



# Independent auditor's report

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

## **Report on the audit of the financial statements 2019 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 2019 and of its result and its cash flows for the year ended on 31 December 2019, 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 2019 and of its result for the year ended on 31 December 2019 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

### ***What we have audited***

We have audited the financial statements 2019 of InflaRx N.V. 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 2019;
2. the following consolidated statements for the year ended on 31 December 2019: 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 balance sheet as at 31 December 2019;
2. the company profit and loss account for the year ended on 31 December 2019; 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 '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 625 thousand
- 0,5% of total assets

##### **Group audit**

- 99% of total assets
- 96% 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 625 thousand (2018: EUR 750 thousand).

The materiality is determined with reference to the total assets (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 focussed 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 30 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 is mainly focused on significant components. Of the group's 3 components, we subjected 2 components to a full-scope audit for group purposes as these components are individual financial significant and 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 99% (2018: 98%) of consolidated total assets and 96% (2018: 95%) of consolidated loss for the period. The remaining 1% (2018: 2%) of consolidated total assets and 4% (2018: 5%) 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 audited both components, 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.

Our procedures as described above can be summarized as follows:

### **Total assets**

99%

Audit of the complete reporting package

1%

Covered by additional procedures performed at group level



## Loss for the period

96%

Audit of the complete reporting package

4%

Covered by additional procedures performed at group level

### ***Audit scope in relation to fraud***

In accordance with the Dutch standards on auditing we are responsible for obtaining a high (but not absolute) level of assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error.

As part of our risk assessment process we have evaluated events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud ('fraud risk factors') to determine whether fraud risks are relevant to our audit.

We communicated identified fraud risks throughout our team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at group level.

In accordance with the auditing standard we evaluated the fraud risks that are relevant to our audit:

- completeness of accruals and related research and development expenses;
- management override of controls (a presumed risk);

The presumed fraud risk related to revenue is not a fraud risk as the company has no revenues.

Our audit procedures included an evaluation of the design, implementation as well as the operating effectiveness of internal controls relevant to mitigate these risks and substantive audit procedures, including detailed testing of high risk journal entries and evaluation of management bias. In determining the audit procedures we will make use of the company's evaluation in relation to fraud risk management (prevention, detections and response), including the set-up of ethical standards to create a culture of honesty.

As part of our evaluation of any instances of fraud, we inspected the minutes of the Board of Directors and Audit Committee meeting and obtained lawyers letters.

We communicated our risk assessment and audit response to the Board of Directors. 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 result in the key audit matter titled 'Completeness of accruals and related search and development expenses'.

We do note that our audit is based on the procedures described in line with applicable auditing standards and are not primarily designed to detect fraud.



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

We have evaluated facts and circumstances in order to assess laws and regulation relevant to the company.

We identified laws and regulations that could reasonably be expected to have a material effect on the financial statements based on our general understanding and sector experience, through discussion with relevant management and evaluating the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our 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 including taxation and financial reporting (including related company legislation). 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 many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognized or disclosures provided in the financial statements, or both, for instance through the imposition of fines or litigation.

We identified the following areas as those most likely to have such an indirect effect:

- sector specific laws and regulations (reflecting the healthcare legislation including various drug approval processes);
- employment legislation (reflecting the company's significant and geographically diverse work force);
- health and safety regulation (reflecting the nature of the company's (R&D) operations);
- environmental regulation (reflecting environmental impact restrictions, waste and contamination related to the company's (R&D) operations).

Auditing standards limit the required audit procedures to identify non-compliance with laws and regulations that have an indirect effect to inquiring of relevant management and inspection of regulatory and legal correspondence, if any. Through these procedures, we did not identify any additional actual or suspected non-compliance other than those previously identified by the company in each of the above areas. We considered the effect of actual or suspected non-compliance as part of our procedures on the related financial statement items.

Our procedures to address compliance with laws and regulations did not result in the identification of a key audit matter.



We do note that our audit is not primarily designed to detect non-compliance with laws and regulations and that 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 errors or fraud, including compliance with laws and regulations.

The more distant non-compliance with indirect laws and regulations (irregularities) is 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 remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

### ***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 is 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 these matters.

## **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 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 (un)deliberately 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 obtain an understanding of the completeness of clinical trial-related accruals.



Our substantive audit procedures comprised, amongst others:

- obtaining management's position on the progress of the specific programs based on the expected expenses (budget) versus the actual expenses;
- search for unrecorded liabilities by inspecting invoices received and payments made after year end to determine completeness of such accruals;
- inspection of contracts;
- obtaining confirmations from suppliers and agreeing to recognized accruals to determine completeness of such accruals;
- 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 at year end.

### **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.

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 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 information as required by 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. on 14 November 2019, as of the audit for the year 2019 and have operated as statutory auditor ever since 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 company'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 company 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 the appendix of this auditor's report. This description forms part of our auditor's report.

Zwolle, June 26, 2020

KPMG Accountants N.V.

J.J. van den Berg RA

Appendix:

Description of our responsibilities for the audit of the financial statements





## Appendix

### Description of our responsibilities for the audit of the financial statements

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.

We are solely responsible for the opinion and therefore responsible to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. In this respect we are also responsible for directing, supervising and performing the group audit.

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.