Status of research and development programs

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

Platform	Compound	Stage Development	Status
ADNP	Davunetide	Phase 2 clinical trial in frontotemporal dementia	Pilot study commenced in January 2010
		Phase 2 clinical trial in CIAS	Study completed. Data released in Q4 2009
		Phase 1 human cerebrospinal fluid (CSF) pharmacokinetic clinical trial	Study completed. Data released in Q3 2008
		Phase 2a clinical trial in amnesic mild cognitive impairment	Study completed. Data released in Q1 2008
		Phase 2a clinical trial in MCI-CABG	Study completed, data released in Q3 2008
ADNF	AL-309	Preclinical stage	Preclinical pharmacology and toxicology ongoing

KEY 2009 ACHIEVEMENTS

- Released results from a Phase 2a clinical trial showing that the Company's lead neuroprotective drug candidate, davunetide, 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.
- Issuance of a Canadian patent strengthening the intellectual property underlying the Company's ADNF technology platform. The patent covers the chemical composition of the Company's preclinical-stage peptide AL-209 and its use in protecting against Alzheimer's disease and other degenerative diseases.

- 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.
- Announcement at an international Alzheimer's conference in Prague, Czech Republic, of new preclinical data confirming the potential of the Company's lead neuroprotective drug candidate davunetide intranasal as a treatment for frontotemporal dementia (FTD). The new preclinical data demonstrates that davunetide intranasal reduces the "tangle" pathology in brain cells and improves cognitive performance in mice bred to replicate two human mutations of the tau gene, both of which are found in the genetic forms of FTD.
- Issuance of a United States patent strengthening the intellectual property underlying the Company's ADNF technology platform. The patent covers the chemical composition of two component peptides and covering their use in drugs to protect brain cells from degenerative diseases.

RESULTS OF OPERATIONS

Allon reported a net loss of \$7,341,985 (\$0.09 per share) for the year ended December 31, 2009, compared to a net loss of \$11,312,034 (\$0.17 per share) for the year ended December 31, 2008, representing a year over year decrease in net loss of \$3,970,049. The following is a description of the significant variances as compared to 2008.

RESEARCH AND DEVELOPMENT

For the fiscal year ended December 31, 2009, research and development expenses were \$3,891,750 compared to \$8,634,382 for the fiscal year ended December 31, 2008. The decline in research and development expenses resulted from a decrease in clinical trial activity. During 2008, the Company had as many as three ongoing Phase 2 clinical programs, two of which were completed in 2008. The third trial was completed in 2009. Details of the Company's clinical programs are provided below.

Davunetide

Davunetide is an eight amino acid neuroprotective peptide from the ADNP platform. The Company completed a Phase 2a clinical trial in 2008 evaluating davunetide as a treatment for amnesic mild cognitive impairment (aMCI), a precursor to Alzheimer's disease (AD), and a Phase 2a clinical trial in 2009 evaluating davunetide as a treatment for CIAS. For the year ended December 31, 2009, development costs for davunetide were \$1.8 million compared to \$4.4 million for the fiscal year ended December 31, 2008. The decrease in spending was the result of the completion of the Phase 2a aMCI clinical trial in 2008 and the Phase 2a CIAS clinical trial in the first half of 2009.

Frontotemporal dementia (FTD)

On January 26, 2010, the Company announced the commencement of a pilot clinical trial in its program to develop davunetide as a treatment for frontotemporal dementia (FTD), a group of rapidly progressive and fatal degenerative brain diseases. The study is sponsored by the Memory and Aging Center of the University of California, San Francisco (UCSF). This pilot clinical study, enrolling approximately 12 patients, will help Allon and its clinical collaborators validate the trial design and prepare for a larger Phase 2 clinical trial in progressive supranuclear palsy (PSP) scheduled to begin in 2010. PSP is one of several types of FTD in which the pathology is known to involve impairment of the brain protein tau. The United States Food and Drug Administration (FDA) has granted Orphan Drug Designation to davunetide for the treatment of PSP.

Alzheimer's disease (AD)

On February 26, 2008, the Company released results of a Phase 2a clinical trial showing that davunetide intranasal has a positive impact on memory function in patients with aMCI, a precursor to AD. 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 AD program and will initiate a Phase 2b study in AD upon the completion of a partnership arrangement.

Cognitive impairment associated with schizophrenia (CIAS)

On December 7, 2009, the Company released results of a Phase 2a 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 (TURNIS).

Additional clinical trials

On August 28, 2008, the Company released data from a Phase 2a clinical trial evaluating the potential of the Company's drug davunetide, formulated intravenously, 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.

Second generation davunetide

The Company has begun work to develop a second generation davunetide product, administered by another route as a complement to the intranasal formulation of davunetide. The Company has not incurred any significant expenses related to this project in 2009.

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 year ended December 31, 2009, general and administrative expenses were \$2,840,193 compared to \$3,458,931 for the year ended December 31, 2008. The decrease of \$618,738 compared to 2008 resulted from reduced expenditures on corporate travel, reduction in consulting fees and lower compensation expense.

AMORTIZATION

Amortization expense for the year ended December 31, 2009 was \$546,766 compared to \$549,186 for the year ended December 31, 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 \$103,058 during 2009 compared to \$435,641 in 2008. Reduced interest earnings resulted from significantly lower interest rates and lower cash balances in 2009 compared to 2008.

Foreign exchange translation loss was \$175,309 for the 12 months ended December 31, 2009. This compared to gains of \$904,421 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 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 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.

SELECTED FINANCIAL INFORMATION

The following is selected financial information for Allon's three most recently completed fiscal years:

(in thousands, except per share data)

	Dec 31, 2009	Dec 31, 2008	Dec 31, 2007
Loss	\$ (7,342)	\$ (11,312)	\$ (12,681)
Loss per share – basic and diluted	\$ (0.09)	\$ (0.17)	\$ (0.24)
Total assets	\$ 20,863	\$ 27,467	\$ 19,660
Total long-term financial liabilities	\$ -	\$ -	\$ -

QUARTERLY INFORMATION

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

(in thousands, except per share data)

	Dec 31, 2009	Sep 30, 2009	Jun 30, 2009	Mar 31, 2009
Interest income and other income	\$ 20	\$ 16	\$ 32	\$ 44
Research and development expenses	\$ 1,435	\$ 716	\$ 542	\$ 1,199
Net loss for the quarter	\$ (2,576)	\$ (1,551)	\$ (1,205)	\$ (2,010)
Loss per share – basic and diluted	\$ (0.03)	\$ (0.02)	\$ (0.02)	\$ (0.03)

	Dec 31, 2008	Sep 30, 2008	Jun 30, 2008	Mar 31, 2008
Interest income and other income	\$ 130	\$ 133	\$ 52	\$ 100
Research and development expenses	\$ 1,505	\$ 1,674	\$ 1,691	\$ 3,765
Net loss for the quarter	\$ (1,938)	\$ (2,310)	\$ (2,714)	\$ (4,350)
Loss per share – basic and diluted	\$ (0.02)	\$ (0.03)	\$ (0.05)	\$ (0.07)

During the quarter ended March 31, 2008, the Company completed patient dosing and released top-line results showing a positive impact on memory function in its Phase 2a human efficacy trial in aMCI with davunetide. The Company initiated a Phase 1 human clinical trial and completed patient dosing to evaluate the pharmacokinetics of davunetide, administered both intranasally and intravenously in healthy adults and Alzheimer's patients. The Company also released pre-clinical study results demonstrating that davunetide reduces physical brain damage associated with the pathology hallmarks of Alzheimer's disease.

During the quarter ended June 30, 2008, the Company announced a \$20 million bought deal public equity financing. The Company also completed patient enrolment in the randomized portion of the Phase 2a human clinical trial evaluating davunetide as a treatment for the mild cognitive impairment (MCI) that commonly occurs following coronary artery bypass graft (CABG) surgery.

Furthermore, the Company completed dosing in a Phase 1 human clinical trial to evaluate the pharmacokinetics of davunetide, administered intranasally and intravenously in healthy adults and Alzheimer's patients. Results of pre-clinical studies were released that demonstrated the potential of its product candidate AL-309 — the lead candidate in the Company's second neuroprotection technology platform — as a treatment for peripheral neuropathy.

During the quarter ended September 30, 2008, the Company completed the \$20 million equity financing and presented human efficacy and safety data, as well as animal efficacy and pathology data, at ICAD 2008, the world's leading scientific Alzheimer's conference. The Company also released top-line data evaluating the Company's drug davunetide in a Phase 2a clinical trial in aMCI.

During the quarter ended December 31, 2008, the Company completed enrolment in the Phase 2a trial in CIAS with davunetide and was granted a U.S. patent covering composition, delivery and method of use for new neuroprotective drugs comprised of combinations of peptides from the Company's two proprietary technology platforms, ADNP and ADNF. The Company was also issued a U.S. patent covering the use of its neuroprotective drugs as potential treatments for peripheral neuropathy.

During the quarter ended March 31, 2009, the Company presented, at an international Alzheimer's conference in Prague, Czech Republic, new preclinical data confirming the potential of the Company's drug, davunetide, as a treatment for FTD. The Company was also issued a United States patent covering the chemical composition of two component peptides under the ADNF technology platform and covering their use in drugs to protect brain cells from degenerative diseases.

During the quarter ended June 30, 2009, the Company formed a special Steering Committee consisting of leading neurologists and psychiatrists to help the Company design and conduct a Phase 2 human clinical trial that will evaluate the Company's drug, davunetide, as a potential treatment for FTD. Also during the quarter, 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.

During the quarter ended September 30, 2009, the Company released top-line results from a Phase 2a clinical trial showing that the Company's drug, davunetide, 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 University of California at San Diego Performance-based Skills Assessment. 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 did not show significance on this measure.

During the quarter ended December 31, 2009, the Company was issued a Canadian patent covering the chemical composition of the Company's preclinical-stage peptide AL-209 and its use in protecting against Alzheimer's disease and other degenerative diseases. The Company also presented the Phase 2a clinical data evaluating davunetide in schizophrenia-related cognitive impairment at the American College of Neuropsychopharmacology annual meeting.

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 December 31, 2009, the Company had accumulated a deficit of \$52,790,886. 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 year ended December 31, 2009, operating activities used cash of \$8,068,107 compared to \$12,440,622 used in operations for the year ended December 31, 2008. Cash used in operating activities reflects the net loss of \$7,341,985 for the year ended December 31, 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 year ended December 31, 2009, investing activities used cash of \$22,533 compared to cash provided by investing activities of \$1,092,563 for the year ended December 31, 2008. The difference is primarily the result of the sale of short-term investments during 2008 whereas there were 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 2009 as compared to 2008 when the Company completed a bought deal financing in the third quarter that resulted in net proceeds of \$18,432,232.

At December 31, 2009, the Company had cash and cash equivalents of \$11,002,859 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 invests its cash reserve within the guidelines of the Company's investment policy, which mandates preservation of capital and maintaining liquidity while seeking the best available return.

At December 31, 2009, the Company has 3,957,430 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 \$2,982,888 and \$600,075 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. 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.

On March 3, 2010, the Company announced that it has entered into a standby equity distribution agreement with YA Global Master SPV Ltd., a fund managed by Yorkville Advisors, LLC (Yorkville). Under the terms of the agreement, Yorkville has committed to provide up to \$10 million of equity capital over the next three years, if and when drawn by the Company at the Company's discretion. The Company can terminate the agreement at any time without the payment of any additional fees. Newly issued common shares will be priced at a 5% discount to the 5-day weighted average share price of the Company's shares at the time of draw down, and are subject to a minimum price set by the Company in advance.

CONTRACTUAL OBLIGATIONS

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 future commitments account for \$1,561,005 of the \$11,002,859 million cash on hand. The Company has no off-balance sheet arrangements.

Schedule of contractual and planned commitments as of December 31, 2009

(in thousands)

	2010	2011	2012	2013-2014	Total
Pre-clinical Initiatives	\$ 153	\$ -	\$ -	\$ -	\$ 153
Clinical Initiatives	\$ 1,006	\$ 122	\$ 62	\$ -	\$ 1,190
Capital and Licensing	\$ -	\$ 16	\$ 16	\$ 32	\$ 64
Other	\$ 119	\$ 35	\$ -	\$ -	\$ 154
Total Company Commitments	\$ 1,278	\$ 173	\$ 78	\$ 32	\$ 1,561

OUTSTANDING SHARE CAPITAL

At December 31, 2009, the Company had 78,066,666 common shares outstanding. Each common share entitles the holder to one vote per share. At December 31, 2009, there were 7,152,100 options outstanding, of which 3,957,430 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 6 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.

FOURTH QUARTER

For the three months ended December 31, 2009, the Company recorded a net loss of \$2,576,491 (\$0.03 per share) compared to net loss of \$1,938,739 (\$0.02 per share) for the same period ended December 31, 2008. The quarter over quarter increase in net loss was primarily due to foreign exchange losses incurred in the fourth quarter of 2009 compared to foreign exchange gains in the fourth quarter of 2008. Research and development costs for the three months ended December 31, 2009 were \$1,435,302 compared to \$1,505,268 for the same period ended December 31, 2008. Research and development costs associated with the progression of the Company's clinical development programs are the Company's most significant expense.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed in the prescribed filings and reports filed with the Canadian securities regulatory authorities is recorded, processed, summarized and reported on a timely basis. Controls are also designed to provide reasonable assurance that information required to be disclosed is assimilated and communicated to senior management in a timely manner so that appropriate decisions can be made regarding public disclosure.

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures and concluded that they provide reasonable assurance that material information relating to the Company was made known to them and reported as required.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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. Management, including the Company's Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate ICFR, which has been developed based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's internal control over financial reporting based on the COSO framework and concluded that the Company's internal control over financial reporting was effective as of December 31, 2009.

Regardless of how well an internal control system is designed and operated, it can provide only reasonable, not absolute, assurance that all misstatements due to error or fraud will be detected or prevented from occurring in the financial statements due to the inherent limitations of any internal control system.

During the year ended December 31, 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, accrued liabilities, 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.

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 will 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.

Intangible Assets

The Company's intangible assets are comprised of purchased technology, patents and licenses. The cost of the Company's intangible assets is amortized on a straight-line basis over the estimated useful life ranging from 15 to 17 years. Factors considered in estimating the useful life of intangible assets include the expected use of the asset by the Company, legal, regulatory and contractual provisions that may limit the useful life, and the effects of competition. Costs incurred to establish and maintain patents for intellectual property developed internally are expensed in the period incurred.

The Company reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, the carrying value will be written down to its fair value and an impairment charge equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset will be recognized. As of December 31, 2009, the Company has not recorded any such impairment losses.

Clinical Trial Accounting

Clinical trial expenses relating to service agreements with contract research organizations, investigators, contractors and other service providers who conduct certain product development activities for the Company are recorded based on the estimated amount of work completed for each trial. During internal reviews, contractual terms and obligations, patient enrolment, correspondence and discussions with service providers are considered in order to estimate the amount of clinical trial expense for an accounting period.

Research and Development Costs

Research and development costs consist of direct and indirect expenditures related to the Company's clinical and pre-clinical drug development programs. Research and development costs are expensed as incurred unless they meet generally accepted accounting criteria for deferral and amortization.

Costs are assessed to determine if they have met the relevant criteria for deferral and amortization at each reporting date. To date, no development costs have been deferred.

Stock Based Compensation

Stock based compensation is accounted for in accordance with section 3870 of the CICA handbook. When equity based instruments such as stock options are issued, an estimate of fair value is derived using the Black-Scholes pricing model. The application of this pricing model requires management to estimate several variables, including the period for which the instrument is expected to be outstanding, price volatility of the Company's stock over the relevant timeframe, the determination of a relevant risk free interest rate and an assumption regarding the Company's future dividend rate policy. Changes in one or more assumptions could materially impact the value derived for these equity instruments.

At the beginning of 2008, the Company revised its estimate of the expected exercise dates from three years to five years for options granted to employees. The impact of this revision increased the fair value of options granted and overall stock based compensation expense to be booked during the vesting period, for each option granted.

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 December 24, 2009, the Emerging Issues Committee of the Accounting Standards Board issued EIC-175, Multiple Deliverable Revenue Arrangements. EIC-175 addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. The provisions in EIC-175 may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. Early adoption is permitted. The Company is currently evaluating the implications of EIC-175 on the consolidated financial statements.

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.

IFRS Conversion

In February 2008, the Accounting Standards Board (“AcSB”) of the CICA confirmed that Canadian GAAP for publically accountable enterprises will be converged with International IFRS effective in the calendar year 2011. The conversion to IFRS will be required, for the Company, for interim and annual financial statements beginning on January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

To comply with Canadian Securities Administrators Staff Notice 52-320, Disclosure of Expected Changes in Accounting Policies Relating to Changeover to IFRS, the Company has presented the following information regarding its changeover plan and progress to date, major identified differences in accounting standards and expected changes to accounting policies to allow investors and others to be informed on how the Company expects to be affected by the changeover to IFRS. This information reflects management’s most recent assumptions and expectations; however, changes to IFRS or economic conditions could change these assumptions or expectations.

	Key Activities	Timeline / Progress to Date
Accounting policies and financial reporting	Identify applicable differences between IFRS and current accounting practices	Identification of IFRS differences impacting the Company is substantially complete, pending future IFRS changes released by the IASB
	Finalize accounting policy choices and assess elective options under IFRS 1	Initial accounting policy choices and applicable elective options under IFRS 1 have been identified and presented to Audit Committee
	Quantify effects of changeover on opening balance sheet	Initial quantification to be completed in first half of 2010
	Prepare first financial statements and note disclosures under new standards	Initial drafts of comparative statements to be completed in first half of 2010
Information technology and data systems	Evaluate accounting system for changes related to the adoption of IFRS	Completed. No significant changes required.
Internal control over financial reporting	Approval of accounting policy choices and initial IFRS 1 elections	Initial accounting policy choices and applicable elective options under IFRS 1 have been reviewed by management.
	Design, implement and test controls over IFRS data produced in parallel reporting	Control procedures expected for first quarter 2010, and the CFO/CEO certification process to be updated by fourth quarter 2010.
Disclosure controls and procedures	Review and approval of IFRS disclosures	Review and approval of ongoing IFRS disclosures is part of the current disclosure approval process.
Expertise and training	Technical review of IFRS standards, IFRS 1 elections and policy choices	Senior finance staff has attended external IFRS training sessions, participated in web training sessions, and has received continuous communication from third parties, including IASB’s IFRS website.

Major identified differences

The Company has identified various IFRS standards below that differ from current accounting practices and that management expects may have a financial impact on its financial statements upon initial conversion. While the financial impact has not been quantified at this time, the following narrative discussion provides insight into the key elements of the Company's financial statements that are expected to be impacted by the changeover to IFRS.

IFRS 1, First-time Adoption of International Financial Reporting Standards, is the standard that provides guidance for creating the Company's first IFRS financial statements. The standard provides elective options in the opening balance sheet to allow financial information to be produced at a cost that does not exceed the benefits to users, and it provides mandatory exceptions to retrospective application of IFRS in certain circumstances to ensure the benefit of hindsight does not impact the integrity of historical information. At this time, the Company expects to apply the following IFRS 1 elections and exemptions in its opening balance sheet:

- Business combinations – *IFRS 3, Business Combinations*, may be applied retrospectively or prospectively. The Company will elect to prospectively apply the standard such that all business combinations prior to January 1, 2010 will not be restated to comply with IFRS 3.
- Share-based payments – *IFRS 2, Share-based payments*, encourages entities to apply the standard to all equity instruments issued, however under IFRS 1 the Company may elect not to apply IFRS 2 to equity instruments issued prior to November 7, 2002, and to equity instruments issued after November 7, 2002 that were vested prior to the date of transition.

The Company will make this election and apply IFRS 2 only to equity instruments that were issued after November 7, 2002 that had not vested prior to January 1, 2010. IFRS 2 will apply to the Company's share options that were granted after November 7, 2002, but have not vested prior to January 1, 2010, as noted above. The Company currently uses a straight-line approach to amortization of share-based compensation expense. Under IFRS 2, options that vest in installments are amortized accordingly in an accelerated format. In addition, the Company had adjusted for forfeitures as they occurred, whereas IFRS 2 will require an estimate of forfeitures on initial recognition.

- Cumulative translation differences – a first-time adopter may be exempt from complying with the requirements of *IAS 21, Foreign Exchange*, for cumulative translation differences that existed at the date of transition to IFRS. The first-time adopter may deem cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS, and the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRS. The Company will elect to deem its prior cumulative translation adjustments to be \$nil, and prospectively accumulate translation differences for its foreign operations under IAS 21 as at January 1, 2010. IAS 21 explicitly requires an entity to first determine its functional currency using explicitly prescribed tests that differ from Canadian GAAP prior to translating its financial results into the reporting currency of the consolidated entity. Under Canadian GAAP, the Company's foreign subsidiary is considered an integrated operation and therefore requires the use of temporal based accounting when translating its financial statements into Canadian dollars, the Company's reporting currency. IAS 21 does not distinguish between integrated foreign operations and self-sustaining foreign operations and requires the financial results of all foreign operations to be translated to the Company's reporting currency using an approach commonly known as the current rate method. Under the temporal method of translation only monetary assets and liabilities are translated to the reporting currency at current rates of exchange and the effect of the translation is reported as a foreign exchange gain or loss. Under the current rate method all assets and liabilities are translated to the reporting currency at current rates of exchange and the effect of the translation is reported as other comprehensive income or loss. The transitional impact of changing to the current rate method will be the revaluation of nonmonetary assets and liabilities as at January 1, 2010 for inclusion in the opening balance sheet. Subsequent to this date all changes will be recorded as other comprehensive income and their cumulative impact will be included in equity as accumulated other comprehensive income.

Presentation

Pursuant to *IAS 1, Presentation of Financial Statements*, the Company will be required to group its expenses on the income statement using a classification system based solely on function. The Company currently presents its expenses by function, with the exception of amortization of property, plant and equipment and intangibles. The Company's IFRS consolidated statement of profit or loss will allocate amortization to the relevant functional areas of research and development and SG&A expenses.

Under *IAS 1*, an entity may present comprehensive income in either a single statement of comprehensive income, or an income statement (displaying components of profit and loss) and a separate statement of comprehensive income. The Company currently presents comprehensive income and loss in the Changes in Shareholders' Equity statement. Upon adoption of IFRS, the Company will present its comprehensive income and loss in a single statement of comprehensive income.

Under *IAS 7, Statement of Cash Flows*, an entity has the choice of presenting interest revenue as either an operating activity or investing activity. The Company currently presents interest revenue under operating activity and will elect to continue presenting interest revenue under operating activity.

Under *IAS 24, Related Party Disclosures*, key management personnel compensation is disclosed in total and is analyzed by component. Comprehensive disclosures of related party transactions are required for each category of related party relationship. The Company currently does not consider management compensation as related party transactions. Upon the adoption of IFRS, the Company will disclose management compensation as part of related party disclosures.

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 audited consolidated financial statements for year ended December 31, 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.

SIGNIFICANT EQUITY INVESTEEES

As of December 31, 2009, Allon had one shareholder with more than 10% of the Company's issued and outstanding shares. NDI Capital Inc., as manager for the Neuro Discovery Limited Partnership, controls 11,490,952 shares or approximately 14.7% of the Company's issued and outstanding shares.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements contained in this annual report have been prepared by management in accordance with generally accepted accounting principles and have been approved by the Board of Directors. The integrity and objectivity of these financial statements are the responsibility of management. In addition, management is responsible for all other information in the annual report and for ensuring that this information is consistent, where appropriate, with the information in the financial statements.

In support of this responsibility, management maintains a system of internal controls to provide reasonable assurance as to the reliability of financial information and the safe-guarding of assets. The financial statements include the amounts of which are based on the best estimates and judgments of management.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and internal control and exercises this responsibility principally through the Audit Committee. The Audit Committee consists of three directors not involved in the daily operations of the Company. The Audit Committee meets with management and meets independently with the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements prior to their presentation to the Board of Directors for approval.

The external auditors, KPMG LLP, conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the consolidated financial statements. Their examination includes a review of the Company's system of internal controls and appropriate tests and procedures to provide reasonable assurance that the financial statements are, in all material respects, presented fairly and in accordance with accounting principles generally accepted in Canada. The external auditors have free and full access to the Audit committee with respect to their findings concerning the fairness of financial reporting and the adequacy of internal controls.

Allon Therapeutics Inc.

“Frank A. Holler”

Frank A. Holler
Director

“C. Michael O'Brian”

C. Michael O'Brian
Director



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Allon Therapeutics Inc. (the "Company") as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive loss and deficit, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

March 4, 2010

KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.
KPMG Canada provides services to KPMG LLP.

CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,002,859	\$ 19,093,499
Accounts receivable	22,438	168,350
Prepaid expenses and deposits	430,878	340,891
Drug supplies (note 3)	3,922,156	2,182,656
	15,378,331	21,785,396
Non-current assets:		
Property and equipment (note 4)	42,567	48,411
Intangible assets (note 5)	5,114,430	5,632,819
Drug supplies (note 3)	327,938	-
	\$ 20,863,266	\$ 27,466,626

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,290,906	\$ 1,910,071
Shareholders' equity:		
Share capital (note 6)	69,110,562	69,110,562
Contributed surplus	2,252,684	1,894,894
Deficit	(52,790,886)	(45,448,901)
	18,572,360	25,556,555
	\$ 20,863,266	\$ 27,466,626

Basis of presentation and going concern (note 1)

Commitments (note 10)

Subsequent event (note 15)

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

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

Years ended December 31, 2009 and 2008

	2009	2008
Expenses:		
Research and development	\$ 3,891,750	\$ 8,634,382
General and administrative	2,840,193	3,458,931
Amortization	546,766	549,186
	7,278,709	12,642,499
Other expense (income):		
Interest and other income	(112,033)	(423,858)
Foreign exchange (gain) loss	175,309	(904,420)
Loss (gain) on investments	-	(2,187)
	63,276	(1,330,465)
Net loss	(7,341,985)	(11,312,034)
Net loss per share:		
Basic and diluted (note 8)	\$ (0.09)	\$ (0.17)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2009 and 2008

	Share capital		Contributed Surplus	Deficit	Total Shareholders' Equity
	Number	Value			
Balance, December 31, 2007	59,016,666	\$ 50,832,635	\$ 1,369,133	\$ (34,136,867)	\$ 18,064,901
Shares issued pursuant to bought deal	19,050,000	20,002,500	-	-	20,002,500
Share issue costs, equity financing	-	(1,724,573)	-	-	(1,724,573)
Broker warrants issued as part of share issue costs	-	-	154,305	-	154,305
Stock based compensation	-	-	371,456	-	371,456
Net and comprehensive loss	-	-	-	(11,312,034)	(11,312,034)
Balance, December 31, 2008	78,066,666	\$ 69,110,562	\$ 1,894,894	\$ (45,448,901)	\$ 25,556,555
Stock based compensation	-	-	357,790	-	357,790
Net and comprehensive loss	-	-	-	(7,341,985)	(7,341,985)
Balance, December 31, 2009	78,066,666	\$ 69,110,562	\$ 2,252,684	\$ (52,790,886)	\$ 18,572,360

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Years ended December 31, 2009 and 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Net loss for the year	\$ (7,341,985)	\$ (11,312,034)
Items not involving cash:		
Amortization	546,766	549,186
Stock-based compensation	357,790	371,456
Change in non-cash operating items	(1,630,678)	(2,049,230)
	(8,068,107)	(12,440,622)
Investment:		
Sale of short-term investments	-	1,117,539
Purchase of property and equipment	(22,533)	(24,976)
	(22,533)	1,092,563
Financing:		
Proceeds from issuance of common shares, net	-	18,432,232
Increase (decrease) in cash and cash equivalents	(8,090,640)	7,084,173
Cash and cash equivalents, beginning of year	19,093,499	12,009,326
Cash and cash equivalents, end of year	\$ 11,002,859	\$ 19,093,499
Supplementary information:		
Interest received	\$ 138,871	\$ 440,772
Broker warrants issued as part of share issue costs	-	154,305

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2009 and 2008

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 will 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. On March 3, 2010, the Company announced that it has entered into a \$10 million standby equity distribution agreement. (See Note 15. Subsequent event.)

2. Significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned U.S. subsidiary. All material inter-company balances and transactions have been eliminated on consolidation. All amounts in these consolidated financial statements are expressed in Canadian dollars unless stated otherwise.

(b) Use of 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 amounts reported in the consolidated financial statement and notes thereto. 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, accrued liabilities, research and development costs and determination of the fair value of stock-based compensation. Actual results could differ from those estimates used in the preparation of the financial statements.

(c) Foreign currency translation:

The Company follows the temporal method of accounting for the translation of foreign currency amounts, including those of its integrated foreign subsidiary, into Canadian dollars. Under this method, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using exchange rates in effect at the balance sheet date.

All other assets and liabilities are translated at the applicable historical rates in effect at the date the transaction occurred. Revenue and expense items are translated at the monthly average exchange rate during the period. Foreign exchange gains and losses, both realized and unrealized, are included in the determination of the loss for the period.

(d) Cash and cash equivalents:

Cash and cash equivalents consist of highly liquid investments, with minimal interest rate risk and having an initial term to maturity of 90 days or less when acquired.

(e) Short-term investments:

Short-term investments consist of guaranteed investment certificates, bankers' acceptances and commercial paper with original terms to maturity of more than 90 days but less than one year, and are recorded at fair value.

(f) Property and equipment:

Property and equipment are recorded at cost less accumulated amortization. The Company records amortization using the straight-line method over the estimated useful lives of the capital assets as follows:

Assets	Rate
Furniture and equipment	20%
Computer hardware	45%
Computer software	45%

(g) Intangible assets:

Intangible assets acquired as part of a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values. Costs incurred to establish and maintain patents for intellectual property developed internally are expensed in the period incurred.

Intangible assets with finite useful lives are amortized over their estimated useful lives. The amortization methods and estimated useful lives of intangible assets, which are reviewed annually, are as follows:

Assets	Basis	Rate
Licenses	Straight-line	15-17 years
Patents	Straight-line	15-17 years
Medical technology	Straight-line	15 years

(h) Impairment of long-lived assets:

The Company reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of December 31, 2009, the Company has not recorded any such impairment losses.

(i) Research and development expenditures:

Research expenditures are expensed in the period incurred. Product development expenditures are expensed in the period incurred unless the product candidate meets Canadian generally accepted accounting criteria for deferral and amortization. The Company's policy is to amortize deferred product development expenditures over the expected future life of the product once product revenues or royalties are recorded. No product development expenditures have been deferred to date.

(j) Revenue recognition:

Revenue arising from cash and investments yielding interest is recognized when reasonable assurance exists regarding measurement and collectability, resulting in interest being recognized on a time proportional basis.

Grant revenue is recognized when measurable and collectible. The Company uses the income approach to account for grant revenue resulting from government assistance. Grants received to directly offset expenses incurred for a specific project are credited to expense to directly offset the expense incurred. For the year ended December 31, 2008, grant revenue totaling \$62,608 was received by the Company and netted against directly related expenses. The Company did not receive any grant revenue during 2009.

Revenue from service transactions is recognized as the service or contract activity is performed.

(k) Stock-based compensation:

The Company grants stock options to employees, directors and consultants pursuant to a compensation plan, which is described in note 7. Compensation expense is recorded for stock options issued to employees and non-employees using the fair value method with a corresponding increase in contributed surplus. Any consideration received on exercise of stock options or the purchase of stock is credited to share capital.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the equity instrument issued, and the awards are periodically re-measured during the vesting period as the options are earned. Any changes in value are recognized over the vesting period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The fair value of stock-based awards to employees is measured at the grant date and amortized over the vesting period.

(l) Net loss per share:

Net loss per common share is calculated by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. Diluted per share amounts do not differ from basic share amounts as the effect of outstanding warrants and options is anti-dilutive for all periods presented.

(m) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases ("temporary differences") and loss carryforwards. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is generally recognized in income in the period that includes the date of enactment or substantive enactment.

(n) Financial instruments:

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

The Company designated its cash, cash equivalents and short-term investments as held-for-trading which are measured at fair value. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities.

(o) 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.

(p) Future changes in accounting policies:

On December 24, 2009, the Emerging Issues Committee of the Accounting Standards Board issued EIC-175, *Multiple Deliverable Revenue Arrangements*. EIC-175 addresses some aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. The provisions in EIC-175 may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. Early adoption is permitted. The Company is currently evaluating the implications of EIC-175 on the consolidated financial statements.

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.

IFRS Conversion

In February 2008, the Accounting Standards Board ("AcSB") of the CICA confirmed that Canadian GAAP for publically accountable enterprises will be converged with International IFRS effective in the calendar year 2011. The conversion to IFRS will be required, for the Company, for interim and annual financial statements beginning on January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

The Company has identified various IFRS standards below that differ from current accounting practices and that management expects may have a financial impact on its financial statements upon initial conversion. While the financial impact has not been quantified at this time, the following narrative discussion provides insight into the key elements of the Company's financial statements that are expected to be impacted by the changeover to IFRS.

IFRS 1, First-time Adoption of International Financial Reporting Standards, is the standard that provides guidance for creating the Company's first IFRS financial statements. The standard provides elective options in the opening balance sheet to allow financial information to be produced at a cost that does not exceed the benefits to users, and it provides

mandatory exceptions to retrospective application of IFRS in certain circumstances to ensure the benefit of hindsight does not impact the integrity of historical information. At this time, the Company expects to apply the following IFRS 1 elections and exemptions in its opening balance sheet:

- Business combinations – *IFRS 3, Business Combinations*, may be applied retrospectively or prospectively. The Company will elect to prospectively apply the standard such that all business combinations prior to January 1, 2010 will not be restated to comply with IFRS 3.
- Share-based payments – *IFRS 2, Share-based payments*, encourages entities to apply the standard to all equity instruments issued, however under IFRS 1 the Company may elect not to apply IFRS 2 to equity instruments issued prior to November 7, 2002, and to equity instruments issued after November 7, 2002 that were vested prior to the date of transition. The Company will make this election and apply IFRS 2 only to equity instruments that were issued after November 7, 2002 that had not vested prior to January 1, 2010. IFRS 2 will apply to the Company's share options that were granted after November 7, 2002, but have not vested prior to January 1, 2010, as noted above. The Company currently uses a straight-line approach to amortization of share-based compensation expense. Under IFRS 2, options that vest in installments are amortized accordingly in an accelerated format. In addition, the Company had adjusted for forfeitures as they occurred, whereas IFRS 2 will require an estimate of forfeitures on initial recognition.
- Cumulative translation differences – a first-time adopter may be exempt from complying with the requirements of *IAS 21, Foreign Exchange*, for cumulative translation differences that existed at the date of transition to IFRS. The first-time adopter may deem cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS, and the gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRS. The Company will elect to deem its prior cumulative translation adjustments to be \$nil, and prospectively accumulate translation differences for its foreign operations under IAS 21 as at January 1, 2010. IAS 21 explicitly requires an entity to first determine its functional currency using explicitly prescribed tests that differ from Canadian GAAP prior to translating its financial results into the reporting currency of the consolidated entity. Under Canadian GAAP, the Company's foreign subsidiary is considered an integrated operation and therefore requires the use of temporal based accounting when translating its financial statements into Canadian dollars, the Company's reporting currency. IAS 21 does not distinguish between integrated foreign operations and self-sustaining foreign operations and requires the financial results of all foreign operations to be translated to the Company's reporting currency using an approach commonly known as the current rate method. Under the temporal method of translation only monetary assets and liabilities are translated to the reporting currency at current rates of exchange and the effect of the translation is reported as a foreign exchange gain or loss. Under the current rate method all assets and liabilities are translated to the reporting currency at current rates of exchange and the effect of the translation is reported as other comprehensive income or loss. The transitional impact of changing to the current rate method will be the revaluation of nonmonetary assets and liabilities as at January 1, 2010 for inclusion in the opening balance sheet. Subsequent to this date all changes will be recorded as other comprehensive income and their cumulative impact will be included in equity as accumulated other comprehensive income.
- Pursuant to *IAS 1, Presentation of Financial Statements*, the Company will be required to group its expenses on the income statement using a classification system based solely on function. The Company currently presents its expenses by function, with the exception of amortization of property, plant and equipment and intangibles. The Company's IFRS consolidated statement of profit or loss will allocate amortization to the relevant functional areas of research and development and SG&A expenses.
- Under IAS 1, an entity may present comprehensive income in either a single statement of comprehensive income, or an income statement (displaying components of profit and loss) and a separate statement of comprehensive income. The Company currently presents comprehensive income and loss in the Changes in Shareholders' Equity statement. Upon adoption of IFRS, the Company will present its comprehensive income and loss in a single statement of comprehensive income.

- Under IAS 7, *Statement of Cash Flows*, an entity has the choice of presenting interest revenue as either an operating activity or investing activity. The Company currently presents interest revenue under operating activity and will elect to continue presenting interest revenue under operating activity.
- Under IAS 24, *Related Party Disclosures*, key management personnel compensation is disclosed in total and is analyzed by component. Comprehensive disclosures of related party transactions are required for each category of related party relationship. The Company currently does not consider management compensation as related party transactions. Upon the adoption of IFRS, the Company will disclose management compensation as part of related party disclosures.

3. Drug supplies:

As of December 31, 2009, the Company held \$3,922,156 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. Property and equipment:

2009	Cost	Accumulated amortization	Net book value
Computer hardware	\$ 93,130	\$ 68,717	\$ 24,413
Furniture and equipment	48,277	30,789	17,488
Computer software	21,350	20,684	666
	\$ 162,757	\$ 120,190	\$ 42,567

2008	Cost	Accumulated amortization	Net book value
Computer hardware	\$ 126,225	\$ 107,055	\$ 19,170
Furniture and equipment	71,141	44,618	26,523
Computer software	21,350	18,632	2,718
	\$ 218,716	\$ 170,305	\$ 48,411

5. Intangible assets:

Intangible assets include acquired licenses, patents and medical technology acquired relating to the development of drugs to treat neurological diseases and disorders.

2009	Cost	Accumulated amortization	Net book value
Medical technology	\$ 6,643,362	\$ 2,325,202	\$ 4,318,160
Patents and licenses	1,174,037	377,767	796,270
	\$ 7,817,399	\$ 2,702,969	\$ 5,114,430

2008	Cost	Accumulated amortization	Net book value
Medical technology	\$ 6,643,362	\$ 1,882,306	\$ 4,761,056
Patents and licenses	1,174,037	302,274	871,763
	\$ 7,817,399	\$ 2,184,580	\$ 5,632,819

6. 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 7).

(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 December 31, 2009.

7. Stock-based compensation:

The Company recognized \$357,790 in stock-based compensation expense for the year ended December 31, 2009 compared to \$371,456 for the year ended December 31, 2008. Stock-based compensation expenses comprised awards granted to employees and non-employees under the Company's stock option plan.

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 December 31, 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.

During the year ended December 31, 2009, the Company granted 805,500 (2008 - 1,750,000) options with terms of ten years and vesting over three years. The options entitle holders to purchase common shares of the Company at a price of \$0.28 per share.

Stock option activity from December 31, 2007 to December 31, 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
Granted	805,500	0.28
Exercised	-	-
Cancelled	(75,000)	0.96
Outstanding, December 31, 2009	7,152,100	\$ 0.76

At December 31, 2009, the Company has 3,957,430 stock options exercisable at weighted average exercise price of \$0.75 (2008 – 3,179,775 options at \$0.73).

The following table summarizes stock options outstanding at December 31, 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	3,034,600	6.95	\$ 0.23	1,705,765	\$ 0.16
\$ 1.00 – 1.72	4,117,500	6.57	1.15	2,251,665	1.20
	7,152,100	6.73	0.76	3,957,430	0.75

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 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.

The following table summarizes assumptions used in the Black-Scholes option pricing model:

	<u>Employees & Directors</u>		<u>Contractors</u>	
	2009	2008	2009	2008
Dividend yield	0%	0%	0%	0%
Expected volatility	71%	67%	76%	69%
Risk free interest rate	2.23%	2.59%	1.60%	2.18%
Expected life in years	5.00	5.00	2.38	2.91
Fair value per share	\$0.17	\$0.39	\$0.07	\$0.15

8. Net loss per common share:

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

	2009	2008
Net loss for the period	\$(7,341,985)	\$(11,312,034)
Weighted average number of common shares outstanding	78,066,666	67,865,027
Net loss per common share	\$ (0.09)	\$ (0.17)

9. Income taxes:

Income taxes attributable to the loss for the year in these financial statements differ from amounts computed by applying the Canadian federal and provincial statutory rate of 30.0% (2008 – 30.5%) as follows:

	2009	2008
Loss before income taxes	\$ (7,341,985)	\$ (11,312,034)
Expected tax recovery	\$ 2,202,596	\$ 3,450,170
Tax effect of:		
Changes in enacted tax rates	(208,416)	(165,353)
Foreign tax rate difference	45,090	245,571
Permanent differences, foreign exchange and other	(1,161,179)	2,283,485
Change in valuation allowance	(878,091)	(5,623,171)
Income tax recovery	\$ -	\$ -

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities are:

	2009	2008
Future income tax assets and liabilities:		
Fixed assets	\$ 41,970	\$ 36,150
Intangible assets	(975,208)	(1,560,608)
Losses carried forward	12,366,415	12,547,043
Share issue costs	394,002	592,507
Scientific research and experimental development	2,185,445	1,519,441
Total gross future tax assets	14,012,624	13,134,533
Valuation allowance	(14,012,624)	(13,134,533)
	\$ -	\$ -

At December 31, 2009, the Company has non-capital losses carried forward for tax purposes which are available to reduce taxable income of future years in Canada of \$18,422,000 and in the U.S. of \$22,173,000. The losses expire as follows:

	Canada	US
2010	\$ 1,117,000	-
2014	982,000	-
2015	443,000	-
2022	-	51,000
2023	-	500,000
2024	-	1,477,000
2025	-	2,437,000
2026	3,985,000	4,706,000
2027	3,658,000	5,955,000
2028	2,596,000	4,897,000
2029	5,641,000	2,150,000
	\$ 18,422,000	\$ 22,173,000

10. Commitments:

The Company has entered into purchase, lease and licensing agreements that require minimum payments for the next five years, estimated as follows:

2010	\$	1,278,631
2011		173,134
2012		77,710
2013		15,765
2014		15,765
	\$	1,561,005

The majority of Allon's 2010 and 2011 commitments relate to contractual obligations supporting clinical initiatives.

In addition to the above commitments, the Company has a Patent License Agreement and Research and License Agreement (the Licenses) with The National Institutes of Health (NIH) and RAMOT at Tel Aviv University Ltd. respectively. Under the terms of the Licenses, the Company has obtained a worldwide exclusive license, including the right to sublicense, to use the Licensed Information and the Patents for use in the development and commercialization of therapeutics for the treatment of neurodegenerative and neurological diseases and conditions. Future royalty and milestone payments to NIH are contingent on certain clinical and commercial development milestones being achieved and future royalty payments to RAMOT are contingent on commercial sales being achieved. The Company is responsible for the development of the compounds.

11. Segmented information:

Management has determined that the Company operates in one industry segment, being the development of biopharmaceutical products. Substantially all of the Company's operations, assets and employees are located in Canada and the United States.

12. Financial Instruments:

The Company's financial instruments consists of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The fair values of cash, accounts receivable, accounts payable and accrued liabilities approximate carrying value because of the short-term nature of these instruments. Cash equivalents are classified as held for trading and their fair value is determined directly by reference to quoted market prices.

(a) Credit risk:

Cash equivalents are held in high-grade, liquid and low risk investments with minimal exposure to liquidity risk or risk of fair value changes. These financial instruments are classified as held for trading as they may periodically be traded or redeemed before their maturity date. At December 31, 2009, the Company's cash equivalents are held in money market funds with a major Canadian financial institution. The Company's accounts receivable is consisted of a receivable from the Canadian Revenue Agency relating to goods and services tax. The Company does not consider its accounts receivable as presenting any significant credit risk.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continuously monitoring forecasted and actual cash flows, as well as anticipated investing and financing activities. The Company's financial liabilities are due within ninety days. The Company does not have long-term financial liabilities.

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign currency exchange rates, will affect the Company's income or the value of the financial instruments held.

(i) Foreign currency risk:

The Company's primary market risk is the exposure to foreign currency exchange rate fluctuation. This risk arises from the Company's holdings of foreign currency denominated cash, cash equivalents and accounts payable. 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 limits its exposure to U.S. dollar foreign exchange risk by holding sufficient U.S. denominated cash and cash equivalents to satisfy near term U.S. dollar denominated liabilities and expenses.

Accounts exposed to foreign exchange risk as of December 31, 2009 are:

	US\$ Balance ¹
Cash and equivalents	\$ 3,653,042
Accounts payable	(1,958,021)
Total	\$ 1,695,021

(1) All US dollar balances are shown in Canadian dollar equivalents.

(ii) Foreign currency exchange risk sensitivity analysis:

The following table details the Company's sensitivity analysis to a 10% decline in the US Dollar on foreign currency denominated monetary items and adjusts their translation at the balance sheet date for a 10% change in foreign currency rates. For a 10% strengthening of the US Dollar against the Canadian Dollar, there would be an equal and opposite impact on net and comprehensive loss for the period.

Change in foreign exchange gain/(loss) resulting from currency fluctuations at December 31, 2009:

	10% Foreign Currency Decline
Cash and equivalents	\$ (365,304)
Accounts payable	195,802
Total	\$ (169,502)

13. Management of capital:

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 the Company nor its subsidiary are subject to any externally exposed capital requirements and the Company does not use financial ratios to manage capital.

14. 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.

15. Subsequent event:

On March 3, 2010, the Company announced that it has entered into a standby equity distribution agreement with YA Global Master SPV Ltd., a fund managed by Yorkville Advisors, LLC (Yorkville). Under the terms of the agreement, Yorkville has committed to provide up to \$10 million of equity capital over the next three years, if and when drawn by the Company at the Company's discretion. The Company can terminate the agreement at any time without the payment of any additional fees. Newly issued common shares will be priced at a 5% discount to the 5-day weighted average share price of the Company's shares at the time of draw down, and are subject to a minimum price set by the Company in advance.

CORPORATE GOVERNANCE

The Board of Directors and management of Allon Therapeutics Inc. consider good governance to be an important factor in the effective operation of the Company.

The Board has overall responsibility for conduct of the business and affairs of the Company and discharges this responsibility both directly and through delegating certain authority to committees of the Board and to senior management of the Company.

The Board regularly reviews Allon's governance practices to ensure they have kept pace with changing regulatory environments in Canada.

Please refer to the Company's management proxy circular for more information on the overall structure of the Board, its Committees and its corporate governance practices.

Board of Directors

James Miller, Ph.D. (Chair)²
President and Chief Executive Officer,
NDI Capital Inc.

Frank Holler^{1,3}
Chief Executive Officer,
Lion's Capital Corp

Anthony G. Phillips, Ph.D.^{1,2}
Professor, Faculty of Medicine at the
University of British Columbia

Prof. Illana Gozes, Ph.D.
Chief Scientific Officer,
Allon Therapeutics Inc.

Gordon C. McCauley
President & CEO,
Allon Therapeutics Inc.

Dr. Martin Barkin, FRCSC^{2,3}
Chairman of Centric Health Corporation
and Director of Northwest Healthcare
Properties REIT

Michael O'Brian^{1,3}
President, Nairbo Investments Inc.

¹ Member of Audit Committee

² Member of Governance and
Nominations Committee

³ Member of Compensation Committee

Management

Gordon C. McCauley
President & CEO

Matthew J. Carlyle, CFA
Chief Financial Officer

Bruce H. Morimoto, Ph.D.
VP, Drug Development

Alistair J. Stewart, Ph.D.
VP, Commercial Research

Prof. Illana Gozes, Ph.D.
Founder,
Chief Scientific Officer

Dr. Anthony Fox
Advisor, Clinical Development
and Regulatory Affairs

Lesley A. Parker
Director, Clinical Operations

Auditors

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Computershare Investor Services Inc.
510 Burrard Street, 2nd Floor
Vancouver, British Columbia
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Registered and Records Office

Lang Michener LLP
1500 – 1055 W. Georgia Street
Vancouver, BC V6E 4N7

Annual General Meeting

Wednesday, June 2, 2010 at 1:00 pm
The Terminal City Club
837 West Hastings Street
Vancouver, BC V6C 1B6

Contact Information

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