First Quarter Report March 31 2009

Q1

advancing in **human** trials

treating the causes of neurodegenerative disease

ALLON

LETTER TO SHAREHOLDERS

Dear Shareholders:

I am pleased to report that Allon made strong progress in the First Quarter of 2009 and we are on track to achieve our 2009 milestones, including completing a partnership with a major pharmaceutical company and advancing the Phase II clinical development of our lead neuroprotective product candidate davunetide intranasal (AL-108).

While our focus during the First Quarter was advancing our partnership negotiations and clinical trial preparations, we also added considerable value to our technology pipeline with two important developments:

Announcement at an international Alzheimer’s conference in Prague, Czech Republic, of new preclinical data confirming the potential of davunetide intranasal (AL-108) as a treatment for frontotemporal dementia (FTD). The new preclinical data demonstrates that davunetide intranasal (AL-108) 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 activity-dependent neurotrophic factor (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.

Two other events of the First Quarter advanced our business development and investor communications initiatives:

I presented the Company’s progress on our 2009 corporate and clinical milestones at the 29th Annual Cowen and Company Health Care Conference in Boston and at the 11th annual BIO CEO and Investor Conference in New York City.

Allon’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. The award was accepted by Aaron Keay, Allon’s director of investor relations, at an awards banquet in Toronto.

Your Company fully intends to continue our track record of prudent financial management — and we are confident that our existing financial resources will fund our drug development program into 2011.

I look forward to reporting our continued progress.

Respectfully,

“Gordon C. McCauley”

Gordon C. McCauley
President & CEO

MANAGEMENT'S DISCUSSION & ANALYSIS

The following information should be read in conjunction with the unaudited interim financial statements as at and for the three months ended March 31, 2009 and the audited consolidated financial statements and their accompanying notes for the year ended December 31, 2008. The financial statements listed have been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts are expressed in Canadian dollars unless otherwise specified. Additional information relating to Allon Therapeutics Inc. ("Allon" or the "Company"), including Allon's Annual Information Form (AIF) can be obtained from SEDAR at www.sedar.com.

May 13, 2009

FORWARD LOOKING STATEMENTS

This Management's Discussion & Analysis (MD&A) contains forward-looking statements that reflect the current view of the Company with respect to future events and financial performance. The forward-looking statements in this MD&A include, but are not limited to, statements regarding: the status of the Company's research and development programs; the Company's expectation regarding the progress of its clinical and pre-clinical programs; the sufficiency of the Company's financial resources to fund operations into 2011; and the Company's future funding requirements. Forward-looking statements include, but are not limited to, those statements set out in this MD&A under "Overview", "Results of Operations", "Liquidity and Capital Resources", "Critical Accounting Policies and Estimates" and "Risks and Uncertainties". The forward-looking statements in this MD&A are based on the Company's current expectations, estimates, projections and assumptions made in light of its experience and its perception of historical trends. Any such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from current expectations. The Company cautions readers that should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. The risks that could cause actual results to differ from current expectations include inherent risks in the biopharmaceutical industry, general economic conditions, government regulations, status of healthcare reimbursements, competition, failure of third parties and subcontractors, failure to recruit or retain required management and employees, reliance on collaborative partners, potential for clinical trial liability, inadequate protection of intellectual property rights, uncertainty in the Company's future financial condition and the impact of foreign currency exchange rates. For additional information with respect to certain of these risk factors, reference should be made to the "Risks and Uncertainties" section of this MD&A, to the notes to the unaudited interim consolidated financial statements as at and for the three months ended March 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 intranasal (AL-108), has demonstrated human efficacy in amnestic mild cognitive impairment (aMCI), a precursor to Alzheimer's disease (AD). Allon has Phase II human efficacy programs pursuing large underserved markets: Alzheimer's disease, frontotemporal dementia, and schizophrenia-related cognitive impairment. The Company's compounds are derived from two proprietary technology platforms, activity-dependent neuroprotective protein (ADNP) and activity-dependent neurotrophic factor (ADNF), both of which are important for normal brain function. The Company's clinical compounds, davunetide intranasal (AL-108) and davunetide intravenous (AL-208), are both derived from the ADNP platform. Pre-clinical compound AL-309 is derived from the ADNF platform. Because the two platforms are based on different proteins, the drugs from each are different molecules with different therapeutic mechanisms and distinct commercial opportunities.

Status of research and development programs

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

Platform	Compound	Stage of Development	Status
ADNP	davunetide intranasal (AL-108)	Phase IIa clinical trial amnestic mild cognitive impairment	Results showed efficacy Q1 2008
		Phase II clinical trial schizophrenia cognitive impairment	Enrolment completed Q4 2008, top-line data expected H1 2009
		Phase II study in frontotemporal dementia	Commencement expected in H2 2009
		Phase II PET study in Alzheimer's disease	Commencement expected in H2 2009
		Phase I human CSF pharmacokinetic study	Study completed, data released Q3 2008
	davunetide intravenous (AL-208)	Phase II clinical trial MCI-CABG	Data released Q3 2008
ADNF	AL-309	Pre-clinical stage	Pre-clinical pharmacology and toxicology ongoing

First Quarter 2009 Achievements

- 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 (AL-108) as a treatment for frontotemporal dementia (FTD). The new preclinical data demonstrates that davunetide intranasal (AL-108) 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 $2,009,589 ($0.03 per share) for the three months ended March 31, 2009, compared to a net loss of $4,349,737 ($0.07 per share) for the three months ended March 31, 2008, representing a decrease in net loss of $2,340,148. The following is a description of the significant variances from the comparable period in 2008.

RESEARCH AND DEVELOPMENT

For the three months ended March 31, 2009, research and development expenses were $1,198,936 compared to $3,764,608 for the three months ended March 31, 2008. The decline in research and development expenses resulted from a decrease in clinical trial activity. During the first quarter of 2008, the Company had three ongoing Phase II clinical programs, two of which were completed in the first and third quarters of 2008 respectively. Details of the Company's clinical programs are provided below.

Clinical stage compounds:

Davunetide intranasal (AL-108)

Davunetide intranasal (AL-108) is an intranasally formulated, eight amino acid neuroprotective peptide from the ADNP platform. Allon has completed a Phase II clinical trial evaluating davunetide intranasal (AL-108) as a treatment for amnestic mild cognitive impairment (aMCI), a precursor to Alzheimer's disease and has an ongoing Phase II clinical trial evaluating davunetide intranasal (AL-108) as a treatment for schizophrenia-related cognitive impairment. Development costs for AL-108 were $0.3 million during the three months ended March 31, 2009.

Alzheimer's disease

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

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

Schizophrenia-related cognitive impairment

In 2007, the Company entered into a collaboration with the Treatment Units for Research on Neurocognition and Schizophrenia (TURNS) to investigate davunetide intranasal (AL-108) as a potential treatment for cognitive impairment in schizophrenia in a Phase II clinical trial. The trial, largely funded and managed by TURNS, is a multi-center ascending dose, double-blind, placebo-controlled study of davunetide intranasal (AL-108) in chronic schizophrenia. Patient enrolment was completed by the end of 2008. The Company expects to release results of this Phase II clinical trial in schizophrenia-related cognitive impairment in the second quarter of 2009.

Davunetide intravenous (AL-208)

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

The Company plans to eventually develop davunetide intravenous (AL-208) as a second generation Alzheimer's drug administered by another route as a complement to davunetide intranasal (AL-108). The Company did not incur any significant expenses related to davunetide intravenous (AL-208) in the three months ended March 31, 2009.

Pre-clinical stage compound:

AL-309

AL-309 is a D-amino acid derivative of AL-209 from the ADNF platform. During the second quarter of 2008, the Company presented pre-clinical data that demonstrates the potential of AL-309 as a treatment for peripheral neuropathy. Among the major causes of neuropathy are diabetes and cancer chemotherapy. Further pre-clinical development is ongoing.

GENERAL AND ADMINISTRATIVE

For the three months ended March 31, 2009, general and administrative expenses were $750,685 compared to $696,052 for the three months ended March 31, 2008. The increase of $54,633 compared to 2008 resulted from higher expenditures on business development and the addition of personnel, partly offset by reduced expenditures on investor relations activity.

AMORTIZATION

Amortization expense for the three months ended March 31, 2009 was $136,612 compared to $138,489 for the three months ended March 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

For the three months ended March 31, 2009, the Company recognized other income of $76,644 compared to $249,412 for the three months ended March 31, 2008. The decrease of $172,768 was primarily due to decreased foreign exchange gain on translation of U.S. dollar balances to Canadian dollars and decreased interest earned on cash reserves.

The Company earned interest revenue of $44,560 during the three months ended March 31, 2009 compared to $98,807 for the same period in 2008. Reduced interest earnings primarily resulted from significantly lower interest rates which more than offset higher cash balances.

Foreign exchange translation gains were $33,108 for the three months ended March 31, 2009 compared to $149,828 for the same period in 2008. The Company's foreign exchange exposure is primarily limited to translation of U.S. dollar balances in cash and short-term investment accounts to Canadian dollars. Lower foreign exchange gains in 2009 was primarily due to lower amounts of U.S. dollar holdings compared to the same period of 2008.

QUARTERLY INFORMATION

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

(in thousands, except per share data)

	Mar 31, 2009	Dec 31, 2008	Sep 30, 2008	Jun 30, 2008
Interest income and other income	$ 45	$ 130	$ 167	$ 54
Research and development expenses	$ 1,199	$ 1,505	$ 1,674	$ 1,691
Net loss for the quarter	$ (2,010)	$ (1,938)	$ (2,310)	$ (2,714)
Loss per share – basic and diluted	$ (0.03)	$ (0.02)	$ (0.03)	$ (0.05)

	Mar 31, 2008	Dec 31, 2007	Sep 30, 2007	Jun 30, 2007
Interest income and other income	$ 99	$ 162	$ 246	$ 132
Research and development expenses	$ 3,765	$ 3,294	$ 2,128	$ 1,557
Net loss for the quarter	$ (4,350)	$ (4,069)	$ (3,242)	$ (2,552)
Loss per share – basic and diluted	$ (0.07)	$ (0.07)	$ (0.05)	$ (0.05)

LIQUIDITY AND CAPITAL RESOURCES

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

Revenue is currently derived from interest earned on cash and short-term investment balances. At March 31, 2009, the Company had accumulated a deficit of $47,458,489. Losses are expected to continue in the near future as the Company invests in research and development, pre-clinical studies and clinical trials. Since inception, the Company has been financed primarily from public and private sales of equity and interest earned on cash balances and short-term investments.

For the three months ended March 31, 2009, operating activities used cash of $2,718,413 compared to $4,036,388 used in operations for the three months ended March 31, 2008. Cash used in operating activities for 2009 reflects the net loss of $2,009,589 for the period adjusted for non-cash items including amortization of tangible and intangible assets, stock based compensation and changes in non-cash working capital.

For the three months ended March 31, 2009, investing activities used cash of $333,501 compared to increase to cash of $3,451,732 for the three months ended March 31, 2008. The difference is primarily the result of the sale of short term investments during the first quarter of 2008 whereas there was no short term investments during the first quarter of 2009 as the Company invested in investments with shorter maturities that were classified as cash equivalents.

There was no financing activity during the first quarter for both 2009 and 2008. At March 31, 2009 the Company had cash and cash equivalents of $16,041,586 compared to $19,093,499 of cash and cash equivalents at December 31, 2008. The company's cash equivalents are held in high-grade, liquid commercial paper, government bonds and other low risk investments which are recorded at fair value.

The Company has 3.4 million stock options exercisable at prices ranging from $.001 to $1.72 per share and 7.7 million warrants outstanding and exercisable at prices ranging from $1.05 to $1.65. If all outstanding stock options and warrants were exercised, proceeds of $2.5 million and $12.4 million would be generated respectively.

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

While advancing its clinical and pre-clinical programs, the Company has entered into contracts that will remain in effect over several reporting periods. The total current and planned commitments account for $0.8 million of the $16 million cash on hand and are primarily related to the Company's pre-clinical research initiatives. The Company has no off-balance sheet arrangements.

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

(in thousands)

	2009	2010	2011	2012-2013	Total
Pre-Clinical initiatives	$ 349	$ 345	$ 4	$ -	$ 698
Capital and Licensing	$ -	$ 19	$ 19	$ 38	$ 76
Other	$ 62	$ -	$ -	$ -	$ 62
Total Company Commitments	$ 412	$ 364	$ 23	$ 38	$ 836

OUTSTANDING SHARE CAPITAL

At March 31, 2009, the Company had 78,066,666 common shares outstanding. Each common share entitles the holder to one vote per share. At March 31, 2009, there were 6,408,300 options outstanding, of which 3,379,425 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 7,705,166 warrants outstanding, entitling holders to purchase one common share of the Company for each warrant held. Warrant exercise prices range from $1.05 to $1.65. All warrants are currently exercisable with 6,750,000 warrants expiring in May 2009, 383,666 warrants expiring in June 2009, and the remaining 571,500 warrants expiring in to July 2010.

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

RELATED PARTY TRANSACTIONS

As of March 31, 2009, the Company owed $12,500 to one of its Board members for consulting services provided to the Company in relation to general research and advancement of the Company's drug development programs. The Company plans to retain these services through 2009.

During 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.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting (ICFR) to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. During the three months ended March 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, research and development costs and determination of the fair value of stock-based compensation. Management believes that the estimates and assumptions are reasonable based upon information available at the time that these estimates and assumptions were made. Actual results could differ from those estimates used in the preparation of the financial statements. For a full description of the Company's Critical Accounting Policies and Estimates, reference should be made to the "Critical Accounting Policies and Estimates" section of the Company's annual MD&A for the year ended December 31, 2008 filed with Canadian securities regulatory authorities, which is available online at www.sedar.com.

The Company's financial statements have been prepared under the assumption that the Company will continue as a going concern. The eventual profitability of the Company and its ability to continue as a going concern is dependent upon many factors, including its ability to obtain sufficient financing, the successful development of its products, and receiving regulatory approvals. In addition, the biotechnology industry is subject to rapid and substantial technological change which could reduce the marketability of the Company's technology. The Company's existing cash resources are sufficient, in management's opinion, to fund its business into 2011 in accordance with the Company's current business plan. The Company may be required to obtain additional sources of financing in the future to continue its research activities, realize returns on its assets and discharge its liabilities in the normal course of business. There is no guarantee that the Company will be able to raise any capital through any type of offerings.

CHANGE IN ACCOUNTING POLICIES

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

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

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

In January 2009, the CICA issued Section 1582, *Business Combinations*. This Section replaces Section 1581, *Business Combinations*. Section 1582 establishes standards for the recognition of business combination.

This Section will apply to financial statements relating to the Company beginning on January 1, 2011. The Company is currently evaluating the implications of this new Section on the consolidated financial statement.

RISKS AND UNCERTAINTIES

As previously described, cash and cash equivalents on hand and interest income is expected to be sufficient to fund operations into 2011. Funding needs may, however, vary depending on a number of factors including progress in research and development, the cost associated with completing clinical trials and the regulatory approval process and the costs of enforcing and prosecuting patent claims and other intellectual property rights.

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

In general, prospects for companies in the biopharmaceutical industry may be regarded as uncertain given the nature of the industry; therefore, investments in such companies should be regarded as highly speculative. In the future, the Company will need to raise additional funds to continue research and development and clinical trials necessary for market approval. The Company cannot guarantee that financing will be available or that terms for additional financing will be favourable.

Additional information with respect to these and other risks affecting the Company is described in the section "Risk Factors" in the Company's most recent Annual Information Form filed with Canadian securities regulatory authorities. Reference should also be made to the notes to the unaudited consolidated financial statements for the three months ended March 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.

Interim Consolidated Financial Statements of

ALLON THERAPEUTICS INC.

Three months ended March 31, 2009 and 2008

(Unaudited)

ALLON THERAPEUTICS INC.

Consolidated Balance Sheets
(Unaudited)

	March 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	$ 16,041,586	$19,093,499
Accounts receivable	18,425	168,350
Prepaid expenses and deposits	211,653	340,891
Drug supplies (note 3)	2,175,563	2,182,656
	18,447,227	21,785,396
Non-current assets:		
Property and equipment	46,960	48,411
Intangible assets	5,503,221	5,632,819
Drug supplies (note 3)	327,938	-
	$ 24,325,346	$ 27,466,626
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 678,018	$ 1,910,071
Shareholders' equity:		
Share capital (note 4)	69,110,562	69,110,562
Additional paid-in capital (note 4)	1,995,255	1,894,894
Deficit	(47,458,489)	(45,448,901)
	23,647,328	25,556,555
	$ 24,325,346	$ 27,466,626

Basis of presentation and going concern (note 1)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"Frank A. Holler"

Frank A. Holler, Director

"C. Michael O'Brian"

C. Michael O'Brian, Director

ALLON THERAPEUTICS INC.

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

Three months ended March 31, 2009 and 2008

	2009	2008
Expenses:		
Research and development	$ 1,198,936	$ 3,764,608
General and administrative	750,685	696,052
Amortization	136,612	138,489
	2,086,233	4,599,149
Other expense (income):		
Interest and other income	(43,536)	(99,584)
Foreign exchange gain	(33,108)	(149,828)
	(76,644)	(249,412)
Net and comprehensive loss for the period	(2,009,589)	(4,349,737)
Deficit, beginning of period	(45,448,901)	(34,136,867)
Deficit, end of period	$ (47,458,489)	$ (38,486,604)
Net loss per share:		
Basic and diluted (note 6)	$ (0.03)	$ (0.07)

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

Consolidated Statements of Cash Flows
(Unaudited)

Three months ended March 31, 2009 and 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Net loss for the period	$(2,009,589)	$(4,349,737)
Items not involving cash:		
Amortization	136,612	138,489
Stock-based compensation	100,361	86,781
Unrealized gain on short-term investments	-	(777)
Change in non-cash operating working capital	(945,797)	88,856
	(2,718,413)	(4,036,388)
Investments:		
Sale of short-term investments	-	3,453,726
Purchase of property and equipment	(5,563)	(1,994)
Purchase of drug supplies	(327,938)	-
	(333,501)	3,451,732
Financing:	-	-
Decrease in cash and cash equivalents for the period	(3,051,914)	(584,656)
Cash and cash equivalents, beginning of period	19,093,499	3,610,590
Cash and cash equivalents, end of period	$ 16,041,586	$ 3,025,934
Supplementary information:		
Interest received	$ 63,023	$ 118,089

See accompanying notes to consolidated financial statements.

1. Basis of presentation and going concern:

Allon Therapeutics Inc. ("Allon" or the "Company") is a public company incorporated under the Canada Business Corporations Act. Allon is a biopharmaceutical company engaged in the development of drugs to treat neurodegenerative diseases and disorders.

The accompanying financial statements have been prepared under the assumption that the Company will continue as a going concern. The eventual profitability of the Company and its ability to continue as a going concern is dependent upon many factors, including its ability to obtain sufficient financing, the successful development of its products, and receiving regulatory approvals. In addition, the biotechnology industry is subject to rapid and substantial technological change which could reduce the marketability of the Company's technology. The Company's existing cash resources are sufficient, in management's opinion, to fund its business into 2011 in accordance with the Company's current business plan. The Company may be required to obtain additional sources of financing in the future to continue its research activities, realize returns on its assets and discharge its liabilities in the normal course of business. There is no guarantee that the Company will be able to raise any capital through any type of offerings.

2. Significant accounting policies:

These unaudited interim consolidated financial statements are prepared following accounting policies and methods of their application consistent with the Company's audited annual financial statements for the year ended December 31, 2008 except as described in (a) below. These unaudited interim consolidated financial statements do not include all note disclosures required by Canadian generally accepted accounting principles (Canadian GAAP) for annual financial statements, and therefore should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2008 included in the Company's 2008 Annual Report. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the results for the full year.

(a) Adoption of new accounting standards:

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

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

(b) Future changes in accounting policies:

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

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

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

3. Drug supplies and other long term assets:

As of March 31, 2009, the Company held $2,175,563 of drug supplies to be used within the next twelve months and as a result, they are recorded as current assets in the Company's consolidated balance sheet.

During the quarter ended March 31, 2009, the Company acquired additional drug supplies of $327,938 to be used in future clinical trials. These drug supplies are not expected to be utilized within the next twelve months and are recorded as non-current assets.

4. Share capital:

(a) Authorized:

Unlimited voting common shares without par value

Unlimited preferred shares, issuable in series

(b) Equity financing:

On July 15, 2008, Allon completed a bought deal public offering of common shares. Allon issued 19,050,000 common shares at a price of $1.05 per common share, resulting in gross proceeds to Allon of $20,002,500 less cash issue costs of $1,570,268 for net cash proceeds of $18,432,232. The Company also issued warrants to the underwriters recorded in the amount of $154,305 as additional costs of the offering. These warrants were valued using the Black-Scholes option pricing model with an expected life of two years and other assumptions consistent with the valuation of stock-based compensation (see Note 5).

(c) Warrants:

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

As part of a private placement, the Company issued 7,133,666 share purchase warrants on May 29 and June 22, 2007 in conjunction with the equity financing. Each whole warrant will entitle the holder thereof to purchase one common share at an exercise price of $1.65 for a term of 24 months following the date of issue.

As of March 31, 2009 the Company had warrants outstanding to acquire 7,705,166 common shares at prices ranging from $1.05 to 1.65 which would result in proceeds of $12,370,624 if they were exercised in full.

(d) Additional paid in capital:

Additional paid in capital increased by $100,361 to $1,995,255 as a result of stock based compensation booked during the three month period ended March 31, 2009.

5. Stock-based compensation:

The Company recognized $100,361 in compensation expense for the three months ended March 31, 2009 and $86,781 for the same period ended March 31, 2008, both relating to awards granted to employees and non-employees under its stock option plan.

Stock options:

The Company's Stock Option Plan ("the Plan"), provides for the granting of options for the purchase of common shares of the Company at a purchase price not less than the fair market value of the Company's stock at the grant date. Stock options are granted to both employees and non-employees. The Company's Board of Directors has discretion as to the number, vesting period, and expiry dates of stock options granted.

The Plan is based on a rolling percentage of options issuable of up to 10% of the Company's outstanding common shares. As of March 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 three-month periods ended March 31, 2009 and March 31, 2008, the Company did not grant any options.

Stock option activity from December 31, 2007 to March 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
Exercisable, December 31, 2008	3,179,775	$ 0.73
Granted	-	-
Exercised	-	-
Cancelled	13,300	1.07
Outstanding, March 31, 2009	6,408,300	$ 0.83
Exercisable, March 31, 2009	3,379,425	$ 0.75

The following table summarizes stock options outstanding at March 31, 2009:

	Options outstanding			Options exercisable	
Exercise price	Number of common shares	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
$ 0.001 – 0.40	2,239,100	6.65	$ 0.22	1,439,100	$ 0.12
$ 1.00 – 1.72	4,169,200	7.32	1.15	1,940,325	1.22
	6,408,300	7.09	0.83	3,379,425	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 highly subjective assumptions including the expected life of the option, expected future stock price volatility and fair value of the Company's stock at the date of grant of the stock options. Changes in these assumptions can materially affect the estimated fair value of the Company's stock options.

The estimated fair value of options granted to the Company's employees and directors is calculated at the grant date and amortized on a straight line basis over the vesting period of the options. The fair value of non-employee awards are estimated each reporting period until the final measurement date. There was no stock option award to employees or directors during the three month periods ending March 31, 2009 and March 31, 2008.

The following table summarizes assumptions used in the Black-Scholes option pricing model for non-employees for the respective three month periods ending March 31, 2009 and March 31, 2008:

	Contractors	
	2009	2008
Dividend yield	0%	0%
Expected volatility	73%	62%
Risk free interest rate	1.29%	3.11%
Expected life in years	5.00	5.00

6. Net loss per common share:

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

	Three months ended 2009	Three months ended 2008
Net loss for the period	$(2,009,589)	$(4,349,737)
Weighted average number of common shares outstanding	78,066,666	59,016,666
Net loss per common share	(0.03)	(0.07)

7. Related party transactions:

As of March 31, 2009, included in accounts payable and accrued liabilities are $12,500 owed to a Board member of the Company for consulting services provided to the Company in relation to general research and advancement of the Company's drug development programs. The Company plans to retain these services throughout 2009.

During 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.

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