ALLON

Allon Therapeutics Inc.

The Neuroprotection Company

Third Quarter Report
September 30, 2004

Dear Shareholders:

During Q3 2004, the Company completed its change of business and emerged as a promising biotech company developing drugs that protect against neurodegenerative conditions such as stroke, traumatic brain injury, Alzheimer's, multiple sclerosis and neuropathy.

Key achievements during the quarter included a successful public equity financing resulting in a cash position of $10.9 million and continued progress in drug development that has kept the Company on schedule to file an Investigational New Drug (IND) application by the end of 2004. This application seeks approval from the United States Food and Drug Administration (FDA) to evaluate the Company's lead product AL-108 in human trials.

The Company has scheduled Phase I clinical trials to begin during Q1 2005, subject to FDA approval. A second IND for the Company's second product AL-208 is expected to be filed during Q2 2005.

Our management team is laser-focused on achieving the aggressive drug development milestones we have set for the Company. Allon has emerged as a promising biotechnology company, with a proven management team, a strong capital position and drug candidates with the potential to treat the causes of degenerative brain disease.

We are well positioned at the forefront of the emerging neuro protection field. Patients and physicians are frustrated that all the treatments on the market today address only symptoms of their disease. These patients want – and large pharmaceutical companies are competing to acquire from biotech innovators – drugs that can protect against and resolve neurodegenerative diseases like Alzheimer's, stroke, traumatic brain injury and others.

<u>Company change of business</u>

The Company's corporate structure was changed during the quarter. Neuro Discovery Inc. (TSX Venture: "NDI") announced August 16, 2004 it had completed a private equity financing for $8 million contingent on the completion of the proposed acquisition of Allon Therapeutics, Inc. (Allon USA) which was announced June 21, 2004. Neuro Discovery announced it had completed its acquisition of Allon USA on September 29, 2004, which triggered the conversion of the $8 million in special warrants held in escrow.

Following TSX-V approval, the new company, named Allon Therapeutics Inc., began trading October 1, 2004 under the symbol "NPC" (Neuro Protection Company).

<u>Lead product AL-108</u>

Animal studies have shown that AL-108 protects neurons, the nerve cells that are the basis of brain function, against such chronic diseases as Alzheimer's disease, multiple sclerosis and neuropathy, and such acute disorders as stroke and traumatic brain injury. AL-108 has been shown to work at the cellular level in numerous animal models of neurodegeneration and is safely tolerated, readily administered and suitable for drug development.

<u>IND on schedule</u>

The Company completed its preclinical studies and continues to prepare its IND for AL-108. Preparation includes compiling the data on the drug's pharmacology and pharmacokinetics, toxicology and manufacturing process. The Company has contracted with FDA compliant suppliers to ensure sufficient quantities of AL-108 will be manufactured and available for a Phase I clinical trial.

Clinical Development Plans

Activities of the third quarter and subsequently have kept the Company on schedule to commence a Phase I clinical trial in Q1 2005. The trial will administer AL-108 intranasally to Alzheimer's disease patients and evaluate primarily the safety and pharmacokinetic results. The Company has entered into a contract with a clinical research organization to conduct this Phase 1 trial.

The Company is also on schedule to file an IND in Q2 2005 seeking approval from the FDA to evaluate AL-208 in clinical trials as a treatment for post-cardiac artery bypass graft (CABG) mild cognitive impairment (MCI). Post-CABG MCI occurs in 90% of cardiac artery bypass patients and persists in as many as 25% of patients six months after surgery. AL-208 is the Company's second product, a formulation of AL-108 that allows it to be administered intravenously. It is significant that many clinical drug development experts see the effects of CABG as similar to those suffered by stroke patients.

Pipeline products: AL-209 and AL-309

Animal studies have shown that AL-209 and AL-309 are potent neuroprotectants. In addition to Alzheimer's, these product candidates have shown promising activity in animal models of traumatic brain injury (TBI), amyotrophic lateral sclerosis (ALS) and fetal alcohol syndrome (FAS) among others. In 2005, Allon plans to choose its third product candidate and indication from among these two compounds.

We are grateful for your ongoing support and look forward to updating you on the advancement of our drug candidates into and through clinical trials.

Respectfully,

James J. Miller, PhD Chairman	Gordon C. McCauley President

MANAGEMENT'S DISCUSSION & ANALYSIS

The following information should be read in conjunction with the unaudited consolidated financial statements and related notes for the Company as at the three months ended, September 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 Allon Therapeutics Inc. ("Allon" or the "Company"), including the Company's Annual Information Form is on SEDAR at www.sedar.com.

November 30, 2004

OVERVIEW

Allon Therapeutics Inc. is a biotechnology company developing drugs that protect against neurodegenerative conditions such as stroke, traumatic brain injury, Alzheimer's, multiple sclerosis and neuropathy.

On September 29, 2004, the Company underwent a change of business as it completed a transaction to acquire the outstanding shares of Allon Therapeutics, Inc. (Allon USA) and divested the investment management assets of the Company, formerly Neuro Discovery Inc. Subsequently, the Company changed its name to Allon Therapeutics Inc. Prior to the closing of the acquisition, on August 16, 2004, Neuro Discovery Inc. announced that it had completed a private equity financing for $8 million through the issuance of 8,000,000 special warrants conditional on closing of the acquisition. At closing, the special warrants were converted into 8,000,000 common shares and 4,000,000 common share purchase warrants. The funds will be used for the development of Allon's drug development program.

RESULTS OF OPERATIONS

The loss for the three months ended September 30, 2004 was $356,098 ($0.04 per share) as compared to the loss of $464,673 ($0.05 per share) for the three months ended September 30, 2003. The loss is largely a result of writing-down to zero the value of certain assets no longer strategic after the change of business. This write-down was partially offset by the sale of two wholly-owned subsidiaries and the management contract and debts of an investment fund. Both of these decisions were part of the corporate change of business to focus the operations of the Company on the development of neuroprotective drugs following the acquisition of Allon USA. As we move forward with the clinical development of the neuroprotective compounds beginning with AL-108 and AL-208, losses are expected in future quarters and interest income will represent the majority of our revenue.

The net loss for the nine months ended September 30, 2004 was $579,565 as compared to $2,743,563 for the comparable period in 2003. The difference is largely attributable to unrealized losses of $1,628,887 in 2003.

During the three months ended September 30, 2004, the Company's cash, cash equivalents and short term investments earned interest of $20,333 as compared to $12,734 in the same period in 2003, reflecting more interest earning investments. Management fees for the three months ended September 30, 2004 were $92,042 reflecting fees generated through management of two funds, the Neuro Discovery Limited Partnership (NDLP) and TriFund Capital (VCC) Ltd. (TriFund). There were no management fees for the comparative third quarter of 2003 as the previously referred to funds were in the initial stages of operation. Having divested itself of its investment management assets, the Company will not earn management fees from them going forward.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

RESULTS OF OPERATIONS (CONT'D)

The net earnings before unrealized losses on investments for the three months ended September 30, 2004 were $75,024. This figure compares to the $335,786 loss before unrealized losses on investments for the three months ended September 30, 2003.

The net earnings before unrealized losses are primarily a result of the realized gain of $229,256 on the sale of the investment management assets of the company.

The Company recorded an unrealized loss on investments totaling $431,122, largely reflecting the $405,472 write-off of the Company's three corporate investments, NDLP, NeuroMed Technologies and Pender NDI Life Sciences Fund (VCC) Inc. Given the change of business of the Company from an investment company to a biotechnology company and given the long-term nature, lack of liquidity and risk profile of the investments, the Company determined that a write-down was appropriate. This compares to an unrealized loss on investments for the comparable period in 2003 of $128,887.

Expenses incurred during the three months ended September 30, 2004 were $266,607 as compared to $348,520 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.

Total assets of the Company as at September 30, 2004 were $16,974,081 compared to total assets of $2,594,657 as at December 31, 2003.

QUARTERLY INFORMATION

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

(in thousands, except per share data)

	Sept. 30, 2004	June 30, 2004	March 31, 2004	Dec. 31, 2003
Investment earnings and management fees	$112	$117	$150	$168
Loss before unrealized gains (losses) on investments	$75	$(156)	$(62)	$(253)
Change in unrealized gains (losses) on investments	$(431)	$(13)	$8	$(20)
Net earnings (loss) for the quarter	$(356)	$(169)	$(54)	$(273)
Earnings (loss) per share	$(0.04)	$(0.02)	$(0.01)	$(0.02)
	Sept. 30, 2003	**June 30, 2003**	**March 31, 2003**	**Dec. 31, 2002**
Investment earnings and management fees	$13	$(1,483)	$15	$26
Loss before unrealized gains (losses) on investments	$(336)	$(1,974)	$(305)	$(137)
Change in unrealized gains (losses) on investments	$(129)	$0	$0	$0
Loss for the quarter	$(465)	$(1,974)	$(305)	$(137)
Loss per share	$(0.05)	$(0.21)	$(0.03)	$(0.01)

SUMMARY OF ALLON'S INVESTMENTS

During the three months ended September 30, 2004, the Company acquired all the outstanding shares of Allon USA that it did not previously own resulting in the consolidation of Allon USA. The Company also wrote-off the entire amount of the remaining corporate investments so that, as at September 30, 2004, the Company had no recorded value for its corporate investments.

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 September 30, 2004, Allon had received approximately $14.5 million in net proceeds from the issuance of equity securities.

As at September 30, 2004, the Company had cash and short-term investments of $10,910,868 as compared to $1,480,007 as at December 31, 2003. Pursuant to a private placement announced on August 16, 2004, the Company issued 8,000,000 Special Warrants comprised of one common share and one half share warrant (the "Special Warrants") at a price of $1.00 per Special Warrant for gross consideration of $8,000,000, before Special Warrant issue costs of $176,610. During the quarter, the Company sold its investment management assets for cash. The nature of the transaction and the evaluation process used by the Company's Board of Directors was fully disclosed in an Information Circular used to approve the acquisition of Allon and related transactions dated August 25, 2004 and available at www.sedar.com.

Allon believes that its cash and short-term investments as at September 30, 2004 and expected interest income will be sufficient to fund operations and commitments into the fourth quarter of 2006.

OUTSTANDING SHARE CAPITAL

As at September 30, 2004, the Company had 27,227,211 common shares outstanding. Each common share entitles the holder to one vote per share. As at September 30, 2004, the Company had 2,342,250 options outstanding, of which 2,048,917 were exercisable into an equivalent number of common shares of the Company at exercise prices ranging from $0.001 to $1.72. The Company also had 4,000,000 warrants outstanding as of September 30, 2004, entitling holders to purchase common shares of the Company for a period of 18 months until March 31, 2006, at a price equal to $1.25. See note 5 of the Company's financial statements for more detail regarding outstanding share capital.

OFF-BALANCE SHEET AGREEMENTS

Concurrent with the sale of the two wholly-owned subsidiaries, the Company has relieved itself of the funding and investment management commitment to the Neuro Discovery Limited Partnership ("NDLP"). As of September 30, 2004, the Company had no off-balance sheet agreements.

TRANSACTIONS WITH RELATED PARTIES

During the three months ended September 30, 2004, the Company paid $191,743 (2003 – $24,500) 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.

MANAGEMENT'S DISCUSSION & ANALYSIS (CONTINUED)

CRITICAL ACCOUNTING POLICIES AND ESTIMATES (CONT'D):

Allon's consolidated financial statements have previously been prepared using the fair value method of accounting for corporate investments. Under fair value accounting, each of Allon's corporate investments were re-valued quarterly. Securities in privately-held companies were recorded at cost on the Company's balance sheets unless an upward or downward adjustment was considered appropriate and was 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 were also made when there was evidence of a decline in value as indicated by the assessment of the financial condition of the investment.

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

Given the change of business that the Company has undergone, this accounting policy will not be applied prospectively and the Company has adopted a new accounting policy for corporate investments (note 2(e)).

As at September 30, 2004, Allon's corporate investments were recorded at $0 compared to $873,587 as at December 31, 2003, the difference being largely attributable to the write-off of the Company's investments in NDLP, NeuroMed Technologies and Pender NDI Life Sciences Fund (VCC) 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 Allon's business plan is dependent amongst other things, upon its capacity to raise capital. Delays in obtaining additional funding will negatively affect Allon's ability to implement its business plan including the Company's ability to advance the development of its neuroprotective drugs. If additional capital is raised by the issuance of common shares from treasury, existing shareholders may have their shareholdings in Allon diluted. Raising capital is largely reliant on the state of the equity markets, which historically have been quite volatile. Fluctuations in interest rates affect Allon's income derived from cash and short-term investments.

OUTLOOK

The Company is currently focused on the development of its neuroprotective compounds and specifically on the filing of an Investigational New Drug (IND) application by the end of 2004 which will ask the United States Food and Drug Administration (FDA) for approval to evaluate the Company's lead product AL-108 in human trials.

NOTICE TO READER OF THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Allon Therapeutics Inc. (formerly Neuro Discovery Inc.) and the accompanying interim consolidated balance sheet as at September 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
November 30, 2004

/s/ Matthew J. Carlyle

Director, Finance and Operations

Vancouver, Canada
November 30, 2004

ALLON THERAPEUTICS INC.

(Formerly Neuro Discovery Inc.)
Consolidated Balance Sheets

	September 30, 2004	December 31, 2003
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 10,910,868	$ 307,795
Short-term investments	-	1,172,212
Marketable securities	25,930	80,501
Accounts receivable	119,927	103,104
Prepaid expenses and deposits	14,367	10,144
	11,071,092	1,673,756
Long term receivable	56,519	-
Corporate investments (note 5)	-	873,587
Capital assets	50,682	47,314
Intangible and other assets (note 3)	5,795,788	-
	$ 16,974,081	$ 2,594,657
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 782,770	$ 135,021
Convertible promissory note payable (note 3)	1	-
Shareholders' equity:		
Share capital (note 6)	20,766,549	7,431,154
Equity portion of convertible promissory note (note 3)	330,065	-
Additional paid-in capital	744,205	98,426
Deficit	(5,649,509)	(5,069,944)
	16,191,311	2,459,636
	$ 16,974,081	$ 2,594,657

Commitments (note 8)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

[signed] "Frank Holler" Director

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

ALLON THERAPEUTICS INC.

(Formerly Neuro Discovery Inc.)
Consolidated Statements of Operations and Deficit (Unaudited)

	Three months ended September 30, 2004	Three months ended September 30, 2003	Nine months ended September 30, 2004	Nine months ended September 30, 2003
Investment earnings	$ 20,333	$ 12,734	$ 32,543	$ 44,083
Management fees	92,042	-	345,872	-
	112,375	12,734	378,415	44,083
Expenses:				
General and Administrative	263,149	345,524	826,591	1,124,550
Amortization	3,458	2,996	9,823	8,128
	266,607	348,520	836,414	1,132,678
Other earnings (expenses):				
Gain on sale of investment management assets (note 4)	229,256	-	229,256	-
Gain on sale of marketable securities	-	-	85,684	-
Write-down of marketable securities	-	-	-	(26,081)
	229,256		314,941	(26,081)
Net earnings (loss) before unrealized gains (losses) on investments	75,024	(335,786)	(143,058)	(1,114,676)
Unrealized gains (losses) on investments	(431,122)	(128,887)	(436,507)	(1,628,887)
Net loss	(356,098)	(464,673)	(579,565)	(2,743,563)
Deficit, beginning of period	(5,293,411)	(4,332,264)	(5,069,944)	(2,053,374)
Deficit, end of period	$ (5,649,509)	$ (4,796,937)	$ (5,649,509)	$ (4,796,937)
Earnings per share:				
Basic and diluted	$ (0.04)	$ (0.05)	$ (0.06)	$ (0.29)
Weighted average number of common shares outstanding: Basic and diluted	9,827,052	9,723,754	9,758,438	9,579,871

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

(Formerly Neuro Discovery Inc.)
Consolidated Statements of Cash Flows (Unaudited)

	Three months ended September 30, 2004	Three months ended September 30, 2003	Nine months ended September 30, 2004	Nine months Ended September 30, 2003
Cash provided by (used in):				
Operations:				
Loss for the period	$ (356,096)	$ (464,673)	$ (579,565)	$ (2,743,563)
Items not involving cash:				
Amortization	3,458	2,996	9,822	8,128
Shares issued for services rendered	-	-	-	157,500
Gain on sale of subsidiaries	(229,256)	-	(229,256)	-
Gain on sale of marketable securities	-	-	(85,684)	-
Write-down of marketable securities	-	-	-	26,081
Unrealized gains on investments	431,122	128,887	436,507	1,628,887
Stock options expense	3,125	-	9,376	-
Long term receivable	(56,519)	-	(56,519)	-
Change in non-cash operating working capital	194,010	8,768	161,449	171,178
	(10,156)	(324,022)	(333,870)	(751,789)
Investments:				
Purchase of capital assets	(5,588)	-	(10,285)	(29,368)
Short-term investments	1,000,000	650,000	1,172,212	877,788
Proceeds of sale of subsidiaries	229,256	-	229,256	-
Proceeds of sale of marketable securities	-	-	140,255	-
Costs of business combination net of cash acquired	1,544,371	-	1,544,371	-
Corporate investments	-	(240,000)	52,508	(315,000)
	68,039	410,000	3,128,317	533,420
Financing:				
Proceeds from issuance of common shares	7,808,626	-	7,808,626	199,874
	7,808,626	-	7,808,626	199,874
Increase (decrease) in cash for the period	10,566,509	85,978	10,603,073	(18,494)
Cash and cash equivalents beginning of period	344,359	135,122	307,795	239,595
Cash and cash equivalents, end of period	$ 10,910,868	$ 221,100	$ 10,910,868	$ 221,100
Supplementary information:				
Interest received	$ 27,590	$ 5,821	$ 32,382	$ 29,507
Non cash financing/investing activities:				
Shares issued on business combination	$ 6,779,532	-	$ 6,779,532	-

See accompanying notes to consolidated financial statements.

1. Basis of presentation:

Allon Therapeutics Inc., formerly Neuro Discovery Inc., (the "Company") is a public company incorporated under the Canada Business Corporations Act. The Company is a biopharmaceutical company engaged in the development of drugs to treat neurodegenerative diseases and disorders. During the third quarter of 2004, the Company underwent a change of business as it disposed of its investment management assets and acquired all of the outstanding securities of Allon Therapeutics, Inc. (Allon USA). Effective September 28, 2004 the Company changed its name to Allon Therapeutics Inc. to reflect this change of business.

These consolidated interim financial statements should be read in conjunction with the annual financial statements of Neuro Discovery Inc. (the "Company"). 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 interim consolidated financial statements follow the same accounting policies and methods of their application as the annual financial statements of the Company for the year ended December 31, 2003, except for the new accounting policies adopted with the acquisition of Allon USA as described in note 2.

2. Adoption of new accounting policies:

As a result of the acquisition of Allon USA and the change of business of the Company, the following accounting policies have been adopted by the Company:

(a) Research and Development Expenditures

Research expenditures are expensed in the period incurred. Product development expenditures are expensed as incurred unless the product candidate meets Canadian generally accepted accounting criteria for deferral and amortization. The Company amortizes deferred product development expenditures over the expected future life of the product once product revenues or royalties are recorded. No product development expenditures have been deferred to-date.

(b) Licenses

Licenses acquired in relation to the development of drugs are amortized over the term of the related licenses.

The carrying value of licenses is reviewed by management at least annually and impairment losses, if any, are recognized when the expected undiscounted future operating cash flows derived from the related product license acquired are less that than the carrying value of such license. In the event of an impairment in the value of a license, the discounted cash flows method is used to arrive at the estimated fair value of such license.

2. Adoption of new accounting policies (continued):

(c) Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using exchange rates in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rate during the period. Foreign exchange gains and losses are included in the determination of loss for the period.

(d) Revenue recognition

Revenue from collaborative arrangements typically includes initial technology access or licensing fees, and milestone payments based on achievement of specified events. The receipt of initial fees and milestone payments which require the ongoing involvement of the Company are deferred and amortized into revenue on a straight-line basis over the estimated period of the ongoing involvement of the Company. When the Company has no further significant involvement or obligation to perform under the arrangement, the non-refundable license fees and milestone payments are recognized upon the achievement of the related milestones.

(e) Corporate Investments

Corporate investments were previously valued at fair value, however, as the Company is no longer considered an investment company, investments in shares of companies over which the Company has the ability to exercise significant influence, but less than a controlling voting interest, are accounted for under the equity method of accounting. Under this method, the Company includes in earnings its share of the net earnings or losses of each investee company.

All other investments are accounted for under the cost method of accounting, whereby the investment is carried at cost less provision for permanent impairment in value. This change in accounting policy has been applied prospectively.

3. Allon Therapeutics, Inc. (Allon USA) Acquisition

On September 29, 2004, the Company completed the acquisition of the shares of Allon USA, a biotechnology company with technology being developed for the treatment of neurological diseases and disorders. The proposed transaction had been previously announced on June 21, 2004. The transaction has been accounted for as a business combination with the Company identified as the acquirer. The consolidated financial statements reflect the operations of the acquired Allon USA from September 30, 2004 and as a result, are not indicative of the future operating results of the Company.

As consideration, the Company issued securities with a fair value of $6,779,532. At the time of acquisition, the company owned shares in Allon USA which would have converted into shares of the company on closing of the acquisition. As a result, the Company only issued common shares for those shares in Allon USA which it did not previously own.

3. Allon Therapeutics, Inc. (Allon USA) Acquisition (continued):

Details of the acquisition are as follows:

Identifiable assets acquired:		
Cash	$	1,765,473
Other current assets		9,740
Licenses and other assets		1,074,559
Technology		4,721,229
Liabilities assumed:		
Current liabilities		(461,404)
Convertible promissory note payable		(330,065)
		6,779,532
Consideration:		
Common shares	$	5,512,005
Options		636,405
Advance deposit		410,020
Acquisition costs		221,102
	$	6,779,532

The Company has not yet completed the evaluation and allocation of the purchase price for the acquisition, as the appraisals associated with the valuation of certain tangible and intangible assets are not yet complete. The Company does not believe the appraisals or resolution of differences will materially modify the preliminary purchase price allocation.

Allon USA also had outstanding an unsecured convertible promissory note (the “Note”) of US$253,100 plus accrued interest of US$8,524. The promissory note is due on November 20, 2007 and bears interest at a rate equal to one-half of the prime rate per annum as published by the Wall Street Journal on November 18th of each year. Interest is compounded annually and is payable on such date as the principal is repaid. Principal plus accrued interest may be converted by the holder, in whole or in part and from time to time.

The Company may from time to time, upon 30 days written notice, prepay all or any portion of this debt, without penalty or premium, with accrued interest on the amount prepaid to the date of such prepayment.

The Company will be considered in default of the convertible debenture if certain events occur such as initiation of insolvency or bankruptcy proceedings. Management believes that it is unlikely that an event will occur which will result in the Company being in default. However, if an event of default occurs, the principal amount of the Note, plus accrued interest thereon, may be declared or otherwise become due and payable.

For accounting purposes, the Company calculated the fair value of the beneficial conversion feature using the Black-Scholes method which amounts to $330,065. The remaining balance of $1 was recorded as a liability. Interest on the liability will be accreted to the redemption value of the note from the date of acquisition by the Company until conversion or the maturity date of November 20, 2007.

4. Sale of investment management assets

In addition to the acquisition of Allon USA, the Company disposed of its investment management related assets as part of the change of business. On August 13, 2004, the Company sold the investment management contract and debts of the NDI Life Sciences Fund (VCC) Inc. for $150,010. The Company received $100,010 at closing and is due $50,000 on the first anniversary of the sale. The Company realized a gain of $150,010 in the current period as a result of this transaction. The Company also sold two investment management related subsidiaries, NDI Investment Management Inc. and NDI Partnership Management Limited. Both companies were sold for $100,000 payable in four annual installments as previously announced on September 29, 2004. The Company has realized a gain of $76,246 on the sale of the two subsidiaries in the current period which represents the current value of the proceeds.

5. Corporate Investments

	September 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.	-	207,204	(207,204)	75,219	207,204	(131,985)
(c) Neuro Discovery LP	-	315,000	(315,000)	298,368	315,000	(16,632)
(d) Pender NDI Life Sciences (VCC) Inc.	-	25,000	(25,000)	-	-	-
Total	$ -	$ 547,204	$(547,204)	$873,587	$2,522,204	$(1,648,617)

Management has performed an impairment test on its corporate investments. As a result of this assessment and given the change of business which the company has undergone, it is the view of management that due to the long term nature of the investments, lack of liquidity and the associated risks, the investments are impaired and should be written down accordingly.

(a) Investment in convertible debentures under a $2,000,000 loan agreement. On June 16, 2003, Neuro Therapeutics Inc. (“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 September 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.

(c) Investment in partnership units of Neuro Discovery Limited Partnership, a partnership formed for the purposes of investing in private and public biotechnology companies.

(d) Investment in Common Shares, Series 1 of Pender NDI Life Sciences Fund (VCC) Inc., a fund formed for the purposes of investing in eligible life sciences companies in British Columbia.

6. 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	9,723,754	7,431,154
Issued for acquisition of Allon Therapeutics, Inc.	9,503,457	5,512,005
Issued pursuant to private placement	8,000,000	7,823,390
Balance, September 30, 2004	27,227,211	20,766,549

(c) Private Placement

On August 16, 2004, the Company closed a non-brokered private placement of 8,000,000 special warrants for gross proceeds of $8,000,000. The special warrants were convertible into 8,000,000 common shares and 4,000,000 share purchase warrants. The conversion of the special warrants was conditional on the Company closing the acquisition of Allon USA. On September 29, 2004, the Company converted the 8,000,000 Special Warrants into 8,000,000 common shares and 4,000,0000 warrants. Each warrant is exercisable for a period of 18 months from the closing of the Allon USA acquisition at a price of $1.25.

(d) Warrants:

On March 25, 2003, the Company 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 $1.25 per common share until September 25, 2004. These warrants expired on September 25, 2004.

Pursuant to a private placement announced on August 16, 2004, the Company reserved 4,000,000 one half Share Purchase Warrants which were subsequently issued on the closing of the acquisition of Allon USA announced September 29, 2004. Holders of the Warrants are entitled to purchase one common share for each Share Purchase Warrant exercised at a price of $1.25 per common share. The Warrants expire 18 months after the date of issue. The Company has estimated the fair value of the warrants to be nominal.

(e) Stock options:

The Company has reserved 4,000,000 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.

6. Share Capital (Continued):

Concurrent with the acquisition of the Subsidiary, the Company assumed the administration of the stock option plan of Allon USA. As at September 30, 2004, 1,097,250 stock options are issued and outstanding pursuant to the stock option plan. The options outstanding are exercisable at a price of $0.001 per Common Share and have an expiry date of May 18, 2014.

Stock option activity from December 31, 2003 to September 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
Granted to Allon USA optionholders	1,097,250		0.01
Outstanding, September 30, 2004	2,342,250		0.61
Exercisable, September 30, 2004	2,048,917	$	0.53

(f) 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 September 30, 2004 there were 74,000 common shares in trust.

7. Stock-based compensation:

The Company adopted a change in accounting for employee stock-based awards for the year ending December 31, 2003. In accordance with the amended recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments, compensation expense has been recognized prospectively for stock-based awards made to employees beginning January 1, 2003. Had the amended recommendations been applied retroactively to options issued prior to January 1, 2003 net earnings for the three and nine months ended September 30, 2004 would have been as follows:

7. Stock-based compensation (continued):

		Three months ended September 30, 2004		Nine months ended September 30, 2004
Net loss - as reported	$	(356,098)	$	(579,565)
Adjustment		(27,483)		(87,558)
Net loss - pro forma	$	(383,581)	$	(667,123)
Basic and fully diluted earnings per share – pro forma	$	(0.04)	$	(0.07)

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.

8. Commitments

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

2004 (3 Months)	$	63,000
2005		281,400
2006		328,200
2007		311,700
2008		50,000
Total	$	1,034,300

9. Segmented information:

Management has determined that the Company operates in one industry segment, being the development of biopharmaceutical products. Substantially all of the Company's operations, assets and employees are located in Canada and the United States.

10. Related party transactions:

During the three months ended September 30, 2004, $191,743 (2003 – $24,500) was paid to the firm of a director for legal services. Such services were rendered in the ordinary course of business at market rates.

NOTES

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