PAION Q1#2011

Consolidated Financial Interim Report for the First Quarter 2011

PAION AG

01.01.
31.03.
2011

Contents

PAION

Key Figures

(all figures in KEUR unless otherwise noted)	Q1 2011	Q1 2010
Revenues	369	742
Research and development expenses	-1,390	-2,483
General administrative and selling expenses	-1,441	-1,103
Net result for the period	-2,528	-2,871
Earnings per share in EUR for the period (basic)	-0.10	-0.12
Earnings per share in EUR for the period (diluted)	-0.10	-0.12
Cash flows from operating activities	-3,021	-3,480
Cash flows from investing activities	-3	-12
Cash flows from financing activities	454	-146
Change in cash and cash equivalents	-2,581	-3,634
Average number of group employees	26	29

	31 Mar. 2011	31 Dec. 2010
Intangible assets	10,126	10,571
Cash and cash equivalents	12,301	14,882
Equity	9,906	11,968
Non-current liabilities	10,007	10,482
Balance sheet total	24,056	26,836
Equity ratio	41.2%	44.6%

Interim Group Management Report for the Three-Month Period Ending 31 March 2011

Overview

- PAION in ongoing partnering discussions for out-licensing of Remimazolam and M6G
- Positioning of Solulin in the indications haemophilia and radiation injury

After the successful completion of the Phase IIb trial with Remimazolam at the end of 2010, the first quarter 2011 was focussed on the ongoing partnering discussions for the outlicensing of the programme. PAION is exploring partnering opportunities outside Japan to advance the development of Remimazolam preferably for multiple indications, as well as to prepare the subsequent commercialisation. As foreseen in the process, PAION is now in discussion with a selected number of interested parties. Among the interested companies are both globally operating pharmaceutical companies as well as companies having an interest only in either the US or EU market. PAION confirms its outlook from March 2011 that it expects to close a deal before year end 2011, with a greater likelihood during the second half of the year. After partnering, preparations for the further clinical development will continue in collaboration with the partner. In addition, PAION is preparing the production of the necessary clinical trial material for Phase III.

Regarding M6G PAION is currently in discussions on continuing the development together with several partners in regional deal structures.

Following the announcement of positive preclinical data in the indication haemophilia in December 2010, PAION has selected haemophilia as the new lead indication for Solulin. In the first quarter of 2011, further preclinical and ex vivo human safety and efficacy profiles were generated. In addition to the positioning in haemophilia, the potential for the use of the substance in radiation injury will be further evaluated.

The loss for the first three months of 2011 of KEUR -2,528 was KEUR 343 lower than in the corresponding prior-year period (KEUR -2,871). Revenues decreased compared to the prior-year period mainly due to the milestone achieved by Acorda in the prior-year period. Research and development expenses decreased considerably compared to the prior-year period. The decrease is mainly due to the Phase IIb study conducted with Remimazolam in the previous year. The main research and development focus in the first quarter 2011 was on Remimazolam and Solulin. General administrative and selling expenses increased compared to the prior-year period because of higher selling expenses in connection with partnering activities. Cash and cash equivalents decreased by KEUR 2,581 in the first three months 2011.

As of 31 March 2011 PAION's cash and cash equivalents amounted to EUR 12.3 million and the remaining equity facility amounted to EUR 13.2 million. The cash and cash equivalents and the expected cash inflows from a partial use of the equity facility secure a cash reach until the middle of 2012.

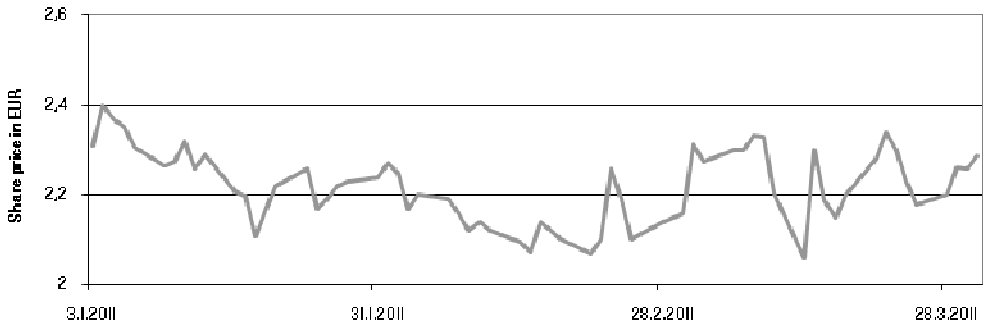
Capital Market Environment and PAION Share Performance

During the first quarter 2011 the stock markets were influenced by macroeconomic events of great importance. The political upheavals in North Africa and the Middle East as well as the natural disaster and the associated nuclear accident in Japan will have lasting effects. Whilst the broad market tended to move sideways in this difficult environment, the global biotechnology sector was not influenced and closed at an increase of 7%, as measured by the Nasdaq Biotechnology Index. For other life science indices the first quarter 2011 showed less change. The German comparative index DAXsubsector Biotechnology lost 1% during the first three months 2011.

In this environment, the PAION share started the year 2011 at a price of EUR 2.31 (Xetra) and on 4 January 2011 reached a closing price of EUR 2.40 (Xetra), marking a peak price in the first quarter of 2011. Thereafter the share price decreased slightly, reaching the lowest point for the first three months of 2011 on 15 February 2011 at EUR 2.07 (Xetra). The closing price on 31 March 2011 was EUR 2.29 (Xetra). This corresponds to an increase of 2% compared to the closing price of 2010 (EUR 2.24; Xetra).

The average daily trading volume (Xetra, Frankfurt Stock Exchange resp. all German Stock Exchanges) amounted to 58,548 shares during the first three months of 2011 (in the year 2010: 73,620 shares). Thereby 3.7 million shares (15% of total shares) were traded during the first three months of 2011 (in the year 2010: 18.8 million shares and 76% of total shares, respectively).

Development of the PAION Share Price (Xetra) in the Three-Month Period Ending 31 March 2011



Overview of Research and Development Activities

Remimazolam

Remimazolam is an innovative short-acting general anaesthetic/sedative that is being developed by PAION initially for use in minor medical interventions (procedural sedation). Sedatives are used, for example, in endoscopic procedures such as colonoscopies. After intravenous administration to over 300 human volunteers/patients in the course of the clinical trials performed, Remimazolam has clearly shown a controllable sedative effect with rapid onset and offset. This means that the patient can be selectively sedated for the duration of the intervention and rapidly regains full consciousness after the procedure. The rapid offset of the effect of the substance is due to its metabolism by tissue esterase enzymes that are widely distributed throughout the body.

Remimazolam is currently being developed by PAION as a sedative agent for day case procedures. It has additional potential in the induction and maintenance of anaesthesia, which is the initial indication being developed by PAION's partner Ono Pharmaceutical Co., Ltd. (Ono) for the Japanese market. Furthermore, Remimazolam could also be used as a sedative during artificial respiration in the Intensive Care Unit (ICU).

Clinical Development

The clinical studies performed with Remimazolam comprise two Phase I and two Phase II studies with single or multiple dose without an intervention or during endoscopy of the upper gastrointestinal tract or the colon.

The generated data indicate a good tolerability of Remimazolam. The effect of Remimazolam can be reversed by the benzodiazepine antagonist Flumazenil. A rapid onset and offset of the sedative effect was observed during the procedures. It was also shown that it is possible to achieve the same (safety) or better (efficacy) results as compared to a single dose of the gold standard Midazolam with a single dose of Remimazolam. Furthermore, an adequate sedation level can be maintained for 30 minutes with a multiple dose regimen. This time period is usually required to perform a colonoscopy if an additional intervention is required (e.g. removal of one or more polyps). A routine, purely diagnostic colonoscopy takes approximately 10–15 minutes.

Based on the results of the Phase IIb study, the optimal dose regimens for Phase III studies can now be defined.

Cooperation Agreements

In 2007 Ono was granted the rights to develop and market Remimazolam for the Japanese market in return for development milestone payments and royalties. Ono is developing Remimazolam in indications where continuous infusion is needed, whereas PAION initially concentrates on indications requiring single or repeated bolus dosing to sedate patients for short procedures. In this co-operation, data and information are continually shared so that each party benefits from the development progress of the other party.

With the additional data the progress that has been made will help to support and accelerate the development of Remimazolam for the indications anaesthesia and ICU sedation in the PAION territories.

PAION is exploring partnering opportunities outside Japan to advance the development of Remimazolam, preferably for multiple indications, as quickly as possible as well as to prepare for subsequent commercialisation.

Morphine-6-glucuronide

Morphine-6-glucuronide (M6G), a highly potent opiate, demonstrated a strong analgesic effect in clinical Phase II and Phase III studies in the treatment of moderate to severe peri-operative pain. At the same time common opiate side effects, such as nausea and vomiting, were significantly reduced with M6G as compared to morphine.

Clinical Development

PAION has performed various in-depth analyses of the available clinical data. The results support PAION's view that M6G has a wider therapeutic window than morphine at equi-analgesic dosages with a lower incidence of post-operative nausea and vomiting. Based on these findings a development plan has been agreed with the FDA for this New Chemical Entity, i.e. a novel, distinct substance. This improves the potential profitability for potential pharma partners as it provides the prospect for longer market exclusivity. The aim of the remaining Phase III programme is to prove that M6G causes significantly less post-operative nausea and vomiting compared to equi-analgesic doses of morphine.

Cooperation Agreements

The intellectual property rights for M6G are based on PAION's own development activities as well as rights acquired from third parties. In connection with this third party intellectual property, PAION has success-related obligations in the form of milestones and royalties.

Despite the positive results of the in-depth re-analysis and the encouraging FDA consultation PAION has so far not been able to conclude a global partnership for M6G. Currently PAION is in discussions on continuing the development together with several partners in regional deal structures.

Desmoteplase

Desmoteplase is a recombinant protein (a so-called plasminogen activator) derived from the saliva of the vampire bat, Desmodus rotundus, which is intravenously administered to dissolve blood clots. It is currently being developed for the treatment of acute ischaemic stroke. The treatment is being carried out in a timeframe of three to nine hours post onset of stroke symptoms – a time window for which there currently is no approved drug treatment.

Clinical Development

So far Desmoteplase has been tested in two Phase II studies and one Phase III study for the treatment of acute ischaemic stroke. In 2008 PAION's licence partner H. Lundbeck A/S (Lundbeck) took on the further development of Desmoteplase. In 2008 Lundbeck initiated a further Phase III development programme consisting of two comparable studies (DIAS-3 and DIAS-4). Furthermore, in 2010 Lundbeck initiated a Phase II study in Japan (DIAS-J).

Lundbeck reported that patient enrolment in the clinical Phase III programme with Desmoteplase experienced slow patient recruitment and several initiatives are ongoing in order to speed up recruitment (Lundbeck Quarterly Report Q1 2011). In its most recent guidance Lundbeck expects to file the market authorisation application by the end of 2012 (Lundbeck presentation at the SEB Nordic Seminar in January 2011).

Cooperation Agreements

PAION in-licensed Desmoteplase from Bayer AG (formerly Schering AG) in 2001 in return for milestone payments and royalties. Today Lundbeck holds the exclusive global rights for research, development, production and marketing of Desmoteplase. The licence agreement came into effect in 2008 and was extended in 2010, to include potential follow-up compounds. Under these agreements, Lundbeck agreed to undertake the following payments:

- Payment of a non-refundable amount of EUR 8 million upfront payment, on the date the agreement took effect (January 2008; disclosed as deferred income and being released proportionally over the probable development period),
- Payment of a non-refundable purchase price of EUR 1.5 million, on the date the extended agreement took effect (October 2010),
- Milestone payments for Desmoteplase of up to EUR 68 million, of which up to EUR 40 million relate to milestones due before and including market approvals (regional splitting) and in total EUR 28 million are due upon commencement of marketing activities and the achievement of specific revenue targets,
- Milestone payments for the second generation molecules (follow-on compounds) of up to EUR 25 million for development and commercialisation,
- Assumption of all costs, especially for clinical development, production development, patent costs and marketing approval,
- Payment of licence fees (dependent on revenues) which amount to a low double-digit percentage following the deduction of the licence fees PAION has to pay to the original licensor, Bayer AG.

PAION has reserved the option to co-promote Desmoteplase in Germany, Austria and Switzerland. If PAION decides to exercise this option it will receive a direct share of earnings rather than licence fees based on revenues.

Solulin

Solulin is an improved variant of the human protein thrombomodulin, an important natural regulator of the coagulation system. One function of thrombomodulin is the stabilisation of the haemostatic fibrin clot. In contrast to natural thrombomodulin, which is an integral protein of vascular membranes, Solulin can travel through the blood stream to reach its potential site of action.

In December 2010 positive preclinical data were reported for the indication haemophilia and PAION decided to select haemophilia as the new lead indication for Solulin. In an ongoing effort to support entering clinical development in this indication, further preclinical and ex vivo human safety and efficacy profiles were generated.

In addition to the positioning in the indication haemophilia, also the potential for use of the substance in radiation injury will be evaluated.

GGF2

GGF2 (Glial Growth Factor 2) is known to stimulate the growth and differentiation of a variety of cells including glial cells, the support cells of the nervous system. These glial cells form the myelin sheath that insulates nerve cells and is essential for their survival and proper functioning. In demyelinating diseases such as multiple sclerosis, the myelin sheath is damaged, leading to the degeneration of nerve cells.

In preclinical studies PAION's licence partner Acorda Therapeutics, Inc. (Acorda) demonstrated that GGF2 can stimulate the cell growth necessary to protect and regenerate a damaged myelin sheath. GGF2 is the lead neuregulin in Acorda's portfolio. Neuregulins have also shown the ability to restore cardiac function in preclinical models of heart failure caused by myocardial infarction, rapid pacing, viral and chemically induced cardiomyopathies.

In December 2010 Acorda announced the start of the first Phase I study. The early phase clinical research on GGF2 is funded by a USD 1 million Cardiac Translational Research Implementation Program (C-TRIP) grant awarded by the US National Heart, Lung and Blood Institute (NHLBI).

Cooperation Agreements

The rights relating to the recombinant GGF2, rh GGF2, were licensed to Acorda in 2002 by PAION UK. In total, further milestone payments of USD 2.5 million prior to market approval and an additional milestone payment of USD 5 million are due upon market authorisation; after that PAION will receive revenue dependent royalties.

Net Assets, Financial Position, and Results of Operations

Results of Operations

Revenues in the first quarter 2011 amounted to KEUR 369 and decreased by KEUR 373 (50.3%) compared to the prior-year period. The decrease is mainly due to the milestone achieved by Acorda in the prior-year period.

Research and development expenses amounted to KEUR 1,390 in the first quarter 2011. This means a decrease of KEUR 1,093 (44.0%) compared to the prior-year period.

General administrative and selling expenses amounted to KEUR 1,441 in the first quarter 2011. This means an increase of KEUR 338 (30.6%) compared to the prior-year period.

The loss for the first quarter of 2011 amounted to KEUR -2,528 meaning a decrease of KEUR 343 (11.9%) compared to the prior-year period.

	Q1 2011 KEUR	Q1 2010 KEUR
Revenues	369	742
Cost of revenues	0	-7
Gross profit	369	735
Research and development	-1,390	-2,483
General administrative and selling	-1,441	-1,103
Other income (expenses)	-2	15
Operating expenses	-2,833	-3,571
Operating result	-2,464	-2,836
Financial result	-143	-135
Income taxes	79	100
Net result for the period	-2,528	-2,871

Revenues in the first three months of 2011 as well as in the prior-year period relate in the amount of KEUR 364 to the systematic release of deferred income in connection with the licence agreement concluded with Lundbeck. The decrease of revenues compared to the prior-year period is mainly due to the milestone achieved by Acorda in the prior-year period (KEUR 365).

Research and development expenses of KEUR 1,390 in the first three months of 2011 decreased by KEUR 1,093 compared to the prior-year period. The decrease is mainly caused by the Phase IIb study conducted with Remimazolam in the previous year. The main research and development focus in the first quarter 2011 was on Remimazolam and Solulin.

General administrative and selling expenses increased in the first three months of 2011 by KEUR 338 and amounted to KEUR 1,441. The increase results from higher selling expenses in connection with partnering activities.

The **financial result** for the first three months of 2011 remained at the prior-year period level and amounted to KEUR -143 (prior-year period: KEUR -135). The reduction in cash and cash equivalents compared to the prior-year period was compensated to a large extent by higher interest rates.

The **income taxes** are mainly attributable to tax claims for reimbursement of parts of the research and development costs from the British tax authorities.

Net Assets and Financial Position

The total assets as of 31 March 2011 decreased by KEUR 2,780 compared to 31 December 2010 and amounted to KEUR 24,056. The decrease was mainly due to a lower equity through the loss of the period and lower cash and cash equivalents. As of 31 March 2011 the equity ratio is 41.2%, which means a decline compared to 31 December 2010 (44.6%). If the subordinate loan and the deferred non-refundable upfront payment from Lundbeck were recognised as economic equity, the equity ratio would increase to 83.5%.

	31 Mar. 2011 KEUR	31 Dec. 2010 KEUR	Change KEUR
Non-current assets	10,310	10,768	-458
Current assets	13,746	16,068	-2,322
Total Assets	24,056	26,836	-2,780
Equity	9,906	11,968	-2,062
Non-current liabilities	10,007	10,483	-476
Current liabilities	4,143	4,385	-242
Total Equity and liabilities	24,056	26,836	-2,780

The **non-current assets** mainly comprise the development projects M6G (KEUR 6,131) and Remimazolam (KEUR 3,933).

The KEUR 2,322 decrease in **current assets** is mainly attributable to the decrease in cash and cash equivalents (KEUR 2,581). The change in cash and cash equivalents stems from the following areas:

	Q1 2011 KEUR	Q1 2010 KEUR
Cash flows from operating activities	-3,021	-3,480
Cash flows from investing activities	-3	-12
Cash flows from financing activities	454	-146
Effects of exchange rate changes	-11	4
Change in cash and cash equivalents	-2,581	-3,634

The cash flows from operating activities of KEUR -3,021 were mainly due to the loss of the period in the amount of KEUR -2,528.

The cash flows from financing activities in the first quarter of 2011 results from a capital increase of KEUR 600 in return for the issue of 287,092 new shares as well as from interest payments for the subordinated loan (KEUR -146).

The decrease of KEUR 476 in **non-current liabilities** is attributable to the proportionate release of the deferred income in connection with the licence agreement concluded with Lundbeck.

The decrease of KEUR 242 in **current liabilities** is mainly attributable to the decrease of trade payables as well as the decrease of other liabilities.

Personnel Development

On average, PAION employed 26 employees in the first three months of 2011 (fiscal year 2010: 28 employees).

Risks and Opportunities

Material risks and opportunities relating to future development are presented in detail in the group management report for fiscal year 2010 and have not changed significantly in the first quarter of 2011.

Significant Events Occurring After the Balance Sheet Date

As of 30 April 2011 Dr Gavin Kilpatrick has left the company. He had joined PAION with the acquisition of CeNeS in 2008 and in his role as Chief Scientific Officer was responsible for production, preclinical development, drug discovery, project management, and IP. He stepped down in order to concentrate on earlier stage development programs again, after Remimazolam is now Phase-III-ready. Dr Wolfgang Söhngen, PAION's CEO, and Dr Mariola Söhngen, PAION's CMO, will take over his responsibilities in the future.

Outlook

PAION's major goals for 2011 are the out-licensing of Remimazolam, the production of Remimazolam study medication in preparation of a Phase III study programme, the out-licensing of M6G as well as further development of Solulin. Furthermore, PAION expects in 2011 extensive development activities by the cooperation partners Lundbeck (Desmoteplase), Ono (Remimazolam) and Acorda (GGF2).

PAION confirms its outlook from March 2011. Based on the results of the Phase IIb study PAION intends to out-license the development and marketing rights for Remimazolam (outside Japan) in 2011, with a greater likelihood during the second half of the year. From this PAION expects to receive a substantial upfront payment, development milestone payments, a partial or complete assumption of future development costs until market approval and royalties from market approval onwards. Cooperation partner Ono started the first clinical Phase I study in Japan in 2010. PAION benefits from the progress of development in the form of additional development data and benefits financially in the form of milestone payments and royalties from launch onwards. Triggered by the progress of the programme, a modest milestone payment may become due in 2011.

Cooperation partner Lundbeck is currently conducting two Phase III studies with Desmoteplase in stroke and expects to file marketing applications in 2012. Lundbeck bears all development costs and pays to PAION milestones of up to EUR 68 million, thereof up to EUR 40 million are due before and including market approvals, and from market entry a double-digit percentage revenue share. If the further development is successful, based on Lundbeck's development plan, further milestone payments can be expected in 2012.

Acorda started a clinical Phase I study with GGF2 at the end of 2010. Milestone payments of up to USD 7.5 million before and including approval, and thereafter revenue-dependent licence fees are payable to PAION.

Revenues in 2011 will include, just as last year, the monthly release of deferred income in the amount of EUR 1.5 million. This results from the non-refundable milestone payment of EUR 8 million received in 2008 from Lundbeck. From the existing licence agreements noted above, further milestone payments may become due if the development activities of our partners are successful. Furthermore, PAION expects revenues in 2011 from the intended out-licensing, in a substantial amount for Remimazolam and in a smaller amount from M6G.

Research and development expenses are expected to be lower than the previous year but could increase if out-licensing is successful, either in connection with the out-licensing or by investing in other programmes. The out-licensing activities will presumably lead to

increased selling expenses compared to previous years, especially in connection with consulting services and success fees.

The budgeted expenses will lead to a significant net loss in 2011 which may be reduced by milestone payments from PAION's partners in case of successful development. A successful out-licensing of Remimazolam and M6G could lead to a further sustainable improvement of the results.

In 2011 and thereafter PAION expects significant cash inflows from the existing cooperations with Lundbeck (a total of up to EUR 68 million for the development of Desmoteplase), Ono (development of Remimazolam in Japan), Acorda (a total of up to USD 7.5 million for the development of GGF2) as well as from the intended licence agreements. Part of these expected milestone payments may be realised in 2011 and 2012. Some of the milestone payments, which are expected in the future are linked to milestone obligations for PAION, which would accordingly reduce the result.

As of 31 March 2011 PAION's cash and cash equivalents amounted to EUR 12 million and the remaining equity facility amounted to EUR 13 million. The cash and cash equivalents and the expected cash inflows from a partial use of the equity facility, secure a cash reach until the middle of 2012. This does not account for further cash inflows from existing and future partners. Further upfront payments, milestone payments and cost reimbursements or a use of the equity facility could expand the cash reach, but may also be used fully or in part for funding of additional development activities within the existing portfolio or new strategic investments, e.g. the acquisition of new substances.

Aachen, Germany, 11 May 2011
PAION AG

Dr Wolfgang Söhngen	Bernhard Hofer	Dr Mariola Söhngen

Consolidated Interim Financial Statements

PAION AG

Consolidated Balance Sheet

ASSETS	31 Mar. 2011 EUR	31 Dec. 2010 EUR
Non-current assets		
Intangible assets	10,125,776.56	10,571,204.23
Equipment	184,057.83	196,223.77
Other assets	13.96	2.32
	10,309,848.35	10,767,430.32
Current assets		
Trade receivables	17,842.97	11,129.16
Prepaid expenses and other assets	1,427,073.19	1,175,118.30
Cash and cash equivalents	12,301,199.86	14,881,933.89
	13,746,116.02	16,068,181.35
Total assets	**24,055,964.37**	**26,835,611.67**

EQUITY AND LIABILITIES	31 Mar. 2011 EUR	31 Dec. 2010 EUR
Equity		
Share capital	25,360,776.00	25,073,684.00
Capital reserve	90,142,779.95	89,737,457.61
Translation reserve	-1,368,919.05	-1,142,438.22
Loss carryforward	-101,700,303.98	-92,446,174.58
Loss for the period	-2,527,980.56	-9,254,129.40
	9,906,352.36	11,968,399.41
Non-current liabilities		
Provisions	1,227,792.24	1,346,019.96
Financial liabilities	6,902,717.31	6,893,418.03
Deferred income	1,876,515.18	2,242,929.32
	10,007,024.73	10,482,367.31
Current liabilities		
Trade payables	1,550,630.53	1,835,290.75
Provisions	909,317.29	676,707.55
Other current liabilities	216,982.90	407,190.09
Current portion of deferred income	1,465,656.56	1,465,656.56
	4,142,587.28	4,384,844.95
Total equity and liabilities	**24,055,964.37**	**26,835,611.67**

Consolidated Statement of Comprehensive Income

EUR	1 Jan. – 31 Mar. 2011	1 Jan. – 31 Mar. 2010
Revenues	368,763.78	741,879.92
Cost of revenues	0.00	-7,155.36
Gross profit	368,763.78	734,724.56
Research and development expenses	-1,390,227.65	-2,482,699.31
General administrative and selling expenses	-1,440,931.55	-1,103,084.24
Other income (expenses), net	-1,643.86	15,381.64
Operating expenses	-2,832,803.06	-3,570,401.91
Operating result	-2,464,039.28	-2,835,677.35
Financial income	25,580.28	21,562.06
Financial expenses	-168,673.47	-156,619.40
Financial result	-143,093.19	-135,057.34
Loss for the period before taxes	-2,607,132.47	-2,970,734.69
Income taxes	79,151.91	99,877.66
Loss for the period	-2,527,980.56	-2,870,857.03
of which attributable to other shareholders	0.00	0.00
of which attributable to shareholders of PAION	-2,527,980.56	-2,870,857.03
Foreign currency translation of subsidiaries	-226,480.83	-18,161.96
Other comprehensive income	-226,480.83	-18,161.96
Total comprehensive income	-2,754,461.39	-2,889,018.99
of which attributable to other shareholders	0.00	0.00
of which attributable to shareholders of PAION AG	-2,754,461.39	-2,889,018.99
Earnings per share (basic)	-0.10	-0.12
Earnings per share (diluted)	-0.10	-0.12

Consolidated Cash Flow Statement

EUR	1 Jan. – 31 Mar. 2011	1 Jan. – 31 Mar. 2010
Cash flows from operating activities:		
Net result for the period	-2,527,980.56	-2,870,857.03
Reconciliation of net result for the period to cash flows from operating activities:		
Amortization/depreciation and non-cash exchange rate changes of fixed assets	461,468.26	260,180.44
Loss/Profits from the disposal of non-current assets	-1,253.00	0.00
Interest expenses and interest income	143,093.19	135,057.34
Release of deferred income	-366,414.14	-372,870.82
Expenses from stock option plans	108,309.52	87,127.45
Change in assets and liabilities which are not attributable to investing or financing activities:		
Trade receivables	-6,713.81	-330,581.86
Prepaid expenses and other assets	-268,571.26	-137,779.25
Trade payables	-284,660.23	-48,369.67
Provisions	100,438.87	-125,276.21
Other current liabilities	-190,207.20	-77,836.44
Non-cash exchange losses/gains	-215,245.80	-22,005.50
	-3,047,736.16	-3,503,211.55
Interest received	26,429.47	23,505.40
Cash flows from operating activities	-3,021,306.69	-3,479,706.15
Cash flows from investing activities:		
Cash paid for investments in intangible assets and equipment	-3,876.59	-12,085.23
Cash received from the sale of intangible assets and equipment	1,255.00	0.00
Cash paid for investments	-11.70	0.00
Cash flows from investing activities	-2,633.29	-12,085.23
Cash flows from financing activities:		
Capital increase	287,092.00	0.00
Contributions to the capital reserve	312,908.00	0.00
Interest paid	-145,559.09	-145,757.68
Cash flows from financing activities	454,440.91	-145,757.68
Change in cash and cash equivalents	-2,569,499.07	-3,637,549.06
Effect of exchange rate changes on cash	-11,234.96	3,835.40
Cash and cash equivalents at beginning of the period	14,881,933.89	22,871,407.20
Cash and cash equivalents at end of the period	**12,301,199.86**	**19,237,693.54**
Composition of cash and cash equivalents at the end of the period:		
Cash and cash equivalents	12,301,199.86	19,237,693.54

Consolidated Statement of Changes in Equity

EUR	Share capital	Capital reserve	Translation reserve	Loss carryforward	Equity
31 December 2009	24,602,919.00	88,639,947.78	-1,492,295.41	-92,446,174.58	19,304,396.79
Total comprehensive income	0.00	0.00	-18,161.96	-2,870,857.03	-2,889,018.99
Additional contribution to the capital reserve due to the issue of options	0.00	87,127.45	0.00	0.00	87,127.45
31 March 2010	24,602,919.00	88,727,075.23	-1,510,457.37	-95,317,031.61	16,502,505.25
Total comprehensive income	0.00	0.00	368,019.15	-6,383,272.37	-6,015,253.22
Issue of shares	470,765.00	0.00	0.00	0.00	470,765.00
Contribution to the capital reserve	0.00	687,845.00	0.00	0.00	687,845.00
Cost of raising capital	0.00	-30,693.87	0.00	0.00	-30,693.87
Additional contribution to the capital reserve due to the issue of options	0.00	353,231.25	0.00	0.00	353,231.25
31 December 2010	25,073,684.00	89,737,457.61	-1,142,438.22	-101,700,303.98	11,968,399.41
Total comprehensive income	0.00	0.00	-226,480.83	-2,527,980.56	-2,754,461.39
Issue of shares	287,092.00	0.00	0.00	0.00	287,092.00
Contribution to the capital reserve	0.00	312,908.00	0.00	0.00	312,908.00
Cost of raising capital	0.00	-15,895.18	0.00	0.00	-15,895.18
Additional contribution to the capital reserve due to the issue of options	0.00	108,309.52	0.00	0.00	108,309.52
31 March 2011	**25,360,776.00**	**90,142,779.95**	**-1,368,919.05**	**-104,288,284.54**	**9,906,352.36**

Selected Explanatory Notes to the Consolidated Interim Financial Statements as of 31 March 2011

General

The quarterly report of PAION AG includes interim consolidated financial statements and an interim group management report in accordance with the provisions of Secs. 37x (3) and 37w (2) to (4) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] in conjunction with Sec. 37y WpHG. The consolidated financial statements were prepared in accordance with the provisions of the International Financial Reporting Standards (IFRSs) for interim financial reporting. The interim group management report was prepared in accordance with the relevant provisions of the German Securities Trading Act.

The interim consolidated financial statements comprise PAION AG as the parent company, registered at Martinstrasse 10-12, 52062 Aachen, Germany, and the wholly-owned subsidiaries, which are fully consolidated:

- PAION Deutschland GmbH, Aachen/Germany
- PAION Holdings UK Ltd, Cambridge/UK
- PAION UK Ltd, Cambridge/UK
- CeNeS Drug Delivery Ltd, Cambridge/UK
- TheraSci Limited, Cambridge/UK
- CeNeS Pharmaceuticals Inc., Norwood/USA

Basis of Accounting

The interim consolidated financial statements have been prepared in accordance with Sec. 315a HGB ["Handelsgesetzbuch": German Commercial Code] and IFRSs, as adopted by the EU, and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). All IFRSs issued by the International Accounting Standards Board (IASB), London, UK, which were effective as of the balance sheet date of 31 March 2011 and applied by PAION, were adopted by the European Commission for application in the EU.

The provisions of IAS 34, "Interim Financial Reporting", have been applied. The interim financial statements as of 31 March 2011 should be read in conjunction with the consolidated financial statements as of 31 December 2010.

The preparation of interim consolidated financial statements in accordance with IFRSs requires management to make estimates and assumptions which have an effect on the amount of recognised assets and liabilities, income and expenses and contingent liabilities. Actual amounts may differ from these estimates.

The interim consolidated financial statements do not contain any segment information as no material reportable segments could be identified.

Consolidation Principles

The consolidation principles used in the interim consolidated financial statements as of 31 March 2011 were the same as those used in the consolidated financial statements as of 31 December 2010.

Foreign Currency Translation

The consolidated financial statements are shown in Euro, which is the functional currency of PAION AG and the reporting currency of the Group. Each company within the Group defines its own functional currency. This is the Euro in the case of the German companies, whereas the UK-based companies use Pound Sterling as their functional currency. All items on the respective financial statements of each company are initially converted to the functional currency at the exchange rate applicable on the transaction date. Monetary assets and liabilities denominated in a foreign currency are converted to the functional currency on the reporting date at the exchange rate applicable on that date. All ensuing currency differences are recognised in profit or loss with the exception of exchange rate gains and losses from intra-Group loans classified in accordance with IAS 21 as net investments in foreign business operations; these are recognised in equity.

The assets and liabilities of the foreign companies are converted to Euro on the balance sheet reporting date at the exchange rate applicable on that date. These include all goodwill in connection with the acquisition of a foreign company and all fair value adjustments to the book values of the foreign company's assets and liabilities. Equity

components are converted to Euro at historical rates at the time of initial consolidation. Expenses and income are converted to Euro at average monthly exchange rates. The resulting currency differences are accounted for separately within equity.

Accounting Policies

The accounting policies used in the interim consolidated financial statements as of 31 March 2011 were the same as those used in the consolidated financial statements as of 31 December 2010.

Share Capital

On 28 March 2011 PAION resolved the issue of 287,092 new shares by using the equity facility in return for a cash contribution of EUR 600,000. The cash receipt was on 29 March 2011; the new shares were registered on 1 April 2011. As of 31 March 2011 PAION reports the new shares as share capital (KEUR 287) and capital reserve (KEUR 313).

Tax Effects on Other Comprehensive Income

Because of the negative results of the PAION Group and the existing tax losses carried forward no income taxes are being paid at the moment. In the reporting period the Other Comprehensive Income (foreign currency translation of foreign subsidiaries) does not have any tax effects.

Related Parties

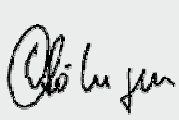
On 8 February 2011 PAION concluded a know-how and licence agreement relating to the COMT programme with Mofo Thirty-Eight Limited. Under this programme, which PAION took into its portfolio in connection with the CeNeS acquisition in 2008, potential COMT inhibitors for Parkinson's disease were explored. Since the programme was not part of PAION's strategy, it was not further developed after the CeNeS acquisition as no lead structure was available. Alan Goodman, member of the Supervisory Board of PAION AG, holds 90% of Mofo Thirty-Eight Limited and PAION AG holds 10% of Mofo Thirty-Eight Limited. The spin-off is expected to facilitate funding for further development independently of PAION. PAION participates in future income via a revenue share.

Beyond that the relationships with related parties have not changed in comparison to those applied in the consolidated financial statements as of 31 December 2010.

Significant Events Occurring After the Balance Sheet Date

As of 30 April 2011 Dr Gavin Kilpatrick has left the company. He had joined PAION with the acquisition of CeNeS in 2008 and in his role as Chief Scientific Officer was responsible for production, preclinical development, drug discovery, project management, and IP. He stepped down in order to concentrate on earlier stage development programs again, after Remimazolam is now Phase-III-ready. Dr Wolfgang Söhngen, PAION's CEO, and Dr Mariola Söhngen, PAION's CMO, will take over his responsibilities in the future.

Aachen, Germany, 11 May 2011
PAION AG



Dr Wolfgang Söhngen

Bernhard Hofer

Dr Mariola Söhngen

Review Report

To PAION AG, Aachen:

We have reviewed the interim condensed consolidated financial statements, comprising the balance sheet, statement of comprehensive income, cash flow statement, statement of changes in equity and selected explanatory notes, and the interim group management report of PAION AG, Aachen, for the period from January 1, 2011 to March 31, 2011 which are part of the quarterly financial report pursuant to SEC 37x (3) WpHG ["Wertpapier-handelsgesetz": German Securities Trading Act]. The preparation of the interim condensed consolidated financial statements in accordance with the IFRSs on interim financial reporting as adopted by the EU and of the group management report in accordance with the requirements of the WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] applicable to interim group management reports is the responsibility of the Company's Management. Our responsibility is to issue a report on the interim condensed consolidated financial statements and the interim group management report based on our review.

We conducted our review of the interim condensed consolidated financial statements and the interim group management report in accordance with German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW) and additionally in accordance with the International Standard on Review Engagements "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (ISRE 2410). Those standards require that we plan and perform the review to obtain a certain level of assurance in our critical appraisal to preclude that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the WpHG. A review is limited primarily to making inquiries of company personnel and applying analytical procedures and thus does not provide the assurance that we would obtain from an audit of financial statements. In accordance with our engagement, we have not performed a financial statement audit and, accordingly, we do not express an audit opinion.

Based on our review nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IFRSs on interim financial reporting as adopted by the EU and that the interim group management report has not been prepared, in all material respects, in accordance with the provisions of the WpHG applicable to interim group management reports.

Cologne, Germany, 11 May 2011
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

(s) Ueberschär	(s) Galden
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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