

advancing in **human** trials
treating the causes of neurodegenerative disease

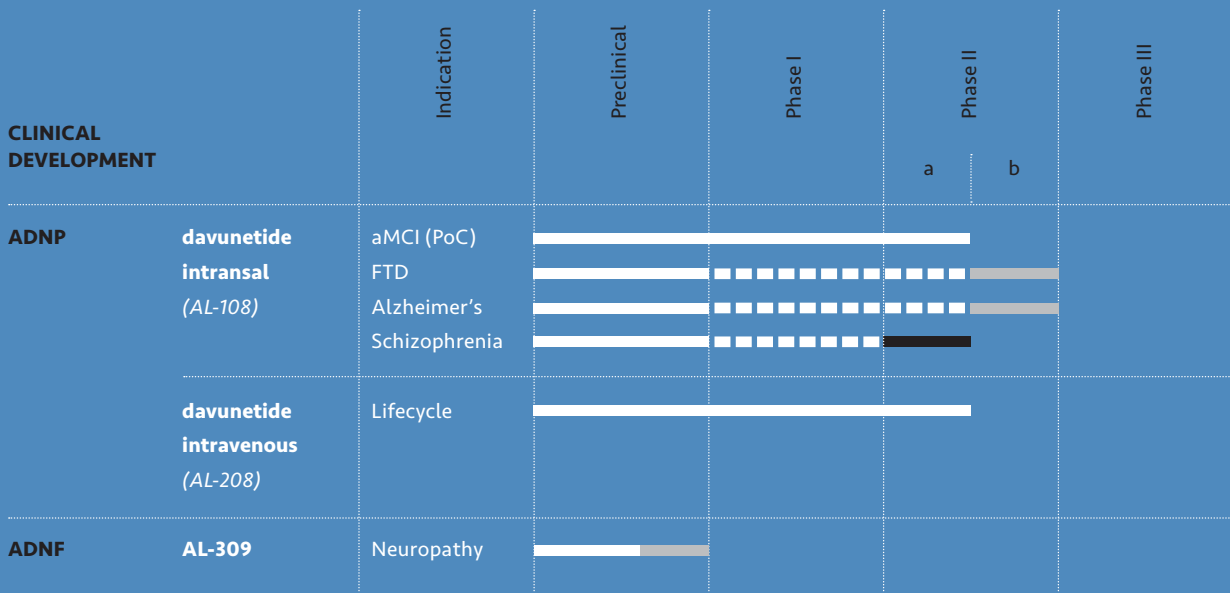


CORPORATE PROFILE

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 amnesic mild cognitive impairment, a precursor to Alzheimer’s disease.

Allon has Phase II human efficacy programs pursuing large underserved markets: Alzheimer’s disease, frontotemporal dementia, and schizophrenia-related cognitive impairment.

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



Completed
 On-going
 Next steps

The Phase IIb studies in FTD and Alzheimer’s are based on the data generated in the Phase IIa trial in aMCI. The Phase II study in Schizophrenia is based on the data generated in Phase I trials with davunetide intranasal.

Highlights

2008 ACHIEVEMENTS

FEBRUARY 26 > Achieved human efficacy and demonstrated safety in Phase IIa trial of davunetide intranasal (AL-108) in patients with amnesic mild cognitive impairment (aMCI), a precursor to AD.

JUNE 10 > Granted a United States patent for composition of AL-309, lead compound from Allon's second technology platform, activity-dependent neurotrophic factor (ADNF).

JULY 15 > Completion of \$20 million equity financing.

JULY 28-30 > Presented positive clinical data at ICAD 2008, validating the therapeutic potential of addressing the "tangles" component of the classic Alzheimer's "plaques and tangles" pathology.

AUGUST 12 > Pharmacokinetics study confirmed that davunetide intranasal (AL-108) and davunetide intravenous (AL-208) penetrate the brains of healthy adults and Alzheimer's patients in sufficient quantities to enable a therapeutic effect.

OCTOBER 7 > Granted a U.S. patent covering peptides combined from Allon's two technology platforms.

NOVEMBER 18 > Granted U.S. patent for potential treatments for peripheral neuropathy.

2009 MILESTONES

> Execute a partnership agreement with a major pharmaceutical company.

> Commence a Phase IIb clinical trial in Alzheimer's disease with a partner.

> Initiate a Phase II clinical trial in patients with frontotemporal dementia.

> Initiate a Phase II PET clinical trial in Alzheimer's disease patients.

> Announce top-line results from the Phase II clinical trial in schizophrenia-related cognitive impairment.

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2 **Letter** to Shareholders

Your Company had an outstanding year in 2008. In particular, we made dramatic progress in our mission to develop



GORDON C. McCAULEY President and CEO

a meaningful and disease-modifying therapy for Alzheimer's disease — something badly needed by Alzheimer's patients, and their families, for whom no effective therapy exists.

VALIDATING THE “TANGLES” PATHOLOGY

Our most significant achievement resulted in acknowledgment from Alzheimer’s disease physicians and researchers that our drugs were leading candidates to be the first treatments that could slow the progression of Alzheimer’s.

This acknowledgment resulted from the release of our human efficacy data in February 2008 from our Phase IIa clinical trial in patients with amnesic mild cognitive impairment (aMCI), a precursor to Alzheimer’s disease. This data set showed a statistically significant, dose dependent, and durable effect of davunetide intranasal (AL-108) resulting in specific memory function improvement in these patients.

Subsequently, we were invited to present our human and animal data last summer to the International Conference on Alzheimer’s Disease and Related Disorders (ICAD 2008), the world’s largest Alzheimer’s conference.

Our presentations validated the therapeutic potential of addressing the “tangles” component of the classic Alzheimer’s “plaques and tangles” pathologies. Plaques and tangles are the two characteristic hallmarks of Alzheimer’s disease observed in the brains of patients. Our presentations also established Allon’s technology as the most clinically advanced therapy related to the tau protein, and the only technology that can prevent the formation of tangles.

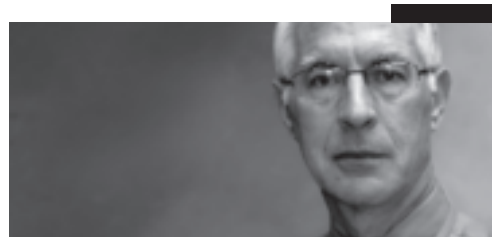
Allon’s preclinical studies showed that administration of our drug reduces the tau hyperphosphorylation process that leads to tangles. Davunetide also improved cognition in these studies demonstrating that reduction of tau hyperphosphorylation is associated with improved brain function.

FUNDING FOR CLINICAL DEVELOPMENT INTO 2011

On the strength of this data set, we successfully completed a \$20 million equity financing in July.

Fortunately, this financing was completed only a couple of months before the international financial crisis seized the equity markets for billion dollar companies and emerging biotechs alike. As a result, our Company entered 2009 with one of the strongest balance sheets in our sector.

Allon has an established track record of prudent financial management — and we are confident that our existing financial resources will fund our drug development program into 2011.



THIS POSITIVE AMCI CLINICAL TRIAL DATA MAKES DAVUNETIDE INTRANASAL (AL-108) THE FIRST DRUG TO VALIDATE IN HUMANS THE POTENTIAL OF THE ‘TANGLE’ PATHWAY IN MEMORY DISORDERS PRESENT IN ALZHEIMER’S DISEASE.

*DONALD E. SCHMECHEL, MD
Duke University Medical Center
The Fall Neurological and
Memory Center*

PARTNERSHIP NEGOTIATIONS ON TRACK IN 2009

World economic events did interfere with our efforts to conclude a drug development partnership with a major pharmaceutical company, our third major objective in 2008.

We remain actively engaged in this process and are confident that major pharmaceutical companies are keenly interested in our neuro-protection drugs and technology. We believe that we will conclude a partnership in 2009.

OTHER 2009 INITIATIVES

We believe it would not be prudent to take the next major step in our Alzheimer's disease program — a Phase IIb trial in Alzheimer's disease patients — without a partner. However, we will continue to add significant value to davunetide intranasal (AL-108) in 2009 while we finalize a partnership.

We intend to initiate a Phase II trial using positron emission tomography (PET scans) to evaluate how the activity of brains of Alzheimer's disease patients responds to davunetide intranasal (AL-108). This will add significantly to the understanding of the pharmacodynamics of davunetide intranasal (AL-108).

We will also undertake a Phase II clinical trial to evaluate davunetide intranasal (AL-108) in frontotemporal dementia (FTD). FTD describes several cognitive disorders that strike people in their prime, typically 45 to 65 years of age, is characterized by rapid decline and death often within five years of diagnosis, and for which no treatment exists.

Physicians and researchers who specialize in FTD have told us they are enthusiastic about evaluating davunetide intranasal (AL-108) in FTD patients, primarily because approximately 50% of the FTD disorders are tauopathies, or tau-related diseases — and Allon's technology is recognized as the most clinically advanced tau-related therapy.

One of the foremost of these FTD specialists is Dr. Bruce Miller, Professor of Neurology and Director of the University of California San Francisco Memory and Aging Center. Dr. Miller believes that over the past 10 years FTD has emerged as the most common cause of early-onset dementia in people under the age of 60 years, outstripping even Alzheimer's disease in prevalence.

We agree with Dr. Miller and believe that there is also a meaningful commercial opportunity for Allon in FTD.

Beyond these specific clinical milestones, the Company will not advance further programs until the financial climate has improved. These days the only added value recognized by the marketplace is human clinical progress. Therefore, we will continue to advance our clinical-stage assets, reduce non-essential costs, and examine ways to broaden our pipeline without impacting our clinical milestones or cash.

SCHIZOPHRENIA TRIAL RESULTS

The Company expects to announce top-line results in the first half of 2009 from a Phase II clinical trial evaluating the efficacy and safety of davunetide intranasal (AL-108) in patients with schizophrenia-related cognitive impairment. Patient enrolment was completed in the fourth quarter of 2008. This trial is being managed and funded largely by TURNS (Treatment Units for Research on Neurocognition and Schizophrenia) with support from the U.S. National Institute of Mental Health.

A YEAR OF CONTRAST

The past year has been one of dramatic and unprecedented contrast. We have seen significant achievement by Allon’s team but at the same time we’ve seen a substantial reduction in our market capitalization resulting from the historic declines of the world’s financial markets.

We’re confident that our culture of prudent financial management will see us through this economic turmoil. Specifically, we will continue our sharp focus on clinical progress of our lead product candidates, manage our costs even more aggressively than we have to date, and evaluate opportunities to crystallize some of the value we’ve created and to broaden our portfolio. Ultimately, our goal is to serve patients and families who struggle every day with debilitating neurodegenerative disease.

Through all of this uncertainty, I have been impressed by and deeply grateful for the tremendous commitment of our employees, the wise guidance of our directors, and the perseverance and support of our shareholders.

We believe that our strategy, technology, finances, and people are aligned correctly to continue to advance our drugs in 2009 and I look forward to reporting on this progress in the coming months.

Respectfully,
 “Gordon C. McCauley”

Gordon C. McCauley
 President & CEO
 March 6, 2009

SIGNIFICANT 2008 MEDIA COVERAGE



I AM VERY EXCITED ABOUT THIS NEW TREATMENT. ACTUALLY, A LOT OF THE EXPERTS HERE IN CHICAGO ARE VERY EXCITED. THIS APPROACH FOR FIRST TIME TARGETS THE FIBROUS TANGLES...”

MARIE SAVARD, MD
 ABC News Medical Contributor

Management's Discussion and Analysis

The following information should be read in conjunction with the 2008 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.

MARCH 6, 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 audited consolidated financial statements for the year ended December 31, 2008 and to the Company's 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, davunetide¹ intranasal (AL-108), has demonstrated human efficacy in amnesic 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.

¹ The United States Adopted Name Council (USAN) has assigned the official generic name "davunetide" to the Company's lead neuroprotective compound NAP. NAP is an eight amino acid peptide, Asn-Ala-Pro-Val-Ser-Ile-Pro-Gln, single letter code NAPVSIQ (NAP), derived from the Company's ADNP platform.

The Company will hereafter refer to NAP as devunetide (NAP). AL-108, the Company's intranasal formulation of NAP, will be known as davunetide intranasal (AL-108). AL-208, the Company's intravenous formulation of NAP, will be known as davunetide intravenous (AL-208)

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.

MECHANISM OF ACTION: THE TANGLES PATHWAY

Neuroprotection is needed in chronic degenerative conditions such as Alzheimer's disease, frontotemporal dementia and schizophrenia-related cognitive impairment. Preventing the loss of neurons, even in the face of significant damage, 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 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. The Company's compound has been shown in animal studies to reduce both tangles and plaques – and that of these two hallmarks, tangles are most closely associated with cognition.

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 amnesic mild cognitive impairment	Results showed efficacy Q1 2008
		Phase II clinical trial schizophrenia-related cognitive impairment	Enrolment initiated Q3 2007, 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
	Davunetide intravenous (AL-208)	Phase I human CSF pharmacokinetic study	Study completed, data released Q3 2008
		Phase II clinical trial MCI-CABG	Data released Q3 2008
PLATFORM	COMPOUND	STAGE OF DEVELOPMENT	STATUS
ADNF	AL-309	Pre-clinical stage	Pre-clinical pharmacology and toxicology ongoing

KEY 2008 ACHIEVEMENTS

- > Released top-line results of a Phase IIa clinical trial showing that davunetide intranasal (AL-108) improved specific memory functions in patients with amnesic mild cognitive impairment (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 (AL-108) was safe and well tolerated by patients.
- > Completed a \$20 million equity financing through a bought deal public offering of common shares, assuring the Company the resources to fund its operations into 2011.
- > Presented at the International Conference on Alzheimer's Disease and Related Disorders (ICAD 2008) the Phase IIa aMCI trial human efficacy data as well as animal data showing that davunetide intranasal (AL-108) reduced the classic AD "tangles" pathology and also increased memory function. The presentations validated the therapeutic potential of addressing the "tangles" component of the classic AD "plaques and tangles" pathologies.
- > Completed a pharmacokinetics study confirming that the Company's clinical stage drugs davunetide intranasal (AL-108) and davunetide intravenous (AL-208) penetrate the blood brain barrier of healthy adults and AD patients in sufficient quantities to enable a therapeutic effect on AD and other neurodegenerative diseases.
- > Received a United States patent that covers the composition of AL-309, a novel neuro-protective compound that is derived from Allon's proprietary technology platform, ADNF.
- > Received a U.S. patent covering composition, delivery and method of use for new neuro-protective drugs comprised of combinations of peptides from the Company's two proprietary technology platforms, ADNP and ADNF.
- > Received a U.S. patent covering the use of the Company's neuroprotective drugs as potential treatments for peripheral neuropathy. The Company's animal studies have shown that product candidate AL-309 not only reduced the pain symptoms associated with neuropathy but also decreased nerve damage.

RESULTS OF OPERATIONS

Allon reported a net loss of \$11,312,034 (\$0.17 per share) for the year ended December 31, 2008 compared to a net loss of \$12,681,350 (\$0.24 per share) for the year ended December 31, 2007, representing a year over year decreased loss of \$1,369,316. The following is a description of the significant variances as compared to 2007.

RESEARCH AND DEVELOPMENT

For the fiscal year ended December 31, 2008, research and development expenses were \$8,634,382 compared to \$9,091,320 for the fiscal year ended December 31, 2007. The decline in research and development expenses results from the decrease in clinical trial activity in the second half of 2008, partly offset by higher patent expenses. In 2007, the Company had three ongoing Phase II clinical programs, two of which were fully funded by the Company. Two of the three clinical programs were completed during 2008, in the first and third quarters respectively. Details of the 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 mild cognitive impairment, 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 \$4.4 million during the twelve months ended December 31, 2008.

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.

A significant, dose-dependent and durable improvement was seen in two key cognitive tests: delayed match-to-sample and digit span. These tests are widely recognized and validated as effective measures of memory function. The high dose (15 mg twice daily) group showed a 62.4% improvement from baseline ($p=0.038$, versus placebo) in the delayed-match-to-sample test by the end of the trial. Similarly, the high dose group showed a 17.2% increase from baseline ($p=0.028$, versus placebo) in the digit span test.

The trial was a double-blind, randomized, placebo-controlled, multiple-dose study to evaluate the safety, tolerability and effect on cognitive function of davunetide intranasal (AL-108) after 12 weeks of intranasal administration in patients with aMCI.

The trial was conducted at 15 sites in the United States in 144 patients aged 55 to 85 years and evenly divided between genders. Three groups of patients received either placebo, low dose of davunetide intranasal (AL-108) (5 mg once a day) or high dose (15 mg twice a day) intranasally for 12 weeks. Completion of patient enrolment was announced on October 2, 2007. The mean age was 69.4 years for the entire population and roughly consistent through the three arms (placebo: 70; low: 69.4; high: 68.9). Drug compliance was between 94% and 100% of the doses defined by the protocol. The drop-out rate for the study was 13%, with higher rates in the placebo and low dose groups than the high dose group.

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. Patient enrolment began during the third quarter of 2007 and was completed by the end of 2008. 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. TURNs was created by the U.S. National Institute of Mental Health (NIMH) to identify drugs that improve cognition and that can be combined with anti-psychotic drugs to control the psychotic episodes that characterize schizophrenia. The Company expects to release results of this Phase II clinical trial in schizophrenia-related cognitive impairment in the first half 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 (MCI) 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. Approximately two weeks after surgery, patients in both the treated and placebo groups performed at a level similar to age-matched normal adults on executive function and memory tests.

The trial demonstrated that davunetide intravenous (AL-208) was safe and well-tolerated. The overall incidence of adverse events was similar between the placebo and davunetide intravenous (AL-208) groups (60% versus 61%) and the majority of the adverse events were mild to moderate in intensity.

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The Company plans to develop davunetide intravenous (AL-208) as a second generation Alzheimer's drug administered by another route as a complement to davunetide intranasal (AL-108). Development costs for davunetide intravenous (AL-208) were \$1.3 million during the year ended December 31, 2008.

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.

Previous pre-clinical studies confirmed that AL-309 passes through both the intestinal wall and blood brain barrier and that effective concentrations can be detected for extended periods of time.

During the third quarter of 2008, the Company incurred additional patent expenses of \$349,713 as a result of obtaining additional rights to the ADNF platform.

GENERAL AND ADMINISTRATIVE

For the year ended December 31, 2008, general and administrative expenses were \$3,458,931 compared to \$2,633,847 for the year ended December 31, 2007. The increase of \$825,084 compared to 2007 primarily resulted from additional business development and investor relations activity, and the addition of personnel.

AMORTIZATION

Amortization expense for the fiscal year ended December 31, 2008 was \$549,186 compared to \$546,288 for the fiscal year ended December 31, 2007. Allon depreciates tangible assets and intellectual property on a straight-line basis. The \$2,898 year over year increase primarily resulted from acquiring more fixed assets.

OTHER (INCOME)/EXPENSES

For the year ended December 31, 2008, the Company recognized other income of \$1,330,465 compared to other expenses of \$409,895 for the year ended December 31, 2007. The increase of \$1,740,360 is primarily due to increased foreign exchange gain on translation of U.S. balances to Canadian dollars, partly offset by decreased interest earned on cash reserves.

The Company earned interest and other income of \$423,858 for the year ended December 31, 2008 compared to \$648,827 for the same period ended December 31, 2007. Lower interest revenues are attributed to decreased interest rate.

Foreign exchange translation gains were \$904,421 for the year ended December 31, 2008 compared to losses of \$1,058,722 for the same period ended December 31, 2007. 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. The increased gains primarily occurred during the second half of 2008 when the Canadian dollar weakened significantly relative to the U.S. dollar resulting in foreign exchange gains on the Company's U.S. dollar cash and short-term investments, compared to the same period in 2007 when the Canadian dollar appreciated significantly against the U.S. dollar resulting in foreign exchange losses on the Company's U.S. dollar cash and short-term investments. The Company's policy is to maintain sufficient U.S. dollar denominated cash, cash equivalent and short-term investment balances to match its near term anticipated U.S. dollar operating expenses. Foreign exchange risks are detailed further under Note 12 of the Company's Consolidated Financial Statements.

SELECTED FINANCIAL INFORMATION

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

<i>(in thousands, except per share data)</i>	DEC 31, 2008	DEC 31, 2007	DEC 31, 2006
Loss	\$ (11,312)	\$ (12,681)	\$ (9,184)
Loss per share – basic and diluted	\$ (0.17)	\$ (0.24)	\$ (0.26)
Total assets	\$ 27,467	\$ 19,660	\$ 17,467
Total long-term financial liabilities	\$ –	\$ –	\$ –

QUARTERLY INFORMATION

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

<i>(in thousands, except per share data)</i>	DEC 31, 2008	SEP 30, 2008	JUN 30, 2008	MAR 31, 2008
Interest income	\$ 130	\$ 142	\$ 54	\$ 109
Research and development expenses	\$ 1,505	\$ 1,674	\$ 1,691	\$ 3,765
Net and comprehensive 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)

	DEC 31, 2007	SEP 30, 2007	JUN 30, 2007	MAR 31, 2007
Interest income and other income	\$ 162	\$ 246	\$ 132	\$ 109
Research and development expenses	\$ 3,294	\$ 2,128	\$ 1,557	\$ 2,112
Loss before tax recovery	\$ (4,069)	\$ (3,242)	\$ (2,552)	\$ 2,819
Loss per share – basic and diluted	\$ (0.07)	\$ (0.05)	\$ (0.05)	\$ (0.06)

During the quarter ended March 31, 2007, the Company commenced patient enrolment of a Phase IIa trial evaluating davunetide intranasal (AL-108) in patients with aMCI, a precursor to Alzheimer's, and filed an investigational new drug (IND) application for approval to proceed with a Phase II clinical trial to evaluate davunetide intranasal (AL-108) as a treatment for schizophrenia-related cognitive impairment. The Company also released results from the davunetide intranasal (AL-108) Phase Ib clinical trial confirming that administrations of multiple doses of davunetide intranasal (AL-108) were safe and well tolerated in healthy, elderly adults. On completion of the safety portion of the davunetide intravenous (AL-208) Phase II MCI-CABG study, the Company commenced enrolment for the randomized portion of the study.

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

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During the quarter ended September 30, 2007, the Company significantly advanced its Phase II clinical programs towards delivery of human efficacy data in 2008. The Company completed patient screening for the davunetide intranasal (AL-108) Phase IIa human efficacy trial in Alzheimer's and announced completion of enrolment subsequent to the end of the quarter. The Company continued its collaboration with the NIMH funded project TURNS and with the National Alliance for Research on Schizophrenia and Depression (NARSAD), marked by the commencement of patient enrolment in the Phase II trial for davunetide intranasal (AL-108) in schizophrenia-related cognitive impairment. The Company continued enrolling patients and made minor changes to the trial design intended to improve the rate of enrolment for its Phase II human efficacy trial for davunetide intravenous (AL-208) in MCI-CABG. Furthermore, the Company advanced pre-clinical work on its AL-309 compound.

During the quarter ended December 31, 2007, the Company completed enrolment and also completed dosing in its Phase II clinical trial in aMCI. The Company also continued enrolment in its two other ongoing Phase II trials in schizophrenia-related cognitive impairment with davunetide intranasal (AL-108) and in MCI-CABG with davunetide intravenous (AL-208).

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 davunetide intranasal (AL-108) Phase II human efficacy trial in aMCI. The Company also initiated a Phase I human clinical trial and completed patient dosing to evaluate the pharmacokinetics of davunetide intranasal (AL-108) and davunetide intravenous (AL-208) in healthy adults and Alzheimer's patients. The Company also released pre-clinical study results demonstrating that davunetide intranasal (AL-108) 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 II human clinical trial evaluating davunetide intravenous (AL-208) 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 I human clinical trial to evaluate the pharmacokinetics of davunetide intranasal (AL-108) and davunetide intravenous (AL-208) in healthy adults and Alzheimer's patients. The Company also released results of pre-clinical studies 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 intravenous (AL-208) in a Phase II clinical trial.

During the quarter ended December 31, 2008, the Company completed enrolment in the Phase II davunetide intranasal (AL-108) trial in schizophrenia-related cognitive impairment 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.

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 December 31, 2008, the Company had accumulated a deficit of \$45,448,900. 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, 2008, operating activities used cash of \$12,440,622 compared to \$11,578,332 used in operations for the year ended December 31, 2007. Cash used in operating activities for 2008 reflects the net loss of \$11,312,034 for the period, amortization of tangible and intangible assets, stock based compensation and decrease in cash tied up in non-cash working capital.

Net cash provided by investing activities increased to \$9,491,299 for the year ended December 31, 2008 compared to \$9,624,697 cash used in investing activities for the year ended December 31, 2007. The increase in cash provided by investing activities in 2008 primarily relates to the transfer of short-term investments to cash equivalent as the Company invested in investments with shorter maturities.

Net cash of \$18,432,232 was provided by financing activities during 2008 compared to \$14,443,866 in 2007. On July 15, 2008, the Company completed a bought deal public offering that resulted in proceeds of \$18.4 million net of issue costs. This compared to the bought deal financing in June 2007 when the Company received proceeds of \$14.4 million net of issue costs. The net proceeds of the offering are being used to advance the Company's clinical trials and preclinical research and for working capital and general corporate purposes.

At December 31, 2008 the Company had cash and cash equivalents of \$19,093,499 compared to \$13,126,865 of cash and short-term investments at December 31, 2007. The company's cash equivalents and short-term investments are held in high-grade, liquid commercial paper and other low risk investments which are recorded at fair value. The Company has no exposure to liquidity or other risks associated with certain Asset-Backed Securities. At December 31, 2008 remaining maturities on investments ranged from 30 days to 67 days.

Working capital at December 31, 2008 was \$19.9 million compared to \$11.9 million at December 31, 2007. The working capital increase is a result of the financing in July 2008 less the Company's investment in research and development associated with the completion of two Phase II clinical trials for davunetide intranasal (AL-108) in aMCI and davunetide intravenous (AL-208) in MCI-CABG, the progression of the Company's Phase II clinical trial in schizophrenia and other research and development initiatives.

The Company has 3.2 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 \$2.3 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 \$1.53 million of the \$19 million cash on hand and are primarily related to the Company's pre-clinical research initiatives. The Company has no off-balance sheet arrangements.

14 **Schedule of contractual and planned commitments as of December 31, 2008**

<i>(in thousands)</i>	2009	2010	2011	2012-2013	TOTAL
Pre-Clinical initiatives	\$ 1,015	\$ 328	\$ 4	\$ -	\$ 1,347
Capital and Licensing	\$ 18	\$ 18	\$ 18	\$ 37	\$ 91
Other	\$ 89	\$ -	\$ -	\$ -	\$ 89
Total Company Commitments	\$ 1,122	\$ 346	\$ 22	\$ 37	\$ 1,527

OUTSTANDING SHARE CAPITAL

At December 31, 2008, the Company had 78,066,666 common shares outstanding. Each common share entitles the holder to one vote per share. At December 31, 2008, there were 6,421,600 options outstanding, of which 3,179,775 were exercisable into an equivalent number of the Company's common shares at exercise prices ranging from \$0.001 to \$1.72. The Company also had 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 and warrants may be exercised from dates ranging from current to July 15, 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

During the fourth quarter of 2008, the Company advanced a loan to a Senior Officer of the Company. The loan is repayable on demand and is secured by common shares of the Company held by the Senior Officer. The loan carries an annual interest rate of 5.00%, consistent with market rates at the time of the loan. As of December 31, 2008, the outstanding balance of the loan was \$138,878.

During 2008, Allon paid one of its Board members \$50,000 to provide consulting services to assist the Company with general research and the advancement of its drug development programs. The Company plans to retain these services through 2009.

FOURTH QUARTER

For the three months ended December 31, 2008, the Company recorded a net loss of \$1,938,739 (\$0.02 per share), compared to net loss of \$4,068,999 (\$0.07 per share) for the same period ended December 31, 2007. Research and development costs for the three months ended December 31, 2008 were \$1,505,268 compared to \$3,294,483 for the same period ended December 31, 2007. Research and development costs associated with the progression of the Company's clinical development program are the Company's most significant expense. The quarter over quarter decrease in research and development costs primarily relate to the completion of two of the Company's Phase II clinical programs earlier in 2008.

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, 2008.

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, 2008, 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.

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.

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.

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Management evaluates the recoverability of the net book value of its intangible assets on an annual basis based on the expected utilization of the underlying technologies. If the carrying value of the underlying technology exceeds the estimated net recoverable value, calculated based on undiscounted estimated future cash flows, the carrying value will be written down to its fair value, based on the related estimated discounted cash flows. The ultimate amount recoverable will be dependent on the successful development and commercialization of products based on these rights. To date, management has not written down any intangible assets.

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

Effective January 1, 2008, the Company adopted three new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1535, *Capital Disclosures* (Section 1535), Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862), and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863).

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its measurement requirements.

Section 3862 requires entities to provide disclosures in their financial statement that enable users to evaluate the significance of financial instruments on the Company's financial position and its performance, the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date and how the Company manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividend, gains and losses, and circumstances in which financial assets and financial liabilities are offset.

The adoption of these standards did not have any impact on the classification and valuation of the Company's financial instruments. Disclosures resulting from the adoption of these Handbook Sections are detailed further in Note 2, 12 and 13 of the Company's Consolidated Financial Statements.

FUTURE CHANGES IN ACCOUNTING POLICY

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 will be 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 Company does not expect the adoption of Section 3064 to have any impact on its 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 will be applicable to interim and annual financial statements for periods ending after January 20, 2009. The Company does not expect the adoption of EIC-173 to have any impact to its consolidated financial statements.

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 system 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.

FINANCIAL INSTRUMENTS

The Company invests surplus cash balances in short-term high-grade, liquid and low risk Canadian and U.S. dollar investments. Funds are invested within the guidelines of the Company's investment policy, which mandates preservation of capital and maintaining liquidity while seeking the best available return.

The Company has designated its short-term investments as held-for-trading and measures these assets at fair value based on market value. Though investments may occasionally be sold prior to maturity, most investments are held to maturity, thereby minimizing risk of losses associated with these instruments. During 2008, there were no material gains or losses realized on short-term investments. At December 31, 2008, the Company's investments are in banker's acceptances and money market funds with original maturities of less than 90 days and were all classified as cash equivalent. No amounts were classified as short-term investments.

RISKS AND UNCERTAINTIES

As previously described, cash on hand, proceeds from the bought deal in July 2008, 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 fluctuation. 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 limits its exposure to U.S. dollar foreign exchange risk by holding sufficient U.S. denominated cash, cash equivalents and short-term investments to satisfy near term U.S. dollar denominated liabilities and expenses. 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 the year ended December 31, 2008 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.

Global Market and Economic Conditions

Recent market and economic conditions have been unprecedented and challenging with tighter credit conditions, increased market uncertainty and instability in Canadian and international capital and credit markets. These conditions have resulted in market volatility of unprecedented levels. As a result of these market conditions, the cost and availability of credit and capital have been and may continue to be adversely affected by illiquid markets and wider credit spreads. Concerns about the stability of the markets and the condition of the economy have led many investors to reduce, and in some cases, cease to provide financing to companies. Continued turbulence in the Canadian, U.S. and international markets and economies may adversely affect the Company's liquidity and financial conditions. If these market conditions continue, they may limit the Company's ability to access capital markets to meet liquidity needs, resulting in adverse effects to the Company's financial condition and results of operations.

SIGNIFICANT EQUITY INVESTEEES

As of December 31, 2008, 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, Director "

Frank A. Holler, Director

" C. Michel O'Brian, Director "

C. Michel O'Brian, Director

A u d i t o r ' s
Report to the Shareholders

We have audited the consolidated balance sheets of Allon Therapeutics Inc. (the "Company") as at December 31, 2008 and 2007 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

" KPMG LLP "

Chartered Accountants

Vancouver, Canada

February 18, 2009

Consolidated Balance Sheets

DECEMBER 31, 2008 AND 2007

2008

2007

ASSETS**Current assets:**

Cash and cash equivalents	\$ 19,093,499	\$ 12,009,326
Short-term investments	—	1,117,539
Accounts receivable (note 14)	168,350	66,702
Prepaid expenses and deposits	340,891	260,953
Drug Supplies (note 3)	2,182,656	—

	21,785,396	13,454,520
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Property and equipment (note 4)	48,411	54,232
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Intangible assets (note 5)	5,632,819	6,151,208
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	5,681,230	6,205,440
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	\$ 27,466,626	\$ 19,659,960
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LIABILITIES AND SHAREHOLDERS' EQUITY**Current liabilities:**

Unearned revenue	\$ —	\$ 68,216
Accounts payable and accrued liabilities	1,910,071	1,526,843
	1,910,071	1,595,059

Shareholders' equity:

Share capital (note 6)	69,110,562	50,832,635
Contributed Surplus	1,894,894	1,369,133
Deficit	(45,448,901)	(34,136,867)
	25,556,555	18,064,901
	\$ 27,466,626	\$ 19,659,960

Basis of presentation and going concern (note 1)

Commitments (note 10)

See accompanying notes to consolidated
financial statements.

Approved on behalf of the Board:

" Frank A. Holler, Director "

" C. Michel O'Brian, Director "

Frank A. Holler, Director

C. Michel O'Brian, Director

22 Consolidated Statements of
Operations

YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Expenses:		
Research and development	\$ 8,634,382	\$ 9,091,320
General and administrative	3,458,931	2,633,847
Amortization	549,186	546,288
	<u>12,642,499</u>	<u>12,271,455</u>
Other expense (income):		
Interest and other income	(423,858)	(648,827)
Foreign exchange (gain) loss	(904,420)	1,058,722
Loss (gain) on investments	(2,187)	—
	<u>(1,330,465)</u>	<u>409,895</u>
Net loss	<u>(11,312,034)</u>	<u>(12,681,350)</u>
Net loss per share:		
Basic and diluted (note 8)	\$ (0.17)	\$ (0.24)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

YEARS ENDED DECEMBER 31, 2008 AND 2007

	SHARE CAPITAL		CONTRIBUTED SURPLUS	DEFICIT	TOTAL SHAREHOLDERS' EQUITY
	NUMBER	VALUE			
Balance, December 31, 2006	45,911,711	\$ 36,402,236	\$ 1,091,137	\$ (21,455,517)	\$ 16,037,856
Shares issued pursuant to bought deal	13,059,933	15,671,920	-	-	15,671,920
Warrants issued pursuant to bought deal	-	-	16,592	-	16,592
Shares issued pursuant to exercise of options	29,397	7,275	(3,125)	-	4,150
Shares issued pursuant to exercise of warrants	15,625	15,625	-	-	15,625
Share issue costs, equity financing	-	(1,264,421)	-	-	(1,264,421)
Stock based compensation	-	-	264,529	-	264,529
Net and comprehensive loss	-	-	-	(12,681,350)	(12,681,350)
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	<u>78,066,666</u>	<u>\$ 69,110,562</u>	<u>\$ 1,894,894</u>	<u>\$ (45,448,901)</u>	<u>\$ 25,556,555</u>

See accompanying notes to consolidated financial statements.

24 Consolidated Statements of
Cash Flows

YEARS ENDED DECEMBER 31, 2008 AND 2007

2008

2007

Operations:

Net loss for the year	\$	(11,312,034)	\$ (12,681,350)
Items not involving cash:			
Amortization		549,186	546,288
Stock-based compensation		371,456	264,529
Change in non-cash operating working capital		(2,049,230)	292,201
		(12,440,622)	(11,578,332)

Investment:

Sale (purchase) of short-term investments		1,117,539	(1,117,539)
Purchase of property and equipment and intangibles		(24,976)	(129,602)
Long-term receivable		-	21,180
		1,092,563	(1,225,961)

Financing:

Proceeds from issuance of common shares, net		18,432,232	14,443,866
Increase (decrease) in cash and cash equivalents		7,084,173	1,639,573
Cash and cash equivalents, beginning of year		12,009,326	10,369,753
Cash and cash equivalents, end of year	\$	19,093,499	\$ 12,009,326

Supplementary information:

Interest received	\$	440,772	\$ 609,961
Broker warrants issued as part of share issue costs		154,305	-

See accompanying notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

YEARS ENDED DECEMBER 31, 2008 AND 2007

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

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, accrued liabilities, 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.

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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. The Company previously used initial term to maturity of 30 days to classify investments as cash equivalents. A total of \$8,398,736 of short-term investments at December 31, 2007 has been reclassified to cash and cash equivalents to conform to the current year's presentation.

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 cost plus accrued interest. The carrying value of short-term investments approximates their market value. (See note 2(d) for change in classification.)

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) Impairment of long-lived assets

The costs of acquiring or licensing medical technology from arm's length third parties are capitalized. Costs are amortized on a straight-line basis over the estimated useful life of the technology, ranging from 15 - 17 years. 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, 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, 2008, the Company has not recorded any such impairment losses.

h) 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 amortizes 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.

i) 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.

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	BASICS	RATE
Licenses	Straight-line	15–17 years
Patents	Straight-line	15–17 years
Medical technology	Straight-line	15 years

j) Revenue recognition

Revenue arising from cash and investments yielding interest is recognized when reasonable assurance exists regarding measurement and collectibility, 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 years ended December 31, 2008 and 2007, grant revenue totaling \$62,608 and \$146,075, respectively, were received by the Company and netted against directly related expenses.

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

Effective January 1, 2007, the Company adopted the recommendations of the CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement (“Section 3855”) and Section 3861, Financial Instruments – Disclosure and Presentation (“Section 3861”). These sections provide standards for recognition, measurement, disclosure and presentation of financial assets and financial liabilities.

Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and accounting for changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash, cash equivalents and short-term investments as held-for-trading and therefore measured these assets at fair value. 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 policies

Effective January 1, 2008, the Company adopted three new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1535, *Capital Disclosures* (Section 1535), Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862), and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863).

Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. These additional disclosures are detailed further in Note 13.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its measurement requirements.

Section 3862 requires entities to provide disclosures in their financial statement that enable users to evaluate the significance of financial instruments on the Company’s financial position and its performance, the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date and how the Company manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividend, gains and losses, and circumstances in which financial assets and financial liabilities are offset.

The adoption of these standards did not have any impact on the classification and valuation of the Company’s financial instruments. Disclosures resulting from the adoption of Handbook Sections 3862 and 3863 are detailed further in Note 12.

p) Future changes 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 will be 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 Company does not expect the adoption of Section 3064 to have any impact on its 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 will be applicable to interim and annual financial statements for periods ending after January 20, 2009. The Company does not expect the adoption of EIC-173 to have any impact to its consolidated financial statements.

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 system 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.

3 DRUG SUPPLIES

During the year ended December 31, 2008, the Company purchased \$2,182,656 of drug supplies to be used in upcoming clinical trials. The drug supplies are expected to be utilized within the next twelve months and as a result, they are recorded as current assets in the Company's consolidated balance sheet.

4 PROPERTY AND EQUIPMENT

		ACCUMULATED	NET BOOK
	COST	AMORTIZATION	VALUE
2008			
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
	<u>\$ 218,716</u>	<u>\$ 170,305</u>	<u>\$ 48,411</u>
2007			
Computer hardware	\$ 116,945	\$ 90,844	\$ 26,101
Furniture and equipment	58,072	35,538	22,534
Computer software	19,316	13,719	5,597
	<u>\$ 194,333</u>	<u>\$ 140,101</u>	<u>\$ 54,232</u>

30 **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.

		ACCUMULATED	NET BOOK
	COST	AMORTIZATION	VALUE
2008			
Medical technology	\$ 6,643,362	\$ 1,882,306	\$ 4,761,056
Patents and licenses	1,174,037	302,274	871,763
	<u>\$ 7,817,399</u>	<u>\$ 2,184,580</u>	<u>\$ 5,632,819</u>
2007			
Medical technology	\$ 6,643,362	\$ 1,439,410	\$ 5,203,952
Patents and licenses	1,174,037	226,781	947,256
	<u>\$ 7,817,399</u>	<u>\$ 1,666,191</u>	<u>\$ 6,151,208</u>

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.

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 December 31, 2008 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.

7 STOCK-BASED COMPENSATION

The Company recognized \$371,456 in stock-based compensation expense for the year ended December 31, 2008 and \$264,529 for the year ended December 31, 2007, both relating to awards granted to employees and non-employees under its stock option plan.

The Company 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, 2008, 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, 2008, the Company granted 1,750,000 (2007 - 1,102,500) options with terms of ten years. The options entitle holders to purchase common shares of the Company at prices ranging from \$0.40 to \$1.12 per share.

Stock option activity from December 31, 2006 to December 31, 2008 is as follows:

	NUMBER OF COMMON SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding, December 31, 2006	3,708,497	\$ 0.76
Granted	1,102,500	1.12
Exercised	(29,397)	0.14
Cancelled	(10,000)	1.05
Outstanding, December 31, 2007	4,771,600	\$ 0.85
Exercisable, December 31, 2007	2,571,950	\$ 0.66
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

The following table summarizes the stock options outstanding at December 31, 2008:

EXERCISE PRICE	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OF COMMON SHARES	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
\$0.001 - 0.40	2,239,100	6.90	\$ 0.22	1,439,100	\$ 0.12
\$ 1.00 - 1.72	4,182,500	7.54	1.15	1,740,675	1.24
	6,421,600	7.32	0.83	3,179,775	0.73

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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.

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

	EMPLOYEES AND DIRECTORS		CONTRACTORS	
	2008	2007	2008	2007
Dividend yield	0%	0%	0%	0%
Expected volatility	67%	64%	66%	67%
Risk-free interest rate	2.59%	3.95%	2.77%	4.09%
Expected life in years	5.00	3.00	5.00	5.00
Fair value per share	\$ 0.39	\$ 0.40	\$ 0.21	\$ 0.76

8 NET LOSS PER COMMON SHARE

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

	2008	2007
Net loss for the year	\$(11,312,034)	\$(12,681,350)
Weighted average number of common shares outstanding	67,865,027	53,658,705
Net loss per common share	(0.17)	(0.24)

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 30.5% (2007 – 34.1%) as follows:

	2008	2007
Loss before income taxes	\$(11,312,034)	\$(12,681,350)
Expected tax recovery	\$ 3,450,170	\$ 4,326,877
Tax effect of:		
Difference between statutory tax rate and future income tax rate	(15,133)	(823,406)
Foreign tax rate difference	245,571	(299,322)
Permanent differences, foreign exchange and other	2,433,705	(1,197,208)
Change in valuation allowance	(5,623,171)	(2,006,941)
Income tax recovery	\$ —	\$ —

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

	2008	2007
Future income tax assets and liabilities:		
Fixed assets	\$ 36,150	\$ 82,020
Intangible assets	(1,560,608)	(2,534,200)
Losses carried forward	12,547,043	9,425,104
Share issue costs	592,507	390,693
Investments	-	147,745
Scientific research and experimental development	1,519,441	-
Total gross future tax assets	13,134,533	7,511,362
Valuation allowance	(13,134,533)	(7,511,362)
	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2008, the Company has non-capital losses carried forward for tax purposes which are available to reduce taxable income of future years in Canada of \$17,214,000 and in the U.S. of \$23,061,000. The losses expire as follows:

	CANADA	US
2009	\$ 1,382,000	-
2010	1,117,000	-
2014	982,000	-
2015	443,000	-
2022	-	60,000
2023	-	581,000
2024	-	1,718,000
2025	-	2,836,000
2026	3,985,000	5,477,000
2027	3,658,000	6,931,000
2028	5,647,000	5,458,000
	<u>\$ 17,214,000</u>	<u>\$ 23,061,000</u>

10 COMMITMENTS

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

2009	\$ 1,121,955
2010	346,661
2011	22,125
2012	18,270
2013	18,270
	<u>\$ 1,527,281</u>

The majority of Allon's 2009 and 2010 commitments relate to contractual obligations supporting preclinical 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.

34 **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, short-term investments, 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 and short-term investments are classified as held for trading and their fair value is determined directly by reference to quoted market prices.

a) Credit risk:

Cash equivalent and short-term investments are held in high-grade, liquid and low risk investments with minimal exposure to liquidity or other risks associated with Asset-Backed Securities. These financial instruments are classified as held for trading as they may periodically be traded before their maturity date. However, the majority of these financial instruments are held to maturity and would not result in a significant risk of fair value changes if held to maturity. At December 31, 2008, the original maturities on investments ranged from 28 to 81 days. The Company's accounts receivable consisted primarily of a loan to a Senior Officer of the Company and receivable from the Canadian Revenue Agency in regards to goods and services tax. The Company does not consider these 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, 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 limits its exposure to U.S. dollar foreign exchange risk by holding sufficient U.S. denominated cash, cash equivalents and short-term investments to satisfy near term U.S. dollar denominated liabilities and expenses.

Accounts exposed to foreign exchange risk as of December 31, 2008 are:

	US\$ BALANCE ¹
Cash and equivalents	\$ 2,510,477
Accounts payable	(1,125,351)
Total	\$ 1,385,126

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% strengthening 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% weakening 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, 2008:

	10% FOREIGN CURRENCY STRENGTHENING
Cash and equivalents	\$ 251,048
Accounts payable	(112,535)
Total	\$ 138,513

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 Allon 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

During the fourth quarter of 2008, the Company advanced a loan to a Senior Officer of the Company. The loan is repayable on demand and is secured by common shares of the Company held by the Senior Officer. The loan carries an annual interest rate of 5.00%, consistent with market rates at the time of the loan. As of December 31, 2008, the outstanding balance of the loan was \$138,878 and was included in accounts receivable.

During 2008, Allon paid one of its Board members \$50,000 to provide consulting services to assist the Company with general research and the advancement of its drug development programs. The Company plans to retain these services through 2009.

Corporate Directory

SCIENTIFIC

ADVISORY BOARD

Allon's Scientific Advisory Board is engaged in reviewing the company's progress in research and clinical development as well as to evaluate new scientific perspectives alongside the company's management.

Prof. Illana Gozes, Ph.D.(Chair)
Chief Scientific Officer,
Allon Therapeutics Inc.
Professor of Clinical Biochemistry,
the Lily and Avraham Gildor
Chair for the Investigation of
Growth Factors, Sackler Faculty of
Medicine, Tel Aviv University (TAU)

Dr. Howard Fillit
Executive Director,
Institute for the Study of Aging

Anthony G. Phillips, Ph.D.
Professor, Faculty of Medicine at
the University of British Columbia

Dr. Keith Black
Professor and Chair,
Department of Neurological
Surgery, University of California

Dr. Michael Charness

Professor,
Department of Neurology,
Harvard Medical School

Mati Fridkin, Ph.D.

The Lester B. Pearson
Professorial Chair of Protein
Research, Department of
Organic Chemistry, The
Weizmann Institute of Science,
Rehovot, Israel

Dr. Michael A. Moskowitz

Professor, Department of
Neurology, Harvard Medical
School

Rémi Quirion, Ph.D.

Professor, McGill University

Esther Shohami, Ph.D.

Professor of Pharmacology,
School of Pharmacy,
Hebrew University of Jerusalem

Trevor Robbins, Ph.D.

Director of the Cambridge
MRC Centre

BOARD OF DIRECTORS

James Miller, Ph.D. (Chair) ²
Managing Partner,
NDI Capital

Frank Holler ^{1,3}
Chief Executive Officer
and Partner,
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}
Former President, CEO & Director,
Draxis Health Inc.

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

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

Dr. Anthony Fox
Advisor, Clinical
Development and
Regulatory Affairs

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

Dr. J. Steven Whitaker
VP, Clinical Development
& Chief Medical Officer

Alistair Stewart, Ph.D.
VP, Commercial Research

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.

AUDITORS

KPMG LLP

777 Dunsmuir Street
Pacific Centre
Vancouver, BC V7Y 1K3

**SHARE REGISTRAR AND
TRANSFER AGENTS**

**Computershare Investor
Services Inc.**

510 Burrard Street, 2nd Floor
Vancouver, British Columbia
V6C 3B9

**REGISTERED AND
RECORDS OFFICE**

Lang Michener LLP

1500-1055 W. Georgia Street
Vancouver, BC V6E 4N7

**ANNUAL GENERAL
MEETING**

Wednesday June 3, 2009
at 1:00 pm
The Terminal City Club
837 West Hastings Street
Vancouver, BC V6C 1B6

**CORPORATE
OFFICE**

Allon Therapeutics Inc.
506 – 1168 Hamilton St.
Vancouver, BC V6B 2S2
P. (604) 736-0634
F. (604) 736-1616

**CONTACT
INFORMATION**

Investor & Media Contact
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Manager, Investor Relations
Allon Therapeutics Inc.
P. (604) 742-2540
C. (604) 323-6911
E. akeay@allontherapeutics.com

TRADING HISTORY

	High	Low	Close
Q1	1.63	0.72	0.92
Q2	1.22	0.86	0.97
Q3	1.07	0.71	0.72
Q4	0.74	0.29	0.35

**2008 BOARD
AND COMMITTEE
MEETING
ATTENDANCE**

Gordon C. McCauley
James J. Miller
Prof. Illana Gozes
Dr. Martin Barkin ²
Frank A. Holler ¹
Anthony G. Phillips ³
C. Michael O'Brian

¹ Audit Chair
² Compensation
Chair
³ Governance &
Nominations
Chair

	Board of Directors					Audit				Compensation				Governance & Nominations	
	Present	Absent	Present	Absent	Present	Absent	Present	Absent	Present	Absent	Present	Absent	Present	Absent	
Gordon C. McCauley	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
James J. Miller	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
Prof. Illana Gozes	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
Dr. Martin Barkin ²	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
Frank A. Holler ¹	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
Anthony G. Phillips ³	■	■	■	■	■	■	■	■	■	■	■	■	■	■	
C. Michael O'Brian	■	■	■	■	■	□	■	■	■	■	□	■	■	■	

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