

**PROPOSAL TO CREDITORS AND REORGANIZATION OF SHARE CAPITAL
OF
ALLON THERAPEUTICS INC.**

**PURSUANT TO THE BANKRUPTCY AND INSOLVENCY ACT (CANADA) AND
CANADA BUSINESS CORPORATIONS ACT**

IN THE MATTER OF ALLON THERAPEUTICS INC.

AND IN THE MATTER OF an application under the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, for a proposal with respect to ALLON THERAPEUTICS INC. and a reorganization of share capital of ALLON THERAPEUTICS INC. under Section 191 of the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44.

May 29, 2013

ALLON THERAPEUTICS INC.

PROPOSAL TO CREDITORS AND REORGANIZATION OF SHARE CAPITAL

ARTICLE 1

INTERPRETATION

1.1 Definitions

In this Proposal (including the Schedules hereto), unless otherwise stated or unless the context otherwise requires:

"Applicant" means Allon Therapeutics Inc. and its successors;

"Approval of the Proposal" means the approval of the Proposal by the Required Majority and by an Order of the Court for which all appeal periods have expired;

"Articles of Reorganization" means the articles of reorganization of the Applicant substantially in the form attached hereto as Schedule A;

"BIA" means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 as amended;

"Business Day" means a day, other than a Saturday or Sunday, on which banks are generally open for business in Vancouver, British Columbia;

"CBCA" means the *Canada Business Corporations Act*, R.S.C. 1984, c. C-44, as amended;

"Certificate of Amendment" means the certificate of amendment to be issued by the Registrar pursuant to Section 191 of the CBCA in respect of the Articles of Reorganization;

"Claim" means: (i) any right of any Person against the Applicant in connection with any indebtedness, liability or obligation of any kind of the Applicant, in each case which indebtedness, liability or obligation was in existence at the Proposal Filing Date and any interest that may accrue thereon, whether or not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known, unknown, by guarantee, by surety or otherwise and whether or not such a right is executory in nature, including, without limitation, the right or ability of any person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action whether existing at present or commenced in the future based in whole or in part on facts which existed prior to or at the Proposal Filing Date and, (ii) any other claims that would have been claims provable in bankruptcy had the Applicant become bankrupt on the Proposal Filing Date, but a "Claim" does not include an Unaffected Obligation;

"Court" means the Supreme Court of British Columbia;

“Creditor” means any Person having a Claim, including, without limitation, and subject to Section 5.6, the holders of Securities, and may, if the context requires, mean a trustee, receiver, receiver-manager or other Person acting on behalf of such Person, but a Creditor shall not include an Unaffected Creditor;

“Creditors’ Meeting” means the meeting of the Creditors called for the purposes of considering and voting upon the Proposal;

“Directors” means current or former directors of the Applicant;

“Employees” means those Persons who, at the Proposal Filing Date, are or were employed by the Applicant or retained by the Applicant to perform services exclusively for the Applicant;

“Final Order” means the Order to be made under the BIA approving the Proposal and under Section 191 of the CBCA approving the amendments of the articles of the Applicant in accordance with the Articles of Reorganization, as such Order may be amended or modified by any court of competent jurisdiction, provided that, except to the extent waived by Paladin (in its discretion), such Order shall not be the Final Order until (i) the expiry of the applicable appeal period without any appeal having been instituted, or (ii) in the event of an appeal or application for leave to appeal, final determination by the applicable appellate tribunal dismissing the appeal, or application for leave to appeal, in whole;

“Interim Creditors” means Creditors who have supplied or do supply services, utilities, goods or materials or advanced funds during the Interim Period, but only to the extent of their Claims in respect of the supply of such services, utilities, goods or materials or funds during the Interim Period;

“Interim Period” means the period from and including the Proposal Filing Date to and including the Proposal Implementation Date;

“New Common Shares” means the new common shares of the Applicant created by the Articles of Reorganization upon the issuance of the Certificate of Amendment;

“New Common Shareholder” means Paladin;

“New Preferred Shares” means the new preferred shares of the Applicant created by the Articles of Reorganization upon the issuance of the Certificate of Amendment;

“Order” means any order of the Court in these proceedings;

“Paladin” means Paladin Labs Inc. and its successors and assigns;

“Person” means any individual, partnership, joint venture, trust, corporation, unincorporated organization, government or any agency or instrumentality thereof, or any other juridical entity howsoever designated or constituted;

“Priority Claims” means all Claims which must by the BIA or any Order be paid in priority to all other Claims sharing in the estate of the Applicant;

“Proposal” means this proposal to the Creditors and reorganization of share capital of the Applicant under the BIA and under Section 191 of the CBCA as modified, supplemented or amended from time to time;

“Proposal Costs” means all (a) fees (including legal fees), costs, undertakings and obligations of the Trustee, (b) fees (including legal and financial advisor fees), costs, undertakings and obligations of the Applicant, and (c) accounting fees relating to or resulting from the Proposal;

“Proposal Filing Date” means the date the Proposal was filed with the Official Receiver; being May 29, 2013;

“Proposal Fund” means the total available funds for distribution to Creditors, including the cash on hand held by the Applicant at the Proposal Implementation Date (as estimated in the cash flow statement prepared by the Applicant), in addition to the cash payment identified in Section 2.2, less any amounts paid or payable pursuant to Sections 3.1 and 3.2;

“Proposal Implementation Date” means the date on which (i) all pre-conditions contained in Section 7.10 have been satisfied or have been waived in writing, and (ii) the Certificate of Amendment is issued;

“Proof of Claim” has the meaning ascribed thereto in the BIA;

“Proven Claim” of a Creditor means the amount of the Claim of such Creditor finally determined in accordance with the provisions of the BIA and the Proposal;

“Redemption Amount” shall have the meaning ascribed thereto in Section 5.4 hereof;

“Required Majority” means a majority in number and two-thirds in value of the Claims of all Unsecured Creditors entitled to vote and who are present at the Creditors’ Meeting (whether in person, by proxy or by voting letter) in accordance with the voting procedures established by this Proposal and the BIA;

“Securities” means all options issued by the Applicant to purchase any of the Shares in the capital of the Applicant, all warrants issued by the Applicant to purchase Shares in the capital of the Applicant and any other document, instrument or writing of the Applicant commonly known as a security, other than the Shares;

“Security” means a mortgage, hypothec, prior claim, pledge, charge, lien or other security interest on or against the property of the Applicant or any part thereof as security for a debt due or accruing due from the Applicant, or any negotiable instrument held as collateral security and on which the Applicant is only indirectly or secondarily liable;

“Shareholders” means the registered holders of Shares and “Shareholder” means any one of them;

“Shares” means all of the shares of all classes in the capital stock of the Applicant issued and outstanding and as constituted immediately prior to the Proposal Implementation Date;

“Subscribed Securities” means the New Common Shares and/or debt or securities of the Applicant subscribed for by, and issued to, Paladin, pursuant to the terms of the Subscription Agreement;

“Subscription Agreement” means that certain subscription agreement related to the Subscribed Securities to be entered into by and between the Applicant and Paladin;

“Transfer Agent” means the transfer agent for the Shares;

“Trustee” means Deloitte & Touche Inc. and any successor thereto appointed in accordance with the BIA;

“Unaffected Creditor” means a Person having a Claim in respect of an Unaffected Obligation but only in respect of such Unaffected Obligation;

“Unaffected Obligations” means the obligations of the Applicant to Interim Creditors;

“Unsecured Creditors” means all Creditors of the Applicant with Claims other than Claims that are Priority Claims.

1.2 Accounting Terms

All accounting terms not otherwise defined herein will have the meaning ascribed to them in accordance with International Financial Reporting Standards prescribed by the International Accounting Standards Board. Accounting policies and standards of financial disclosure will be in accordance with International Financial Reporting Standards.

1.3 Articles of Reference

The terms “hereof”, “hereunder”, “herein” and similar expressions refer to this Proposal and not to any particular article, section, subsection, clause or paragraph of this Proposal and include any agreements supplemental hereto. In this Proposal, a reference to an article, section, subsection, clause or paragraph will, unless otherwise stated, refer to an article, section, subsection, clause or paragraph of the Proposal.

1.4 Interpretation Not Affected by Headings

The division of this Proposal into articles, sections, subsections, clauses or paragraphs and headings are for convenience of reference only and will not affect the construction or interpretation of this Proposal.

1.5 Date for Any Action

In the event that any date on which any action is required to be taken hereunder is not a Business Day, such action will be required to be taken on the next succeeding day which is a Business Day.

1.6 Time

All times expressed herein are local time in Vancouver, British Columbia, Canada unless otherwise stipulated. Where the time for anything pursuant to this Proposal on a particular date is unspecified herein, the time shall be deemed to be 5:00 p.m. local time in Vancouver, British Columbia.

1.7 Numbers and Gender

In this Proposal, where the context requires, a word importing the singular number will include the plural and vice versa and a word or words importing gender will include all genders.

1.8 Currency

Unless otherwise stated herein, all references to currency in this Proposal are to be lawful money of Canada.

1.9 Statutory References

Except as otherwise provided herein, any reference in this Proposal to a statute includes all regulations made thereunder, all amendments to such statute or regulations in force from time to time, and any statute or regulation that supplements or supercedes such statute or regulation.

1.10 Successors and Assigns

This Proposal will be binding upon and will enure to the benefit of the heirs, administrators, executors, legal personal representatives, successors and assigns of any Person named or referred to in this Proposal.

1.11 Schedules

The following are the schedules to this Proposal which are incorporated by reference into this Proposal and form part hereof:

Schedule A: Articles of Reorganization

ARTICLE 2

PURPOSE AND EFFECT OF THE PROPOSAL

2.1 Purpose

The purpose of this Proposal is to effect a proposal concerning the obligations of the Applicant and the reorganization of the capital structure of the Applicant in order to enable the business of the Applicant to continue and the Applicant to become a wholly-owned subsidiary of Paladin, in the expectation that all Creditors with an interest in the Applicant will derive a greater benefit from its continued operation and its acquisition by Paladin than would result from the discontinuance of its operations and the forced liquidation of the Applicant's assets.

2.2 Strategic Investment

On the Proposal Implementation Date, Paladin shall, subject to and upon the terms and conditions of the Subscription Agreement, make a strategic investment in the Applicant by subscribing for New Common Shares or, at the option of Paladin, a combination of New Common Shares and of debt securities of the Applicant in consideration for a cash payment as set forth in the Subscription Agreement in the amount of \$900,000 to be used to fund this Proposal.

2.3 Persons Affected

On and after the Proposal Implementation Date, this Proposal will become effective on and, subject to the fulfilment by the Applicant of its obligations hereunder, shall be binding on the Applicant, the Shareholders and the Creditors.

ARTICLE 3

TREATMENT OF CREDITORS' CLAIMS AND VOTING

3.1 Priority Claims

(1) *Payments to Her Majesty*

The amounts due to Her Majesty the Queen in right of Canada or of any province, which are subject to a demand under subsection 224 (1.2) of the Income Tax Act or of any provision of the Canada Pension Plan or of the Employment Insurance Act that refers to subsection 224(1.2) of the Income Tax Act and provides for the collection of a contribution, as defined in the Canada Pension Plan, or an employee's premium, or employer's premium, as defined in the Employment Insurance Act, and of any related interest, penalties or other amounts, or of any provision of provincial legislation essentially similar to the foregoing provisions as provided in paragraph 60(1.1)(c) of the BIA, and that were outstanding at the time of the filing of the Proposal shall be paid in their entirety, without interest, within six (6) months after the Approval of the Proposal.

(2) *Payments to Employees*

The amounts which Employees (past and present) would be entitled to receive pursuant to paragraph 136(1)(d) of the BIA if their employer had been declared bankrupt on the date of the Proposal Filing Date, as well as wages, salaries, commission or compensation for services rendered from and after the Proposal Filing Date up to the date of the Approval of the Proposal shall be paid in their entirety as soon as reasonably practicable after the Approval of the Proposal.

(3) *Proposal Costs*

The Proposal Costs shall be paid in priority to all Claims of Unsecured Creditors and Priority Claims.

(4) *Priority Claims*

Subject to the foregoing, the Priority Claims, without interest, shall be paid in their entirety in priority to all Claims of the Unsecured Creditors, as soon as reasonably practicable following the Approval of the Proposal.

3.2 Unaffected Obligations

Unaffected Obligations shall be paid by the Applicant to the Unaffected Creditor in full in cash on their respective due dates and shall be paid in priority to all Claims of the Unsecured Creditors.

3.3 Landlord Claims

(1) *Disclaimer of Lease*

In the case of any lease of real property disclaimed by the Applicant or the Trustee on the Applicant's behalf pursuant to subsection 65.2(1) of the BIA, the landlord affected by the disclaimer may file a proof of claim for its actual losses, if any, resulting from the disclaimer by the Applicant, in accordance with subsection 65.2(4) of the BIA, after deduction of any rent paid and subject to the landlord's duty to mitigate its damages.

(2) *Treatment of Landlord Claims*

For the purpose of voting at the Creditors' Meeting any landlord having a Claim pursuant to Section 3.3(1) shall be classified as an Unsecured Creditor.

3.4 Treatment of Unsecured Creditors

Each Unsecured Creditor shall, in full and final satisfaction of its Claims, be paid the first \$1,000.00 of its Proven Claim, and then be paid an amount determined by applying the following formula:

The "Aggregate Amount Payable to Unsecured Creditors" (less amounts paid for the first \$1,000.00 of Unsecured Creditors Proven Claims)	X	<table style="border: none; width: 100%;"> <tr> <td style="text-align: center;"> The Amount of the Unsecured Creditor's Proven Claim (less the amount of \$1,000.00 paid first) </td> </tr> <tr> <td style="text-align: center; border-top: 1px solid black;"> The total amount of all Unsecured Creditor's Proven Claims </td> </tr> </table>	The Amount of the Unsecured Creditor's Proven Claim (less the amount of \$1,000.00 paid first)	The total amount of all Unsecured Creditor's Proven Claims
The Amount of the Unsecured Creditor's Proven Claim (less the amount of \$1,000.00 paid first)				
The total amount of all Unsecured Creditor's Proven Claims				

Where, for the purposes of the calculation above, the "Aggregate Amount Payable to Unsecured Creditors" shall be equal to the Proposal Fund.

3.5 Procedure for Payment

Within ten (10) Business Days following the Proposal Implementation Date, the Applicant shall remit the Proposal Fund to the Trustee for purpose of paying each Creditor the amount determined pursuant to Sections 3.3 and 3.4, provided however that no payments shall be made to Unsecured Creditors prior to the Trustee making any and all payments required under Sections 3.1 and 3.2, or, alternatively, the Trustee reserving and holding in trust sufficient funds to pay amounts required under Sections 3.1 and 3.2. The Trustee shall remit the relevant amounts so payable to the Creditors as soon as reasonably practicable following the Proposal Implementation Date, less such reserves as the Trustee shall deem necessary or appropriate, and the balance shall be paid in such number of instalments as the Trustee shall deem appropriate.

3.6 Effect of Proposal Implementation

Effective on the Proposal Implementation Date, the Claims of the Creditors shall be discharged and the Applicant shall thereupon be released from all Claims of Creditors, other than the obligation to make payments in the manner and to the extent described in Article 3.

3.7 Non-Application of Sections 91 to 101 of the BIA

Sections 91 to 101 of the BIA, under the heading of "Settlement and Preferences" in the BIA, shall not apply to the within Proposal. The Trustee and Creditors shall not be entitled to avail themselves of these sections.

3.8 Proof of Claim

In order to be eligible to vote at the Creditors' Meeting each Creditor shall file a Proof of Claim with the Trustee in accordance with the applicable provisions of the BIA and thereafter the Trustee shall administer the claims in accordance with the provisions of section 135 of the BIA.

Forthwith after the Creditors' Meeting, the Trustee shall give notice (the "Notice") pursuant to section 149 of the BIA, by registered mail, to every Person with a Claim that the Trustee has notice or knowledge of, but whose claim has not been filed or proved.

Any Person who does not prove his Claim within thirty (30) days of the mailing of the Notice, shall forever be barred from making a claim in this Proposal or sharing in any dividend hereunder, subject to any exceptions set out in subsections 149(2)(3) and (4) of the BIA, regardless of whether such Person was sent a Notice or whether such Person received such Notice.

In order to receive a distribution from the Proposal Fund, a Creditor must submit a Proof of Claim prior to the time the Trustee distributes funds in accordance with the Proposal.

ARTICLE 4

MEETING OF CREDITORS

4.1 Creditors' Meeting

Unless otherwise ordered by the Court, the Creditors' Meeting shall be conducted by the Trustee and the Company and shall be held on June 12, 2013 at the offices of the Trustee at 10:00 a.m. at 2800-1055 Dunsmuir Street, Vancouver, British Columbia. All Proofs of Claim shall be delivered in accordance with the provisions of this Proposal, the BIA and any Order which may be issued by the Court in respect of the procedure governing the Creditors' Meeting to be held for the purposes of voting upon the Proposal. The Unsecured Creditors shall vote on the terms of this Proposal.

4.2 Conduct of the Creditors' Meeting

Unless otherwise ordered the Official Receiver, or the nominee thereof, shall preside as the chair of the Creditors' Meeting and will decide all matters relating to the conduct of the Creditors' Meeting. The only persons entitled to attend the Creditors' Meeting are those persons, including the holders of proxies, entitled to vote at the Creditors' Meeting and their legal counsel, if any, and the officers, directors, auditors, advisors and legal counsel of the Company, together with such representatives of the Trustee as the Trustee may appoint in its discretion, and such scrutineers as may be duly appointed by the chair of such meeting. Any other person may be admitted on invitation of the chair of the Creditors' Meeting or with the consent of the Creditors, as the case may be.

4.3 Adjournment of the Creditors' Meeting

The Creditors' Meeting may be adjourned in accordance with Section 52 of the BIA. If the Creditors' Meeting is adjourned, no further Proofs of Claim nor proxies shall be filed with or accepted by the Trustee or the Company for the purpose of voting at any reconvening of the Creditors' Meeting.

4.4 Voting at the Creditors' Meeting

In order to be entitled to vote at the Creditors' Meeting, an Unsecured Creditor must file its Proof of Claim with the Trustee prior to the commencement of the Creditors' Meeting. Subject to any applicable provisions in the BIA, only Unsecured Creditors shall vote at the Creditors' Meeting and each Unsecured Creditor will be entitled to vote to the extent of the amount which is equal to that Unsecured Creditor's Proven Claim.

4.5 Approval by Unsecured Creditors

In order to be approved, the Proposal must receive the affirmative vote of the Required Majority.

ARTICLE 5

TREATMENT OF SHAREHOLDERS AND REORGANIZATION OF THE APPLICANT'S SHARE CAPITAL

The rights of Shareholders shall be affected by the Final Order which will provide for the following:

5.1 Articles of Reorganization

Effective on the Proposal Implementation Date, the Articles of Reorganization creating an unlimited number of authorized New Common Shares and New Preferred Shares, changing all issued and outstanding Shares into New Preferred Shares, providing for the mandatory redemption of the New Preferred Shares and deleting all other authorized but unissued Shares, will become effective by virtue of the issuance of the Certificate of Amendment.

5.2 Treatment of Shareholders

Effective on the Proposal Implementation Date, each Share held by each Shareholder shall be converted into one New Preferred Share.

5.3 Paladin Subscription

Effective on the Proposal Implementation Date and subject to and upon the terms and conditions of the Subscription Agreement, Paladin shall subscribe for the Subscribed Securities.

5.4 Mandatory Redemption

Following the issuance of the Certificate of Amendment, the Applicant shall redeem, and shall be deemed to have redeemed, on the Proposal Implementation Date, without being required to give notice thereof to and without further act or formality on the part of the respective holders thereof, all of the outstanding New Preferred Shares (namely, those New Preferred Shares issued by virtue of the change, pursuant to the Certificate of Amendment, of the Shares into such New Preferred Shares), for an aggregate amount for \$1.00 (the "**Redemption Amount**"). On the Proposal Implementation Date, the Applicant shall pay or cause to be paid to the Transfer Agent, on behalf of the holders of the New Preferred Shares, the Redemption Amount.

From and after the Proposal Implementation Date, the New Preferred Shares shall be deemed to be automatically redeemed and the holders of the New Preferred Shares shall not be entitled to any participation in the property or assets of the Applicant and shall not be entitled to exercise any of the rights of the holders thereof, except in respect of their contractual rights to receive certain payments as detailed in the Subscription Agreement.

The New Preferred Shares, once redeemed, shall be deemed to have been cancelled.

5.5 Share Certificates

On the Proposal Implementation Date, certificates formerly representing the Shares shall be deemed to be cancelled and shall be null and void.

5.6 Cancellation of Securities

Effective on the Proposal Implementation Date, all Securities of the Applicant and any rights to receive such Securities shall be automatically cancelled, with no compensation or participation being provided or payable therefor or in connection therewith.

5.7 No Other Entitlements

The Shareholders and holders of Securities will not be entitled to any interest, dividend, premium or other payment on or with respect to their Claims, Shares, or Securities, as the case may be, other than as provided pursuant to this Proposal.

ARTICLE 6

TRUSTEE

6.1 Proposal Trustee

Deloitte & Touche Inc. shall be the Trustee pursuant to this Proposal and upon the making of distributions to the Creditors, in accordance with Article 3 and otherwise complying with its obligations under the BIA, the Trustee will be entitled to be discharged from its obligations under the terms of this Proposal. The Trustee is acting in its capacity as Trustee under this Proposal, and not in its personal capacity and shall not incur any liabilities or obligations in connection with this Proposal or in respect of the business, liabilities, or

obligations of the Applicant, whether existing as at the Proposal Filing Date or incurred subsequent thereto.

The Trustee is authorized to draw on the Proposal Fund on account of Trustee remuneration upon Creditor and Court approval of this Proposal, subject to taxation by the Court upon completion of the administration of the estate.

6.2 Certificate of Completion and Discharge of Trustee

Upon the Trustee making the final distribution to the Creditors and all necessary payments to Unaffected Creditors pursuant to Article 3, the terms of this Proposal shall be deemed to be fully performed and the Trustee shall provide a certificate to the Applicant and to the Official Receiver pursuant to Section 65.3 of the BIA and the Trustee shall be entitled to be discharged.

6.3 Indemnification of Trustee

The Trustee shall be indemnified in full by the Applicant for all personal liability arising from fulfilling any duties or exercising any powers or duties conferred upon them by this Proposal or under the BIA, except for any wilful misconduct or gross negligence.

ARTICLE 7

MISCELLANEOUS

7.1 Confirmation of Proposal

In the event that the Proposal is approved by the Required Majority the Applicant will, unless otherwise ordered by the Court, then seek the Final Order for the sanction and approval of the Proposal. Subject only to the Final Order being granted and the satisfaction of those conditions of the Proposal described in Section 7.10, the Proposal will be implemented by the Applicant and will be binding upon all the Creditors of the Applicant and the Shareholders affected by the Proposal in accordance with its terms.

7.2 Paramountcy

From and after the Proposal Implementation Date, any conflict between the Proposal and the covenants, warranties, representations, terms, conditions, provisions or obligations, expressed or implied, of any contract, mortgage, hypothec, security agreement, indenture, trust indenture, loan agreement, commitment letter, agreement for sale, by-laws of the Applicant, lease or other agreement, written or oral, and any and all amendments or supplements thereto existing between one or more of the Creditors or the Shareholders and the Applicant as at the Proposal Implementation Date will be deemed to be governed by the terms, conditions and provisions of the Proposal and the Final Order, which shall take precedence and priority.

7.3 Waiver of Defaults

From and after the Proposal Implementation Date, each Creditor and Shareholder shall be deemed to have waived any and all defaults then existing or previously committed by the Applicant in any covenant, warranty, representation, term, provision, condition or obligation, expressed or implied, in any contract, agreement, mortgage, hypothec, security agreement, indenture, trust indenture, loan agreement, commitment letter, agreement for sale, lease or other agreement, written or oral, and any and all amendments or supplements thereto, existing between such Creditor or Shareholder and the Applicant and any and all notices of default and demands for payment under any instrument, including, without limitation any guarantee, shall be deemed to have been rescinded.

7.4 Compromise Effective for all Purposes

The payment, compromise or other satisfaction of any Claim under the Proposal, if sanctioned and approved by the Court, shall be binding upon all Creditors and Shareholders and their respective heirs, executors, administrators, successors and assigns, for all purposes and, to such extent shall also be effective to relieve any third party directly or indirectly liable for such indebtedness, whether as guarantor, indemnitor, tenant, director, joint covenantor, principal or otherwise.

7.5 Participation in Different Capacities

Creditors whose Claims are affected by this Proposal may be affected in more than one capacity. Each such Creditor shall be entitled to participate hereunder in each such capacity. Any action taken by a Creditor in any one capacity shall not affect the Creditor in any other capacity unless the Creditor agrees in writing.

7.6 Modification of Proposal

The Applicant reserves the right to file any modification of or amendment to the Proposal by way of a supplementary or amended proposals filed with the Court at any time or from time to time prior to the Creditor's Meeting in which case any such amended or supplementary proposals shall, for all purposes, be and be deemed to be a part of and incorporated into the Proposal. The Applicant shall give notice by publication or otherwise to all Creditors in an affected class of the details of any modifications or amendments prior to the Creditor's Meeting. The Applicant may propose an alteration or modification to the Proposal at the Creditor's Meeting. After such Creditors' Meeting, the Applicant may at any time and from time to time vary, amend, modify or supplement the Proposal if the Court determines that such variation, amendment, modification or supplement would not be materially prejudicial to the interests of any of the Creditors and Shareholders under the Proposal or the Final Order and is reasonably necessary in order to give effect to the substance of the Proposal or the Final Order.

7.7 Consents, Waivers and Agreements

As at 12:01 a.m. on the Proposal Implementation Date, each Creditor and Shareholder shall be deemed to have consented and to have agreed to all of the provisions of this Proposal as an entirety. In particular, each Creditor and Shareholder shall be deemed:

- (a) subject to the Applicant having fulfilled its obligations under the Proposal, to have executed and delivered to the Applicant all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out this Proposal as an entirety;
- (b) subject to the Applicant having fulfilled its obligations under the Proposal, to have waived any default by the Applicant in any provision, express or implied, in any agreement or other arrangement, written or oral, existing between such Creditor or Shareholder and the Applicant that has occurred on or prior to the Proposal Implementation Date; and
- (c) to have agreed that if there is any conflict between the provisions, express or implied, of any agreement or other arrangement, written or oral, existing between such Creditor or Shareholder and the Applicant as at the Proposal Implementation Date (other than those entered into by the Applicant on, or with effect from, the Proposal Implementation Date) and the provisions of this Proposal, then the provisions of the Proposal take precedence and priority and the provisions of such agreement or other arrangement are amended accordingly.

7.8 Releases

Other than in respect of the Unaffected Obligations and in respect of and subject to the fulfilment of the Applicant's obligations under the Proposal, after the Proposal Implementation Date, each Creditor of the Applicant shall be deemed to forever release any and all suits, Claims and causes of action that it may have had against the Applicant or against any of the Directors, officers, employees and advisors of any of the Applicant prior to the Proposal Filing Date (or that arose after the Filing Date but which relates to events which occurred prior to the Proposal Filing Date), provided however that nothing herein shall release or discharge or be deemed to have released or discharged any Claims against the Directors which cannot be released or discharged pursuant to Section 50(14) of the BIA.

7.9 Deeming Provisions

In this Proposal, the deeming provisions are not rebuttable and are conclusive and irrevocable.

7.10 Conditions Precedent to Implementation of the Proposal

The implementation of the Proposal by the Applicant shall be conditional upon the following conditions:

- (a) the Proposal is approved by the Required Majority;
- (b) the Final Order has been issued and has not been stayed and there is no outstanding appeal therefrom;

- (c) all contracts, agreements and arrangements entered into by the Applicant shall be terminated, resiliated and without effect in accordance with Section 65.11 or 65.2 of the BIA, as applicable, save and except the following agreements which shall remain in effect and be unaffected:
 - (A) the agreement between the Applicant and Iron Mountain Canada Corporation, dated March 5, 2010, as amended from time to time; and
 - (B) the agreement between the Applicant and Long View Systems Corporation, dated May 3, 2012, as amended from time to time.

For the avoidance of doubt, the license agreements entered into by the U.S. subsidiary of the Applicant, being the Allon-Ramot Amended and Restated License Agreement dated November 20, 2011 between Ramot at Tel-Aviv University Ltd. and Allon Therapeutics, Inc. and the License Agreement dated October 21, 2002 between the National Institutes of Health on behalf of the Public Health Service, Department of Health and Human Services and Allon Therapeutics, Inc., as amended from time to time shall remain in effect and be unaffected;

- (d) the execution and delivery of all documents and instruments contemplated by the Proposal and the Subscription Agreement;
- (e) the subscriptions by Paladin for the Subscribed Securities in accordance with the terms and conditions of the Subscription Agreement;
- (f) filing Articles of Reorganization and the issuance of the Certificate of Amendment; and
- (g) all other actions, documents and agreements necessary to implement the Proposal as required herein shall have been effected and executed.

7.11 Certificate of Amendment

On the day by which all conditions set out in Section 7.10 have been fulfilled or satisfied or waived, the Applicant shall file the Articles of Reorganization pursuant to Section 191 of the CBCA and the Certificate of Amendment shall be issued.

7.12 Notices

Any notice or other communication to be delivered hereunder must be in writing and may, unless otherwise set out herein, be made or given by personal delivery, registered mail, facsimile or such other written electronic communication acceptable to the parties addressed to:

- (a) If to the Applicant

Allon Therapeutics Inc.
506-1168 Hamilton Street
Vancouver, BC V6B 2S2

Attention: Matthew Carlyle
Fax: 604-734-1616
E-mail: mcarlyle@allontherapeutics.com

With a copy to:

Blake, Cassels & Graydon LLP
2600-595 Burrard Street
Vancouver, BC V7X 1L3

Attention: Peter Rubin
Fax: 604-631-3315
E-mail: peter.rubin@blakes.com

(b) If to the Trustee

Deloitte & Touche Inc.
2800-1055 Dunsmuir Street
Vancouver, BC V7X 1P4

Attention: Huey Lee
Fax: 604-640-3060
E-mail: huelee@deloitte.ca

Any such communication so given or made shall be deemed to have been given or made and to have been received on the day of delivery if delivered, or on the day of faxing or sending by other means of recorded electronic communication, provided that such day in either event is a Business Day and the communication is so delivered, faxed or sent before 5:00 p.m. on such day. Otherwise, such communication shall be deemed to have been given and made and to have been received on the next following Business Day.

7.13 Governing Law

The Proposal shall be governed by and construed in accordance with the laws of British Columbia and the federal laws of Canada applicable therein. Any disputes as to the interpretation or application of the Proposal and all proceedings taken in connection with the Proposal shall be subject to the exclusive jurisdiction of the Court.

Dated at the City of Vancouver, in the Province of British Columbia, this 29th day of May, 2013.

Allon Therapeutics Inc.

Per: 

Matthew Carlyle
Chief Financial Officer

SCHEDULE A
ARTICLES OF REORGANIZATION
OF
ALLON THERAPEUTICS INC.

The Articles of Allon Therapeutics Inc. (the "**Corporation**") are amended by:

Creating a new class of shares in an unlimited number designated as New Common Shares and another new class of shares in an unlimited number designated as New Preferred Shares;

Providing that the rights, privileges, restrictions and conditions attaching to the New Common Shares and the New Preferred Shares are as set out in in Schedule R-1 attached hereto;

Changing each Common Share of the Corporation issued and outstanding as at 11:59 p.m. (Vancouver time) on the day immediately preceding the date (the "**Effective Date**") of the Certificate of Amendment to be issued under the *Canada Business Corporations Act* in respect of these Articles of Reorganization into one fully paid and non-assessable New Preferred Share;

Deleting the class of Common shares and the class of Preferred shares, none of which are currently issued and outstanding, and to delete the rights, privileges, restrictions and conditions attaching to such classes of shares; and

Providing that, after giving effect to the foregoing, the authorized capital of the Corporation shall consist only of an unlimited number of New Common Shares and an unlimited number of New Preferred Shares.

SCHEDULE ["R-1"]
TO
ARTICLES OF REORGANIZATION
OF
ALLON THERAPEUTICS INC.

The rights, privileges, restrictions and conditions attaching to the authorized shares in the capital of the Corporation shall be as follows:

1. PROVISIONS ATTACHING TO NEW COMMON SHARES

An unlimited number of New Common Shares of the Corporation shall have attached thereto the following rights, privileges, restrictions and conditions:

1.1. Dividends

The holders of New Common Shares shall be entitled to receive dividends and the Corporation shall pay dividends thereon, as and when declared by the board of directors of the Corporation, out of monies properly applicable to the payment of dividends, in money or in property or by issuing fully paid shares of the Corporation, in such amount and in such form as the board of directors of the Corporation may from time to time determine and all dividends which the board of directors of the Corporation may declare on the New Common Shares shall be declared and paid in equal amounts per share on all New Common Shares at the time outstanding.

1.2. Dissolution

In the event of the dissolution, liquidation or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs, subject to the prior rights of the holders of New Preferred Shares, the holders of the New Common Shares shall be entitled to receive the remaining property and assets of the Corporation.

1.3. Voting Rights

The holders of the New Common Shares shall be entitled to receive notice of and to attend all meetings of the shareholders of the Corporation and shall have one vote for each New Common Share held at all meetings of the shareholders of the Corporation, except meetings at which only holders of New Preferred Shares are entitled to vote separately as a class.

2. PROVISIONS ATTACHING TO NEW PREFERRED SHARES

An unlimited number of New Preferred Shares of the Corporation shall have attached thereto the following rights, privileges, restrictions and conditions:

2.1. Dividends

The holders of the New Preferred Shares shall not be entitled to receive any dividends.

2.2. Dissolution

In the event of the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, or any other distribution of the assets of the Corporation among its shareholders for the purpose of winding up its affairs, the holders of the New Preferred Shares shall be entitled to receive, in preference and priority to any distribution of the property or assets of the Corporation to the holders of the New Common Shares, the aggregate amount of \$1.00 for all issued and outstanding New Preferred Shares, but shall not be entitled to share any further in the distribution of the property or assets of the Corporation.

2.3. Voting Rights

Except as otherwise required by law, the holders of the New Preferred Shares shall not be entitled to receive notice of, to attend or to vote at, any meeting of the shareholders of the Corporation.

2.4. Mandatory Redemption

Following the issuance of the Certificate of Amendment, the Corporation shall redeem, and shall be deemed to have redeemed, on the Effective Date, without being required to give notice thereof to and without further act or formality on the part of the respective holders thereof, all of the outstanding New Preferred Shares (namely, those New Preferred Shares issued by virtue of the change, pursuant to the Certificate of Amendment of the outstanding Common shares (collectively the "**Old Common Shares**") into such New Preferred Shares), for an aggregate amount of \$1.00 for all of the issued and outstanding Old Common Shares (the "**Redemption Amount**"). On or promptly following the effective date of the articles of reorganization of the Corporation (the "**Effective Date**"), the Corporation shall pay or cause to be paid to the transfer agent of the Old Common Shares (the "**Transfer Agent**"), on behalf of the holders of the New Preferred Shares, the Redemption Amount.

From and after the Effective Date and the payment of the Redemption Amount, the New Preferred Shares shall be deemed to be automatically redeemed and the holders of the New Preferred Shares shall not be entitled to any participation in the property or assets of the Corporation and shall not be entitled to exercise any of the rights of the holders thereof.

The New Preferred Shares, once redeemed, shall be deemed to have been cancelled.

2.5. Share Certificates

On the Effective Date, certificates formerly representing Old Common Shares shall be deemed to be cancelled and shall be null and void.

**SHARE EXCHANGE SCHEDULE
TO ARTICLES OF REORGANIZATION
OF
ALLON THERAPEUTICS INC.**

The Articles of the Corporation be amended by exchanging all of the issued and outstanding Common Shares of the Corporation for New Preferred Shares, on a one for one basis.