

## **Independent auditor's report**

To: the shareholders and board of directors of InflaRx N.V.

### **Report on the audit of the financial statements 2021 included in the annual report**

#### **Our opinion**

We have audited the financial statements for the year ended 2021 of InflaRx N.V. based in Amsterdam, The Netherlands.

The financial statements comprise the consolidated and company financial statements.

In our opinion:

- ▶ The accompanying consolidated financial statements give a true and fair view of the financial position of InflaRx N.V. as at 31 December 2021 and of its result and its cash flows for 2021 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 2021 and of its result for 2021 in accordance with Part 9 of Book 2 of the Dutch Civil Code

The consolidated financial statements comprise:

- ▶ The consolidated statement of financial position as at 31 December 2021
- ▶ The following statements for 2021: the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows
- ▶ The notes comprising a summary of the significant accounting policies and other explanatory information

The company financial statements comprise:

- ▶ The company balance sheet as at 31 December 2021
- ▶ The company only profit and loss account for 2021
- ▶ 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.

## Information in support of our opinion

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The following information in support of our opinion and any findings were addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

## Our understanding of the business

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

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

## Materiality

Materiality	€1,900,000 (2020: €1,000,000)
Benchmark applied	4% of Total Operating Expenses (2020: 3% of Total Operating Expenses)
Explanation	InflaRx is a clinical-stage biopharmaceutical Group that does not yet generate revenues. Operating expenses is the key activity-based measure that is relevant for the users of the financial statements as the company is currently in its research and development phase.

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

We agreed with the board of directors that misstatements in excess of €100,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

## Scope of the group audit

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

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

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

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

In total the procedures over the significant components represent 99% of the group's total assets, 89% of the operating expenses and 91% of the loss for the period.

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

#### Teaming and use of specialists

We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of a listed client in the biopharmaceutical industry. We included specialists in the areas of IT audit, forensics and income tax and have made use of our own experts in the areas of valuations for share based payments.

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

#### Our responsibility

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

#### Our audit response related to fraud risks

We identify and assess the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of InflaRx N.V. and its environment and the components of the system of internal control, including the risk assessment process and management's process for responding to the risks of fraud and monitoring the system of internal control and how the board of directors exercises oversight, as well as the outcomes. We refer to section 2.2 Risk factors of the Dutch statutory board report for management's fraud risk assessment.

We evaluated the design and relevant aspects of the system of internal control and in particular the fraud risk assessment, as well as the code of conduct and whistle blower procedures. We evaluated the design and the implementation of internal controls designed to mitigate fraud risks.

As part of our process of identifying fraud risks, we evaluated fraud risk factors with respect to financial reporting fraud, misappropriation of assets and bribery and corruption in close co-operation with our forensic specialists. We evaluated whether these factors indicate that a risk of material misstatement due to fraud is present.

We incorporated elements of unpredictability in our audit. We also considered the outcome of our other audit procedures and evaluated whether any findings were indicative of fraud or non-compliance.

As in all of our audits, we addressed the risks related to management override of controls. For the risk related to management override of controls we have performed procedures among others to evaluate key accounting estimates for management bias that may represent a risk of material misstatement due to fraud, in particular relating to important judgment areas and significant accounting estimates as disclosed in note 2.3 to the financial statements. We have also used data analysis to identify and address high-risk journal entries. This risk did however not require significant auditor's attention during our audit. We considered available information and made enquiries of relevant executives, directors and non-executive directors. The fraud risk we identified, enquiries and other available information did not lead to specific indications for fraud or suspected fraud potentially materially impacting the view of the financial statements.

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

We assessed factors related to the risks of non-compliance with laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general industry experience, through discussions with the management board, reading minutes and performing substantive tests of details of classes of transactions, account balances or disclosures. Reference is also made to the risk factors disclosed in chapter 2 of the Dutch statutory board report.

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

#### **Our audit response related to going concern**

As disclosed in section Basis of preparation in Note 2.1 of the consolidated financial statements, management made a specific assessment of the company's ability to continue as a going concern and to continue its operations for at least the next twelve months. We discussed and evaluated the specific assessment with management exercising professional judgment and maintaining professional skepticism. We considered whether management's going concern assessment, based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, contains all events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Based on our procedures performed, we did not identify serious doubts on the entity's ability to continue as a going concern for the next twelve months.

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 InflaRx N.V. to cease to continue as a going concern.

#### Our key audit matters

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

In comparison with previous year, our key audit matters did not change other than for adding the contract manufacturing organizations (CMOs) to the risk as a result of the increased manufacturing activities performed.

#### Accrued liabilities from Research and Development (R&D) projects and R&D expenses. (Note 3.1 and Note 4.10 to the consolidated financial statements)

Risk	<p>Third-party clinical research organizations (CROs) and contract manufacturing organizations (CMOs) provide R&amp;D services to the Company. The total reported third-party service R&amp;D expenses for CROs and CMOs during the year amounted to €28.2 million. The R&amp;D services provided by these parties are governed by detailed agreements and are typically performed over an extended period. Allocation of expenses to the appropriate reporting period based on the degree to which the underlying R&amp;D services have been fulfilled involves judgement. The invoicing of services by CROs and CMOs follow contractual billing schedules. As information on the fulfilment of the services by the third-party service providers can occur several months following a reporting period, the Company estimates the amount of R&amp;D expenses to recognize for the reporting period, as well as related accrued liabilities, as far as the information on the provided services by the CROs and CMOs is not yet received.</p> <p>We identified the valuation of accrued liabilities from R&amp;D projects and related research and development expenses as a key audit matter based on the high estimation uncertainty, high degree of judgment and significant amounts involved.</p>
Our audit approach	<p>In order to address the identified risk, we obtained an understanding of the current R&amp;D projects where the Company engaged third-party clinical research organizations (CROs) and contract manufacturing organizations (CMOs). Furthermore, we obtained an understanding of the estimation process and the design of internal controls implemented in this process.</p> <p>We performed the following substantive audit procedures:</p> <ul style="list-style-type: none"> <li>► We evaluated the appropriateness of the Group's accounting policies with regard to the accounting for the R&amp;D projects</li> </ul>

**Accrued liabilities from Research and Development (R&D) projects and R&D expenses.**  
(Note 3.1 and Note 4.10 to the consolidated financial statements)

	<ul style="list-style-type: none"> <li>▶ We selected R&amp;D projects based on the phase of the projects, significance of activities during the financial year as well as the significance of the accrued future service fulfillment, and in addition selected a representative sample for which we: <ul style="list-style-type: none"> <li>▶ Inquired of R&amp;D project managers in order to understand the level of services fulfilled by CROs and CMOs, particularly in Q4 2021, and evaluated the Company's assessment for measuring fulfillment (including evaluation for management bias)</li> <li>▶ Obtained and assessed supporting documentation, including correspondence with CROs and CMOs, of the degree to which the underlying research and development services have been fulfilled as of the end of the reporting period</li> <li>▶ Evaluated whether the expenses and accrued liabilities for these R&amp;D projects were appropriately recognized based on underlying contracts, invoices and the estimated degree of fulfilled services. Our procedures include testing of the completeness and accuracy of the information produced by the entity and recalculation of schedules underlying the measurement of expenses and accrued liabilities</li> </ul> </li> <li>▶ We performed a search for unrecorded liabilities, whereby we analyzed significant purchase invoices received from and cash disbursements made to CROs and CMOs following year-end and evaluated proper period recognition of the related expenses and accrued liabilities. We evaluated proper period recognition of credit memos received from vendors following year-end</li> <li>▶ We assessed the adequacy of the Company's disclosures included in note 3.1 and 4.10 on this matter in accordance with EU-IFRS</li> </ul>
Key observations	<p>We consider the Company's accounting policies appropriate. Furthermore, we did not identify any adjustments required to the accrued liabilities from R&amp;D projects and related R&amp;D expenses from inaccurate estimation of service fulfilment, nor additional disclosures required for fair presentation of the financial statements in accordance with EU-IFRS.</p>

## Report on other information included in the annual report

The annual report contains other information in addition to the financial statements and our auditor's report thereon.

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

- ▶ Is consistent with the financial statements and does not contain material misstatements
- ▶ Contains the information as required by Part 9 of Book 2 for the management board report and the other 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 and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.



Management is responsible for the preparation of the other information, including the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information 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 general meeting as auditor of InflaRX as of the audit for the year 2020 and have operated as statutory auditor ever since that date.

## **Description of responsibilities regarding the financial statements**

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

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

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

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

### **Our responsibilities for the audit of the financial statements**

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

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

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

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

Our audit further included among others:

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

## Communication

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

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

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

Eindhoven, 23 March 2022

Ernst & Young Accountants LLP

signed by J.R. Frentz