Independent auditor's report

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

Report on the audit of the financial statements 2023 included in the annual report

Our opinion

We have audited the financial statements for the financial year ended 31 December 2023 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 2023 and of its result and its cash flows for 2023 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) 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 2023 and of its result for 2023 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 2023
- The following statements for 2023: the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows
- The notes comprising material accounting policy information and other explanatory information

The company financial statements comprise:

- The company balance sheet as at 31 December 2023
- The company only profit and loss account for the year ended 31 December 2023
- 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. (hereinafter: the company) 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 determined materiality and identified and assessed 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.

Materiality

Materiality	€2,100,000 (2022: €2,000,000)
Benchmark applied	4% of Total Operating Expenses (2022: 4% of Total Operating Expenses)
Explanation	InflaRx N.V. is a clinical-stage biopharmaceutical Group that does not yet generate significant revenues by selling a product. 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 €105,000, 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.

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. 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. We identified all components as significant components and we performed full-scope audit procedures on two of these components and specific-scope audit procedures on 1of these components. These components are significant in size and likelihood of material misstatements.

In total the procedures over the significant components represent 100% of the group's total assets, 100% of the operating expenses and 100% 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 on 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, credit loss valuation and income tax.

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. 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.

Our audit response related to fraud risks
We identified and assessed the risks of material misstatements of the financial statements due to fraud. During our audit we obtained an understanding of the company 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 1.C. Risk factors of the 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 and, where considered appropriate, tested the operating effectiveness, 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 and legal 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.

We addressed the risks related to management override of controls as this risk is present in all companies. For these risks 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 to the financial statements.
We have also used data analysis to identify and address high-risk journal entries and evaluated the business rationale (or the lack thereof) of significant extraordinary transactions, including those with related parties. This risk did however not require significant auditor's attention.

We identified a fraud risk associated with the recognition of grant income for severe COVID-19 therapeutic relating to submitting costs for reimbursement which either do not qualify according to the grant notice or are not actually incurred. We addressed the risk by obtaining an understanding of the terms and conditions of the grant, testing the eligibility of invoices and personnel costs submitted for reimbursement and vouching these to underlying support as well as inspecting communication on the acceptance of these costs by the grantor.

We considered available information and made enquiries of relevant directors and internal legal counsel. 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 performed appropriate audit procedures regarding compliance with the provisions of those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. Furthermore, 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 board of directors, 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 1c of the board report.

We also inspected lawyers' letters 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
The financial statements have been prepared on a going concern basis. When preparing the financial statements, management made a specific assessment of the company's ability to continue as a going concern and to continue its operations for the foreseeable future.
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 relevant 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 material uncertainties about going concern. 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.

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.

Following the start of recognizing inventories in 2023, a new key audit matter Net realizable value of unfinished goods inventory has been defined next to the key audit matter Clinical trial and contracted manufacturing expenses, which is a recurring key audit matter.
Following the completed settlement of the German Federal Government grant and lack of changes to its terms and conditions in 2023, we did not identify Government grant for severe COVID-19 therapeutic as a key audit matter for 2023.

Clinical trial and contracted manufacturing expenses (Note C.4., D.6. and D.11. to the consolidated financial statements)	
Risk	As discussed in Note C.4., D.6., and D.11. to the consolidated financial statements, the company recognizes research and development (R&D) expenses, which include costs for clinical trial and contracted manufacturing, incurred to contract research organizations and contract manufacturing organizations (together, clinical vendors). The total clinical trial and contracted manufacturing expenses recognized in the year-ended 31 December 2023 amounts to €31.8 million and the related prepayments and accrued liabilities from R&D projects are €3.7 million and €4.4 million respectively as of 31 December 2023. The company's determination of clinical trial and contracted manufacturing expenses involves estimating a percentage-of-completion which incorporates estimation, whereby the degree to which services have been rendered for the individual project activities contracted from the clinical vendors is assessed and estimated by management. While the company's estimates of clinical trial and contracted manufacturing expenses are primarily based on information received related to each study from its clinical vendors, the company may need to make an estimate for costs incurred based on management judgment. Payments for these activities are based on the terms of the individual arrangements, which differ from the pattern of costs incurred. Auditing the clinical trial and contracted manufacturing expenses was challenging, due to the judgement and subjectivity involved in management's assessment of the progress of clinical trial and contracted manufacturing expenses, relative to the costs incurred, to estimate the related accrued liabilities and prepayments from R&D projects, and the evaluation of the completeness and accuracy of the data used in the estimate. Therefore we consider the clinical trial expenses a key audit matter.

Clinical trial and contracted manufacturing expenses (Note C.4., D.6. and D.11. to the consolidated financial statements)	
Our audit approach	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls related to the company's estimation of clinical vendor costs for clinical trial and contracted manufacturing expenses. For example, we tested controls over management's review of the estimated percentage-of-completion used in determining the amount of clinical trial and contracted manufacturing expenses and the related impacts to prepayments and accrued liabilities from R&D projects. To assess the accounting for clinical trial and contracted manufacturing expenses our audit procedures included, among others: ▶ Testing the accuracy and completeness of the underlying data used in the percentage-of-completion estimates by assessing the progress of the clinical trial activities through discussion with the Company's R&D project managers who oversee these activities and by reviewing progress reports, invoices, and other correspondence provided by the clinical vendors to the R&D project managers ▶ Inspecting the company's clinical vendor contracts, amendments, and pending change orders to assess whether the key financial and contractual terms align with the amounts recognized ▶ Performing analytical reviews of fluctuations in the percentage-of-completion by project throughout the period subject to audit ▶ Comparing invoices received from and cash disbursements made to clinical vendors following year-end ▶ Evaluating credit memos received from clinical vendors prior to and following year-end
Key observations	We concur with the recognized clinical trial and contracted manufacturing expenses and the related financial assets and liabilities as disclosed in the consolidated financial statements.

Net realizable value of unfinished goods inventory (Note D.5. to the consolidated financial statements)	
Risk	At 31 December 2023, the Company's net unfinished goods inventory balance was €10.6 million, all of which relates to its severe COVID-19 treatment Gohibic. As discussed in Note D.5. to the consolidated financial statements, in order to value inventory, including unfinished goods, at the lower of cost or net realizable value at each reporting date, the Company reviews its inventory for excess amounts or obsolescence, primarily using estimates of expected future sales, which are sensitive to significant inputs and assumptions, such as expected medical need and expected market penetration. Auditing management's estimate of the net realizable value of unfinished good inventory, which is partly based on expected future sales, was complex and highly judgmental due to the Company having a limited sales history to consider.

Net realizable value of unfinished goods inventory (Note D.5. to the consolidated financial statements)	
	Additionally, these estimates rely in part on management's assumptions about future events outside of the Company's control, such as continuation of the emergency use authorization in the United States and granting of marketing authorization in the European Union. Therefore we considered the net realizable value of unfinished goods inventory a key audit matter.
Our audit approach	In order to address the identified risk, we obtained an understanding of the Company's process for estimating the net realizable value of unfinished goods inventory, including management's assessment of the underlying data and assumptions and including the design and operating effectiveness of internal controls implemented in this process. To test management's estimates of expected future demand our audit procedures included, among others: ▶ Evaluating the appropriateness of the Group's accounting policies with regard to the accounting for the net realizable value of unfinished goods inventory ▶ Comparing inputs used in developing assumptions for medical need to data points observable from United States government COVID-19 data and the Company's clinical trial results for Gohibic ▶ Comparing inputs used in developing assumptions for market penetration to studies on market share achievable in the pharmaceutical industry ▶ Performing sensitivity analyses over the medical need and market penetration assumptions ▶ Evaluating management's comparison of unfinished goods inventory to the estimates of expected future sales, which included consideration of applicable inventory expiration dates ▶ Testing the clerical accuracy of the calculations underlying the Company's estimates of expected future sales ▶ Evaluating the reasonableness of management's assessment of the probability that the emergency use authorization in the United States remains in place and that the marketing authorization in the European Union is granted, by reference to correspondence with the relevant regulatory authorities and inquiries of management in relation to the Company's actions to achieve any required conditions for the authorizations
Key observations	We concur with the recognized unfinished goods inventory as disclosed in the consolidated financial statements.

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 of the Dutch Civil Code for the management 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 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management 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 N.V. 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

The board of directors exist of executive and non-executive directors. The executive directors are responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRSs and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the executive directors are responsible for such internal control as the executive directors determine 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 executive directors are responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting framework mentioned, the executive directors should prepare the financial statements using the going concern basis of accounting unless the executive directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so. The executive 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.

The non-executive directors are 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, 28 March 2024

Ernst & Young Accountants LLP

signed by J.R. Frentz