Independent auditor's report

To: the General Meeting of Shareholders of InflaRx N.V.

Report on the audit of the financial statements 2018 included in the annual report

Our opinion

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 2018 and of its result and its cash flows for the year then ended, 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 2018 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2018 of InflaRx N.V. (the Company) based in Amsterdam. The financial statements include the consolidated financial statements and the company financial statements.

The consolidated financial statements comprise:

1 the consolidated statement of financial position as at 31 December 2018;

2 the following consolidated statements for 2018: the statement of profit or loss and other comprehensive income, changes in shareholders' equity and cash flows; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1 the Company only balance sheet as 31 December 2018;

2 the Company only profit and loss account for the year ended 31 December 2018; and

3 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.

Audit approach

Summary

Materiality
— Materiality of EUR 750 thousand
— 0.5% of total assets

Group audit
— 98% of total assets
— 95% of loss for the period

Key audit matter
— Completeness of accruals and related research and development expenses

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 750 thousand (2017: EUR 600 thousand). The materiality is determined with reference to total assets (0.5% (2017: 0.5%)). We consider total assets as the most appropriate benchmark because the Company is currently in its research and development phase and thus is predominantly focused on asset development/capital expenditure.

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 EUR 35 thousand 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 financial statements of InflaRx N.V.

Our group audit mainly focused on significant components. Of the group's 3 components, we subjected 2 to full-scope audit for group purposes. These components were selected based on their individual financial significance or because they are likely to include significant risks of material misstatement due to their specific nature or circumstances. These components were subject to an audit of the complete reporting package and accounted for 98% (2017: 100%) of consolidated total assets and 95% (2017: 100%) of consolidated loss for the period. The remaining 2% (2017: nil) of consolidated total assets and 5% (2017: nil) of consolidated loss for the period are represented by one reporting component. For this remaining component, we performed an analysis at an aggregated group level to corroborate the group engagement team's conclusions that there were no significant risks of material misstatement within this component.

The group audit team provided detailed instructions to the component auditor, KPMG Germany, who was part of the group audit, covering the significant audit areas, including the relevant risks of material misstatement and set out the information required to be reported back to the group audit team. During the communication with KPMG Germany, the planning of our audit, our risk assessment, our audit approach and the key audit findings and objectives were discussed. Telephone conference meetings were also held with the component auditor, in which, amongst others, the findings reported to the group team were discussed in more detail, and any further work required by the group team was then performed by the component auditor. The group audit team has reviewed the files of KPMG Germany.

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 financial statements.

Audit scope in relation to fraud and non-compliance with laws and regulations

Fraud

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we will make use of the evaluation of management in relation to fraud risk management (prevention, detection and response), including ethical standards to create a culture of honesty.

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with the Board of Directors. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Based on the auditing standards we addressed the following presumed fraud risk that was relevant to our audit:

— fraud risk in relation to management override of controls.

Our audit procedures included an evaluation of the internal controls relevant to mitigate this risk and supplementary substantive audit procedures, including detailed testing of high risk journal entries.

Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

Our procedures to address fraud risks did not result in findings to be included in this audit report.

Non-Compliance with laws and regulations

We also assessed factors related to the risk of non-compliance with laws and regulations which could have a direct or indirect impact on the financial statements. We identified laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general and sector experience, through discussion with the directors and other management (as required by auditing standards) and discussed the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations within our audit team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements, such as relevant tax laws and financial reporting standards and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to other, sector specific, laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas of laws and regulation as those most likely to have such an effect: healthcare legislation including various drug approval processes and health and safety regulation, employment legislation and environmental legislation. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to inquiry of the directors and other management and inspection of board minutes and regulatory and legal correspondence, if any. These are part of our procedures on the related financial statement items.

Our procedures to address the risk of non-compliance risks did not result in findings to be included in this audit report.

With respect to laws and regulations, the further non-compliance (irregularities) is removed from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remains a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

Our key audit matter

Key audit matters are those matters that, in our professional judgement, 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.

Completeness of accruals and related research and development expenses

Description

The Company is dependent on the timely invoicing of suppliers, mainly for clinical trials, for the proper accounting of accruals related to research and developments. As suppliers of clinical trials have not timely invoiced their services rendered in the past, those accruals need to be estimated based on management judgement, which amongst others is dependent on appropriate communication from suppliers. An overly incomplete assessment of costs incurred by suppliers of clinical trial-related products and services and inappropriate feedback from suppliers may result in incomplete accruals at year end. Therefore, in our audit planning we identified a risk that the accruals and respective expenses related to clinical trials could be understated, which could lead to inappropriate financial reporting in the statement of financial position and the statement of profit or loss and other comprehensive income.

Our response

In order to address the identified risk, we obtained an understanding of the relevant developments programs as well as an understanding on the timing of these programs and the suppliers engaged in clinical trials. Further, we obtained an understanding of the design of controls implemented to ensure completeness of clinical trial-related accruals.

Our substantive audit procedures comprised, amongst others:

- Obtaining management’s position on the progress of the specific programs;
- Inspection of contracts;
- Obtaining underlying documentation, such as suppliers contracts and related invoices, and tracing these back to the accrued expenses included in the statement of financial position as at year end;
- Search for unrecorded liabilities by inspecting invoices received and payments made after year end to determine completeness of such accruals.

Our observation

The results of our testing were satisfactory and we found the amount of accruals related to research and development recognized to be acceptable.

Report on the 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 Board report;
- the other information pursuant to 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; and
- 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.

The Board of Directors is responsible for the preparation of the other information, including the Board report in accordance with Part 9 of Book 2 of the Dutch Civil Code and the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the Board of Directors as auditor of InflaRx N.V. for the 2018 year on 31 January 2019 and have operated as statutory auditor since the financial year 2017.

Description of responsibilities regarding the financial statements

Responsibilities of the Board of Directors for the financial statements

The Board of Directors 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, the Board of Directors 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, the Board of Directors is responsible for assessing the InflaRx N.V.'s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the InflaRx N.V. or to cease operations, or has no realistic alternative but to do so. The Board of Directors 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.

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.

A further description of our responsibilities for the audit of the financial statements is included in appendix of this auditor's report. This description forms part of our auditor's report.

Zwolle, 18 April 2019

KPMG Accountants N.V.

J.J. van den Berg RA

Appendix:
Description of our responsibilities for the audit of the financial statements

Appendix

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining 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 the risk resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the InflaRx N.V.'s internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- concluding on the appropriateness of the Board of Directors' use of the going concern basis of accounting, and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on InflaRx N.V.'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;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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.