InflaRx N.V.
Amsterdam

Consolidated Financial Statements

InflaRx N.V. and subsidiary

Consolidated statements of comprehensive loss for the years ended December 31,

in € thousand	Note	2016	2017
Other income and expenses (net)	4	231	108
Research and development expenses	5	(5,278)	(14,415)
General and administrative expenses	6	(1,844)	(5,138)
Loss before interest and income taxes		(6,891)	(19,445)
Finance income		1	130
Finance costs		(2,049)	(4,923)
Finance costs (net)	8	(2,048)	(4,793)
Loss before income taxes		(8,939)	(24,238)
Income taxes	9	0	0
Loss for the period		**(8,939)**	**(24,238)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		1	0
Other comprehensive income for the period		**1**	**0**
Total comprehensive loss		**(8,938)**	**(24,238)**
Loss per common share in € (basic/diluted)	12	(3.8)	(2.6)

The notes are an integral part of these consolidated financial statements.

InflaRx N.V. and subsidiary

Consolidated statements of financial position as of December 31,

in € thousand	Note	2016	2017
ASSETS			
Non-current assets			
Intangible assets		5	41
Laboratory and office equipment		131	173
Financial assets		1	20
Total non-current assets		**137**	**234**
Current assets			
Other assets	10	264	696
Cash and cash equivalents	11	29,117	123,282
Total current assets		**29,381**	**123,979**
Total assets		**29,518**	**124,213**
EQUITY AND LIABILITIES			
Equity			
Issued capital		31	2,858
Other reserves	13	1,685	167,864
Accumulated deficit		(27,055)	(51,293)
Own shares		(350)	0
Total equity	12	**(25,689)**	**119,429**
Non-current liabilities			
Preferred shares	14	53,440	0
Deferred income		19	15
Provisions		2	2
Total non-current liabilities		**53,461**	**17**
Current liabilities			
Trade payables		1,534	4,464
Other liabilities, provisions		212	302
Total current liabilities		**1,746**	**4,767**
Total equity and liabilities		**29,518**	**124,213**

The notes are an integral part of these consolidated financial statements.

InflaRx N.V. and subsidiary

Consolidated statements of changes in equity for the years ended December 31,

in € thousand	Note	Issued capital	Capital reserve	Other reserves currency translation	Other reserves share-based payments	Accumulated deficit	Own shares	Total equity
Balance as of December 31, 2015 /January 1, 2016		**31**	**0**	**9**	**807**	**(18,116)**	**(350)**	**(17,619)**
Comprehensive loss								
Loss for the period		0	0	0	0	(8,939)	0	(8,939)
Total comprehensive loss		**0**	**0**	**0**	**0**	**(8,939)**	**0**	**(8,939)**
Recognition of equity-settled share-based payments	13				868			868
Balance as of December 31, 2016 /January 1, 2017	12	**31**	**0**	**9**	**1,675**	**(27,055)**	**(350)**	**(25,690)**
Comprehensive loss								
Loss for the period		0	0	0	0	(24,238)	0	(24,238)
Total comprehensive loss		**0**	**0**	**0**	**0**	**(24,238)**	**0**	**(24,238)**
Recognition of equity-settled share-based payments	13				4,550			4,550
Issue of share capital								
Issued shares	12	848	90,055					90,904
Transaction costs	12		(9,115)					(9,115)
Total issue of share capital		**848**	**80,941**	**0**	**0**	**0**	**0**	**81,789**
Liquidation of a subsidiary				(9)				(9)
Reorganization	12	1,979	80,698				350	83,026
Balance as of December 31, 2017	12	**2,858**	**161,639**	**0**	**6,226**	**(51,293)**	**0**	**119,429**

The notes are an integral part of these consolidated financial statements.

InflaRx N.V. and subsidiary

Consolidated statements of cash flows for the years ended December 31,

in € thousand	Note	2016	2017
Cash flow from Operations			
Loss before income taxes		(8,939)	(24,238)
Reconciliation from result before taxes to net cash flows			
Depreciation/amortization of intangible assets, laboratory and office equipment		33	71
Share based payment expense	13	868	4,550
Finance Income	8	(1)	(130)
Finance costs	8	2,049	4,923
other non-cash adjustments		(2)	24
Change in Provisions and Government Grants		(136)	(71)
Working capital adjustments			
Change in Trade payables and other liabilities		1,442	3,086
Change in other assets		(96)	(433)
Interest received	8	(0)	66
Interest paid	8	(212)	0
Cash flow from Operations		**(4,992)**	**(12,152)**
Cash flow from investing activities			
Cash outflow from the purchase of intangible assets, laboratory and office equipment		(53)	(149)
Cash outflow for the investment in non-current financial assets		0	(19)
Net cash flows used in investing activities		**(53)**	**(167)**
Financing activities			
Proceeds from issuance of stock	12	0	90,904
Transaction cost from issuance of stock	12	0	(9,115)
Proceeds from issuance of preferred shares	13	30,993	27,069
Share issue costs paid	14	(133)	(56)
Net cash flows from/(used in) financing activities		**30,860**	**108,801**
Effect of exchange rate changes		1	(2,317)
Change in cash and cash equivalents		**25,815**	**94,165**
Net change in cash and cash equivalents		**25,815**	**94,165**
Cash and cash equivalents at beginning of period		3,302	29,117
Cash and cash equivalents at end of period	11	**29,117**	**123,282**

The notes are an integral part of these consolidated financial statements.

InflaRx N.V. and subsidiary

Notes to the consolidated financial statements

(1) Reporting entity

InflaRx N.V. (in the following, “InflaRx” or the “Company”) is a Dutch public company with limited liability (naamloze vennootschap) with its corporate seat in Amsterdam, The Netherlands, and registered in the Commercial Register of The Netherlands Chamber of Commerce Business Register under CCI number 68904312. The Company’s registered office is at Winzerlaer Straße 2 in 07745 Jena, Germany.
The Company was formed on June 6, 2017 under the name Fireman B.V. with the legal form of a Dutch private company with limited liability (besloten vennootschap met beperkte aansprakelijkheid) for the purpose of becoming a holding company for InflaRx GmbH, a German private limited liability company formed in 2007 and registered in the Commercial Register of the Jena local court HRB 502149.

On November 8, 2017, in connection with InflaRx’s initial public offering in the fourth quarter of 2017, the Company executed a corporate reorganization whereby InflaRx N.V. became the holding company for InflaRx GmbH, which remains the principal operating subsidiary of InflaRx N.V. In the initial step of the corporate reorganization, existing preferred and common shareholders of InflaRx GmbH became a party to a notarial deed of issue pursuant to which they subscribed for new common shares of Fireman B.V. and agreed to contribute and transfer their shares in InflaRx GmbH to Fireman B.V. in consideration therefor. Upon consummation of the contribution and transfer, Fireman B.V. became the sole shareholder of InflaRx GmbH. In the final step of the corporate reorganization, the legal form of Fireman B.V. was converted into a Dutch public company with limited liability (naamloze vennootschap). The conversion resulted in a name change from Fireman B.V. to InflaRx N.V. The above steps are collectively referred to herein as the “corporate reorganization.”

On November 10, 2017, InflaRx N.V. completed the initial public offering of its common shares.
InflaRx N.V.’s common shares are listed on The NASDAQ Global Select Market under the symbol “IFRX.” InflaRx GmbH is a clinical-stage biopharmaceutical company focused on applying its proprietary technology to discover and develop first-in-class, potent and specific inhibitors of the complement activation factor known as C5a.

These consolidated financial statements of InflaRx comprise the Company and its subsidiary InflaRx GmbH, and, until September 12, 2017, InflaRx GmbH’s wholly-owned subsidiary InflaRx Inc., a Michigan corporation, which was dissolved on September 12, 2017 (together, the “Group”).

Fireman B.V. was founded as a new company by the shareholders of InflaRx GmbH for purposes of effecting the Company’s initial public offering and corporate reorganization. InflaRx N.V. is not considered to be a business according to IFRS 3. Consequently, the transaction is accounted for as a reorganization and not as a business combination. While InflaRx N.V. is the ultimate parent company, according to IFRS 3, InflaRx GmbH is treated as the acquirer of InflaRx N.V. (pursuant to a reverse acquisition). Therefore, the comparable financial results for fiscal year 2016 were not restated.

(2) Basis for preparing the consolidated financial statements

InflaRx N.V. became the sole shareholder of InflaRx GmbH through the contribution of the subsidiary’s shares by its existing shareholders in exchange of new shares issued by the Company. In a business combination, the acquirer is usually the entity that issues its equity interests. However, if a new entity was formed to issue equity interests to effect a business combination, the combining entity that existed before

the business combination shall be identified as the acquirer. Because InflaRx N.V. was formed for the purpose of becoming a holding company for InflaRx GmbH and subsequently consummated the public offering of its common shares, this transaction has characteristics of a ‘reverse acquisition’. Nevertheless, the accounting treatment for those transactions described in IFRS 3 is not applicable because InflaRx N.V. does not meet the definition of a business. Other IFRSs do not include any guidance which specifically apply to this transaction. Therefore, the Company’s management decided in accordance with IAS 8.10 to apply an accounting policy which is comparable to the treatment described in IFRS 3.B19 et subseq. for reverse acquisitions: Although being the legal acquirer, for accounting purposes InflaRx N.V. is identified as the acquiree and InflaRx is identified as the acquirer. The Group’s consolidated financial statements are a continuation of the financial statements of InflaRx GmbH with the exception that the accounting acquirer’s legal capital is adjusted to reflect the legal capital of the legal parent. InflaRx GmbH’s assets and liabilities are recognized and measured at their pre-reorganization carrying amounts. The assets and liabilities of InflaRx N.V. are measured in accordance with IFRS. Retained earnings reflect the balances of InflaRx GmbH before the transaction.

Statement of compliance
The consolidated financial statements of InflaRx N.V. have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and with Section 2:362(9) of the Netherlands Civil Code.

The consolidated financial statements were authorized for issuance by management on April 27, 2018.

Basis of measurement
The consolidated financial statements have been prepared on the historical cost basis except for certain financial assets and share-based payments that are measured at fair value, as required by IFRS. The Group did not opt to designate the outstanding preferred shares at fair value through profit or loss.

The assets and liabilities included in the consolidated financial statements are recognized and measured in accordance with the accounting policies and valuation methods described below.

Consolidation
The Company controls an entity when it has power over the investee, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A subsidiary is consolidated from the date on which control is transferred to the Company. It is deconsolidated from the date control ceases.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated.

Functional and presentation currency
These consolidated financial statements and the related notes are presented in thousands of Euro, which is also InflaRx N.V.’s functional currency.

(3) Accounting policies and valuation methods

The accounting policies and valuation methods set out below have been applied consistently to all periods presented in these consolidated financial statements.

Current and non-current distinction
InflaRx presents current and non-current assets and current and non-current liabilities as separate classifications in the statement of financial position. InflaRx classifies all investments in financial instruments held for trading or available-for-sale and assets expected to be recovered or liabilities to be settled within twelve months after the reporting period as current and all other amounts as non-current.

Foreign currency transactions
Transactions in a foreign currency are initially translated into the respective functional currency using the spot rate prevailing on the dates of the transaction. Monetary items which are not denominated in the functional currency are subsequently translated using the rate applicable at the end of the period. The resulting currency gains and losses are recognized directly in profit or loss.

Notes to the cash flow statement
The cash flow statement has been prepared using the indirect method for cash flows from operating activities. The cash disclosed in the cash flow statement is comprised of cash and cash equivalents. Cash comprises cash on hand and demand deposits. Cash equivalents are short-term bank deposits and money market investment funds and are not subject to a significant risk of changes in value. Interest paid and received is included in the cash from operating activities.

Research and development
Research expenses are recognized as expense when they are incurred. They comprise third party services, wages and salaries, cost of materials, depreciation and amortization of relevant equipment and intangibles as well as overhead.

Development expenses must be capitalized if the criteria of IAS 38 are met. In the periods presented, no development expenses were capitalized because management does not believe all the recognition criteria of IAS 38 had been met. This assessment is due to the general uncertainties in drug development and the unpredictability of regulatory requirements.

Intellectual property-related expenses for patents are part of the expenditure for the research and development projects. Therefore, registration expenses for patents are expensed when incurred as long as the research and development project concerned does not meet the criteria for capitalization.

Employee benefits

Short-term employee benefits
Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under a short-term cash bonus, if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Share-based payment transactions
The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with immediate vesting, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no reconciliation for differences between expected and actual outcomes.

Government grants
The Group receives certain government grants that support its research efforts in defined projects. These grants generally provide for reimbursement of approved costs incurred as defined in the respective grants. Income in respect of grants also includes contributions towards the costs of research and development. Income is recognized when costs under each grant are incurred in accordance with the terms and conditions of the grant and the collectability of the receivable is reasonably assured. Government grants relating to costs are deferred and recognized in the consolidated statement of comprehensive loss over the period to match them with the costs they are intended to compensate.

Government grants whose primary condition is that the Group purchase non-current assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

When the cash in relation to recognized government grants is not yet received, the amount is included as a receivable on the statement of financial position.

The Group recognizes income from government grants under ‘other income and expenses (net)’ in the consolidated statement other comprehensive loss.

Lease payments
Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Finance income and finance costs
Finance income is derived from interest-bearing financial assets, including cash equivalents. Interest income is recognized as it accrues using the effective interest method.

Finance costs comprise interest expense on preferred shares and cost of issuing preferred shares (see note 8, 14).

Intangible assets
Intangible assets mainly comprise acquired software. Intangible assets are initially measured at acquisition cost, including any directly attributable costs of preparing the asset for its intended use less accumulated amortization. Amortization begins when an asset is available for use and amortization is calculated using the straight-line method to allocate cost over the estimated useful lives. Software is amortized over 3 years.

The Group only owns intangible assets with a definite useful life.

The useful lives of intangible assets are reviewed at each reporting date. The effect of any adjustment to useful lives is recognized prospectively as a change of accounting estimate.

Laboratory and office equipment
Laboratory and office equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

All repairs and maintenance are charged to profit or loss during the financial period in which they are incurred, because they do not constitute a separate asset.

Depreciation on leasehold improvements and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:
Laboratory equipment: 3 to 13 years
Office equipment: 1 to 5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within ‘other income and expenses (net)’ in the consolidated statement of other comprehensive loss.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets
Cash and cash equivalents comprise cash balances, investments in money-market funds and bank deposits with original maturities of three months or less.

The investments in money-market funds that are traded in an active market or can be redeemed are classified as held for trading. These investments are stated at fair value at the end of each reporting period through profit or loss.

Financial liabilities
The Group's financial liabilities comprise trade and other payables and preferred shares. The Group initially recognizes non-derivative financial liabilities on the date that they are originated and measures them at amortized cost using the effective interest rate method. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Income taxes
Income taxes comprise current and deferred taxes. Current and deferred taxes are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive loss.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for temporary differences associated with assets and liabilities if the transaction which led to their initial recognition is a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are presented net if there is a legally enforceable right to offset.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Due to its stage of development, the Company does not report deferred tax assets on its consolidated statement of financial position.

Fair Value Measurement
All assets and liabilities, for which fair value is recognized in the consolidated financial statements, are organized in accordance with the following fair value hierarchy, based on the lowest level input parameter that is significant on the whole for fair value measurement:
Level 1 – Quoted prices in active markets for identical assets or liabilities.
Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the instrument, either directly (as prices) or indirectly (derived from prices).
Level 3 – Inputs for instruments that are not based on observable market data (unobservable inputs).

The carrying amount of all financial instruments other than preferred shares (see note 14) approximates their fair value.

Critical judgments and account estimates
The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

In preparing these financial statements, the critical judgments made by management in applying the Group's accounting policies involve the determination of the grant date fair value of share-based payment awards (see note 13) and the classification and measurement of preferred shares (see note 14).

New standards and interpretations applied for the first time
A number of amendments to standards and new or amended interpretations are effective for annual periods beginning on or before January 1, 2017, and have been applied in preparing these financial statements.

Standard/Interpretation	Effective date[1]
Amendments to IAS 7 *Disclosure Initiative*	January 1, 2017

[1] Shall apply for periods beginning on or after shown in the effective date column.

This amendment had no significant effect on the consolidated financial statements of the Group.

New standards and interpretations not yet adopted
The following standards, amendments to standards and interpretations are effective for annual periods beginning after December 31, 2017, and have not yet been applied in preparing these consolidated financial statements.

Standard/Interpretation	Effective date[1]
IFRS 15 *Revenue from Contracts with Customers*	January 1, 2018
IFRS 9 *Financial Instruments* (2014)	January 1, 2018
IFRS 16 *Leases*	January 1, 2019
Clarifications to IFRS 15 *Revenue from Contracts with Customers*	January 1, 2018
Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*	January 1, 2018
Amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*	January 1, 2018
Annual Improvements to IFRSs 2014-2016 Cycle	January 1, 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	January 1, 2018
IFRIC 23 Uncertainty over Income Tax Treatments	January 1, 2019

[1] Shall apply for periods beginning on or after shown in the effective date column.

The Group is required to adopt IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from January 1, 2018.

IFRS 15, Revenue from Contracts with Customers, replaces all current standards and interpretations

dealing with revenue recognition and introduces a five-step model to account for revenue. As the Group is currently not generating revenues, the Group may only be affected by IFRS 15 in the future when entering into collaborative arrangements or similar deals.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 further replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and ECLs. The Group’s assessment included an analysis to identify data gaps against current disclosures required and the Group is in the process of implementing the system changes that it believes will be necessary to capture the required data. Because the Group is currently holding only immaterial non-current financial assets, cash and cash equivalents, no trade receivables and no derivative financial instruments or financial liabilities, the impact of IFRS 9 is determined to be nil, except for additional disclosures that may be required.

IFRS 16 Leases replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. So far, the most significant impact identified is that the Group will recognize new assets and liabilities for its operating leases. As at December 31, 2017, the Group’s future minimum lease payments under non-cancellable operating leases amounted €0.7 million.

The actual impacts of adopting the standards at January 1, 2018 may change because the new accounting policies are subject to change until the Group presents its first consolidated financial statements that include the date of initial application.

The other new or amended standards and interpretations are also not expected to have a significant effect on the consolidated financial statements of the Group.

Notes to the consolidated statements of comprehensive loss

(4) Other income and expenses - net

in € thousand	2016	2017
Government grants	222	89
Others	16	26
Other income	**238**	**116**
Other expenses	**(7)**	**(8)**
Other income and expenses, net	**231**	**108**

(5) Research and development expenses

in € thousand	2016	2017
Third-party services	3,757	8,856
Personnel expenses	1,293	4,681
Legal and consulting fees	95	643
Cost of materials	27	55
Other expenses	105	181
Research and development expenses	**5,278**	**14,415**

(6) General and administrative expenses

in € thousand	2016	2017
Personnel expenses	1,134	2,948
Legal, consulting and audit fees	394	1,478
Other expenses	316	712
General and administrative expenses	**1,844**	**5,138**

(7) Employee benefits

The following table shows the items of employee benefits:

in € thousand	2016	2017
Wages and salaries	1,467	2,897
Share-based payment expenses	868	4,550
Social security expenses*	126	182
Employee benefits	**2,462**	**7,629**

* Employer's share of social security contributions

(8) Finance costs (net)

Finance costs (net) comprise the following items:

in € thousand	2016	2017
Finance income	1	130
Interest on preferred shares	(1,836)	(2,229)
Cost of issuing preferred shares	(193)	(345)
Unrealized FX-losses	(3)	(2,358)
Other finance costs	(17)	10
Finance costs	(2,049)	(4,923)
Finance costs (net)	**(2,048)**	**(4,793)**

(9) Income taxes

The Group did not incur any income tax. As of December 31, 2017 and 2016, temporary differences resulting from tax loss carryforwards or share-based payments have not been recognized as deferred tax assets as no sufficient probable future taxable profits or offsetting deferred tax liabilities are available.

A reconciliation between current income taxes recognized in profit or loss and the product of loss before tax multiplied by the Company's applicable tax rate is presented below:

in € thousand	2016	2017
Loss before taxes	(8,939)	(24,238)
Tax benefits at tax rate of 30.5%/31.2%	2,729	7,560
Tax losses for which no deferred tax asset was recognized	(2,729)	(7,560)
Income taxes	**0**	**0**

In Germany, InflaRx GmbH has tax losses carried forward of approximately €34.8 million (2016: €19.2 million) that are available indefinitely for offsetting against future taxable profits of that entity. InflaRx N.V. has tax losses to carry forward of approximately €7.7 million. Restrictions on the utilization of tax losses for InflaRx GmbH were mitigated through the Economic Growth Acceleration Act (Wachstumsbeschleunigungsgesetz). According to the provisions of this Act unused tax losses of a corporation as at the date of a qualified change in ownership are preserved to the extent they are compensated by an excess of the fair value of equity for tax purposes above its carrying amount of the Company. Deferred tax assets have not been recognized in respect of these losses as no sufficient taxable profits are expected.

Notes to the consolidated statements of financial position

(10)Other assets

in € thousand	31.12.2016	31.12.2017
Prepaid expenses	33	504
Government grants and other receivables	90	93
VAT receivables	128	27
Others	13	71
Other assets	**264**	**696**

Prepaid expenses in 2017 mainly attributable to €0.3 million deferred insurance cost.

(11)Cash and cash equivalents

in € thousand	31.12.2016	31.12.2017
Deposits held at banks	1,120	3,177
Money market funds	27,997	38,876
USD term deposits (1-60 days)	0	81,229
Cash and cash equivalents	**29,117**	**123,282**

(12)Equity

Issued capital / Reorganization

As of December 31, 2017, and following the corporate reorganization and the initial public offering, the issued capital of the Company of €2,857,452 is divided into 23,812,100 common shares with a nominal value of €0.12.

According to the articles of association of the Company, up to 55,000,000 common shares and up to 55,000,000 preferred shares with a nominal value of €0.12 per share are authorized to be issued. All shares are registered shares. No share certificates shall be issued.

In connection with InflaRx N.V.'s initial public offering in the fourth quarter of 2017, whereby 7,068,128 common shares were issued against gross proceeds of €90.9 million, the Company executed a corporate reorganization whereby InflaRx N.V. became the holding company for InflaRx GmbH, which was previously the Group's parent company and remains the principal operating subsidiary of InflaRx N.V. In the initial step of the corporate reorganization, the existing preferred and common shareholders of InflaRx GmbH became a party to a notarial deed of issue pursuant to which they subscribed for 16,743,972 new common shares of Fireman B.V., a newly incorporated Dutch private company with limited liability, and agreed to contribute and transfer their shares in InflaRx GmbH to Fireman B.V. in consideration therefor. Upon consummation of the contribution and transfer, Fireman B.V. became the sole shareholder of InflaRx GmbH. In the final step of the corporate reorganization, the legal form of Fireman B.V. was converted from a Dutch private company with limited liability to a Dutch public company with limited liability. The conversion resulted in a name change from Fireman B.V. to InflaRx N.V. The preferred and common shares of InflaRx GmbH were exchanged on a one-to-84 basis. The conversion of outstanding option awards into awards exercisable for common shares of InflaRx N.V. also occurred on a one-to-84 basis.

Reverse acquisition of InflaRx N.V. by InflaRx GmbH

According to IAS 32, all preferred shares were classified as liability. In connection with the corporate reorganization and the conversion of all preferred shares into common shares of InflaRx N.V., this liability was reclassified into equity.

Other reserves – currency translation
The translational reserve includes foreign currency differences arising from the translation of the financial statements of foreign operations. After InflaRx Inc. was dissolved in September 2017, the reserve was released to profit or loss.

Loss per common share
Loss per common share is calculated by dividing the loss of the period by the weighted average number of common shares outstanding during the period, adjusted for the reorganization (see note 2). The weighted number of common shares outstanding for fiscal year 2016 is 2,362,500 common shares and 9,410,524 common shares for fiscal year 2017.

(13)Share-based payments

2016 Option Plan
Under the Stock Option Plan 2016 Terms and Conditions, or the 2016 Plan, InflaRx GmbH granted rights to subscribe for InflaRx GmbH's common shares to directors, senior management and key employees. Prior to the initial public offering, the outstanding awards under the 2016 Plan covered an aggregate of 1,239,252 common shares and the exercise price for each outstanding award was €7.81 per share (in each case after giving effect to the corporate reorganization). Any additional awards available under the 2016 Plan lapsed upon the closing of the Series D financing in October 2017.

In conjunction with the corporate reorganization, all outstanding awards granted under the 2016 Plan vested and were converted into awards exercisable for common shares of InflaRx N.V. and were governed by the terms of the 2016 Plan. In addition, 533,820 outstanding awards granted in connection with the Company's Series B financing were converted into awards exercisable for common shares of InflaRx N.V. (in each case after giving effect to the corporate organization). The conversion of outstanding option awards into awards exercisable for common shares of InflaRx N.V. occurred on a one-to-84 basis. As a result of the accelerated vesting, the remaining fair value amount of all awards granted was expensed in the fourth quarter upon consummation of the initial public offering.

InflaRx GmbH was a private company with no active market for its shares. Therefore, the determination of fair values at the grant date of our share-based payment awards required significant judgment and involved the use of unobservable inputs which are defined as level 3 inputs in IFRS 13.

The fair value of stock options granted under the 2016 Plan has been measured using a hybrid method which considers the value of InflaRx as a whole and allocates it to the common shares and various tranches of preferred shares under an option-pricing model after considering the probabilities of various scenarios of an initial public offering or a future sale of the Company. The inputs used in the measurement of the fair value at grant date of the awards granted under the 2016 Plan were as follows.

Fair value of stock option in €	212
Fair value of common share in €	431
Exercise price in €	656
Volatility (weighted average)	63%
Expected life (range)	4.25 to 7 years
Dividend yield	-
Risk-free rate (range)	-0.33 to 0.17%

Expected volatility has been based on an evaluation of the historical and implied volatility of a peer group

of companies. The range of outcomes for the expected life of the instruments has been based on expectations on option holder behavior in the scenarios considered.

2017 long-term incentive plan

In conjunction with the closing of our initial public offering, we established a new omnibus plan, or the 2017 Plan, or LTI, with the purpose of advancing the interests of our shareholders by enhancing our ability to attract, retain and motivate individuals who are expected to make important contributions to us. The 2017 Plan governs issuances of equity incentive awards from and after the closing of our initial public offering. The initial maximum number of common shares available for issuance under equity incentive awards granted pursuant to the 2017 Plan equals 2,341,097 common shares. On January 1, 2021 and on January 1 of each calendar year thereafter, an additional number of shares equal to 3% of the total outstanding common shares on December 31 of the immediately preceding year (or any lower number of shares as determined by the board of directors) will become available for issuance under equity incentive awards granted pursuant to the 2017 Plan.

Plan administration

The 2017 Plan is administered by the Plan Committee. The Committee shall be appointed by the Board and shall consist of not less than three directors of the Board. The Board may designate one or more directors as a subcommittee who may act for the Committee if necessary to satisfy the requirements of this Section. The Committee may issue rules and regulations for administration of the Plan.

Eligibility

Equity incentive awards may be granted to our employees, non-employee directors, consultants or other advisors, as well as holders of equity compensation awards granted by a company that may be acquired by us in the future.

Awards

Equity incentive awards under the 2017 Plan may be granted in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards or other share-based awards. Stock options and stock appreciation rights will have an exercise price determined by the compensation committee but that is no less than fair market value of the underlying common shares on the date of grant.

Vesting period

The vesting conditions for grants under the equity incentive awards under the 2017 Plan will be set forth in the applicable award documentation. However, subject to the acceleration provisions under certain circumstances described below, awards (other than replacement awards) may not vest in full prior to the first anniversary of the grant date, with the exception that up to five percent of the shares available for issuance under the 2017 Plan may provide for alternative vesting conditions.

Termination of Service and Change in Control

In the event of a participant's termination of employment, the compensation committee may, in its discretion, determine the extent to which an equity incentive award may be exercised, settled, vested, paid or forfeited. In the event of a change in control of the company (as defined in the 2017 Plan), any then successor or surviving corporation may continue outstanding awards, or convert or substitute such awards for award or right with respect to the stock of the successor or surviving corporation, in which case, if a participant is terminated by the successor or surviving corporation without "cause" or for "good reason" (in each case, as defined in the 2017 Plan) within 24 months following the change in control, all equity incentive awards held by the participant will immediately vest. If any outstanding awards are not continued or converted following a change in control of the company, then such awards will immediately vest, and options and stock appreciation rights will become fully exercisable. In connection with a change of control, the compensation committee may, in its discretion, take a number of other actions, including accelerating the vesting of any equity incentive award or terminating or cancelling any equity incentive award for cash payment.

The fair value of options granted under the 2017 Plan program was determined using the Black-Scholes valuation model. As the Company's common shares are listed on the Nasdaq Global Select Market, the closing price of the common shares at grant date was used. Other significant inputs into the model are as follows (weighted average):

Fair value per share in USD	18.05
Exercise price in USD	18.05
Volatility expected	73.0%
Expected life (midpoint based)	4.9
Dividend yield expected	-
Risk-free rate (interpolated, US sovereign strips curve)	2.16%
Fair Value per option (in USD)	10.86
FX rate (EUR/USD) as of grant date	0.85
Fair Value per option (in EUR)	9.24

Expected volatility has been based on an evaluation of the historical and implied volatility of a peer group of companies The range of outcomes for the expected life of the instruments has been based on expectations on option holder behavior in the scenarios considered.

The number of share options under the 2017 Plan were as follows:

Granted in 2017	1,869,192
Forfeited	-
Outstanding at December 31, 2017	1,869,192
Thereof vested	0

The dividend yield has no impact due to the anti-dilution clause as defined in the LTI.

Expenses are determined based on the number of stock option granted within a tranche and the vesting period of a tranche. This implies two effects: (i) the more options granted within a tranche, the higher expense of a tranche, and (ii) the shorter the vesting period of a tranche, the higher expense of a tranche. For example, 33.33% of all stock options granted are allocated to the first tranche which vests over 1 year after the Grant Date, whereas 8.33% of all stock options granted are allocated to the ninth tranche which vests over 3 years.

Therefore the expenses recognized from the granted share options under the 2017 Plan will be €0.6 million in 2017 and are anticipated to be €11.3 million for 2018, €4.1 million for 2019 and €1.2 million for 2020, assuming that no fluctuation of staff occurs.

Other share-based awards

In 2016, InflaRx also established a share-based payment plan for its nonexecutive board members (the "Board Plan") and granted 484 shares of common stock. Grants under the Board Plan are not subject to service or performance conditions.

In prior years, InflaRx had granted to its managing directors and certain executive officers options to purchase common shares for a nominal price (the "2012 Plan"). Vesting of the awards for 5,114 common shares issued in 2012 was subject to non-market performance conditions comprising the achievement of milestones of development projects; all such awards were vested at December 31, 2016. 974 awards issued after 2012 to key employees required the completion of an initial public offering or other exit event as condition, which was waived in 2016, resulting in a vesting of all options.

In 2017and 2016, compensation expenses of €4.6 million and €0.9 million were recognized for all share-based payment awards, respectively.

None of the share-based payments awards were dilutive in determining earnings per share due to the

Company's net loss position.

(14)Preferred shares

InflaRx GmbH had issued voting preferred shares for cash to investors in several financing rounds to fund its development activities. The preferred shares did not contain a redemption feature. The preferred shareholders were entitled to a disproportionate share of the net assets of the Company in case of certain "exit events". These exit events included the insolvency, dissolution or liquidation of the Company, a sale of at least 50% of the shares or total assets of the Company, a merger or take-over or any other event pursuant to which the current shareholders own less than a majority of the voting rights in the Company or the combined entities or a reverse takeover by way of a share swap or merger. Upon the occurrence of an exit event, the preferred shares were entitled – prior to and in preference to the holders of common shares –to unpaid accreted dividends of 8% per annum on the issue price of the Series A preferred shares and 6% per annum on the issue prices of the Series B preferred shares and Series C preferred shares.

On July 21, 2016 InflaRx GmbH issued 47,246 Series C preferred shares for cash contributions of €30.9 million (after expenses). As of December 31, 2016, the carrying amount of preferred shares totaled €53.4 million including accrued intrest of €1.8 million. Further payments in relation to the Series C financing were received in March 2017. The carrying amount of the preferred shares at a certain date is determined as the amortized cost using the effective interest rate method based on the contractual cash flows of the instrument. The Company did not elect to recognize the preferred shares at fair value through profit or loss.

On October 12, 2017, InflaRx and its shareholders entered into an investment and adherence agreement with entities affiliated with RA Capital Management, LLC, Bain Capital Life Sciences Investors, LLC and Cormorant Asset Management LLC and certain funds and accounts managed or advised by subsidiaries of BlackRock, Inc., which are collectively referred to as the Series D investors, pursuant to which (1) InflaRx issued and sold in a private placement an aggregate of 27,555 Series D preferred shares to the Series D investors at a price per share of €927.92 (€11.05 after giving effect to the reorganization), for aggregate net cash proceeds to InflaRx (after expenses) of approximately €25.6 million and (2) certain existing shareholders of InflaRx agreed to sell their existing preferred shares to certain of the Series D investors, following which such existing preferred shares were converted into Series D preferred shares.

Upon the consummation of the corporate reorganization, the preferred shares were converted into common shares. Therefore the respective liability was reclassified from financial liabilities into equity (please also refer to note 12).

Other disclosures

(15)Contractual obligations and commitments

The table below sets forth the contractual obligations as of December 31, 2017:

in € thousand	2017
Within one year	4,679
Between one and three years	506
Between three and five years	57
More than five years	7
Contractual commitments	**5,249**

Operating lease obligations
Operating lease obligations consist of payments pursuant to non-cancellable operating lease agreements mainly relating to our leases of office space. The lease term of our premises in Jena, Germany expires in December 2019. The lease term of our premises in Munich, Germany expires in June 30, 2022.

Other Contractual obligations and commitments
The Group enters into contracts in the normal course of business with Contracted Research Organizations ('CROs') and clinical sites for the conduct of clinical trials, professional consultants for expert advice and other vendors for clinical supply manufacturing or other services. Most of these contracts are not included in the table above as they provide for termination on notice, and therefore are cancelable contracts and do not include any minimum purchase commitments.

(16)Related parties

Compensation of the members of the Board of Directors and Management
The Group`s executive management comprises the following persons:

- Professor Niels C. Riedemann, Chief Executive Officer
- Professor Renfeng Guo, Chief Scientific Officer
- Arnd Christ , Chief Financial Officer
- Othmar Zenker, Chief Medical Officer

The Group`s board of directors comprises the following persons:

Executive Directors

- Prof. Niels C. Riedemann (CEO), since November 8, 2017
- Prof. Renfeng Guo (CSO), since November 8, 2017

Non-executive Directors

- Nicolas Fulpius (Chairman, Chairman of the Audit Committee), since November 8, 2017
- Mark Kübler (Member of the Audit Committee), since November 8, 2017
- Katrin Uschmann, since November 8, 2017 (Member of the Audit Committee, until February 5, 2018)
- Anthony Gibney (Member of the Audit Committee), since February 6, 2018
- Lina Ma, since November 8, 2017

The compensation of the Group`s executive management comprises of the following:

	Executive Management		non-executive Board of Directors	
in € thousand	**2016**	**2017**	**2016**	**2017**
Short-term employee benefits	604	1,987	0	81
Share-based payments	660	3,187	208	43
Total	**1,264**	**5,174**	**208**	**124**

Remuneration of InflaRx's executive management comprises fixed and variable components and share-based payment awards. In addition, the executive management receive supplementary benefits such as fringe benefits and allowances.

In 2016, the supervisory board members of InflaRx GmbH did not receive compensation for their services on the board of directors. In 2016, InflaRx granted awards to three directors under the terms of the Board Plan (see note 13) and recorded compensation expense of €0.2 million.

In connection with the Series C preferred share financing, two members of the board were engaged to assist in sourcing potential new investors. Mr. Kübler was paid €0.2 million and Mr. Fulpius was paid €0.1 million via an entity owned and controlled by him upon the closing of the series C preferred share financing transaction in exchange for their introduction of certain investors in the financing transaction.

(17)Financial risk management

Financial risk management objectives and policies

The Group's principal financial assets comprise short-term deposits at commercial banks with a maturity on inception of three months or less and investments in money-market funds. The main purpose of these financial instruments is to provide funds for the Group's development activities. The Group has some other financial assets and liabilities such as trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The measures taken by management to manage each of these risks are summarized below.

Credit risk

The carrying amount of financial assets, including cash and cash equivalents, represents the maximum exposure to counterparty credit risk of €123.3 million in 2017 (2016: €29.1 million).

The cash and cash equivalents are held with banks, which are rated BBB to A based on Standard & Poor's and Moody's. The issuer of the money-market funds also has a high credit rating.

Interest rate risk

The group's interest rate risk arises from its investments and cash equivalents of €123.3 million.

As of December 31, 2017, there was no significant interest rate risk, as the interest income obtained in the current market environment was close to zero. However, the introduction of negative interest rates on financial assets by financial institutions might expose the Group to additional interest rate risks in the future.

Foreign currency risk

Foreign exchange risk arises when commercial transactions or recognized assets or liabilities are denominated in a currency that is not an entity's functional currency. The Group is exposed to the exchange rate between the Euro and the US Dollar (USD). Due to the initial public offering, the Group had a significant USD amount on its balance sheet, amounting to USD 97.8 million as per December 31, 2017.

In 2017, if the Euro had weakened/strengthened by 1%/5%/10% against the US dollar with all other variables held constant, the loss would have been maximum €7.5 million higher/€9.1 million lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated expenses. The sensitivity is shown in the table below:

December 31, 2017		
Cash in USD	EUR/USD	**EUR**
97,822 k$	1.199	81,566 k€
% change of ratio	**EUR/USD**	**Impact P&L**
1%	1.211	(808) k€
(1%)	1.187	824 k€
5%	1.259	(3,884) k€
(5%)	1.139	4,293 k€
10%	1.319	(7,415) k€
(10%)	1.079	9,063 k€

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations which are typically settled by delivering cash. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due.

The Group continually monitors its risk of a shortage of funds using short and mid-term liquidity planning. This takes account of the expected cash flows from all activities. The management team undertakes regular reviews of the budget.

The group expects to require additional funding to continue to advance the development of product candidates In addition, the group would expect to require additional capital to commercialize the products if regulatory approval were received.

Capital management

The primary objective of the Group's capital management is to ensure that it maintains its liquidity in order to finance its development activities and meet its liabilities when due.

The Group manages its capital structure through equity and the issuance of preferred shares to investors.