



Allon Therapeutics Inc.



3RD QUARTER REPORT SEPT 30 2011

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Corporate Profile

Allon Therapeutics Inc. is a clinical-stage biotechnology company focused on bringing to market innovative central nervous system therapies. Allon's lead drug, davunetide, is proceeding in a pivotal Phase 2/3 clinical trial in an orphan indication, progressive supranuclear palsy (PSP), under a Special Protocol Assessment (SPA) with the Food and Drug Administration (FDA). This pivotal trial is based upon statistically significant human efficacy demonstrated in amnesic mild cognitive impairment, cognitive impairment associated with schizophrenia, and positive biomarker data.

The Company is listed on the Toronto Stock Exchange (TSX:NPC) and based in Vancouver. For additional information please visit the Company's website: www.allontherapeutics.com

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FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION & ANALYSIS

The following information should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes as at and for the three and nine months ended September 30, 2011 and with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2010. The unaudited condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. All dollar amounts are expressed in Canadian dollars unless otherwise specified. Additional information relating to Allon Therapeutics Inc. ("Allon" or the "Company"), including Allon's Annual Information Form (AIF) can be obtained from SEDAR at www.sedar.com.

November 8, 2011

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 2012; 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. Key assumptions upon which the forward-looking statements are based include the following:

- The Company will be able to obtain regulatory approvals for its drug candidates;
- The Company's clinical trial will not be unreasonably delayed and expenses will not increase substantially;
- The Company will be able to secure additional financing to continue its research and development activities;
- Government regulation will not impose requirements that significantly increase expenses or delay or impede the Company's ability to bring new products to market;
- The Company will be able to maintain and enforce its intellectual property rights and otherwise protect its proprietary technologies; and
- Key personnel will continue their employment with the Company.

Any such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from current expectations. The Company cautions readers that should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary significantly from those expected. The risks that could cause actual results to differ from current expectations include inherent risks in the biopharmaceutical industry, general economic conditions, government regulations, status of healthcare reimbursements, competition, failure of third parties and subcontractors, failure to recruit or retain required management and employees, reliance on collaborative partners, potential for clinical trial liability, inadequate protection of intellectual property rights, uncertainty in the Company's future financial condition and the impact of foreign currency exchange rates. For additional information with respect to certain of these risk factors, reference should be made to the "Risks and Uncertainties" section of this MD&A, to the notes to the unaudited interim consolidated financial statements as at and for the nine months ended September 30, 2011, to the "Risk Factors" section in the Company's most recent Annual Information Form, and continuous disclosure materials filed from time to time with Canadian securities regulatory authorities, which are available online at www.sedar.com.

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

OVERVIEW

Allon Therapeutics Inc. is a clinical-stage biotechnology company developing treatments for major neurodegenerative conditions. Allon's drug, davunetide, is proceeding in a Phase 2/3 clinical trial in an orphan indication, progressive supranuclear palsy (PSP), under a Special Protocol Assessment (SPA) with the United States Food and Drug Administration (FDA). This pivotal trial is based upon statistically significant human efficacy demonstrated in amnesic mild cognitive impairment (aMCI), a precursor to Alzheimer's disease (AD), and in cognitive impairment associated with schizophrenia (CIAS) as well as positive biomarker data.

The Company's compounds are derived from two proprietary technology platforms: activity-dependent neuroprotective protein (ADNP) and activity-dependent neurotrophic factor (ADNF), both of which are important for normal brain function. Because the two platforms are based on different proteins, the drugs from each are different molecules with different therapeutic mechanisms and distinct commercial opportunities. Clinical-stage drug, davunetide, is derived from ADNP, while preclinical stage drug AL-309 is derived from ADNF. Davunetide is targeted at PSP (a type of frontotemporal dementia), Alzheimer's disease, CIAS and Parkinson's disease. ADNF drug candidate AL-309 is targeted for the treatment of peripheral neuropathies and has characteristics that allow it to be developed for multiple routes of administration based on bioavailability studies using oral, intranasal, or subcutaneous administration.

Status of research and development programs

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

Platform	Compound	Stage Development	Status
ADNP	davunetide	<p>Phase 2/3 clinical trial in progressive supranuclear palsy (PSP)</p> <p>Pilot clinical trial in PSP and other types of FTD</p> <p>Phase 2 clinical trial in CIAS</p> <p>Phase 1 human cerebrospinal fluid (CSF) pharmacokinetic clinical trial</p> <p>Phase 2a clinical trial in amnesic mild cognitive impairment</p> <p>Phase 2a clinical trial in MCI-CABG</p>	<p>Study commenced in Q4 2010 under SPA. Completed enrolment in October 2011.</p> <p>Study completed in Q4 2010. Met primary endpoint.</p> <p>Study completed. Data released in Q4 2009.</p> <p>Study completed. Data released in Q3 2008.</p> <p>Study completed. Data released in Q1 2008.</p> <p>Study completed. Data released in Q3 2008.</p>
ADNF	AL-309	Preclinical stage	Preclinical pharmacology and toxicology ongoing.

THIRD QUARTER 2011 ACHIEVEMENTS

- In September 2011, the Company announced a public offering of units and common shares which was completed on October 18, 2011 for gross proceeds of \$4.4 million. The Company also sold a subscription receipt for \$1.1 million conditional on shareholder approval (see Liquidity and Capital Resources).
- The Company was issued a United States patent covering the method of use for davunetide and its associated neuroprotective technology platform as a treatment for schizophrenia.
- The Company reported new findings from the ongoing analysis of magnetic resonance imaging (MRI) data that 12 weeks of treatment with davunetide appears to prevent cortical thinning of

important parts of the brains of schizophrenia patients.

RESULTS OF OPERATIONS

Allon reported a net loss of \$2,983,887 (\$0.04 per share) for the three months ended September 30, 2011, compared to a net loss of \$2,747,119 (\$0.04 per share) for the three months ended September 30, 2010, representing an increase in net loss of \$236,768. For the nine months ended September 30, 2011, the Company reported a net loss of \$8,877,797 (\$.11 per share), compared to a net loss of \$8,524,659 (\$0.11 per share) for the nine months ended September 30, 2010. This increase in net loss is explained in the following description of significant variances from the comparable periods in 2010.

RESEARCH AND DEVELOPMENT

For the three and nine months ended September 30, 2011, research and development expenses were \$2,235,554 and \$6,448,571 compared to \$1,877,249 and \$6,042,696 for the three and nine months ended September 30, 2010. Research and development expenses were higher compared to the same periods in 2010 due to an increase in clinical trial activities related to PSP. Details of the Company's clinical programs are provided below.

Progressive Supranuclear Palsy (PSP)

PSP is one of several types of FTD in which the pathology is known to involve impairment of the brain protein tau. In January 2011, the Company announced that it had reached agreement with the FDA on a SPA for a pivotal Phase 2/3 clinical trial to evaluate davunetide as a potential treatment for PSP. Enrolment in the study began in the fourth quarter of 2010. On October 20, 2011, the Company announced that it has achieved its enrolment objective of 300 patients.

The FDA and the European Union have granted Orphan Drug Designation to davunetide for the treatment of PSP, and in April, 2010, the FDA also granted Fast Track status to davunetide for the treatment of PSP. Fast Track status is designed to facilitate development and expedite review of a drug candidate that treats a serious or life-threatening condition and addresses an unmet medical need.

For the three and nine months ended September 30, 2011, the Company incurred \$1.5 million and \$4.2 million in development costs related to the PSP clinical trial, excluding internal labour and overhead (2010 - \$1.1 million and \$4.1 million). Clinical activity was higher in 2011 compared to 2010 as enrolment in the PSP trial increased throughout 2011.

Parkinson's disease (PD)

On February 2, 2011, the Company announced that a research project funded by the Michael J. Fox Foundation for Parkinson's Research found that intranasal davunetide treatment significantly improved motor function and brain pathology in a mouse model which replicates certain characteristics of PD, a progressive neurodegenerative disease. In the study, performed at the University of California, Los Angeles (UCLA), α -synuclein mice were treated with davunetide daily for two months. At the end of the treatment period, these mice and various control groups were tested for motor function, coordination and activity. The davunetide treated α -synuclein mice showed a 38%

decrease in the number of errors per step in the beam traversal test, a measure of motor function. Further pre-clinical development is ongoing.

Cognitive impairment associated with schizophrenia (CIAS)

In July 2011, the Company announced new findings that 12 weeks of treatment with davunetide appears to prevent cortical thinning of important parts of the brains of schizophrenia patients. The new data emerged from the ongoing analysis of magnetic resonance imaging (MRI) data from a previous Phase 2a clinical trial. The new data showed that in the 23 patient study, the thickness of the cortex in specific regions of the brain decreased in the eight schizophrenia patients given placebo, whereas it did not change in the 15 patients treated with davunetide.

In May 2010, data from preclinical studies that demonstrated that davunetide improved cognitive performance in a model of schizophrenia was published. The research found that treatment with davunetide improved schizophrenia-like symptoms, such as hyperactivity and memory deficits, in a model where the condition is dependent on reduced expression of the microtubule-associated protein, stable tubule-only polypeptide.

On March 30, 2010, the Company released top-line results from an imaging study of schizophrenia patients showing that 12 weeks of treatment with davunetide resulted in a statistically significant increase in levels of a biomarker that is an important indicator of brain cell health. Statistically significant ($p=0.0170$) increase in levels of N-acetyl aspartate (NAA) were measured in the brains of the schizophrenia patients treated with davunetide using magnetic resonance spectroscopy (MRS).

On December 7, 2009, the Company released results of a Phase 2a clinical trial showing that davunetide intranasal has a positive impact on the ability of schizophrenia patients to carry out important activities in their daily lives. Statistically significant efficacy ($p=0.015$) was achieved on the University of California at San Diego Performance-based Skills Assessment. The drug was also evaluated with the MATRICS (Measurement and Treatment Research to Improve Cognition in Schizophrenia) composite battery of tests which was the primary outcome. Davunetide intranasal did not show significance on this measure. This trial was largely funded and managed by the Treatment Units for Research on Neurocognition and Schizophrenia (TURNS). The Company did not incur any significant expenses related to this project in 2011.

AL-309

AL-309 is a D-amino acid derivative of AL-209 from the ADNF platform. In February 2010, the Company presented pre-clinical data that demonstrates the potential of AL-309 as a treatment for peripheral neuropathy. The preclinical data has shown AL-309 to be effective at reducing nerve damage and pain in animal models for peripheral neuropathy caused by diabetes and cancer chemotherapy, two of the most common causes of the disease. The Company did not incur any significant expenses related to this project in the 3rd quarter of 2011. The Company has AL-309 related drug supplies of \$258,596 to be used in future clinical trials. These drug supplies are recorded as non-current assets in the condensed consolidated interim financial statements for the nine months ended September 30, 2011.

GENERAL AND ADMINISTRATIVE

For the three and nine months ended September 30, 2011, general and administrative expenses were \$665,722 and \$2,204,706 compared to \$848,435 and \$2,589,746 for the three and nine months ended September 30, 2010. Decline in general and administrative expenses in 2011 as compared to 2010 was primarily due to lower expenses associated with corporate development activities.

OTHER (INCOME)/EXPENSES

The Company's other income and expenses are primarily comprised of interest income and foreign exchange gains/losses. The Company earned interest revenue of \$220 and \$6,610 during the three and nine months ended September 30, 2011 compared to \$5,242 and \$20,251 for the same period in 2010. Reduced interest earnings resulted from lower cash balances during 2011 compared to the same period in 2010.

Foreign exchange loss was \$82,831 and \$231,130 for the three and nine months ended September 30, 2011. This compared to a loss of \$26,677 and gain of \$49,899 for the same periods in 2010. The Company's foreign exchange exposure is primarily limited to the translation of U.S. dollar denominated balances in cash, cash equivalents and accounts payable to Canadian dollars. The increase in foreign exchange loss in the third quarter of 2011 resulted from the impact of the strengthening of the U.S. dollar against the Canadian dollar on the Company's U.S. dollar denominated accounts payable. This compared to the same period in 2010 when the U.S. dollar weakened, resulting in a foreign exchange loss in the Company's U.S. dollar denominated cash and cash equivalents.

QUARTERLY INFORMATION

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

(in thousands, except per share data)

	Sep 30, 2011	Jun 30, 2011	Mar 31, 2011	Dec 31, 2010 ⁽¹⁾
Interest income and other income	\$ 0	\$ 1	\$ 5	\$ 3
Research and development expenses	\$ 2,236	\$ 2,199	\$ 2,014	\$ 6,444
Net loss for the quarter	\$ (2,984)	\$ (2,920)	\$ (2,974)	\$ (7,956)
Loss per share – basic and diluted	\$ (0.04)	\$ (0.04)	\$ (0.04)	\$ (0.10)

	Sep 30, 2010	Jun 30, 2010	Mar 31, 2010	Dec 31, 2009 ⁽¹⁾
Interest income and other income	\$ 5	\$ 44	\$ 9	\$ 20
Research and development expenses	\$ 1,877	\$ 1,904	\$ 2,262	\$ 1,435
Net loss for the quarter	\$ (2,747)	\$ (2,659)	\$ (3,117)	\$ (2,576)
Loss per share – basic and diluted	\$ (0.04)	\$ (0.03)	\$ (0.04)	\$ (0.03)

(1) Information was prepared in accordance with Canadian generally accepted accounting principles.

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 and long-term debt as capital and may issue new shares or raise debt in order to maintain its capital structure. The Company is a research and development stage company and as such funds are primarily invested in research and development initiatives and no dividends are issued to shareholders. The Company does not foresee implementing a dividend program in the near future. Neither Allon nor its subsidiary are subject to any externally imposed capital requirements and the Company does not use financial ratios to manage capital.

Revenue is currently derived from interest earned on cash balances. At September 30, 2011, the Company had accumulated a deficit of \$78,394,872. 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 related instruments.

The condensed consolidated interim financial statements for the three and nine months ended September 30, 2011 have been prepared under the assumption that the Company will continue as a going concern. The going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. 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. Furthermore, the biotechnology industry is subject to rapid and substantial technological change which could reduce the marketability of the Company's technology.

On October 18, 2011, the Company completed a public offering of units and common shares for gross proceeds of \$4.4 million. The Company also sold a subscription receipt for \$1.1 million conditional on shareholder approval (see Note 11 to the Company's interim consolidated financial statements for the period ended September 30, 2011 for a detail description of the offering). With the proceeds from this offering and its existing cash resources, the Company believes it will be sufficient to support its current operating plan into the first quarter of 2012. The Company also has access to additional funds under the Standby Equity Distribution Agreement ("SEDA"), subject to certain conditions, which it could use to fund its business and would be sufficient to fund it for the next 12 months from the balance sheet date. However, if the SEDA is not available for any reason, there is significant doubt that the Company's existing cash resources will allow the Company to continue as a going concern based on management's planned expenditures for the next 12 months. The Company intends to actively seek other forms of funding. Management believes that it will secure additional financing in sufficient time to continue to execute its planned expenditures without interruption. However, there can be no assurance that the capital will be available as necessary to meet these continuing expenditures, or if the capital is available, that it will be on terms acceptable to the Company. The issuance of common shares by the Company can result in significant dilution in the equity interest of existing shareholders. The Company will continue to require 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 can be no assurance that the Company will be able to raise any capital through any type of offerings.

The condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments may be necessary in the carrying value of the assets and liabilities, and the balance sheet classifications used.

For the nine months ended September 30, 2011, operating activities used cash of \$7,722,643 compared to \$9,275,762 used in operations for the nine months ended September 30, 2010. Cash used in operating activities reflects the net loss of \$8,877,797 for the nine months ended September 30, 2011, adjusted for non-cash items including amortization of tangible and intangible assets, stock-based compensation and changes in non-cash working capital.

For the nine months ended September 30, 2011, investing activities used cash of \$7,948 compared to \$10,083 in the nine months ended September 30, 2010. The amounts for both 2011 and 2010 represented purchase of small amounts of fixed assets.

For the nine months ended September 30, 2011, financing activities generated cash of \$183,263 compared to nil for the nine months ended September 30, 2010. The financing activity in 2011 resulted from the Company's first draw down under the standby equity distribution agreement (SEDA) entered into with YA Global Master SPV Ltd. (Yorkville) in March 2010 and exercise of stock options. Under the terms of the agreement, Yorkville has committed to provide up to \$10 million of equity capital over three years, if and when drawn by the Company at the Company's discretion. The Company can terminate this agreement at any time without payment of additional fees. Newly issued common shares are priced at a 5% discount to the 5-day weighted average share price of the Company's shares at the time of draw down and are subject to a minimum price set by the Company in advance. The proceeds of \$182,997 from this draw down of the SEDA were used for working capital and other general corporate purposes as specified in the prospectus supplement dated January 19, 2011.

CONTRACTUAL OBLIGATIONS

While advancing its clinical and pre-clinical programs, the Company has entered into contracts that will remain in effect over several reporting periods. The total current and future commitments are \$1,482,710. The Company has no off-balance sheet arrangements.

Schedule of contractual and planned commitments as of September 30, 2011

(in thousands)

	2011	2012	2013	2014-2015	Total
Pre-clinical Initiatives	\$ 129	\$ 384	\$ -	\$ -	\$ 513
Clinical Initiatives	\$ 351	\$ 264	\$ 98	\$ 15	\$ 728
Licensing	\$ -	\$ 16	\$ 16	\$ 31	\$ 63
Other	\$ 55	\$ 106	\$ 6	\$ 12	\$ 179
Total Company Commitments	\$ 535	\$ 770	\$ 120	\$ 58	\$ 1,483

OUTSTANDING SHARE CAPITAL

At November 2, 2011, the Company had 96,220,531 common shares outstanding. Each common share entitles the holder to one vote per share. At November 2, 2011, there were 6,727,800 options

outstanding, of which 3,959,136 options were exercisable into an equivalent number of the Company's common shares at exercise prices ranging from \$0.001 to \$1.72.

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 details regarding outstanding share capital.

RELATED PARTY TRANSACTIONS

During the nine month periods ended September 30, 2011, the Company paid Dr. James Miller, Chairman of the Board of Directors of Allon, \$37,500 for consulting services provided to the Company in relation to general research and advancement of the Company's drug development programs. The Company plans to retain these services on a continuing basis.

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 *IAS 34 Interim Financial Reporting*.

During the three and nine months ended September 30, 2011, 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 the unaudited condensed consolidated financial statements in conformity with International Financial Reporting Standards 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 and related disclosures of 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, determination of fair value in relation to the convertible royalty and revenue financing agreement, clinical trial accounting including the determination of useful lives of clinical drug supplies, accrued liabilities, research and development costs and determination of the fair value of share-based compensation. Management believes that the estimates and assumptions are reasonable based upon information available at the time that these estimates and assumptions were made. Actual results could differ from those estimates used in the preparation of the financial statements. For a full description of all of the Company's significant accounting policies and estimates, see Note 3 to the Company's interim consolidated financial statements for the period ended March 31, 2011.

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. See Liquidity and Capital Resources for further discussion of the going concern assumption.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Effective January 1, 2011, Canadian publicly listed entities are required to prepare their financial statements in accordance with International Financial Reporting Standards ("IFRS"). Due to the requirement to present comparative financial information, the effective transition date is January 1, 2010. The Company's financial statements for 2011 are the first reporting periods to be prepared in accordance with IFRS.

The principal impacts of the transition to IFRS on the Company's financial statements are the revaluation of non-monetary assets and liabilities of the Company's U.S. subsidiary and adjustments related to share-based payments. The impacts of the transition to IFRS are set out in Note 10 to the condensed consolidated interim financial statements for the three and nine month ended September 30, 2011.

To ensure accurate and efficient reporting under IFRS, the Company developed a conversion implementation plan in 2009, which was designed to identify differences between previous Canadian GAAP and IFRS that affect the Company and any required changes to accounting processes and controls (including information technology systems). No significant impacts were identified in relation to the Company's information systems or day-to-day accounting processes and controls. The Company reviewed its disclosure controls and procedures and updated these as required to ensure that they are appropriate for reporting under IFRS. Reporting in accordance with IFRS has now been embedded into the Company's systems and procedures.

FUTURE CHANGES IN ACCOUNTING POLICIES

On May 12, 2011, the International Accounting Standards Board (IASB) issued IFRS 10, *Consolidated Financial Statements*, which is a replacement of IAS 27, *Consolidated and Separate Financial Statements* and SIC-12, *Consolidation – Special Purpose Entities*. Concurrent with the issuance of IFRS 10, the IASB also issued:

- IFRS 11, *Joint Ventures*
- IFRS 12, *Disclosures of Involvement with Other Entities*
- IAS 27, *Separate Financial Statements* (revised 2011), has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and
- IAS 28, *Investments in Associates and Joint Ventures* (revised 2011), has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

Each of the standards in the above 'package of five' has an effective date for annual periods beginning on or after 1 January 2013, with earlier application permitted so long as each of the other standards in the "package of five" is also early applied. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12. IFRS 10 also requires a continuous assessment of control of an investee. The

adoption of these standards is not expected to have a significant impact on the Company's consolidated financial statements.

On May 12, 2011, the IASB issued IFRS 13, *Fair Value Measurement*, which establishes a single source of guidance for fair value measurement under IFRSs. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. The Standard does not include requirements on when fair value measurement is required; it prescribes how fair value is to be measured if another Standard requires it. IFRS 13 applies to all transactions and balances for which IFRSs require or permit fair value measurements, with the exception of share-based payment transactions accounted for under IFRS 2 *Share-based Payment* and leasing transactions within the scope of IAS 17 *Leases*. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Early application is permitted. The Company is currently evaluating the implications of these new standards on the consolidated financial statements.

RISKS AND UNCERTAINTIES

As previously described, if the SEDA is not available for any reason, there is significant doubt that the Company's existing cash resources, including the proceeds from the October 2011 public offering, will allow the Company to continue as a going concern based on management's planned expenditures for the next 12 months. Management believes that it will secure additional financing in sufficient time to continue to execute its planned expenditures without interruption. However, there can be no assurance that the capital will be available as necessary to meet these continuing expenditures, or if the capital is available, that it will be on terms acceptable to the Company. The issuance of common shares by the Company could result in significant dilution in the equity interest of existing shareholders.

The Company will continue to require additional sources of financing in the future to continue its research and development activities. Funding needs 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 cannot guarantee that financing will be available or that terms for additional financing will be favourable.

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

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. Additional information with respect to these and other risks affecting the Company is described in the section "Risk Factors" in the Company's most recent Annual Information Form filed with Canadian securities regulatory authorities. Reference should also be made to the notes to the unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2011 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.

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Unaudited Condensed Consolidated Interim Financial Statements of

ALLON THERAPEUTICS INC.

Three and nine month periods ended September 30, 2011 and 2010
(All Amounts Expressed in Canadian dollars)

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ALLON THERAPEUTICS INC.

Unaudited Condensed Consolidated Statements of Financial Position

(All amounts expressed in Canadian dollars)

	<i>Note</i>	September 30, 2011	December 31, 2010
Assets			
Current assets:			
Cash and cash equivalents		\$ 312,956	\$ 7,860,284
Accounts receivable		31,112	143,846
Prepaid expenses and deposits		703,124	855,680
Drug supplies		203,045	205,503
		<u>1,250,237</u>	<u>9,065,313</u>
Non-current assets:			
Property and equipment		21,097	29,044
Intangible assets	4	4,111,285	4,460,092
Drug supplies		258,596	258,596
Long term deposit		30,000	-
		<u>\$ 5,671,215</u>	<u>\$ 13,813,045</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables		\$ 2,074,501	\$ 1,731,018
Deferred income	5	145,001	159,543
		<u>2,219,502</u>	<u>1,890,561</u>
Non-current liabilities:			
Financial liability	6	190,363	180,628
Shareholders' equity:			
Share capital	6	69,293,825	69,110,562
Contributed surplus	6	12,487,720	12,308,459
Cumulative translation adjustment		(125,323)	(160,090)
Accumulated Deficit		<u>(78,394,872)</u>	<u>(69,517,075)</u>
		3,261,350	11,741,856
		<u>\$ 5,671,215</u>	<u>\$ 13,813,045</u>

Corporate information and going concern (note 1)

Subsequent event (note 11)

See accompanying notes to condensed consolidated financial statements.

Approved on behalf of the Board:



Frank A. Holler, Director



Anthony G. Phillips, Director

ALLON THERAPEUTICS INC.

Unaudited Condensed Consolidated Statements of Comprehensive Loss
(All amounts expressed in Canadian dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Expenses:				
Research and development	\$ 2,235,554	\$ 1,877,249	\$ 6,448,571	\$ 6,042,696
General and administrative	665,722	848,435	2,204,706	2,589,746
	2,901,276	2,725,684	8,653,277	8,632,442
Other expense (income):				
Interest and other income	(220)	(5,242)	(6,610)	(57,884)
Foreign exchange loss (gain)	82,831	26,677	231,130	(49,899)
	82,611	21,435	224,520	(107,783)
Loss for the period	2,983,887	2,747,119	8,877,797	8,524,659
Other comprehensive loss (income):				
Foreign currency translation differences for foreign operation	(49,362)	158,971	(34,767)	152,071
Total comprehensive loss for the period	\$ 2,934,525	\$ 2,906,090	\$ 8,843,030	\$ 8,676,730
Loss per share:				
Basic and diluted (note 8)	\$ 0.04	\$ 0.04	\$ 0.11	\$ 0.11

See accompanying notes to condensed consolidated financial statements.

ALLON THERAPEUTICS INC.

Unaudited Condensed Consolidated Statements of Changes in Shareholders' Equity
(All amounts expressed in Canadian dollars)

Nine month periods ended September 30, 2011 and 2010

	Share capital		Contributed surplus	Currency translation adjustment	Deficit	Total shareholders' equity
	Number	Value				
Balance, January 1, 2010	78,066,666	\$ 69,110,562	\$ 2,376,849	\$ -	\$ (53,329,269)	\$18,158,142
Stock based compensation	-	-	137,231	-	-	137,231
Comprehensive loss	-	-	-	(152,071)	(8,524,659)	(8,676,730)
Balance, September 30, 2010	78,066,666	69,110,562	2,514,080	(152,071)	(61,853,928)	9,618,643
Balance, January 1, 2011	78,066,666	69,110,562	12,308,459	(160,090)	(69,517,075)	11,741,856
Shares issued pursuant to Standby Equity Distribution Agreement	456,495	200,000	-	-	-	200,000
Share issue costs	-	(17,003)	-	-	-	(17,003)
Option exercised	266,000	266	-	-	-	266
Stock based compensation	-	-	179,261	-	-	179,261
Comprehensive income (loss)	-	-	-	34,767	(8,877,797)	(8,843,030)
Balance, September 30, 2011	78,789,161	\$ 69,293,825	\$12,487,720	\$ (125,323)	\$ (78,394,872)	\$ 3,261,350

See accompanying notes to condensed consolidated financial statements.

ALLON THERAPEUTICS INC.

Unaudited Condensed Consolidated Statements of Cash Flows
(All amounts expressed in Canadian dollars)

	Nine months ended	
	September 30,	
	2011	2010
Cash provided by (used in):		
Operating activities:		
Loss for the period	\$ (8,877,797)	\$ (8,524,659)
Adjustments for:		
Amortization and depreciation	393,002	400,178
Share-based compensation	179,262	137,232
Change in non-cash operating items	582,890	(1,288,513)
	<u>(7,722,643)</u>	<u>(9,275,762)</u>
Investing activities:		
Purchase of property and equipment	(7,948)	(10,083)
	<u>(7,948)</u>	<u>(10,083)</u>
Financing activities:		
Proceeds from issuance of common shares, net of share issue costs of \$17,003	183,263	-
	<u>183,263</u>	<u>-</u>
Decrease in cash and cash equivalents	(7,547,328)	(9,285,845)
Cash and cash equivalents, beginning of period	7,860,284	11,002,859
Cash and cash equivalents, end of period	<u>\$ 312,956</u>	<u>\$ 1,717,014</u>

See accompanying notes to condensed consolidated financial statements.

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
(All amounts expressed in Canadian dollars unless otherwise stated)

Three and nine months ended September 30, 2011 and 2010

1. Corporate information 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 going concern basis of presentation assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. 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. Furthermore, the biotechnology industry is subject to rapid and substantial technological change which could reduce the marketability of the Company’s technology.

On October 18, 2011, the Company completed a public offering of units and common shares for gross proceeds of \$4.4 million. The Company also sold a subscription receipt for \$1.1 million conditional on shareholder approval (see Note 11 Subsequent Event). With the proceeds from this offering and its existing cash resources, the Company believes it will be sufficient to support its current operating plan into the first quarter of 2012. The Company also has access to additional funds under the Standby Equity Distribution Agreement (“SEDA”), subject to certain conditions (see note 6), which it could use to fund its business and would be sufficient to fund it for the next 12 months from the balance sheet date. However, if the SEDA is not available for any reason, there is significant doubt that the Company’s existing cash resources will allow the Company to continue as a going concern based on management’s planned expenditures for the next 12 months. The Company intends to actively seek other forms of funding. Management believes that it will secure additional financing in sufficient time to continue to execute its planned expenditures without interruption. However, there can be no assurance that the capital will be available as necessary to meet these continuing expenditures, or if the capital is available, that it will be on terms acceptable to the Company. The issuance of common shares by the Company could result in significant dilution in the equity interest of existing shareholders. The Company will continue to require 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 can be no assurance that the Company will be able to raise any capital through any type of offerings.

These condensed consolidated interim financial statements do not reflect adjustments that would be necessary if the going concern assumption was not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments may be necessary in the carrying value of the assets and liabilities, and the balance sheet classifications used.

2. Statement of compliance and basis of presentation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. These condensed consolidated interim financial statements are prepared under International Financial Reporting

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
(All amounts expressed in Canadian dollars unless otherwise stated)

Three and nine months ended September 30, 2011 and 2010

Standards (“IFRS”) for part of the period covered by the first IFRS annual financial statements and therefore, IFRS 1, *First-time Adoption of International Financial Reporting Standards*, has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 10. This note includes reconciliations of equity and total comprehensive loss for comparative periods reported under previous Canadian generally accepted accounting principles (“Canadian GAAP”) to those reported for those periods and at the date of transition under IFRSs.

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors on November 8, 2011.

(b) Basis of presentation:

These condensed consolidated interim financial statements have been prepared on a historical cost basis and are presented in Canadian dollars which is the Company’s functional currency.

(c) Use of estimates:

The preparation of the condensed consolidated interim financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the application of accounting policies and the amounts reported in these condensed consolidated interim financial statements and notes. 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, determination of fair value in relation to the convertible royalty and revenue financing agreement, determination of useful lives of clinical drug supplies, estimation of accrued liabilities, research and development costs and determination of the fair value of stock-based compensation. Actual results could differ from those estimates used in the preparation of the financial statements.

3. Significant accounting policies:

The significant accounting policies that have been used in the preparation of these condensed consolidated interim financial statements are summarized in the condensed consolidated interim financial statements of the Company for the period ended March 31, 2011. These statements should be read in conjunction with the condensed consolidated interim financial statements for the period ended March 31, 2011.

(a) Future changes in accounting standards:

On May 12, 2011, the International Accounting Standards Board (IASB) issued IFRS 10, *Consolidated Financial Statements*, which is a replacement of IAS 27, *Consolidated and Separate Financial Statements* and SIC-12, *Consolidation – Special Purpose Entities*. Concurrent with the issuance of IFRS 10, the IASB also issued:

- IFRS 11, *Joint Ventures*

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
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Three and nine months ended September 30, 2011 and 2010

- IFRS 12, *Disclosures of Involvement with Other Entities*
- IAS 27, *Separate Financial Statements* (revised 2011), has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and
- IAS 28, *Investments in Associates and Joint Ventures* (revised 2011), has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

Each of the standards in the above 'package of five' has an effective date for annual periods beginning on or after 1 January 2013, with earlier application permitted so long as each of the other standards in the 'package of five' is also early applied. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12. IFRS 10 also requires a continuous assessment of control of an investee. The adoption of these standards is not expected to have a significant impact on the Company's consolidated financial statements.

On May 12, 2011, the IASB issued IFRS 13, *Fair Value Measurement*, which establishes a single source of guidance for fair value measurement under IFRSs. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. The Standard does not include requirements on when fair value measurement is required; it prescribes how fair value is to be measured if another Standard requires it. IFRS 13 applies to all transactions and balances for which IFRSs require or permit fair value measurements, with the exception of share-based payment transactions accounted for under IFRS 2 *Share-based Payment* and leasing transactions within the scope of IAS 17 *Leases*. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Early application is permitted. The Company is currently evaluating the implications of these new standards on the consolidated financial statements.

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
(All amounts expressed in Canadian dollars unless otherwise stated)

Three and nine months ended September 30, 2011 and 2010

4. Intangible assets:

Intangible assets include acquired licenses, patents and medical technology acquired relating to the development of drugs to treat neurological diseases and disorders. There was no addition to intangible assets during the nine months ended September 30, 2011. The decline in carrying value resulted from the impact of foreign exchange of \$28,300 and amortization expense of \$377,107.

Cost

	Medical technology	Patents and licenses	Total
Balance at January 1, 2010	\$ 6,643,362	\$ 1,000,280	\$ 7,643,642
Purchases	-	-	-
Effect of movements in exchange rates	-	(53,677)	(53,677)
Balance at December 31, 2010	\$ 6,643,362	\$ 946,603	\$ 7,589,965
Balance at January 1, 2011	\$ 6,643,362	\$ 946,603	\$ 7,589,965
Purchases	-	-	-
Effect of movements in exchange rates	-	51,012	51,012
Balance at September 30, 2011	\$ 6,643,362	\$ 997,615	\$ 7,640,977

Amortization

	Medical technology	Patents and licenses	Total
Balance at January 1, 2010	\$ 2,325,202	\$ 317,917	\$ 2,643,119
Amortization for the year	442,896	63,102	505,998
Effect of movements in exchange rates	-	(19,244)	(19,244)
Balance at December 31, 2010	\$ 2,768,098	\$ 361,775	\$ 3,129,873
Balance at January 1, 2011	\$ 2,768,098	\$ 361,775	\$ 3,129,873
Amortization for the period	332,172	44,935	377,107
Effect of movements in exchange rates	-	22,712	22,712
Balance at September 30, 2011	\$ 3,100,270	\$ 429,422	\$ 3,529,692

Carrying amounts

At January 1, 2010	\$ 4,318,160	\$ 682,363	\$ 5,000,523
At December 31, 2010	3,875,264	584,828	4,460,092
At January 1, 2011	\$ 3,875,264	\$ 584,828	\$ 4,460,092
At September 30, 2011	3,543,092	568,193	4,111,285

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
(All amounts expressed in Canadian dollars unless otherwise stated)

Three and nine months ended September 30, 2011 and 2010

5. Deferred income and government grants:

At September 30, 2011, the Company has \$145,001 of deferred income related to a grant received from the Michael J. Fox Foundation for Parkinson's Research to conduct pre-clinical research in Parkinson's disease. The Company is currently performing this research.

6. Share capital:

(a) Authorized:

Unlimited voting common shares without par value

Unlimited preferred shares, issuable in series

(b) Convertible royalty and revenue financing:

In November 2010, the Company entered into a financing agreement with Isar Pharma K/S ("Isar"), a wholly owned limited partnership of Nordic Biotech Venture Fund II K/S. Under the terms of the agreement, Isar paid the Company U.S.\$10.0 million (CDN\$10.2 million) in return for a convertible royalty and revenue obligation on davunetide. Isar can elect to convert its interest into common shares of Allon at any time at a conversion price of U.S.\$0.44 (CDN\$0.45). The Company can generally force conversion at the conversion price over the next three years when the share price is two times the conversion price, or during the following four years when the share price is three times the conversion price. Until conversion, the Company has agreed to pay to Isar the greater of an 8% royalty from sales of davunetide or 20% of what it receives for commercializing the product. The Company will also pay 20% of all non-royalty revenue received in a partnership. This financing agreement was accounted for as a compound instrument and is presented in the financial statements in its component parts. The equity component was assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. An amount of \$0.2 million was included in long term liabilities as the liability component of the financing agreement and \$9.7 million, representing the value of the right of conversion, was included in shareholders' equity as the equity component of the financing. The liability component is classified as other financial liabilities and is accounted for at amortized cost.

(c) Standby equity distribution agreement:

On March 2, 2010, the Company entered into a standby equity distribution agreement ("SEDA") with YA Global Master SPV Ltd., a fund managed by Yorkville Advisors, LLC ("Yorkville"). Under the terms of the agreement, Yorkville has committed to provide up to \$10 million of equity capital over three years, if and when drawn by the Company at the Company's discretion. The Company can terminate the agreement at any time without payment of any additional fees. Newly issued common shares will be priced at a 5% discount to the five-day weighted average share price of the Company's shares at the time of draw down, and are subject to a minimum price set by the Company in advance. In January 2011, the Company initiated its first draw down under the SEDA of \$200,000. According to the SEDA provisions, Yorkville subscribed for common shares at a 5% discount to the five-day weighted average price of Allon shares for the period ending on January 12, 2011.

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
(All amounts expressed in Canadian dollars unless otherwise stated)

Three and nine months ended September 30, 2011 and 2010

7. Share-based compensation:

The Company recognized \$59,874 and \$179,261 in share-based compensation expense for the three and nine months ended September 30, 2011 compared to \$63,244 and \$137,231 for the three and nine months ended September 30, 2010. Share-based compensation expenses comprised awards granted to employees and non-employees under the Company's stock option plan.

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

The Plan is based on a rolling percentage of options issuable of up to 10% of the Company's outstanding common shares. As of September 30, 2011, the Company had 78,789,161 common shares issued and outstanding resulting in current authorization to issue a maximum of 7,878,916 options under the Plan.

Stock option activity from January 1, 2010 to September 30, 2011 is as follows:

	Common shares under option	Weighted average exercise price
Outstanding, January 1, 2010	7,152,100	\$ 0.76
Granted	312,500	0.40
Exercised	-	-
Cancelled	(432,500)	0.90
Outstanding, December 31, 2010	7,032,100	\$ 0.74
Granted	250,000	0.41
Exercised	(266,000)	0.001
Cancelled	(275,000)	0.84
Outstanding, September 30, 2011	6,741,100	\$ 0.75

At September 30, 2011, the Company has 3,972,435 stock options exercisable at weighted average exercise price of \$0.75. At December 31, 2010, the Company has 4,471,770 stock options exercisable at weighted average exercise price of \$0.71.

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
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Three and nine months ended September 30, 2011 and 2010

The following table summarizes stock options outstanding at September 30, 2011:

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 – 0.43	3,138,600	6.01	\$ 0.28	1,876,603	\$ 0.22
\$ 1.00 – 1.72	3,602,500	4.81	1.16	2,095,833	1.22
	6,741,100	5.37	\$ 0.75	3,972,436	\$ 0.75

The following table summarizes stock options outstanding at September 30, 2010:

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 – 0.41	2,917,100	6.11	\$ 0.23	1,683,265	\$ 0.16
\$ 1.00 – 1.72	3,852,500	5.80	1.16	2,138,331	1.21
	6,769,600	5.93	\$ 0.76	3,821,596	\$ 0.74

The fair value of share based awards is determined using the Black-Scholes option pricing model. Like other accepted option valuation models, the Black-Scholes model was developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. The Black-Scholes option pricing model is also based on several subjective assumptions including the expected life of the option and expected future stock price volatility. Changes in these assumptions can materially affect the estimated fair value of the Company's stock options.

The estimated fair value of options granted to the Company's employees and directors is calculated at the grant date and amortized using graded vesting 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 for employees and directors for the respective nine month periods ending September 30, 2011 and September 30, 2010. There were no stock option awards to employees and directors during the nine months ended September 30, 2010.

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
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Three and nine months ended September 30, 2011 and 2010

	Employees & Directors	
	2011	2010
Dividend yield	0%	n/a
Expected volatility	72%	n/a
Risk free interest rate	3.04%	n/a
Expected life in years	8.00	n/a
Fair value per share	\$0.30	n/a
Forfeiture rate	4.85%	n/a

8. Net loss per common share:

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Loss for the period	\$ 2,983,887	\$ 2,747,119	\$ 8,877,797	\$ 8,524,659
Weighted average number of common shares outstanding	78,789,161	78,066,666	78,601,072	78,066,666
Net loss per common share	\$ 0.04	\$ 0.04	\$ 0.11	\$ 0.11

9. Related party transactions:

During the three and nine months ended September 30, 2011, the Company paid one of its Board members \$12,500 and \$37,500 (three and nine months ended September 30, 2010 - \$12,500 and \$87,500) for consulting services provided to the Company in relation to general research and advancement of the Company's drug development programs performed outside of his capacity as a director. The Company plans to retain these services on a continuing basis.

10. Transition to International Financial Reporting Standards:

As stated in note 2(a), these condensed consolidated interim financial statements are prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the interim financial statements for the three and nine months ended September 30, 2011, the comparative information presented in these interim financial statements for both the three and nine months ended September 30, 2010 and the year ended December 31, 2010 and in the preparation of the opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
(All amounts expressed in Canadian dollars unless otherwise stated)

Three and nine months ended September 30, 2011 and 2010

IFRS 1, *First-Time Adoption of International Financial Reporting Standard*, permits those companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS at the time of transition. The following are the initial IFRS 1 mandatory elections and optional exemptions applied by the Company upon initial adoption of IFRS from Canadian GAAP:

(i) Estimates:

Hindsight is not used to create or revise estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies.

(ii) Share-based payments:

The Company has elected to apply IFRS 2, *Share-based Payments*, to all equity instruments granted after November 7, 2002 that had not vested as of the Transition Date and elected not to apply the standard to any equity instruments issued prior to this date.

(iii) Business combinations:

The Corporation has elected to prospectively apply IFRS 3, *Business Combinations*, from the Transition Date, rather than retrospectively restating all business combinations that have occurred prior to the Transition Date.

(iv) Currency translation differences:

The Company has elected to reset its historical cumulative translation gains and losses to nil at the Transition Date, rather than to retrospectively apply IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRSs has affected the Company's accounting policies, statement of financial position, and statement of comprehensive income for periods previously reported under Canadian GAAP, but subsequent to the Transition Date to IFRS, is set out in the following tables and the notes that accompany the tables. The adoption of IFRS did not change the Company's actual cash flows, but has resulted in changes to the Company's statements of financial position and comprehensive loss.

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
(All amounts expressed in Canadian dollars unless otherwise stated)

Three and nine months ended September 30, 2011 and 2010

Reconciliation of Consolidated Statement of Financial Position at September 30, 2010

Note	Previous GAAP	Effect of transition to IFRSs	IFRSs
	September 30, 2010		
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,717,014	\$ -	\$ 1,717,014
Accounts Receivable	31,951	-	31,951
Prepaid expenses and deposits	331,917	-	331,917
Drug supplies a	4,348,112	(317,230)	4,030,882
	6,428,994	(317,230)	6,111,764
Non-Current Assets:			
Property and equipment	32,233	-	32,233
Intangible assets b	4,725,637	(118,838)	4,606,799
Drug supplies c	327,938	(60,398)	267,540
	11,514,802	(496,466)	11,018,336
LIABILITIES & SHAREHOLDER'S EQUITY			
Current Liabilities			
Trade and other payables	\$ 1,399,692	\$ -	\$ 1,399,692
	1,399,692	-	1,399,692
Shareholders' equity:			
Share capital	69,110,562	-	69,110,562
Contributed surplus d	2,430,826	83,254	2,514,080
Cumulative translation adjustment g	-	(152,071)	(152,071)
Deficit e	(61,426,278)	(427,649)	(61,853,927)
	10,115,110	(496,466)	9,618,644
	11,514,802	(496,466)	11,018,336

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
(All amounts expressed in Canadian dollars unless otherwise stated)

Three and nine months ended September 30, 2011 and 2010

Reconciliation of Consolidated Statement of Comprehensive loss for the three and nine months ended September 30, 2010

Note	Effect of transition to IFRSs			Effect of transition to IFRSs		
	Previous GAAP	IFRSs	IFRSs	Previous GAAP	to IFRSs	IFRSs
	Three months ended September 30, 2010			Nine months ended September 30, 2010		
Expenses:						
Research and development	\$ 1,749,579	\$ 127,670	\$ 1,877,249	\$ 5,696,164	\$ 346,532	\$ 6,042,696
General and administrative	841,215	7,220	848,435	2,577,010	12,736	2,589,746
Amortization	136,525	(136,525)	-	409,209	(409,209)	-
	2,727,319	(1,635)	2,725,684	8,682,383	(49,941)	8,632,442
Other expense (income):						
Interest and other income	(5,242)	-	(5,242)	(57,884)	-	(57,884)
Foreign exchange loss/ (Gain)	15,153	11,524	26,677	10,893	(60,792)	(49,899)
	9,911	11,524	21,435	(46,991)	(60,792)	(107,783)
Net loss for the period	\$ (2,737,230)	\$ (9,889)	\$ (2,747,119)	\$ (8,635,392)	\$ 110,733	\$ (8,524,659)
Other comprehensive expense						
Foreign currency translation	\$ -	\$ 158,971	\$ 158,971	\$ -	\$ 152,071	\$ 152,071
Net and comprehensive loss for the period	\$ (2,737,230)	\$ (168,860)	\$ (2,906,090)	\$ (8,635,392)	\$ (41,338)	\$ (8,676,730)
Net loss per share:						
Basic and diluted	\$ 0.04		\$ 0.04	\$ 0.11		\$ 0.11

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
(All amounts expressed in Canadian dollars unless otherwise stated)

Three and nine months ended September 30, 2011 and 2010

10. Transition to International Financial Reporting Standards (continued):

Under its previous GAAP, non-monetary assets and liabilities of the Company's U.S. subsidiary were translated using the temporal method. Under IFRSs, all assets and liabilities of the Company's U.S. subsidiary are translated using the current rate method. The impact arising from the change is summarized as follows:

(a) Drug supplies – current:

	September 30, 2010	December 31, 2010
Drug Supplies at USD	\$ 3,917,280	\$ 206,617
Temporal rate	1.1100	1.0578
Drug Supplies at CAD per Cdn GAAP	\$ 4,348,112	\$ 218,560

	September 30, 2010	December 31, 2010
Drug Supplies at USD	\$ 3,917,280	\$ 206,617
Current rate	1.0290	0.9946
Drug Supplies at CAD per IFRS	\$ 4,030,882	\$ 205,503
Adjustment	\$ (317,230)	\$ (13,057)

(b) Intangible assets:

	September 30, 2010	December 31, 2010
Intangible assets at USD	\$ 603,315	\$ 588,002
Temporal rate	1.2260	1.2264
Intangible assets at CAD per Cdn GAAP	\$ 739,649	\$ 720,776

	September 30, 2010	December 31, 2010
Intangible assets at USD	\$ 603,315	\$ 588,002
Current rate	1.0290	0.9946
Intangible assets at CAD per IFRS	\$ 620,811	\$ 584,827
Adjustment	\$ (118,838)	\$ (135,949)

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
(All amounts expressed in Canadian dollars unless otherwise stated)

Three and nine months ended September 30, 2011 and 2010

10. Transition to International Financial Reporting Standards (continued):

(c) Drug supplies – non-current:

	September 30, 2010	December 31, 2010
Drug Supplies at USD	\$ 260,000	\$ 260,000
Temporal rate	1.2613	1.2613
Drug Supplies at CAD per Cdn GAAP	\$ 327,938	\$ 327,938

	September 30, 2010	December 31, 2010
Drug Supplies at USD	\$ 260,000	\$ 260,000
Current rate	1.0290	0.9946
Drug Supplies at CAD per IFRS	267,540	258,596
Adjustment	(60,398)	(69,342)

(d) Under its previous GAAP, the company used a straight-line approach to amortization of share-based compensation expense. In addition, adjustments for forfeitures were made as they occurred. Under IFRSs, share options that vest in installments are amortized accordingly in an accelerated format. In addition, estimates of forfeitures are required on initial recognition with adjustments to actual forfeitures on vesting date. The impact arising from the change is summarized as follows:

	Nine months ended September 30, 2010	Year ended December 31, 2010
Share based compensation per Cdn GAAP	\$178,142	\$247,667
Adjustments for:		
Accelerated vesting	(40,030)	(48,884)
Forfeiture	(880)	1,538
Total adjustments	(40,910)	(47,346)
Share based compensation per IFRS	137,232	200,321
Accumulated adjustment to Contributed Surplus	83,254	76,818

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
(All amounts expressed in Canadian dollars unless otherwise stated)

Three and nine months ended September 30, 2011 and 2010

10. Transition to International Financial Reporting Standards (continued):

- (e) The cumulative effect of all of the above adjustments has resulted in an increase in accumulated deficit of \$427,649 as at September 30, 2010 and \$135,076 as at December 31, 2010.
- (f) Under its previous GAAP, the Company presents its expenses by function, with the exception of depreciation/amortization of property, plant and equipment and intangibles. Under IFRS, depreciation and amortization expenses are allocated to the relevant functional areas of research and development (“R&D”) and general and administrative (“G&A”) expenses. Furthermore, adjustments related to share based compensation as describe in (d) above were also allocated to the relevant functional areas of R&D and G&A. The impact arising from the change is summarized as follows:

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Amortization related to R&D	\$ 128,820	\$ 385,638
Share based compensation adjustment to R&D	(1,150)	(39,106)
Total adjustment to R&D	\$ 127,670	\$ 346,532
Amortization related to G&A	\$ 4,748	\$ 14,540
Share based compensation adjustment to G&A	2,472	(1,804)
Total adjustment to G&A	\$ 7,220	\$ 12,736

- (g) Under its previous GAAP, the Company used the temporal method of translation for its U.S. subsidiary whereby only monetary assets and liabilities are translated to the reporting currency at current rates of exchange and the effect of the translation is reported as a foreign exchange gain or loss. Under the current rate method used in IFRS, all assets and liabilities are translated to the reporting currency at current rates of exchange and the effect of the translation is reported as other comprehensive income or loss.

11. Subsequent Event:

On October 18, 2011, the Company completed a public offering of units and common shares resulting in gross proceeds of \$4,357,842.50 and a subscription receipt for \$1,084,032.50 for a total of \$5,441,875 as more particularly described below.

The Company sold 9,767,500 units (“Units”) at a price of \$0.25 per Unit and 7,663,870 common shares (“Common Shares”) at a price of \$0.25 per Common Share, resulting in gross proceeds to Allon of \$4,357,842.50. Each unit consists of one common share and a one-half (1/2) of a common share purchase warrant. Each warrant is exercisable at a price of \$0.40 for a period of 60 months from the closing of the Offering.

ALLON THERAPEUTICS INC.

Notes to the Unaudited Condensed Consolidated Financial Statements
(All amounts expressed in Canadian dollars unless otherwise stated)

Three and nine months ended September 30, 2011 and 2010

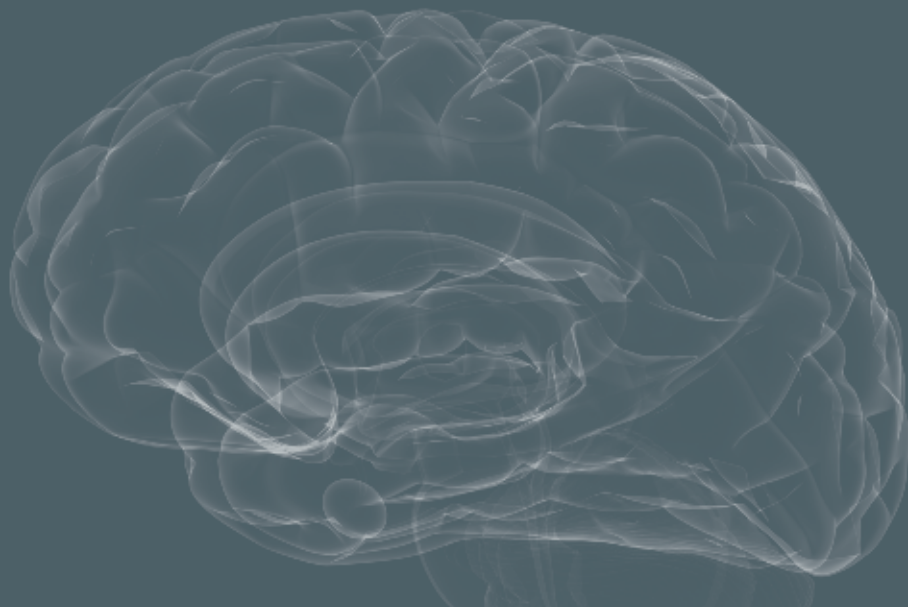
Additionally, pursuant to the requirements of the Toronto Stock Exchange rules, Allon sold one subscription receipt (the "Subscription Receipt") to Neuro Discovery II Limited Partnership ("Neuro Discovery"), a current insider of Allon, for the purchase price of \$1,084,032.50. The Subscription Receipt is exercisable into 4,336,130 common shares of the Company (the "Subscription Receipt Common Shares") and 6,000,000 warrants of the Company (the "Subscription Receipt Warrants"). The issuance of the Subscription Receipt Common Shares and the Subscription Receipt Warrants are subject to the approval of a majority of disinterested shareholders of Allon (the "Shareholders Condition"). Of the Subscription Receipt Proceeds, \$53,761.50 will be paid to Allon as a non-refundable deposit (the "Deposit") upon closing of the Offering.

The Subscription Receipt Proceeds less the Deposit will be held in escrow until the earlier of (i) the date that is 70 days from the Closing Date of the Offering; (ii) the date the Shareholders Condition is satisfied, or (iii) the date the majority of disinterested shareholders of Allon do not approve the Shareholders Condition. If the Shareholders Condition is not satisfied within 70 days of the Closing Date of the Offering, the Subscription Receipt Proceeds, other than the Deposit, will be returned to Neuro Discovery and the Subscription Receipt will be cancelled. Allon has agreed to hold a meeting of its shareholders within 70 days of the closing of the Offering.



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