

Independent auditor's report

To: the shareholders and Board of Directors of InflaRx N.V.

Report on the audit of the financial statements 2020 included in the annual report

Our opinion

We have audited the financial statements for the year ended 31 December 2020 of InflaRx N.V. based in Amsterdam, The Netherlands.

The financial statements comprise the consolidated and company financial statements.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of InflaRx N.V. as at 31 December 2020 and of its result and its cash flows for 2020 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying company financial statements give a true and fair view of the financial position of InflaRx N.V. as at 31 December 2020 and of its result for 2020 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

- The consolidated statement of financial position as at 31 December 2020
- The following statements for 2020: the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows
- The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- The balance sheet as at 31 December 2020
- The company only profit and loss account for 2020
- The notes comprising a summary of the accounting policies and other explanatory information

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing.

Our responsibilities under those standards are further described in the Our responsibilities for the audit of the financial statements section of our report.

We are independent of InflaRx N.V. in accordance with the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Our understanding of the business

InflaRx N.V. is a clinical-stage biopharmaceutical group focused on the development of monoclonal antibodies for application in life-threatening inflammatory diseases. The group is structured in components and we tailored our group audit approach accordingly. We paid specific attention in our audit to a number of areas driven by the operations of the group and our risk assessment.

We start by determining materiality and identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud, non-compliance with laws and regulations or error in order to design audit procedures responsive to those risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

During initial audit engagements we need to gain sufficient knowledge about the Company, its business, control environment and application of accounting principles in order to perform our initial audit risk assessment and planning of audit activities. We have been in contact with the predecessor auditor and have performed review procedures on their audit file. During 2020 we have had regular meetings with management and assessed key audit matters at an early stage.

In 2020 and 2021 we were forced to perform our procedures to a greater extent remotely due to the COVID-19 measures. This limits our observation and increases the risk of missing certain signals. In order to compensate for the limitations related to physical contact and direct observation, we performed alternative procedures to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Materiality

Materiality	€1,000,000
Benchmark applied	3% of Total Operating Expenses
Explanation	InflaRx is a clinical-stage biopharmaceutical Group that does not yet generate revenues. Operating expenses is the key activity-based measure that is relevant for the users of the financial statements as the company is currently in its research and development phase.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the board of directors that misstatements in excess of €50,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of the group audit

InflaRx N.V. is at the head of a group of components. The financial information of this group is included in the consolidated financial statements of InflaRx N.V.

Because we are ultimately responsible for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect we have determined the nature and extent of the audit procedures to be carried out for group components. Decisive were the size and/or the risk profile of the group components or operations. On this basis, we selected group components for which an audit or review had to be carried out on the complete set of financial information or specific items.

Our group audit mainly focused on significant group components. The group consists of three components. Of these three components, we identified two as significant components and we performed full-scope audit procedures on these components. These components are significant in size and likelihood of material misstatements. For the remaining component, we performed review procedures on aggregated level. This component is insignificant in size and likelihood of material misstatements.

Because of the (international) travel restrictions and social distancing due to the COVID-19 pandemic, we needed to restrict or have been unable to visit management and/or component auditors to discuss, among others, the business activities and the identified significant risks or to review and evaluate relevant parts of the component auditor's audit documentation and to discuss significant matters arising from that evaluation on site. In these extraordinary circumstances we predominantly used communication technology and written information exchange in order to obtain sufficient and appropriate audit evidence.

In total these procedures represent 99% of the group's total assets, 90% of the operating expenses and 93% of the loss for the period.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the consolidated financial statements.

Teaming, use of specialists and internal audit

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a listed client in the biopharmaceutical industry. We included specialists in the areas of IT audit, forensics, and income tax and have made use of our own experts in evaluating compliance with IFRS with regard to accounting for share based payment instruments, particularly regarding the selection of appropriate forfeiture rates.

Our focus on fraud and non-compliance with laws and regulations

Our responsibility

Although we are not responsible for preventing fraud or non-compliance and cannot be expected to detect non-compliance with all laws and regulations, it is our responsibility to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement, whether caused by fraud or error.

Non-compliance with laws and regulations may result in fines, litigation or other consequences for the company that may have a material effect on the financial statements.

Our audit response related to fraud risks

In order to identify and assess the risks of material misstatements of the financial statements due to fraud, we obtained an understanding of the entity and its environment, including the entity's internal control relevant to the audit and in order to design audit procedures that are appropriate in the circumstances. As in all of our audits, we addressed the risk of management override of internal control. We do not audit internal control per se for the purpose of expressing an opinion on the effectiveness of the company's internal control.

We considered available information and made enquiries of relevant executive directors and non-executive directors. As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic specialists.

In our process of identifying fraud risks, we considered whether the COVID-19 pandemic gives rise to specific fraud risk factors resulting from a dilution in the effectiveness of controls as a result of the general disruption associated with remote working, illness and workforce reductions and pressure to make emergency procurements, management overrides and workarounds becoming the norm and manual payments.

We evaluated the design and the implementation of internal controls that mitigate fraud risks. In addition, we performed procedures to evaluate key accounting estimates for management bias in particular relating to important judgment areas and significant accounting estimates as disclosed in Note 2.3 to the consolidated financial statements. We have also used data analysis to identify and address high-risk journal entries. Our audit procedures to address the assessed fraud risks did not result in a key audit matter.

We incorporated elements of unpredictability in our audit. We considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance. If so, we reevaluate our assessment of fraud risk and its resulting impact on our audit procedures.

Our audit response related to risks of non-compliance with laws and regulations

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the executive directors, reading minutes, inspection of compliance reports and performing substantive tests of details of classes of transactions, account balances or disclosures.

We also inspected lawyers' letters and correspondence with regulatory authorities and remained alert to any indication of (suspected) non-compliance throughout the audit. Finally we obtained written representations that all known instances of non-compliance with laws and regulations have been disclosed to us.

Going concern

We performed the following procedures in order to identify and assess the risks of going concern and to conclude on the appropriateness of management's use of the going concern basis of accounting. Management made a specific assessment of the company's ability to continue as a going concern and to continue its operations for at least the next twelve months.

We discussed and evaluated the assessment with management exercising professional judgment and maintaining professional skepticism, and specifically focusing on the process followed by management to make the assessment, management bias that could represent a risk, the impact of current events and conditions have on the company's operations and forecasted cash flows, with a focus on whether the company will have sufficient liquidity to continue to meet its obligations as they fall due.

We consider based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.

General audit procedures

Our audit further included among others:

- Performing audit procedures responsive to the risks identified, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures
- Evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matter to the board of directors. The key audit matter is not a comprehensive reflection of all matters discussed.

This matter was addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Accrued liabilities from Research and Development (R&D) projects and R&D expenses.

(Note 4.10 and Note 3.1 to the consolidated financial statements)

Risk	Third-party clinical research organizations (CROs) provide R&D services to the company. The total reported third-party service R&D expenses for CROs during the year amounted to €19,9 million. The R&D services provided by these parties are governed by detailed agreements and are typically performed over an extended period. Allocation of expenses to the appropriate reporting period based on the degree to which the underlying R&D services have been fulfilled involves judgement. The invoicing of services by CROs follow contractual billing schedules which may also include prepayments.
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Accrued liabilities from Research and Development (R&D) projects and R&D expenses.

(Note 4.10 and Note 3.1 to the consolidated financial statements)

	<p>As information on the fulfillment of the services by the third party service providers can occur several months following a reporting period, the company estimates the amount of R&D expenses to recognize for the reporting period, as well as related prepayments and accrued liabilities, as far as the information on the provided services by the CROs is not yet received.</p>
<p>Our audit approach</p>	<p>In order to address the identified risk, we obtained an understanding of the current R&D projects where the Company engaged third-party clinical research organizations (CROs). Furthermore, we obtained an understanding of the estimation process and the design of internal controls implemented in this process.</p> <p>We performed the following substantive audit procedures:</p> <ul style="list-style-type: none"> • We evaluated the appropriateness of the Group's accounting policies with regard to the accounting for the R&D projects • We selected R&D projects based on the phase of the projects, significance of activities during the financial year as well as the significance of the accrued future service fulfillment, for which we: <ul style="list-style-type: none"> • inquired of R&D project managers in order to understand the level of services fulfilled by CROs, particularly in Q4 2020, and evaluated the company's assessment for measuring fulfillment • obtained and assessed supporting documentation, including correspondence with CROs, of the degree to which the underlying research and development services have been fulfilled as of the end of the reporting period • evaluated whether the expenses, prepayments and accrued liabilities for these R&D projects were appropriately recognized based on underlying contracts, invoices and the estimated degree of fulfilled services. Our procedures include testing of the completeness and accuracy of the information produced by the entity and recalculation of schedules underlying the measurement of expenses, prepayments and accrued liabilities • We performed a search for unrecorded liabilities, whereby we analyzed significant purchase invoices received from and cash disbursements made to CROs following year-end, and evaluated proper period recognition of the related expenses and accrued liabilities • We assessed the adequacy of the company's disclosures included in note 3.1 and 4.10 on this matter in accordance with EU-IFRS
<p>Key observations</p>	<p>We consider the company's accounting policies appropriate. Furthermore, we did not identify any adjustments required to the accrued liabilities from R&D projects and related R&D expenses from inaccurate estimation of service fulfillment, nor additional disclosures required for fair presentation of the financial statements in accordance with EU-IFRS.</p>

Report on other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- The Dutch statutory board report
- Other information as required by Part 9 of Book 2 of the Dutch Civil Code

Based on the following procedures performed, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information as required by Part 9 of Book 2 of the Dutch Civil Code

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the Dutch statutory board report in accordance with Part 9 of Book 2 of the Dutch Civil Code, other information required by Part 9 of Book 2 of the Dutch Civil Code.

Description of responsibilities for the financial statements

Responsibilities of management and the board of directors for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. Management should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The board of directors is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgment and have maintained professional skepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. The Our audit approach section above includes an informative summary of our responsibilities and the work performed as the basis for our opinion.

Communication

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit.

We provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Eindhoven, 24 March 2021

Ernst & Young Accountants LLP

signed by J.R. Frentz