

Letter to the Shareholders

During the second quarter, Allon achieved all of its performance milestones, including positive results from our Phase Ia human clinical trial evaluating lead product AL-108 as a treatment for Alzheimer's disease and preparations to begin a Phase Ib clinical trial for AL-108 in Q3 2005.

Other achievements of the quarter included:

- Filing of an investigational new drug application (IND) with the U.S. Food and Drug Administration for approval to begin human clinical trials to evaluate the Company's second drug candidate AL-208 as a treatment for mild cognitive impairment (MCI) associated with cardiac artery bypass graft (CABG) surgery. We will commence these trials later this month.
- Selection by the Alzheimer's Disease Cooperative Study (ADCS) in the United States for inclusion in its submission to receive Phase II clinical trial funding from the U.S. National Institutes of Health (NIH).

Our team remains focused on meeting the Company's publicly stated milestones. We are on track to meet the remainder of our 2005 milestones and will continue to build on the momentum established thus far with our clinical development programs.

AL-108

Allon's lead compound, AL-108, is an intranasal formulation currently being evaluated for safety and tolerability in Phase I human clinical trials as a treatment for Alzheimer's disease. AL-108 is a proprietary eight amino acid peptide that has been extensively demonstrated in animal studies to protect neurons, nerve cells that are the basis of brain function, against such chronic diseases as Alzheimer's multiple sclerosis and neuropathy, and such acute disorders as stroke and traumatic brain injury. AL-108 proved to be safe and well tolerated in the Phase Ia subjects.

In addition to safety and tolerability, the Phase Ia clinical trial found no serious adverse events, and none of the chemistry, hematology or urinalysis laboratory results was considered to be clinically significant by the principal investigator. Furthermore, there were no clinically significant changes in electrocardiograms or vital signs measured in any subject during the observation period.

The next stage in the development of AL-108 is a Phase Ib trial in elderly patients most at risk for Alzheimer's disease designed to determine the safety and tolerability of the drug in this population. Completion of this trial is expected in Q4 2005 and data will be available in Q1 2006.

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 protects neurons against plaque accumulation outside the cells and promotes the repair of neurofibrillary tangles inside the neurons, the two main hallmarks of Alzheimer's disease.

AL-208

Allon's second product candidate AL-208 is an intravenous formulation. Subsequent to our successful IND filing during the second quarter, we are now ready to begin a Phase I human clinical trial for AL-208 later this month, with final dosing in Q4 2005 and data available early in Q1 2006. The Phase I data will be used to support a phase IIa trial to evaluate AL-208 as a treatment for MCI associated with CABG surgery.

Clinical drug development experts estimate that post-CABG MCI is a \$3 billion market for which there is no available treatment today. 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 experts see the effects of CABG as similar to those suffered by stroke patients.

Allon Selected by ADCS

During the second quarter, Allon announced that our Alzheimer's clinical development program was one of seven projects selected by the ADCS in the United States to be included in its submission to receive Phase II clinical trial funding from the U.S. NIH.

The ADCS has reported that the selected programs will be submitted as a grant application to the NIH in Q4 2005 and a final funding decision will be made by the NIH in Q1 2006. It is possible that the whole grant application or component 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.

Presentations and Publications

Company executives presented at six scientific and corporate conferences in the second quarter. These conferences provided Allon the opportunity to present updates on the company's performance milestones and its research and clinical drug development programs.

Presentations were made at Biosquare 2005, a life sciences partnering conference in Lyon, France, attended by some of the world's largest pharmaceutical companies seeking to partner with biotechnology companies; the 2005 Fasken Martineau Technology and Life Sciences Forum in Vancouver; the Beyond Science 2005 conference in Washington, D.C., sponsored by ASM Resources, Inc., the venture-arm of the American Society for Microbiology, the oldest and largest single life science membership organization in the world; BioFinance 2005 in Toronto, Canada's leading life sciences investor conference; the Bio 2005 Business Forum in Philadelphia, described by conference organizers as the largest partnering and networking program in the biotechnology industry's history; and at the Alzheimer's Association International Conference on Prevention of Dementia in Washington, D.C., attended by approximately 1,000 physicians, researchers and policy advocates.

Preclinical Study

The Company announced during the second quarter that a new pre-clinical animal study has demonstrated that AL-108 and AL-208 penetrate the blood brain barrier and reach their target therapeutic areas in the central nervous system.

The blood-brain barrier is the system of capillary endothelial cells that protects the brain from harmful substances in the blood stream - and also prevents the permeation of many therapeutic drugs into the brain. Research has established that most neuropeptides, molecules comprised of combinations of amino acids that are released by brain cells as intracellular messengers and growth factors, are normally unable to penetrate the blood-brain barrier when they are given as therapeutics.

However, Allon's pre-clinical results confirmed the presence of AL-108 delivered intranasally and AL-208 delivered intravenously in the cerebral spinal fluid of animals after administration of these drug candidates.

This study added to the extensive body of research that indicates Allon's compounds protect against the injury and death of neurons from disease or injury to the central nervous system. This research has been published in more than 60 articles in leading peer-reviewed scientific journals.

Subsequent Event

Subsequent to June 30, 2005, the Company announced August 15, 2005 that it had arranged a \$6.2 million private placement of common shares at a price of \$1.05 per share. The placement funds have been received and closing is expected in the immediate future upon formal TSX Venture Exchange acceptance. The proceeds will be used to undertake Phase IIa clinical trials for Allon's two existing products, AL-108 and AL-208. The net proceeds of \$6.2 million have increased the Company's current cash and short-term investments to approximately \$12.3 million. The Company believes its cash resources are now sufficient to fund its business plan into the fourth quarter of 2007. As part of the consideration for the shares approximately 2.6 million of the Company's four million warrants outstanding were redeemed for \$0.05 each. No commissions are payable in connection with the placement. The shares purchased will be subject to a four-month hold period from the date of closing.

We appreciate shareholders' ongoing support and look forward to updating you on the progress of our clinical trials and other initiatives 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, PhD, and the signature on the right is for Gordon C. McCauley, President & CEO. Both signatures are written in a cursive, flowing style.

James J. Miller, PhD

Chairman

August 16, 2005

Gordon C. McCauley

President & CEO

Management's Discussion & Analysis

The following information should be read in conjunction with the unaudited consolidated financial statements and related notes for the Company for the second quarter (Q2 2005) and year to date (YTD 2005) operations ended June 30, 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.

August 16, 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 disease, multiple sclerosis, stroke, traumatic brain injury, and neuropathy.

During Q2 2005, Allon continued to build on its first quarter achievements as it met a number of significant milestones on its drug development path, outlined in the Company's 2004 annual report. The Company obtained the results of its Phase Ia trial for AL-108 in Alzheimer's disease. The trial was initiated in Q1 2005 and demonstrated that a single dose of AL-108 was safe and well tolerated when administered to healthy adults.

During the quarter, the Company filed an Investigational New Drug application (IND) to obtain approval to conduct human clinical trials for its second product, AL-208, as a treatment for mild cognitive impairment (MCI) associated with cardiac artery bypass graft (CABG) surgery. Post-CABG MCI is estimated to be a \$3 billion market for which there is no available treatment today.

The Phase I trial will evaluate the safety, tolerability and pharmacokinetics of AL-208 in healthy adults. The trial is designed to secure safety data that will also 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, with data available early in Q1 2006, consistent with the milestones outlined in the 2004 Annual Report.

The Company also added to the extensive body of preclinical research underlying its human clinical development program by completing animal studies confirming that both AL-108 and AL-208 penetrate the blood brain barrier to reach their target therapeutic areas in the central nervous system.

RESULTS OF OPERATIONS

For the three months ended June 30, 2005 the Company reported a net loss of \$1,261,196 (\$0.05 per share) compared to a loss of \$169,120 (\$0.02 per share) for the same period in 2004 (Q2 2004) and a loss of \$1,203,815 (\$0.04 per share) for the previous quarter ended March 31, 2005 (Q1 2005). The increased loss of \$1,092,076 over the comparable quarter of Q2 2004 resulted 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. Q2

2005 losses are reflective of the Company's clinical development program. The increased loss of \$57,381 over Q1 2005 is the result of a reduction in tax recovery from Allon USA, offset by reduced overall R&D expenses consistent with the progression of the AL-108 and AL-208 development programs.

For the six month period ended June 30, 2005, the Company reported a loss of \$2,465,011 compared to \$223,467 for the same period in 2004. The increased loss of \$2,241,544 results from the acquisition of Allon USA and subsequent change of business.

REVENUE

For the three months ended June 30, 2005, the Company had interest revenue of \$25,629 compared to interest of \$4,972 and management fees of \$111,576 in Q2 2004 and interest of \$64,370 in Q1 2005. The \$90,919 decrease from Q2 2004 is the result of the loss of management fee revenues with the change in business, offset by a \$20K increase in interest revenue from larger cash reserves and higher interest rates earned on investments.

For the six month period ended June 30, 2005, the Company earned interest of \$89,999 compared to interest of \$12,210 and management fees of \$253,830 for the same period in 2004. The \$176,041 decrease is the result of the loss of management fee revenues with the change in business, offset by a \$78K increase in interest revenue from larger cash reserves and higher interest rates earned on investments. 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 three month period ended June 30, 2005, research and development expenses were \$830,576 compared to \$nil in Q2 2004 and \$1,311,763 in Q1 2005. The increase over Q2 2004 is due to the change in business. Q2 2005 expenses were \$481,187 lower than Q1 2005 expenses primarily due to the timing of clinical trials associated with the progression of the clinical development plan. With the completion of the Phase Ia clinical trial of AL-108 in Q1, the Company focused on planning and preparatory work for the start of the Phase Ib trial for AL-108 and Phase I trial for AL-208 in Q3 2005. In Q2 2005, reduced clinical expenses were offset by increased professional fees and travel costs associated with filing of the AL-208 IND and preparation for the AL-108 Phase Ib and AL-208 Phase I studies as well as the addition of personnel. The Company expects that R&D expenses in Q3 2005 will be similar to those incurred in Q1 2005.

For the six month period ended June 30, 2005, research and development expenses were \$2,142,339 compared to \$nil for the same period last year. This year the Company commenced and completed the AL-108 Phase Ia clinical study as well as pre-clinical work required for the AL-208 IND. The Company has also made significant progress in its pre-clinical research to build on the body of knowledge supporting the Company's unique class of compounds.

GENERAL AND ADMINISTRATIVE

For the three month period ended June 30, 2005, general and administrative expenses were \$360,867 compared to \$279,988 in Q2 2004 and \$326,958 in Q1 2005. The \$80,879 increase over Q2 2004 primarily relates to salaries, reflecting increased personnel required due to the change in business. The \$33,909 Q2 2005 increase over Q1 2005 is primarily the result of increased staff requirements to carry on the Company's business.

For the six month period ended June 30, 2005 general and administrative expenses were \$687,825 compared to \$557,192 for the same period last year. The increase of \$130,633 is the result of increased staff and related expenses associated with the Company's transition to a biotech development company. The increase was offset by lower rental expenses resulting from the 2004 consolidation of the Company's operations to Vancouver and reduced legal and related regulatory fees from those incurred for preparation of the Q3 2004 acquisition of Allon USA.

AMORTIZATION

Amortization expenses for the three months ended June 30, 2005 increased to \$135,851 in Q2 2005 compared to \$3,261 in Q2 2004 and \$135,409 in Q1 2005. Amortization for the six months ended June 30, 2005 was \$271,260, compared to \$6,365 for the same period last year. The quarter over quarter and YTD increases from prior year result 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)

For the three months ended June 30, 2005, the Company incurred other expenses of \$116,817 compared to \$2,419 in Q2 2004 and other income of \$31,861 in Q1 2005. The \$114,398 increase over Q2 2004 is the result of a \$71K foreign exchange adjustment and \$40K increase in stock based compensation expense to employees, directors and consultants, discussed further in Note 5 of the Company's Q2 2005 financial statements. For the six month period ended June 30, 2005, the Company incurred other expenses of \$84,956 compared to other income of \$74,050 for the same period in 2004. The \$159,006 increase in expenses results from a \$64K increase in stock based compensation expense, \$7K foreign exchange loss and \$4K write down of marketable securities compared to a prior year \$86K gain on investment and a \$5K write down of marketable securities.

QUARTERLY INFORMATION

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

(in thousands, except per share data)

	June 30, 2005	March 31, 2005	Dec. 31, 2004	Sept. 30, 2004
Investment earnings and management fees	\$26	\$64	\$11	\$112
Loss before unrealized gains (losses) on investments	\$(1,261)	\$(1,204)	\$(1,110)	\$75
Write-down and unrealized gains (losses) on investments	nil	nil	\$37	\$(431)
Loss for the quarter	\$(1,261)	\$(1,204)	\$(1,073)	\$(356)
Loss per share	\$(0.05)	\$(0.04)	\$(0.05)	\$(0.04)
	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)
Write-down and 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)

The loss and loss per share incurred during the quarter ended September 30, 2003 resulted from expenses associated with the Neuro Discovery investment management business and an unrealized loss of approximately \$129,000 in one 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 I 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.

In the quarter ended June 30, 2005, the Company completed pre-clinical animal studies to confirm that both AL-108 and AL-208 penetrate the blood brain barrier to reach their target therapeutic areas in the central nervous system. The Company filed an IND for its second product, AL-208, seeking approval to begin human clinical trials evaluating it as a treatment MCI associated with CABG. The company also completed preparatory work for both the AL-108 Phase Ib and AL-208 Phase I trials, scheduled to begin in Q3 2005.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2005, the Company had cash and short-term investments of \$6,339,427 compared to \$9,266,403 at December 31, 2004 and \$7,935,143 at March 31, 2005. 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 June 30, 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 June 30, 2005, that liability was \$968,761. The Company anticipates that this liability will be offset by the tax losses created in Allon USA in future periods. While the Company does not expect to pay income taxes in Fiscal 2005, it is expected that when the Company does become taxable, statutory Canadian tax rates will apply.

The Company had working capital of \$6.3 million at June 30, 2005. There were 2.1 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 \$1.2 million and \$5 million would be generated respectively.

The Company believes that its cash and short-term investments as at June 30, 2005 and expected interest income will be sufficient to fund operations and commitments into 2007.

OUTSTANDING SHARE CAPITAL

At June 30, 2005, the Company had 27,277,664 common shares outstanding. Each common share entitles the holder to one vote per share. At June 30, 2005, the Company had 2,564,297 options outstanding, of which 2,059,296 were exercisable into an equivalent number of the Company's common shares at exercise prices ranging from \$0.001 to \$1.72. The Company also had 4,000,000 warrants outstanding as of June 30, 2005, entitling holders to purchase common shares of the Company until March 31, 2006, at a price of \$1.25. See Note 4 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.

SUBSEQUENT EVENTS

On July 20, 2005, the United States Food and Drug Administration (FDA) made active the Company's IND application for its second product, AL-208, without comment, within the 30-day review period. The Company is currently recruiting patients for the AL-208 Phase I human clinical trial indicated for MCI associated with CABG.

Subsequent to June 30, 2005, the Company announced August 15, 2005 that it had arranged a \$6.2 million private placement of common shares at a price of \$1.05 per share. The placement funds have

been received and closing is expected in the immediate future upon formal TSX Venture Exchange acceptance. The proceeds will be used to undertake Phase IIa clinical trials for Allon's two existing products, AL-108 and AL-208. The net proceeds of \$6.2 million have increased the Company's current cash and short-term investments to approximately \$12.3 million. The Company believes its cash resources are now sufficient to fund its business plan into the fourth quarter of 2007. As part of the consideration for the shares approximately 2.6 million of the Company's four million warrants outstanding were redeemed for \$0.05 each. No commissions are payable in connection with the placement. The shares purchased will be subject to a four-month hold period from the date of closing.

ALLON THERAPEUTICS INC.

(Formerly Neuro Discovery Inc.)
Consolidated Balance Sheets

	June 30, 2005	December 31, 2004
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 72,610	\$ 963,403
Short-term investments	6,266,817	8,303,000
Marketable securities	2,100	6,163
Accounts receivable	112,057	107,248
Prepaid expenses and deposits	70,149	52,688
	6,523,733	9,432,502
Long term receivable	60,739	56,519
Property, plant and equipment	63,737	50,903
Intangible assets	7,327,888	7,591,759
	\$ 13,976,097	\$ 17,131,683

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 268,359	\$ 407,971
Convertible promissory note payable	5,645	1,736
Future income tax liability	968,761	1,600,131
Shareholders' equity:		
Share capital (note 4)	20,773,196	20,766,549
Equity portion of convertible promissory note	330,065	330,065
Additional paid-in capital	817,181	747,330
Deficit	(9,187,110)	(6,722,099)
	12,733,332	15,121,845
Subsequent event (note 9)	\$ 13,976,097	\$ 17,131,683

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



James J. Miller, PhD
Chairman



Frank Holler

ALLON THERAPEUTICS INC.

(Formerly Neuro Discovery Inc.)

Consolidated Statements of Operations and Deficit
(Unaudited)

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
Revenue				
Interest	\$ 25,629	\$ 4,972	\$ 89,999	\$ 12,210
Management fees	-	111,576	-	253,830
	25,629	116,548	89,999	266,040
Expenses:				
Research and development	830,576	-	2,142,339	-
General and administrative	360,867	279,988	687,825	557,192
Amortization	135,851	3,261	271,260	6,365
	1,327,294	283,249	3,101,424	563,557
Other (income)/expense:				
(Gain)/loss on investments	-	(14,195)	-	(85,684)
Foreign exchange (gain)/loss	71,403	-	7,167	-
Stock-based compensation	43,416	3,125	69,851	6,249
Interest	46	-	3,875	-
Write-down of marketable securities	1,952	13,489	4,063	5,385
	116,817	2,419	84,956	(74,050)
Loss before income taxes	(1,418,482)	(169,120)	(3,096,381)	(223,467)
Future income tax recovery (Note 7)	157,286	-	631,370	-
Loss for the period	(1,261,196)	(169,120)	(2,465,011)	(223,467)
Deficit, beginning of period	(7,925,914)	(5,124,291)	(6,722,099)	(5,069,944)
Deficit, end of period	\$(9,187,110)	\$(5,293,411)	\$(9,187,110)	\$(5,293,411)
Loss per share:				
Basic and diluted (Note 6)	\$ (0.05)	\$ (0.02)	\$ (0.09)	\$ (0.03)

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

(Formerly Neuro Discovery Inc.)

Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
Cash flows provided by (used in):				
Operations:				
Loss for the period	\$(1,261,196)	\$ (169,120)	\$(2,465,011)	\$ (223,467)
Items not involving cash:				
Amortization	135,851	3,261	271,260	6,365
Interest on convertible promissory note	73	-	3,909	-
Stock-based compensation	43,416	3,125	69,851	6,249
Write-down of marketable securities	1,952	13,489	4,063	5,385
(Gain)/Loss on investment	-	(14,195)	-	(85,684)
Future income tax recovery	(157,286)		(631,370)	
Change in non-cash operating working capital	(339,570)	80,045	(161,882)	(32,562)
	(1,576,760)	(83,395)	(2,909,180)	(323,714)
Investments:				
Short-term investments	1,395,418	172,212	2,036,183	172,212
Purchase of property, plant and equipment	(17,530)	(4,361)	(20,223)	(4,697)
Long-term receivable	(1,440)		(4,220)	
Proceeds of sale of marketable securities	-	20,615	-	140,255
Corporate investments	-	(35,386)	-	52,508
	1,376,448	153,080	2,011,740	360,278
Financing:				
Proceeds from issuance of common shares	14	-	6,647	-
Decrease in cash for the period	(200,298)	69,685	(890,793)	36,564
Cash and cash equivalents, beginning of period	272,908	274,674	963,403	307,795
Cash and cash equivalents, end of period	\$ 72,610	\$ 344,359	\$ 72,610	\$ 344,359
Supplementary information:				
Cash received during the year for:				
Interest	\$ 11,628	\$ 30,977	\$ 26,226	\$ 35,768

See accompanying notes to consolidated financial statements.

ALLON THERAPEUTICS INC.

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

Six months ended June 30, 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.

In the opinion of management, all adjustments (including reclassifications and normal recurring adjustments) necessary to present fairly the financial position, results of operations and deficit, and cash flows at June 30, 2005 and for all periods presented, have been made. Interim results are not necessarily indicative of results for a full year.

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, effective January 1, 2005, the Company adopted the Canadian Institute of Chartered Accountants issued Accounting Guideline 15, Consolidation of Variable Interest Entities ("AcG-15"). AcG-15 clarifies the identification of that entity which is required to consolidate other entities in situations where the majority voting interest may not identify the party with a controlling financial interest because the controlling financial interest may be achieved through arrangements that do not involve voting interests ("a variable interest entity"). AcG-15 generally requires consolidation by that entity which has variable interests that will absorb a majority of the variable interest entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both. If there is an entity that holds such majority risks and rights, that entity is defined to be the primary beneficiary of the variable interest entity. The Company has no interest in entities which meet the definition of a variable interest entity. 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)

Six months ended June 30, 2005 and 2004

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

On September 28, 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 acquisition was originally 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 Allon USA from September 28, 2004.

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.)
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Six months ended June 30, 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	50,453	6,647
Balance June 30, 2005	27,277,664	\$ 20,773,196

(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 June 30, 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	(50,453)	0.13
Cancelled	(90,000)	0.66
Outstanding, June 30, 2005	2,564,297	\$ 0.66
Exercisable, June 30, 2005	2,059,296	\$ 0.60

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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 June 30, 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 June 30, 2005, using the Black-Scholes option-pricing model with the following weighted-average assumptions: dividend yield 0%, expected volatility 75%, risk free interest rate 2.80% 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 June 30, 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:

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
Loss for the period – as reported	\$ (1,261,196)	\$ (169,120)	\$ (2,465,011)	\$ (223,467)
Loss for the period – pro forma	(1,266,414)	(196,603)	(2,497,712)	(283,542)
Loss per common share – as reported	(0.05)	(0.02)	(0.09)	(0.03)
Loss per common share – pro forma	(0.05)	(0.02)	(0.09)	(0.03)

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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:

	Three months ended June 30, 2005	Three months ended June 30, 2004	Six months ended June 30, 2005	Six months ended June 30, 2004
Loss for the period	\$(1,261,196)	\$ (169,120)	\$(2,465,011)	\$ (223,467)
Weighted average number of common shares outstanding	27,264,364	9,723,754	27,248,863	9,723,754
Loss per common share	\$ (0.05)	\$ (0.02)	\$ (0.09)	\$ (0.03)

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. The Company recognizes a future income tax asset to the extent of offsetting future income tax liabilities. The future income tax liability is also reduced by the tax effect of the amortization of the medical technology.

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.

9. Subsequent event:

Subsequent to June 30, 2005, the Company announced August 15, 2005 that it had arranged a \$6.2 million private placement of common shares at a price of \$1.05 per share. The placement funds have been received and closing is expected in the immediate future upon formal TSX Venture Exchange acceptance. The proceeds will be used to undertake Phase IIa clinical trials for Allon's two existing products, AL-108 and AL-208. The net proceeds of \$6.2 million have increased the Company's current cash and short-term investments to approximately \$12.3 million. The Company believes its cash resources are now sufficient to fund its business plan into the fourth quarter of 2007. As part of the consideration for the shares approximately 2.6 million of the Company's four million warrants outstanding were redeemed for \$0.05 each. No commissions are payable in connection with the placement. The shares purchased will be subject to a four-month hold period from the date of closing.

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