



**SECOND QUARTER REPORT
JUNE 30, 2004**

REPORT TO SHAREHOLDERS

Dear Shareholders:

The second quarter was very eventful for your company as we commenced our strategy to unlock value from your public investment and refocus your company as an operating biotechnology company.

On June 21, 2004, we announced our intention to acquire all of the outstanding shares of Allon Therapeutics, Inc., one of our portfolio companies with widely validated technology in neuroprotection. Allon's lead compound, AL108, has shown strong efficacy in animal models of Alzheimer's disease, multiple sclerosis, stroke, and traumatic brain injury, among others. We are actively working with Allon now to file an Investigational New Drug (IND) application with the United States Food and Drug Administration (FDA) and intend to commence clinical trials in early 2005.

As part of this transaction, we committed to raise a minimum of \$5-million to advance Allon drug candidates. Subsequent to the end of the quarter we announced the closing of \$8-million in special warrants that convert into shares and warrants of the company on the close of the acquisition. This strong market response to the Allon opportunity is a significant validation of this approach and, given the \$1 unit price, a meaningful increase in value for our shareholders.

We expect to mail shortly an information circular with respect to this transaction that will more fully detail our plans and the opportunity. Additionally, we intend to call a special shareholders' meeting in September to seek your approval to proceed in this fashion.

We believe strongly that this approach is the right one for your company and that Allon is a significant opportunity for all of us.

Respectfully,



James J. Miller, PhD
Chairman and CEO
August 27, 2004



Gordon C. McCauley
President, Chief Operating Officer and Secretary

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION & ANALYSIS

The following information should be read in conjunction with the unaudited consolidated financial statements and related notes for the as at and the three months ended, June 30, 2004 that are prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts are expressed in Canadian dollars unless otherwise specified. Additional information relating to Neuro Discovery Inc. ("NDI" or the "Company"), including the Company's Annual Information Form is on SEDAR at www.sedar.com.

August 27, 2004

OVERVIEW

NDI invests in high potential life science and biotechnology companies and in particular, companies in the central nervous system category. In addition to capital, NDI provides its investee companies with management and scientific expertise to accelerate their research and product development. NDI's investment objective is to provide long-term capital appreciation to its shareholders through equity investments in select life science and biotechnology companies that meet NDI's investment criteria. NDI is also the investment manager of two life science funds, the Neuro Discovery Limited Partnership ("NDLP"), and TriFund Capital (VCC) Ltd., ("TriFund"). These funds have committed capital of \$25 million on a combined basis.

During the second quarter of 2004, the Company focused its efforts on reviewing investment opportunities for the NDLP, an institutional fund with \$21.5 million of committed capital, as well as, working with investee companies currently in the fund, particularly Allon Therapeutics, Inc. On June 21, 2004, the Company announced that it had negotiated an agreement in principle with the Board of Allon Therapeutics, Inc. to acquire all of Allon's outstanding shares and to merge the two companies' operations in order to focus on the commercialization of Allon's neuroprotective compounds.

RESULTS OF OPERATIONS

During the three months ended June 30, 2004, the Company's cash, cash equivalents and short term investments earned interest of \$4,925 as compared to \$16,567 in the same period in 2003, reflecting less interest earning investments. Management fees for the three months ended June 30, 2004 were \$111,576 reflecting fees generated through management of two funds, the NDLP and TriFund. There were no management fees for the comparative second quarter of 2003 as the previously referred to funds were established during and after this period respectively.

Expenses incurred during the three months ended June 30, 2004 were \$286,374 as compared to \$490,079 for the same period in 2003. Expenses in both of these quarters were primarily comprised of salaries, benefits, administration and professional fees. The amortized expense related to stock options issued to employees was \$3,125 in the quarter.

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

RESULTS OF OPERATIONS (CONT'D)

During the quarter, the Company realized a gain of \$8,875 on the sale of marketable securities and a realized gain on the Neuro Therapeutics Inc. investment of \$5,320 as the recovered amount exceeded the carrying value of the investment. In addition, the Company recorded an unrealized loss on investments totaling \$13,489, largely attributable to a \$14,007 foreign exchange loss on the Allon Therapeutics Inc. investment offset partially by the net gain in two other investments. There was no unrealized gain or loss on investments for the comparable period in 2003.

The loss before unrealized gains on investments for the three months ended June 30, 2004 was \$155,631 primarily reflecting the expenses described above. This figure compares to the \$1,973,512 loss before unrealized gains on investments for the three months ended June 30, 2003, which reflected an unrealized loss on the Neuro Therapeutics Inc. investment of \$1,500,000.

The loss for the three months ended June 30, 2004 was \$169,120 (\$0.02 per share) primarily reflecting the expenses and management fees described above. This loss compares to the \$1,973,512 loss (\$0.21 per share) for the three months ended June 30, 2003.

Total assets of the Company as at June 30, 2004 were \$2,359,770 compared to total assets of \$2,594,657 as at December 31, 2003.

QUARTERLY INFORMATION

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

(in thousands, except per share data)

	June 30, 2004	March 31, 2004	Dec. 31, 2003	Sept. 30, 2003
Investment earnings and management fees	\$117	\$150	\$168	\$13
Loss before unrealized gains (losses) on investments	\$(156)	\$(62)	\$(253)	\$(336)
Change in unrealized gains (losses) on investments	\$(13)	\$8	\$(20)	\$(129)
Loss for the quarter	\$(169)	\$(54)	\$(273)	\$(465)
Loss per share	\$(0.02)	\$(0.01)	\$(0.02)	\$(0.05)
	June 30, 2003	March 31, 2003	Dec. 31, 2002	Sept. 30, 2002
Investment earnings and management fees	\$(1,483)	\$15	\$26	\$29
Loss before unrealized gains (losses) on investments	\$(1,974)	\$(305)	\$(137)	\$(451)
Change in unrealized gains (losses) on investments	\$0	\$0	\$0	\$0
Loss for the quarter	\$(1,974)	\$(305)	\$(137)	\$(451)
Loss per share	\$(0.21)	\$(0.03)	\$(0.01)	\$(0.05)

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

SUMMARY OF NDI'S INVESTMENTS

During the three months ended June 30, 2004, NDI invested in Allon Therapeutics, Inc., a company developing drugs for the treatment of neurological diseases and disorders. As at June 30, 2004, NDI's corporate investments were as follows:

Investment	Carrying Value (thousands)	Cost (thousands)	Ownership (%) ⁽⁴⁾	Description of Business
Allon Therapeutics, Inc. ⁽¹⁾ San Diego, California	\$434	\$448	8.4%	A biopharmaceutical company developing drugs to treat neurological diseases and disorders.
NeuroMed Technologies Inc. ⁽²⁾ Vancouver, B.C.	\$77	\$207	0.2%	Private biotechnology company focusing on generating novel therapies for chronic stroke and pain. The company is a leader in the discovery and development of neuronal calcium channel blockers.
Neuro Discovery Limited Partnership ⁽³⁾	\$305	\$315	3.5%	Institutional limited partnership fund managed by the Company, focusing on investing in private and public biotechnology companies, with a particular focus on the central nervous system area.
Total Investments	\$816	\$970		

(1) Investment in preferred shares of Allon Therapeutics, Inc. Carrying value is based on most recent equity financing.

(2) Investment in preferred shares of NeuroMed Technologies Inc. Carrying value is based on most recent equity financing completed during 2003.

(3) Investment in partnership units. Carrying value is based on net asset value of the partnership.

(4) Percent ownership on fully diluted basis.

During the three months ended June 30, 2004, the Company received the final distribution of \$417,426 from a bankruptcy trustee appointed to liquidate the assets of Neuro Therapeutics Inc. ("NTI").

LIQUIDITY AND CAPITAL RESOURCES

Since inception, the Company has financed investments and general and administrative overhead primarily from private sales of equity securities and interest income. Through June 30, 2004, NDI had received approximately \$6.5 million in net proceeds from the issuance of equity securities.

As at June 30, 2004, the Company had cash and short-term investments of \$1,344,359 as compared to \$1,480,007 as at December 31, 2003. During the quarter, the Company received proceeds of \$20,615 on sales of marketable securities and \$417,426 as a final distribution on the liquidation of NTI assets on which the Company had a claim.

NDI believes that its cash and short-term investments as at June 30, 2004, expected income and investment realization will be sufficient to fund operations and commitments through 2005. Subsequent to June 30, 2004 NDI raised \$8,000,000 through the issuance of special warrants. The funds will be held in escrow until closing of the intended acquisition of Allon Therapeutics, Inc.

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

OUTSTANDING SHARE CAPITAL

As at June 30, 2004, the Company had 9,723,754 common shares outstanding. Each common share entitles the holder to one vote per share. As at June 30, 2004, the Company had 1,245,000 options outstanding, of which 923,333 were exercisable into an equivalent number of common shares of the Company at exercise prices ranging from \$0.40 to \$1.72. The Company also had 100,000 warrants outstanding as of June 30, 2004, entitling holders to purchase common shares of the Company for a period of 18 months until September 25, 2004, at a price equal to \$1.50. See note 3 of the Company's financial statements for more detail regarding outstanding share capital. Subsequent to June 30, 2004 NDI issued 8,000,000 special warrants. The special warrants will convert into 8,000,000 shares and 4,000,000 non-transferable warrants upon closing of the intended acquisition of Allon Therapeutics, Inc.

OFF-BALANCE SHEET AGREEMENTS

In April 2003, the Company entered into an agreement to invest \$1.5 million of a \$21.5 million commitment to the Neuro Discovery Limited Partnership ("NDLP") anticipated to be fully funded by April 2008. The agreement is currently accounted for as an off-balance sheet item. In October 2003, the Company entered into an agreement with NDLP under which TriFund Capital (VCC) Ltd. ("TriFund") may invest in the NDLP and thereby satisfy up to \$750,000 of the Company's \$1.5 million commitment to the NDLP. As of June 30, 2004, \$630,000 of the Company's \$1.5 million commitment had been satisfied by equal investments in the NDLP by the Company and TriFund. The Company, through its wholly owned subsidiaries, acts as general partner and investment manager for the NDLP. The Company guarantees to the NDLP the due performance of the obligations of the general partner and investment manager to the NDLP.

TRANSACTIONS WITH RELATED PARTIES

During the three months ended June 30, 2004, the Company paid \$36,919 (2003 – \$35,000) to the firm of a director for corporate legal services provided to the Company. Such services were rendered in the ordinary course of business at market rates.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. These accounting principles require us to make certain estimates and assumptions. We believe that the estimates and assumptions are reasonable based upon information available to us at the time these estimates and assumptions are made. Actual results could differ from our estimates. The area of significant estimates is accounting for corporate investments.

NDI's consolidated financial statements are prepared using the fair value method of accounting for corporate investments. Under fair value accounting, each of NDI's corporate investments are re-valued quarterly. Securities in privately-held companies are recorded at cost on the Company's balance sheets unless an upward or downward adjustment is considered appropriate and is supported by persuasive and objective evidence such as a significant subsequent equity financing by an unrelated, professional investor at a transaction price higher or lower than the Company's carrying value. Downward adjustments to carrying value are also made when there is evidence of a decline in value as indicated by the assessment of the financial condition of the investment, or a significant subsequent equity financing by an unrelated, professional investor at a transaction price lower than the Company's carrying value.

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONT'D)

Realized gains or losses on disposition of investments and unrealized gains or losses in the value of corporate investments are reflected in the consolidated statements of income. Upon disposal of an investment, previously recognized unrealized gains or losses are reversed and are recorded as realized gains or losses at the date of disposal. This method of accounting requires judgment, and actual realizations may vary from the values presented.

As at June 30, 2004, NDI's corporate investments were recorded at \$815,694 compared to \$873,587 as at December 31, 2003, the difference being attributable to the investment in Allon Therapeutics, Inc and recovery of \$505,320 of the Company's investment by way of a loan to Neuro Therapeutics Inc.

BUSINESS RISKS

This discussion and analysis and other sections of the financial statements contain forward looking statements, which are based on the Company's current expectations and assumptions and are subject to a number of risk factors and uncertainties that could cause actual results to differ materially from those anticipated. Given these risk factors and uncertainties, readers are cautioned not to place undue reliance on such forward-looking information. The implementation of NDI's business plan is dependent upon its capacity to raise capital. Delays in obtaining additional funding will negatively affect NDI's ability to implement its business plan including the Company's ability to provide further funding to its investee companies. If additional capital is raised by the issuance of common shares from treasury, existing shareholders may have their shareholdings in NDI diluted. Raising capital is largely reliant on the state of the equity markets, which historically have been quite volatile. Fluctuations in interest rates affect NDI's income derived from cash and short-term investments.

This discussion and analysis and other sections of the financial statements contain forward looking statements, which are based on the Company's current expectations and assumptions and are subject to a number of risk factors and uncertainties that could cause actual results to differ materially from those anticipated. Given these risk factors and uncertainties, readers are cautioned not to place undue reliance on such forward-looking information. The implementation of NDI's business plan is dependent upon its capacity to raise capital. Delays in obtaining additional funding will negatively affect NDI's ability to implement its business plan including the Company's ability to provide further funding to its investee companies. If additional capital is raised by the issuance of common shares from treasury, existing shareholders may have their shareholdings in NDI diluted. Raising capital is largely reliant on the state of the equity markets, which historically have been quite volatile. Fluctuations in interest rates affect NDI's income derived from cash and short-term investments.

FINANCIAL INFORMATION

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

BUSINESS RISKS (CONT'D)

The companies in which NDI invests are subject to risks and uncertainties that include, but are not limited to, research and development programs, product sales levels, protection of intellectual property, initiation and execution of collaborative agreements and timely regulatory approvals for various products. Significant funding is required for their ongoing research and development and clinical trials. Therefore, financial resources are necessary until such time as revenues are sufficient to generate profits. There can also be no assurance that any of the products developed by the companies in which NDI invests will be successful or that regulatory approval of, or patents for, any of these or future products will be obtained.

OUTLOOK

The Company is currently focused on completing the acquisition of Allon Therapeutics, Inc. and the reviewing of attractive biotechnology investment opportunities and expects to continue to actively pursue opportunities relating to new and novel therapeutics that target central nervous system diseases. The Company anticipates raising additional funds in 2004 to invest in, and to co-invest with, the Neuro Discovery Limited Partnership.

FINANCIAL INFORMATION

NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Neuro Discovery Inc. and the accompanying interim consolidated balance sheet as at June 30, 2004 and the interim consolidated statement of operations and deficit and cash flows for the three month period then ended are the responsibility of the Company's management. These consolidated financial statements have not been audited or reviewed on behalf of the shareholders by the independent external auditors of the Company, KPMG LLP.

The interim consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with Canadian generally accepted accounting principles.

/s/ James J. Miller

Chief Executive Officer

Vancouver, Canada

August 27, 2004

/s/ Matthew J. Carlyle

Director of Finance

Vancouver, Canada

August 27, 2004

NEURO DISCOVERY INC.

Consolidated Balance Sheets

	June 30, 2004	December 31, 2003
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 344,359	\$ 307,795
Short-term investments	1,000,000	1,172,212
Marketable securities	25,930	80,501
Accounts receivable	118,455	103,104
Prepaid expenses and deposits	9,687	10,144
	1,498,431	1,673,756
Corporate investments (note 2)	815,694	873,587
Capital assets	45,645	47,314
	\$ 2,359,770	\$ 2,594,657

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 117,351	\$ 135,021
Shareholders' equity:		
Share capital (note 3)	7,431,154	7,431,154
Additional paid-in capital	104,676	98,426
Deficit	(5,293,411)	(5,069,944)
	2,242,419	2,459,636
	\$ 2,359,770	\$ 2,594,657

Subsequent event (note 9)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

[signed] "C. Michael O'Brian" Director

[signed] "Raymond A. McLean" Director

NEURO DISCOVERY INC.

Consolidated Statements of Operations and Deficit (Unaudited)

	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months ended June 30, 2004	Six months ended June 30, 2003
Investment earnings	\$ 4,972	\$ (1,483,433)	\$ 12,210	\$ (1,468,651)
Management fees	111,576	-	253,830	-
	116,548	(1,483,433)	266,040	(1,468,651)
Expenses:				
Amortization	3,261	2,996	6,365	5,132
Salaries and benefits	126,747	192,005	270,026	381,056
Office and general	156,366	295,078	293,415	397,970
	286,374	490,079	569,806	784,158
Other income (expenses):				
Gain on sale of marketable securities	14,195	-	85,684	-
Write-down of marketable securities	-	-	-	(26,081)
	14,195	-	85,684	(26,081)
Loss before unrealized gains (losses) on investments	(155,631)	(1,973,512)	(218,082)	(2,278,890)
Change in unrealized gains (losses) on investments	(13,489)	-	(5,385)	-
Loss for the period	(169,120)	(1,973,512)	(223,467)	(2,278,890)
Deficit, beginning of period	(5,124,291)	(2,358,752)	(5,069,944)	(2,053,374)
Deficit, end of period	\$ (5,293,411)	\$ (4,332,264)	\$ (5,293,411)	\$ (4,332,264)
Loss per share (note 6)	\$ (0.02)	\$ (0.21)	\$ (0.03)	\$ (0.24)

See accompanying notes to consolidated financial statements.

NEURO DISCOVERY INC.

Consolidated Statements of Cash Flows (Unaudited)

	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months ended June 30, 2004	Six months ended June 30, 2003
Cash provided by (used in):				
Operations:				
Loss for the period	\$ (169,120)	\$ (1,973,512)	\$ (223,467)	\$ (2,278,890)
Items not involving cash:				
Amortization	3,261	2,996	6,365	5,132
Gain on sale of marketable securities	(14,195)	-	(85,684)	-
Shares issued for services rendered	-	157,500	-	157,500
Write-down of marketable securities	-	-	-	26,081
Write-off of corporate investments	-	1,500,000	-	1,500,000
Unrealized gains on Corporate investments	13,489	-	5,385	-
Stock options expense	3,125	-	6,249	-
Change in non-cash operating working capital	80,045	89,404	(32,562)	162,410
	(83,395)	(223,612)	(323,714)	(427,767)
Investments:				
Purchase of capital assets	(4,361)	(22,422)	(4,697)	(29,368)
Short-term investments	172,212	227,788	172,212	227,788
Proceeds of sale of marketable Securities	20,615	-	140,255	-
Corporate investments	(35,386)	(75,000)	52,508	(75,000)
	153,080	130,366	360,278	123,420
Financing:				
Issuance (repurchase) of common shares	-	(126)	-	199,874
Stock options exercised	-	-	-	-
Subscriptions received	-	-	-	-
	-	(126)	-	199,874
Increase (decrease) in cash for the period	69,685	(93,372)	36,564	(104,473)
Cash and cash equivalents, beginning of period	274,674	228,494	307,795	239,595
Cash and cash equivalents, end of period	\$ 344,359	\$ 135,122	\$ 344,359	\$ 135,122
Supplementary information:				
Interest received	\$ 30,977	\$ 23,686	\$ 35,768	\$ 23,686

See accompanying notes to consolidated financial statements.

NEURO DISCOVERY INC.

Notes to Consolidated Financial Statements

Three and six months ended June 30, 2004 and 2003 (Unaudited)
Year ended December 31, 2003

I. Basis of presentation:

Neuro Discovery Inc. (the "Company") is a public company incorporated under the Canada Business Corporations Act. Its principal business activity is that of investing in and taking an active management role in biotechnology companies. The Company has financed, and expects to continue to finance, its cash requirements primarily from share issuances, investment income and management fees. The Company's ability to realize the carrying value of its assets is ultimately dependent on profitable investments and achieving future profitable operations, the outcome of which cannot be predicted at this time.

These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and accordingly, do not include all disclosures required for annual financial statements.

These statements should be read in conjunction with the December 31, 2003 annual financial statements included in the 2003 Annual Report filed with the Securities Commissions. These financial statements reflect the same significant accounting policies as those described in the notes to the audited consolidated financial statements of the Company for the year ended December 31, 2003.

2. Corporate investments:

	June 30, 2004 (unaudited)			2003		
	Carrying value	Cost	Difference	Carrying value	Cost	Difference
Investments:						
(a) Neuro Therapeutics Inc.	\$ -	\$ -	\$ -	\$ 500,000	\$ 2,000,000	\$ (1,500,000)
(b) NeuroMed Technologies Inc.	77,383	207,204	(129,821)	75,219	207,204	(131,985)
(c) Neuro Discovery LP (note 11)	304,826	315,000	(10,174)	298,368	315,000	(16,632)
(d) Allon Therapeutics, Inc.	433,485	447,493	(14,008)	-	-	-
Total	\$ 815,694	\$ 969,697	\$ (154,003)	\$ 873,587	\$ 2,522,204	\$ (1,648,617)

- (a) Investment in convertible debentures under a \$2,000,000 loan agreement. On June 16, 2003, Neuro Therapeutics Inc.'s ("NTI") filed for bankruptcy under the laws of Canada. As a result, management recorded an unrealized loss of \$1,500,000 on its investment. During the three months ended June 30, 2004, the Company received the final distribution of \$417,426, for a total of \$505,320 from the bankruptcy trustee appointed to liquidate the assets of NTI.
- (b) Investment in preferred shares of NeuroMed Technologies Inc., a private biotechnology company. The carrying value of the investment in NeuroMed Technologies Inc. is based on the most recent equity financing completed in October of 2003.
- (c) Investment in partnership units of Neuro Discovery Limited Partnership, a partnership formed for the purposes of investing in private and public biotechnology companies. The carrying value of the investment is based on the net asset value per unit of the partnership.
- (d) Investment in Allon Therapeutics, Inc., a biopharmaceutical company developing drugs to treat neurological diseases and disorders. The carrying value of the investment is based on the most recent equity financing.

NEURO DISCOVERY INC.

Notes to Consolidated Financial Statements

Three and six months ended June 30, 2004 and 2003 (Unaudited)
Year ended December 31, 2003

3. Share capital:

(a) Authorized:

Unlimited voting common shares without par value

Unlimited preferred shares, issuable in series

(b) Issued and outstanding:

Common shares of the Company	Shares	Amount
Balance, December 31, 2003 and June 30, 2004	9,723,754	\$ 7,431,154

(c) Warrants:

The Company has issued 100,000 warrants in connection with a common share private placement. Each warrant entitles the holder to purchase one common share for a price equal to \$1.50 per common share until September 25, 2004. As at June 30, 2004, none of the warrants have been exercised.

(d) Stock options:

The Company has reserved 1,500,000 common shares for issuance under its Stock Option Plan ("Plan"). The Plan provides for the granting of options for the purchase of common shares of the Company at 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.

Stock option activity from December 31, 2003 to June 30, 2004 is as follows:

	Number of common shares under option	Weighted average exercise price
Outstanding, December 31, 2003	1,305,000	\$ 1.18
Cancelled	(60,000)	1.72
Outstanding, June 30, 2004	1,245,000	\$ 1.15
Exercisable, June 30, 2004	923,333	\$ 1.13

NEURO DISCOVERY INC.

Notes to Consolidated Financial Statements

Three and six months ended June 30, 2004 and 2003 (Unaudited)

Year ended December 31, 2003

3. Share capital (continued):

(e) Shares held in trust:

In March 2001, the Company issued 200,000 common shares in trust for the purpose of permitting employees, directors and advisors of the Company to acquire such common shares. During the year ended December 31, 2003, a total of 126,000 common shares were reacquired from the trust and cancelled. The Company subsequently issued to a not-for-profit founding shareholder, 126,000 common shares from treasury in settlement of a liability to the shareholder. As at June 30, 2004 there were 74,000 common shares in trust.

4. Stock-based compensation:

	Three months ended June 30, 2004	Six months ended June 30, 2004
Loss for the period – as reported	\$ (169,120)	\$ (223,467)
Loss for the period – pro forma	(196,603)	(283,542)
Loss per common share – as reported	(0.02)	(0.02)
Loss per common share – pro forma	(0.02)	(0.03)

The fair value of each option is estimated as at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield 0%, expected volatility 57%, risk free interest rate 4.5% and expected average option term of 3.2 years.

The Black-Scholes model, used by the Company to calculate option values, as well as other accepted option valuation models, 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. These models also require four highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values.

NEURO DISCOVERY INC.

Notes to Consolidated Financial Statements

Three and six months ended June 30, 2004 and 2003 (Unaudited)
Year ended December 31, 2003

5. Loss per share:

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

	Three months ended June 30, 2004	Three months ended June 30, 2003	Six months ended June 30, 2004	Six months ended June 30, 2003
Loss for the period	\$ (169,120)	\$ (1,973,512)	\$ (223,467)	\$ (2,278,890)
Weighted average number of common shares outstanding	9,723,754	9,599,139	9,723,754	9,506,041
Loss per common share	\$ (0.02)	\$ (0.21)	\$ (0.02)	\$ (0.24)

6. Neuro Discovery Limited Partnership:

On April 8, 2003, the Company committed to fund \$1.5 million of a \$21.5 million financing commitment to Neuro Discovery Limited Partnership (the "NDLP"). The Company, through its wholly-owned subsidiaries, acts as general partner and investment manager for the NDLP. The Company guarantees to the NDLP the due performance of the obligations of the general partner and investment manager to the NDLP. The NDLP invests in private and public biotechnology companies, with a particular focus on the central nervous system area. As of June 30, 2004, the Company had invested \$315,000 in the NDLP (see Note 2(c)). The Company has entered into an agreement with NDLP under which TriFund Capital (VCC) Ltd., a fund managed by the Company, may invest in the NDLP and thereby satisfy up to \$750,000 of the Company's \$1.5 million financing commitment to the NDLP. As of June 30, 2004, TriFund Capital (VCC) Ltd. has invested \$315,000 in the NDLP.

During the three months ended June 30, 2004, the Company provided management services to the NDLP, for which no amount was recorded.

During the three months ended June 30, 2004, the Company recorded management fees of \$111,576 for management services provided to companies with directors in common with the Company, and which are investees of NDLP.

7. Segmented information:

Management has determined that the Company operates in one industry segment which involves investing in and taking an active management role in biotechnology companies. Substantially all of the Company's operations, assets and employees are located in Canada.

NEURO DISCOVERY INC.

Notes to Consolidated Financial Statements

Three and six months ended June 30, 2004 and 2003 (Unaudited)
Year ended December 31, 2003

8. Related party transactions:

During the three months ended June 30, 2004, \$36,919 (2003 – \$35,000) was paid to the firm of a director for legal services. Such services were rendered in the ordinary course of business at market rates.

9. Subsequent event:

Subsequent to June 30, 2004, NDI Investment Management Inc. (“NDI”) and Pender Financial Group Corporation (“Pender”) have closed a transaction to launch a new life sciences fund. Pender has assumed management of NDI Life Sciences Fund (VCC) Ltd., which has been renamed Pender NDI Life Sciences Fund (VCC) Inc. (the “Fund”). As part of the transaction Pender has appointed NDI as the Fund’s investment manager.

NOTES

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