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Allon Therapeutics Inc.
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First Quarter Report
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March 31, 2005
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Corporate profile

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

Allon's drug discovery platform has resulted in the development of a unique class of peptide compounds that has demonstrated broad efficacy in numerous pre-clinical models of neurodegenerative diseases.

Allon's AL-108 is being evaluated in Phase I human clinical trials as a treatment for Alzheimer's disease. The Company is on track to file a second Investigational New Drug Application to the United States Food and Drug Administration in Q2 2005 seeking approval to evaluate AL-208, the company's second product, in clinical trials for mild cognitive impairment resulting from cardiac artery bypass graft surgery.

The company is listed on the Canadian TSX Venture Exchange under the trading symbol "NPC" (Neuro Protection Company) and based in Vancouver.

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Letter to the Shareholders

During the First Quarter of 2005, the Company achieved all of its key quarterly milestones, including the launch and completion of Phase Ia human clinical trial evaluating its lead product AL-108 as a treatment for Alzheimer's disease.

Other achievements during the quarter included:

- Preparation to begin human clinical trials to evaluate Allon's second product AL-208 as a treatment for mild cognitive impairment caused by post-cardiac artery bypass graft surgery;
- Appointment of a vice president of clinical operations to manage the company's clinical trials; and
- Several conference presentations and a journal publication that added to the extensive scientific validation of the Company's pre-clinical research.

Throughout the remainder of 2005, we will continue to execute our clinical development plan to take advantage of the significant promise shown by our unique class of proprietary drug candidates. These drug candidates have shown the potential to halt or prevent serious degenerative diseases and injury to the central nervous system, for which there are large and growing markets. We believe these compounds will be the basis for a strong and sustainable central nervous system drug development company.

AL-108

Allon's first product is AL-108, a proprietary eight amino acid peptide that has demonstrated in extensive animal studies to protect 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.

During Q1 05, Allon launched and completed a Phase Ia human clinical trial evaluating AL-108 as a treatment for Alzheimer's disease. AL-108 was administered intranasally to five groups of six healthy adults in a double-blind, placebo-controlled, randomized, sequential and ascending study to evaluate primarily the safety and pharmacokinetic results. The dosing was well tolerated by all subjects and no significant side-effects were observed.

Data from the Phase Ia trial will be analyzed by the end of Q2 2005. The next clinical development step for AL-108 is a Phase Ib trial in Q3 2005 to evaluate AL-108 in healthy adults most at risk for Alzheimer's disease, and ultimately in diagnosed Alzheimer's patients.

Scientists agree that the brains of Alzheimer's patients are characterized by plaque accumulation outside brain cells, or neurons, and by neurofibrillary tangles inside the neurons. No drug on the market today has any impact on these plaques and tangles. Drugs on the market today treat only the symptoms of Alzheimer's — that is, they slow memory loss or modify emotional volatility or treat other behavioral symptoms.

Allon has shown in preclinical studies that AL-108 removes plaques and promotes the repair of neurofibrillary tangles. AL-108 also protects healthy neurons from the formation of plaques and tangles.

AL-208

AL-208 is the Company's second product, an intravenous formulation of an eight amino acid peptide with extensive preclinical efficacy data.

During Q1 05, the Company continued preparation of an Investigational New Drug (IND) application to the United States Food and Drug Administration for approval to evaluate AL-208 in human clinical trials as a treatment for the mild cognitive impairment (MCI) associated with post-cardiac artery bypass graft (CABG) surgery. The Company is on schedule to file this IND in Q2 2005.

Post-CABG MCI occurs in 90% of cardiac artery bypass patients and persists in as many as 25% of patients six months after surgery. It is significant that many clinical drug development experts see the effects of CABG as similar to those suffered by stroke patients.

Management appointment

Early in Q1 05, the Company announced the appointment of Karole Sutherland as Vice President of Clinical Operations. Karole was previously director of clinical operations and resource planning at QLT Inc., one of Canada's largest biopharmaceutical companies. At Allon, Karole manages the Company's clinical trials and resource planning, including trial site management, resource allocation, and contract and vendor management. She is responsible for ensuring the Company's clinical trials are on schedule and on budget and deliver the value necessary to move Allon's products toward regulatory approval and commercialization.

Presentations and Publications

During the quarter, the Company presented at scientific conferences that added to the extensive scientific validation of its pre-clinical research. Presentations were made at Georgetown University's department of neurology, Georgetown, Maryland; at the 26th Winter Neuropeptides Conference in Breckenridge, Colorado; and at the 7th International Conference on Alzheimer's and Parkinson's Disease in Sorrento, Italy.

In addition, results of a preclinical study published in the March issue of the Journal of Molecular Neuroscience indicate that Allon's two lead compounds, AL-108 and AL-208, have the potential to become new treatments that contribute to development and repair of central nervous system cells damaged by neurodegenerative disease or injury.

Subsequent events

On April 5, 2005, the Board of Directors split the role of Chairman and CEO, with Dr. James Miller continuing as Executive Chairman of the company and Gordon McCauley assuming the CEO role in addition to his existing responsibilities as President.

On April 26, 2005, the Company announced its Alzheimer's clinical development program has been selected by the Alzheimer's Disease Cooperative Study (ADCS) in the United States to be included in its submission to receive Phase II clinical trial funding from the U.S. National Institutes of Health (NIH).

The ADCS has indicated that a Phase II clinical trial evaluating Allon's lead product AL-108 as a treatment for Alzheimer's disease was one of seven projects selected by the ADCS. The ADCS has indicated that the selected programs will be submitted as a grant application to the NIH in October and a final funding decision will be made by the NIH in Q1 2006. It is possible that the entire grant

application or components parts of it may not be approved. The ADCS was established in 1991 and has become the largest recipient of U.S. government funding for Alzheimer's research and clinical trials.

The Company believes it will gain valuable knowledge and materially benefit its financial projections going forward by working with the ADCS.

We are grateful for shareholders' ongoing support and look forward to updating you on the progress of our clinical trials and other developments in the coming weeks and months.

Respectfully,

The image shows two handwritten signatures in black ink. The signature on the left is for James J. Miller, featuring a large, stylized 'M' and 'J' followed by a long horizontal line. The signature on the right is for Gordon C. McCauley, with a more fluid, cursive style.

James J. Miller, PhD
Chairman

Gordon C. McCauley
President & CEO

May 27, 2005

Management's Discussion and Analysis

The following information should be read in conjunction with the unaudited consolidated financial statements and related notes for the Company for the first quarter of operations ended March 31, 2005 (Q1 2005), as well as the audited annual financial statements, their accompanying notes and management's discussion and analysis for the year ended December 31, 2004 included in our Annual Report ("2004 Annual Report"). The financial statements listed have been prepared in accordance with Canadian generally accepted accounting principles. All dollar amounts are expressed in Canadian dollars unless otherwise specified. Additional information relating to Allon Therapeutics Inc. ("Allon" or the "Company") can be obtained from SEDAR at www.sedar.com.

May 27, 2005

OVERVIEW

Allon Therapeutics Inc. is a Canadian biotechnology company focused on the development and commercialization of a new class of therapeutic compounds for the treatment of a variety of neurodegenerative conditions such as Alzheimer's, multiple sclerosis, stroke, traumatic brain injury, and neuropathy. During Q1 2005, Allon achieved a number of significant milestones on its drug development path, outlined in the Company's 2004 Annual Report. Early in Q1 Allon obtained approval from the United States Food and Drug Administration (FDA) for a Phase 1 trial in Alzheimer's disease with its lead product, AL-108. Subsequent to this approval, during Q1 2005 the company commenced and completed dosing in a Phase 1a study to evaluate primarily the safety and pharmacokinetic results of AL-108 administered intranasally to healthy adults. The results from this study are expected to be available in Q2 2005. This progress positions the Company, subject to FDA approval, to begin a Phase 1b trial for AL-108 in Q3 2005 and to meet its milestone of completion of Phase I in Q4 2005. The Phase 1b trial will focus on safety and pharmacokinetics in patients most at risk for Alzheimer's disease. During the quarter ended March 31, 2005, the Company also completed preclinical work on its second product, AL-208, and remains on track to file the Investigational New Drug (IND) application with the FDA in Q2 2005. The Phase 1 clinical trial of AL-208, indicated for mild cognitive impairment (MCI) associated with cardiac artery bypass graft (CABG) surgery, will commence in Q3 2005 subject to FDA acceptance of the IND. The trial is designed to secure safety data that will allow the Company to pursue a number of indications with an intravenously delivered product. The Company anticipates completion of the AL-208 Phase I trial in Q4 2005, consistent with the milestones outlined in the 2004 Annual Report.

RESULTS OF OPERATIONS

For the three months ended March 31, 2005 the Company reported a net loss of \$1,203,815 (\$0.04 per share) as compared to a loss of \$54,347 (\$0.01 per share) for the same period in 2004 (Q1 2004) and a loss of \$1,072,590 (\$0.05 per share) for the previous quarter ended December 31, 2004 (Q4 2004). The increased loss of \$1,149,468 over the comparable quarter of Q1 2004 results from the acquisition of Allon Therapeutics, Inc (Allon USA) and subsequent change of business the Company underwent in the third quarter of 2004 (Q3 2004) from an investment company to a biotechnology company. The increase of \$131,225 over the previous quarter, Q4 2004, is largely a result of increased research and development expenditures related to the progress of the Company's drug development programs.

REVENUE

During Q1 2005, the Company's cash, cash equivalents and short-term investments earned interest of \$64,370 as compared to \$7,238 in Q1 2004 and \$11,760 in Q4 2004, reflecting higher cash reserves and higher interest rates on investments in Q1 2005 over the comparable period of Q1 2004. In Q1 2005, interest accounted for the total revenue compared to Q1 2004 where management revenues of \$142,254 were generated from the management of two funds, Neuro Discovery Limited Partnership (NDLP) and TriFund Capital (VCC) Ltd. (TriFund). Having divested itself of its investment management assets, at the end of Q3 2004, the Company does not expect to earn management fees going forward.

EXPENSES

RESEARCH AND DEVELOPMENT

For the quarter ended March 31, 2005, research and development expenses were \$1,311,763 as compared to nil in Q1 2004 and \$734,539 in Q4, 2004. Current period research and development expenses relate to Phase 1 clinical trials for AL-108, completion of pre-clinical work in preparation for an Investigational New Drug Application (IND) application for AL-208 expected to be submitted in Q2 2005 and further scientific research on the Company's unique class of compounds. There were no research and development expenses in Q1 2004 as the Company was engaged in the biotechnology investment business. Research and development in the fourth quarter of 2004 related to expenses associated with manufacturing and preparation of drug product to support current clinical trials, the filing of the IND application with the FDA for AL-108 and additional toxicology work to support the IND submission for AL-208.

GENERAL AND ADMINISTRATIVE

General and administrative expenses were \$326,958 in Q1 2005 as compared to \$277,828 in Q1 2004 and \$485,067 in Q4 2004. The increase as compared to Q1 2004 results from additional staff and support required to further the Company's drug development programs and increased expenditures on corporate communications and related material. The decrease as compared to Q4 2004 results from a \$56,000 decrease in consulting fees and \$70,000 decrease in salaries due to one-time fees and bonuses paid in Q4 2004, for work related to the acquisition of Allon USA, offset by the by increased staff hired in Q1 2005. Audit fees decreased by \$51,000 in Q1 2005 following completion of year-end audit and Q3 2004 review relating to the acquisition of Allon USA. These costs were offset by increased travel, conference and corporate communications costs in Q1 2005.

AMORTIZATION

Amortization expenses increased to \$135,409 in Q1 2005 as compared to \$3,104 in Q1 2004 and \$130,131 in Q4 2004. The increase results from the acquisition of the licenses and other intangible assets of Allon USA at the end of the third quarter of 2004.

OTHER INCOME/(EXPENSES)

Other income decreased to \$31,861 in Q1 2005 as compared to income of \$77,093 in Q1 2004 and expenses of \$528,891 in Q4 2004. The increased income in Q1 2004 resulted from a gain on sale of marketable securities that was offset by a gain on foreign exchange gain on translation and increased stock based compensation and interest expenses in Q1 2005. The increased expense in Q4 2004

primarily resulted from write downs in marketable securities and investments and foreign exchange losses, offset by lower stock based compensation expenses.

QUARTERLY INFORMATION

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

(in thousands, except per share data)

	March 31, 2005	Dec. 31, 2004	Sept. 30, 2004	June 30, 2004
Investment earnings and management fees	\$64	\$11	\$112	\$117
Loss before unrealized gains (losses) on investments	\$(1,678)	\$(1,110)	\$75	\$(156)
Write-down and unrealized gains (losses) on investments	nil	\$37	\$(431)	\$(13)
Loss for the quarter	\$(1,204)	\$(1,073)	\$(356)	\$(169)
Loss per share	\$(0.04)	\$(0.05)	\$(0.04)	\$(0.02)
	March 31, 2004	Dec. 31, 2003	Sept. 30, 2003	June 30, 2003
Investment earnings and management fees	\$150	\$168	\$13	\$17
Loss before unrealized gains (losses) on investments	\$(62)	\$(253)	\$(336)	\$(474)
Write-down and unrealized gains (losses) on investments	\$8	\$(20)	\$(129)	\$(1,500)
Loss for the quarter	\$(54)	\$(273)	\$(465)	\$(1,974)
Loss per share	\$(0.01)	\$(0.02)	\$(0.05)	\$(0.21)

The loss and loss per share incurred during the quarters ended June 30, 2003 and September 30, 2003 were a result of the expenses associated with the Neuro Discovery investment management business in addition to a realized loss of \$1,500,000 and an unrealized loss of approximately \$129,000 respectively in two of the Company's corporate investments.

As the investment management business developed, investment earnings and management fees increased as shown in the quarter ended December 31, 2003 and remained relatively stable over the next two quarters. The difference in the loss and loss per share for the quarters ended December 31, 2003, March 31, 2004 and June 30, 2004 were largely a result of varying gains on the sale of marketable securities in each quarter.

In the quarter ended September 30, 2004, the Company divested the investment management assets consisting of two wholly-owned subsidiaries and the investment management contract of a fund. The gains from the sale of the two subsidiaries and the contract were more than offset by the write-down of the remainder of the Company's corporate investments. These transactions were part of a change of business which saw the Company acquire Allon Therapeutics, Inc., (Allon USA) a San Diego based biotechnology company and change its name to Allon Therapeutics Inc. in order to focus the Company on the development of Allon's technology.

The quarter ended December 31, 2004 was the first quarter in which the operations of the Company were focused on the development of its neuroprotective compounds. The majority of the Company's expenses were in research and development and no management fees were earned.

In the quarter ended March 31, 2005, the company was focused on Phase-1 clinical trials for AL-108, pre-clinical work for the AL-208 IND and further scientific research for the Company's unique class of compounds. The majority of the company's expenses were in research and development.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2005, the Company had cash and short-term investments of \$7,935,143 as compared to \$1,446,886 at March 31, 2004 and \$9,266,403 at December 31, 2004. This is an increase of \$6.5M from the same period last year and a reduction of \$1.3M from December 31, 2004, which closely reflects our net loss for the quarter of \$1,203,815. Short-term investments are held in high-grade, liquid commercial paper with maturities ranging from 30 days to 18 months to match the Company's future cash requirements.

At March 31, 2005, the Company had a valuation allowance equal to the future tax asset, since a pattern of profitable operations for income tax purposes has not been established. The Company also acquired a future tax liability originating on acquisition of Allon USA. At March 31, 2005, that liability was \$1,126,047. The Company anticipates that this liability will be offset by the tax losses created in Allon USA in future years. While the Company does not expect to pay income taxes in Fiscal 2005, it's expected that when the Company does become taxable, statutory Canadian tax rates will apply.

The Company had working capital of \$7.5 million as at March 31, 2005. There were 1.9 million stock options exercisable at prices between \$.001 and \$1.72 per share and four million warrants outstanding and exercisable at a price of \$1.25. If all outstanding stock options and warrants were exercised, proceeds of \$1.0 million and \$5 million would be generated respectively.

The Company believes that its cash and short-term investments as at March 31, 2005 and expected interest income will be sufficient to fund operations and commitments into 2007.

OUTANDING SHARE CAPITAL

As at March 31, 2005, the Company had 27,264,364 common shares outstanding. Each common share entitles the holder to one vote per share. As at March 31, 2005, the Company had 2,577,597 options outstanding, of which 1,924,263 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 March 31, 2005, entitling holders to purchase common shares of the Company until March 31, 2006, at a price of \$1.25. See Note 5 of the Company's financial statements for more detail regarding outstanding share capital.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The Company's critical accounting policies and estimates are disclosed in the Management's Discussion and Analysis of Financial Condition and Operations section and the annual consolidated financial statements contained in the 2004 Annual Report. In the first quarter of 2005, the Company adopted the recommendation of the Canadian Institute of Chartered Accountants (CICA) Handbook Accounting Guideline ACG-15, consolidation of Variable Interest Entities. This adoption of a new accounting standard has not had any impact on operating results.

RISKS AND UNCERTAINTIES

As previously described, cash on hand, together with expected interest income is expected to be sufficient to fund operations and commitments into 2007. Funding needs may, however, vary depending on a number of factors including progress in research and development, the cost associated with completing clinical trials and the regulatory approval process; the costs of enforcing and prosecuting patent claims and other intellectual property rights and regulatory costs associated with transition from a Venture Issuer to Non-Venture Issuer on the Toronto Stock Exchange (TSX).

In general, prospects for companies in the biopharmaceutical industry may be regarded as uncertain given the nature of the industry, therefore, investments in such companies should be regarded as highly speculative. In the future, the Company will need to raise additional funds to continue research and development and clinical trials necessary for market approval. The company cannot guarantee that financing will be available or that terms for additional financing will be favourable.

Risks and uncertainties related to the Company's financial performance and certain industry factors are discussed in detail in the Management's Discussion and Analysis section of the 2004 annual report.

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. Additional information relating to the Company can be found on SEDAR at www.sedar.com.

ALLON THERAPEUTICS INC.

(Formerly Neuro Discovery Inc.)
Consolidated Balance Sheets

	March 31, 2005	December 31, 2004
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 272,908	\$ 963,403
Short-term investments	7,662,235	8,303,000
Marketable securities	4,052	6,163
Accounts receivable	122,509	107,248
Prepaid expenses and deposits	77,990	52,688
	8,139,694	9,432,502
Long term receivable	59,299	56,519
Property, plant and equipment	50,122	50,903
Intangible assets	7,459,824	7,591,759
	\$ 15,708,939	\$ 17,131,683

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 626,222	\$ 407,971
Convertible promissory note payable	5,572	1,736
Future income tax liability	1,126,047	1,600,131
Shareholders' equity:		
Share capital (note 4)	20,773,182	20,766,549
Equity portion of convertible promissory note	330,065	330,065
Additional paid-in capital	773,765	747,330
Deficit	(7,925,914)	(6,722,099)
	13,951,098	15,121,845
	\$ 15,708,939	\$ 17,131,683

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



James J. Miller, PhD
Chairman



Frank Holler
Director

May 27, 2005

ALLON THERAPEUTICS INC.

(Formerly Neuro Discovery Inc.)

Consolidated Statements of Operations and Deficit
(Unaudited)

Three months ended March 31, 2005 and 2004

	2005	2004
Investment earnings	\$ 64,370	\$ 7,238
Management fees	-	142,254
	64,370	149,492
Expenses:		
Research and development	1,311,763	-
General and administrative	326,958	277,828
Amortization	135,409	3,104
	1,774,130	280,932
Other (income)/expense:		
Gain on sale of marketable securities	-	(71,489)
Foreign exchange (gain)/loss	(62,125)	(625)
Stock-based compensation expense	26,435	3,125
Interest expense	3,829	-
Change in unrealized gains on investments	-	(8,104)
	(31,861)	(77,093)
Loss before income taxes	(1,677,899)	(54,347)
Future income tax recovery (note 7)	474,084	-
Loss for the period	(1,203,815)	(54,347)
Deficit, beginning of period	(6,722,099)	(5,069,944)
Deficit, end of period	\$ (7,925,914)	\$ (5,124,291)
Loss per share:		
Basic and diluted	\$ (0.04)	\$ (0.01)

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

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

Three months ended March 31, 2005 and 2004

	2005	2004
Cash flows provided by (used in):		
Operations:		
Loss for the period	\$ (1,203,815)	\$ (54,347)
Items not involving cash:		
Amortization	135,409	3,104
Interest on convertible promissory note	3,836	-
Stock-based compensation	26,435	3,125
Unrealized gains (losses) on corporate investments	-	(8,104)
Unrealized loss on marketable securities	2,111	-
Gain on sale of marketable securities	-	(71,489)
Future income tax recovery	(474,084)	-
Change in non-cash operating working capital	177,688	(112,609)
	<u>(1,332,420)</u>	<u>(240,320)</u>
Investments:		
Short-term investments	640,765	-
Purchase of property, plant and equipment	(2,693)	(335)
Long-term receivable	(2,780)	-
Proceeds of sale of marketable securities	-	119,640
Corporate investments	-	87,894
	<u>635,292</u>	<u>207,199</u>
Financing:		
Proceeds from issuance of common shares	6,633	-
	<u>(690,495)</u>	<u>(33,121)</u>
Cash and cash equivalents, beginning of period	963,403	307,795
Cash and cash equivalents, end of period	<u>\$ 272,908</u>	<u>\$ 274,674</u>
Supplementary information:		
Cash received during the year for:		
Interest	\$ 14,598	\$ 4,791

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

(Formerly Neuro Discovery Inc.)
Notes to Consolidated Financial Statements
(Unaudited)

Three months ended March 31, 2005 and 2004

1. Basis of presentation:

Allon Therapeutics Inc. ("Allon" or the "Company"), formerly Neuro Discovery Inc., is a public company incorporated under the Canada Business Corporations Act. Allon is a biopharmaceutical company engaged in the development of drugs to treat neurodegenerative diseases and disorders. During the third quarter of 2004, the Company underwent a change of its core business activities as it sold two of its investment management subsidiaries as well as the contract to manage an investment fund 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.

The continuation of the Company's research and development activities and the commercialization of its products in development are dependent upon the Company's ability to successfully complete its research and development programs and finance its cash requirements primarily through equity financing. The Company's current level of cash and short-term investments exceeds the amount required to execute the Company's current planned expenditures for the next 12 months.

2. Significant accounting policies:

These interim financial statements are prepared by applying the same accounting policies and methods of their application as the annual financial statements of the Company, except that in the first quarter of 2005, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Accounting Guideline AcG-15, *Consolidation of Variable Interest Entities*. This change in accounting has not had an impact on the Company's operating results.

3. Allon Therapeutics, Inc. acquisition:

These interim financial statements are prepared by applying the same accounting policies and methods of their application as the annual financial statements of the Company, except that in the first quarter of 2005, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Accounting Guideline AcG-15, *Consolidation of Variable Interest Entities*. The Company has no association with any variable interest entities and as such, this change in accounting has not had an impact on the Company's operating results.

ALLON THERAPEUTICS INC.

(Formerly Neuro Discovery Inc.)
Notes to Consolidated Financial Statements
(Unaudited)

Three months ended March 31, 2005 and 2004

3. Allon Therapeutics, Inc. acquisition (continued):

As consideration, the Company issued an aggregate of 9,503,457 common shares and 1,097,250 replacement options at a deemed value of \$6,148,410.

Concurrent with the acquisition of Allon USA, the Company assumed an unsecured convertible promissory note.

Details of the acquisition are as follows:

Identifiable assets acquired:

Cash	\$ 1,765,473
Other current assets	6,835
Property, plant and equipment	2,907
Technology	6,643,362
Licenses and patents	1,074,557

Liabilities assumed:

Current liabilities	(461,404)
Convertible promissory note payable	(330,065)
Future income tax liability	(1,922,133)

\$ 6,779,532

Consideration:

Common shares	\$ 5,512,005
Options	636,405
Advance deposit	410,020
Acquisition costs	221,102

\$ 6,779,532

ALLON THERAPEUTICS INC.

(Formerly Neuro Discovery Inc.)
Notes to Consolidated Financial Statements
(Unaudited)

Three months ended March 31, 2005 and 2004

4. Share capital:

(a) Authorized:

Unlimited voting common shares without par value

Unlimited preferred shares, issuable in series

(b) Common shares issued and outstanding:

	Shares	Amount
Balance December 31, 2004	27,227,211	\$ 20,766,549
Shares issued pursuant to exercise of options	37,153	6,633
Balance March 31, 2005	27,264,364	20,773,182

(c) 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.

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

Stock option activity from December 31, 2004 to March 31, 2005 is as follows:

	Number of common shares under option	Weighted average exercise price
Outstanding, December 31, 2004	2,292,250	\$ 0.59
Granted	412,500	1.00
Exercised	37,153	0.18
Cancelled	90,000	0.66
Outstanding, March 31, 2005	2,577,597	\$ 0.66
Exercisable, March 31, 2005	1,924,263	\$ 0.51

ALLON THERAPEUTICS INC.

(Formerly Neuro Discovery Inc.)

Notes to Consolidated Financial Statements

(Unaudited)

Three months ended March 31, 2005 and 2004

5. Stock-based compensation:

On March 1, 2005, the Company granted to employees, consultants and directors options to purchase 412,500 common shares of the Company at a price of \$1.00, expiring March 1, 2015. The company has recorded the fair value of the options issued as an expense in the period ended March 31, 2005. The fair value of each option granted to employees 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 79%, risk free interest rate 2.96% and expected average option terms ranging from 3.0 to 5.0 years. The fair value of each option granted to non-employees is estimated as at March 31, 2005, using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield 0%, expected volatility 86%, risk free interest rate 3.17% and expected average option terms of 5.0 years.

On October 1, 2003, the Company granted to employees options to purchase 425,000 common shares of the Company at a price of \$0.40, expiring October 1, 2013. The Company has recorded the fair value of the options issued as an expense in the period ending March 31, 2005. 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 139%, risk free interest rate 3.2% and expected average option term of 3.0 years.

On April 3, 2002, the Company granted to employees and directors options to purchase 590,000 common shares of the Company at a price of \$1.72, expiring April 12, 2012, of which 520,000 remain outstanding. The Company has not recognized any compensation expense for stock-based compensation awarded to employees during the year ended December 31, 2002. Had compensation cost for the Company's employee stock option plan been determined based on the fair value at the grant dates for awards under this plan issued between January 1, 2002 and December 31, 2002, consistent with the current fair value based method of accounting for stock based compensation, the Company's net loss and net loss per share would have been the pro forma amounts indicated below:

	2005	2004
Loss for the period – as reported	\$ (1,203,815)	\$ (54,347)
Loss for the period – pro forma	(1,231,299)	(86,939)
Loss per common share – as reported	(0.04)	(0.01)
Loss per common share – pro forma	(0.05)	(0.01)

ALLON THERAPEUTICS INC.

(Formerly Neuro Discovery Inc.)

Notes to Consolidated Financial Statements

(Unaudited)

Three months ended March 31, 2005 and 2004

5. Stock-based compensation (continued):

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.

6. Loss per share:

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

	2005	2004
Loss for the period	\$ (1,203,815)	\$ (54,437)
Weighted average number of common shares outstanding	27,231,711	9,723,754
Loss per common share	(0.04)	(0.01)
<hr/>		
Weighted average number of common shares outstanding: Basic and fully diluted*	27,231,711	14,123,530

* Options and warrants are anti-dilutive

7. Future income taxes:

As part of the acquisition of Allon USA, the Company incurred a future income tax liability for the temporary difference arising from the financial statement carrying amount of the acquired medical technology and its respective tax basis. For the three months ended March 31, 2005, the Company recognized a future income tax asset of \$429,429 on the losses incurred during the quarter. The future income tax liability was further reduced by the tax effect of the amortization of the medical technology of \$44,655, resulting in a reduction to the year-end future income tax liability of \$474,084.

8. 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.



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