

Annual Report 2019 of InflaRx N.V.

InflaRx N.V.

**Dutch statutory board report and financial statements
for the financial year ended December 31, 2019**

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1 INTRODUCTION

1.1 Preparation

In this report, the terms "we", "us", "our" and "the Company" refer to InflaRx N.V. and, where appropriate, its subsidiaries.

This report has been prepared by the Company's board of directors pursuant to Section 2:391 of the Dutch Civil Code ("**DCC**") and also contains (i) the Company's statutory annual accounts within the meaning of Section 2:361(1) DCC and (ii) to the extent applicable, the information to be added pursuant to Section 2:392 DCC. This report relates to the financial year ended December 31, 2019 and, unless explicitly stated otherwise, information presented in this report is as at December 31, 2019.

The consolidated financial statements enclosed with this report (the "**Consolidated Financial Statements**") have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and with Section 2:362(9) DCC. The Company financial statements enclosed with this report (the "**Company Financial Statements**") have been prepared in accordance with the accounting principles promulgated by Title 9 of Book 2 DCC.

In this report, unless otherwise indicated, translations from U.S. dollars to euros (and vice versa) relating to payments made on or before December 31, 2019 were made at the rate in effect at the time of the relevant payment.

The terms "\$" or "dollar" refer to U.S. dollars, and the terms "€" or "euro" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the treaty establishing the European Community, as amended.

1.2 Forward-looking statements

This Annual Report contains forward-looking statements that involve substantial risks and uncertainties. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "estimate," "believe," "predict," "potential" or "continue" or the negative of these terms or other similar expressions intended to identify statements about the future. These statements speak only as of the date of this Annual Report and involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements include, without limitation, statements about the following:

- the timing, progress and results of clinical trials of IFX-1 and any other product candidates, including statements regarding the timing of initiation and completion of studies or trials and related preparatory work, the period during which the results of the trials will become available, the costs of such trials and our research and development programs generally;
- the timing of any submission of filings for regulatory approval of IFX-1 or any other product candidate, and the timing of and our ability to obtain and maintain regulatory approval of IFX-1 for any indication;
- our ability to leverage our proprietary anti-C5a technology to discover and develop therapies to treat complement-mediated autoimmune and inflammatory diseases;
- our ability to protect, maintain and enforce our intellectual property protection for IFX-1 and any other product candidates, and the scope of such protection;
- whether the FDA, EMA or comparable foreign regulatory authority will accept or agree with the number, design, size, conduct or implementation of our clinical trials, including any proposed primary or secondary endpoints for such trials;

- the success of our future clinical trials for IFX-1 and any other product candidates and whether such clinical results will reflect results seen in previously conducted preclinical studies and clinical trials;
- our expectations regarding the size of the patient populations for, market opportunity for and clinical utility of IFX-1 or any other product candidates, if approved for commercial use;
- our manufacturing capabilities and strategy, including the scalability and cost of our manufacturing methods and processes and the optimization of our manufacturing methods and processes, and our ability to continue to rely on our existing third-party manufacturers for our planned future clinical trials;
- our estimates of our expenses, ongoing losses, future revenue, capital requirements and our needs for or ability to obtain additional financing;
- our expectations regarding the scope of any approved indication for IFX-1;
- our ability to defend against costly and damaging liability claims resulting from the testing of our product candidates in the clinic or, if, approved, any commercial sales;
- our ability to commercialize IFX-1 or our other product candidates;
- if any of our product candidates obtain regulatory approval, our ability to comply with and satisfy ongoing obligations and continued regulatory oversight;
- our ability to comply with enacted and future legislation in seeking marketing approval and commercialization;
- our future growth and ability to compete, which depends on our retaining key personnel and recruiting additional qualified personnel;
- our competitive position and the development of and projections relating to our competitors in the development of C5a inhibitors or our industry; and
- our expectations regarding the time during which we will be an emerging growth company under the JOBS Act or a foreign private issuer.

Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified and some of which are beyond our control, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. You should refer to chapter 2 of this Annual Report for a discussion of important factors that may cause our actual results to differ materially from those expressed or implied by our forward-looking statements. Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. As a result of these factors, we cannot assure you that the forward-looking statements in this Annual Report will prove to be accurate. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise. You should, however, review the factors and risks and other information we describe in the reports we will file from time to time with the SEC after the date of this Annual Report.

2 RISK FACTORS

2.1 Summary of key risk factors

The principal risks and uncertainties which the Company faces include the risks and uncertainties summarized in this chapter 2.1. See chapter 0 of this report for additional detail and additional risks and uncertainties which the Company faces.

2.2 Risk factors

You should carefully consider the risks and uncertainties described below and the other information in this Annual Report before making an investment in our common shares. Our business, financial condition or results of operations could be materially and adversely affected if any of these risks occurs, and as a result, the market price of our common shares could decline and you could lose all or part of your investment. This Annual Report also contains forward-looking statements that involve risks and uncertainties. See “Forward-Looking Statements.” Our actual results could differ materially and adversely from those anticipated in these forward-looking statements as a result of certain factors. Risks related to our financial position and need for additional capital

We have a history of significant operating losses and expect to incur significant and increasing losses for the foreseeable future; we may never achieve or maintain profitability and investors may lose their entire investment.

We incurred net losses of €53.3 million, €29.8 million and €24.2 million for the years ended December 31, 2019, 2018 and 2017, respectively. In addition, our accumulated deficit as of December 31, 2019 was €134.4 million.

We expect our net losses to increase as we advance IFX-1 into additional, as well as larger and later-stage clinical trials. To date, we have not commercialized any products or generated any revenues from the sale of products, and absent the realization of sufficient revenues from product sales, we may never attain profitability. We have devoted substantially all of our financial resources and efforts to research and development, including preclinical studies and clinical trials. Our net losses may fluctuate significantly from quarter to quarter and year to year. Net losses and negative cash flows have had, and will continue to have, an adverse effect on our shareholders' equity and working capital.

We anticipate that our expenses might increase if and as we:

- continue to develop and conduct clinical trials with respect to our lead product candidate, IFX-1, including in connection with the evaluation of any additional clinical development in HS, in connection with the ongoing Phase II clinical trials in AAV and Pyoderma Gangraenosum, or PG as well as planned Phase II studies in oncology;
- initiate and continue research, preclinical and clinical development efforts for any future product candidates, including IFX-2;
- actively seek to identify additional research programs and additional product candidates;
- seek regulatory and marketing approvals for our product candidates that successfully complete clinical trials, if any;
- establish sales, marketing, distribution and other commercial infrastructure in the future to commercialize various products for which we may obtain marketing approval, if any;
- require the manufacture of larger quantities of product candidates for clinical development and, potentially, commercialization;
- collaborate with strategic partners to optimize the manufacturing process for IFX-1 and IFX-2;
- maintain, expand and protect our intellectual property portfolio;
- hire and retain additional personnel, such as clinical, quality control and scientific personnel; and
- add operational, financial and management information systems and personnel, including personnel to support our product development and help us comply with our obligations as a public company.

Our ability to become and remain profitable depends on our ability to generate revenue. We do not expect to generate significant revenue unless and until we are, or any future collaborator is, able to obtain marketing approval for, and successfully commercialize, one or more of our product candidates. Successful commercialization will require achievement of key milestones, including completing clinical trials of IFX-1 and any other product candidates, obtaining marketing approval for these product candidates, manufacturing, marketing and selling those products for which we, or any of our future collaborators, may obtain marketing approval, satisfying any post-marketing requirements and obtaining reimbursement for our products from private insurance or government payors. Because of the uncertainties and risks associated with these activities, we are unable to accurately predict the timing and amount of revenues, and if or when we might achieve profitability. We and any future collaborators may never succeed in these activities and, even if we do, or any future collaborators do, we may never generate revenues that are large enough for us to achieve profitability. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

We expect our financial condition and operating results to continue to fluctuate from quarter to quarter and year to year due to a variety of factors, many of which are beyond our control. In order to succeed, we will need to transition from a company with a research and development focus to a company capable of undertaking commercial activities. We may encounter unforeseen expenses, difficulties, complications and delays, and may not be successful in such a transition.

Our failure to become and remain profitable could depress the market price of our common shares and could impair our ability to raise capital, pay dividends, expand our business, diversify our product offerings or continue our operations. If we continue to suffer losses as we have in the past, investors may not receive any return on their investment and may lose their entire investment.

We will need substantial additional funding, and if we are unable to raise capital when needed, we could be forced to delay, reduce or eliminate our product discovery and development programs or commercialization efforts.

Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is a very time-consuming, expensive and uncertain process that takes years to complete. For example, for the years ended December 31, 2019 and December 31, 2018, we used €43.2 million and €23.7 million, respectively, in net cash for our operating activities, most of which were related to research and development activities. We expect our expenses to increase in connection with our ongoing activities, particularly as we initiate new clinical trials of, initiate new research and preclinical development efforts for and seek marketing approval for, our current product candidates or any future product candidates, including those that we may acquire. In particular, we will incur significant expenses if we conduct a Phase III clinical trial of IFX-1 in patients with HS and Phase II clinical trials in AAV, and PG, initiate a Phase II in oncology and initiate new research and preclinical development efforts. In addition, if we obtain marketing approval for any of our product candidates, we may incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution to the extent that such sales, marketing, manufacturing and distribution are not the responsibility of a future collaborator. Furthermore, we expect to incur significant additional costs associated with operating as a public company. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we may be forced to delay, reduce or eliminate our research and development programs or any future commercialization efforts.

We plan to use our cash on hand primarily to fund clinical development of IFX-1 for the treatments of rare and inflammatory and defined oncology diseases such as HS, AAV, PG, oncology and for other indications and for working capital and other general corporate purposes. We will be required to expend significant funds in order to advance the development of IFX-1 in later stages of clinical development, as well as other product candidates we may seek to develop, including IFX-2. While we intend to focus on developing IFX-1 for these indications, we are also evaluating IFX-1 for a number of additional medical indications. As a result, although we may make substantial expenditures on IFX-1 for such indications, we may cease development efforts on some or all of such indications prior to

approval, if any. However, any future development activities for our pipeline product candidates will depend heavily on the clinical and marketing success of IFX-1 in any indication.

Our existing cash and cash equivalents will not be sufficient to fund all of the efforts that we plan to undertake or to fund the completion of development of any of our product candidates. Accordingly, we will be required to obtain further funding through public or private equity offerings, debt financings, royalty-based financings, collaborations and licensing arrangements or other sources. We do not have any committed external source of funds. Adequate additional financing may not be available to us on acceptable terms, or at all. If we are unable to raise additional capital in sufficient amounts and on terms acceptable to us, we may have to significantly delay, scale back or discontinue the development or commercialization of IFX-1 or any of our other product candidates or potentially discontinue operations altogether. Our failure to raise capital as and when needed could have a negative impact on our financial condition and our ability to pursue our business strategy.

We believe that our existing cash, cash equivalents and marketable securities will enable us to fund our operating expenses and capital expenditure requirements under our current business plan for at least the next 24 months. Changing circumstances, some of which may be beyond our control, could cause us to consume capital significantly faster than we currently anticipate, and we may need to seek additional funds sooner than planned. Our future funding requirements, both short-term and long-term, will depend on many factors, including:

- the scope, progress, timing, costs and results of clinical trials of, and research and preclinical development efforts for, our current and future product candidates, particularly for IFX-1;
- the number of future product candidates and indications that we pursue and their development requirements;
- the outcome, timing and costs of seeking regulatory approvals;
- the costs of commercialization activities for any of our product candidates that receive marketing approval to the extent such costs are not the responsibility of any future collaborators, including the costs and timing of establishing product sales, marketing, distribution and commercial-scale manufacturing capabilities;
- the effect of competing technological and market developments;
- subject to receipt of marketing approval, revenue, if any, received from commercial sales of our current and future product candidates;
- our ability to enter into, and the terms and timing of, any collaborations, licensing or other arrangements;
- our headcount growth and associated costs as we expand our research and development activities;
- the costs of preparing, filing and prosecuting patent applications, maintaining and protecting our intellectual property rights including enforcing and defending intellectual property related claims; and
- the costs of operating as a public company.

Raising additional capital may cause dilution to our shareholders, restrict our operations or require us to relinquish rights to our technologies or product candidates.

We expect our expenses may increase in connection with expansion of operations. To the extent that we raise additional capital through the issuance of common shares, convertible securities or other

equity securities, your ownership interest may be diluted, and the terms of these securities could include liquidation or other preferences and anti-dilution protections that could adversely affect your rights as a common shareholder. In addition, debt financing, if available, may result in fixed payment obligations and may involve agreements that include restrictive covenants that limit our ability to take specific actions, such as incurring additional debt, making capital expenditures, creating liens, redeeming shares or declaring dividends, that could adversely impact our ability to conduct our business. In addition, securing financing could require a substantial amount of time and attention from our management and may divert a disproportionate amount of their attention away from day-to-day activities, which may adversely affect our management's ability to oversee the development of our product candidates.

If we raise additional funds through collaborations or marketing, distribution or licensing arrangements with third-parties, we may have to relinquish valuable rights to our technologies, future revenue streams or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

We have a limited operating history and no history of commercializing pharmaceutical products, which may make it difficult to evaluate the prospects for our future viability.

We commenced operations in 2008. Our operations to date have been limited to establishing our company, raising capital, developing our proprietary anti-C5a technology, identifying and testing potential product candidates and conducting clinical trials of our lead product candidate, IFX-1. We have not yet demonstrated an ability to successfully conduct late-stage clinical trials, obtain marketing approvals, manufacture a commercial-scale product, or arrange for a third-party to do so on our behalf, or conduct sales and marketing activities necessary for successful product commercialization. Accordingly, you should consider our prospects in light of the costs, uncertainties, delays and difficulties frequently encountered by companies in the early stages of development, especially clinical-stage biopharmaceutical companies such as ours. Any predictions you make about our future success or viability may not be as accurate as they could be if we had a longer operating history or a history of successfully developing and commercializing pharmaceutical products.

We may encounter unforeseen expenses, difficulties, complications, delays and other known or unknown factors in achieving our business objectives. We will eventually need to transition from a company with a development focus to a company capable of supporting commercial activities. We may not be successful in such a transition.

We expect our financial condition and operating results to continue to fluctuate significantly from quarter to quarter and year to year due to a variety of factors, many of which are beyond our control. Accordingly, you should not rely upon the results of any quarterly or annual periods as indications of future operating performance.

Exchange rate fluctuations or abandonment of the euro currency may materially affect our results of operations and financial condition.

Potential future expense and revenue may be incurred or derived from outside the European Union, particularly the United States. As a result, our business and share price may be affected by fluctuations in foreign exchange rates between the euro and other currencies, particularly the U.S. dollar, which may also have a significant impact on our reported results of operations and cash flows from period to period. Currently, we do not have any exchange rate hedging arrangements in place. In addition, the abandonment of the euro by one or more members of the European Union could lead to the re-introduction of individual currencies in one or more EU member states, or in more extreme circumstances, the dissolution of the European Union. The effects on our business of the abandonment of the euro as a currency, the exit of one or more EU member states from the European Union or a potential

dissolution of the European Union, are impossible to predict with certainty, and any such events could have a material adverse effect on our business, financial condition and results of operations.

Risks related to the discovery, development and commercialization of our product candidates

We are at a very early stage in our development efforts, our approach of targeting C5a inhibition is novel and we may not be able to successfully develop and commercialize any product candidates.

IFX-1 is a novel therapeutic antibody and its potential therapeutic benefit is unproven, and C5a inhibition to treat complement-mediated autoimmune and inflammatory diseases has not been validated. In the recently completed Phase IIb trial, IFX-1 did not meet the primary endpoint as it did not demonstrate a statistically significant dose-dependent effect on Hidradenitis Suppurativa Clinical Response (HiSCR) rate at week 16. There is no approved therapy inhibiting C5a activation and, as a result, the regulatory pathway for IFX-1 may present novel issues that could cause delays in development or approval. For example, the results of the Phase IIb trial of IFX-1 call into question the validity of the HiSCR and how to measure the therapeutic benefit of IFX-1 in HS. If we cannot obtain alignment with regulatory authorities for the further development of IFX-1 in HS, we may be unable to successfully develop, obtain regulatory approval for and commercialize IFX-1 for HS. We have not yet succeeded and may never succeed in demonstrating efficacy and safety for IFX-1 in pivotal clinical trials or in obtaining marketing approval thereafter for HS or any other indication. If we are unsuccessful in our development efforts, we may not be able to advance the development of our product candidates, commercialize products, raise capital, expand our business or continue our operations.

We are heavily dependent on the success of IFX-1, our lead product candidate, and if IFX-1 does not receive regulatory approval or is not successfully commercialized, our business will be harmed.

We currently have no products that are approved for commercial sale and may never be able to develop marketable products. We expect that a substantial portion of our efforts and expenditures over the next few years will be devoted to IFX-1, which is currently our only product candidate in active clinical development. Accordingly, our business currently depends heavily on the successful development, regulatory approval and commercialization of IFX-1. We cannot be certain that IFX-1 will receive regulatory approval or be successfully commercialized even if we receive regulatory approval for any indication, due in part because IFX-1 remains in early stages of clinical development and in a Phase IIb trial of IFX-1 in HS failed to reach its primary endpoint. Thus, it may be years before we are in a position to seek regulatory approval for IFX-1 in any indication. Moreover, we may not be successful in our efforts to expand the approval, if any, of IFX-1 for other indications. If we were required to discontinue development of IFX-1 for any indication or if IFX-1 does not receive regulatory approval or fails to achieve significant market acceptance, we would be delayed by many years in our ability to achieve profitability, if ever. In addition, our ability to develop additional product candidates in our pipeline could be significantly hindered.

Clinical failure may occur at any stage of clinical development, and the results of our clinical trials may not support our proposed indications for our product candidates.

Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful, and we cannot be sure that the results of later clinical trials will replicate the results of prior clinical trials and preclinical testing. Moreover, success in clinical trials in a particular indication does not ensure that a product candidate will be successful in other indications, even for the same underlying disease. A number of companies in the pharmaceutical industry, including biotechnology companies, have suffered significant setbacks in clinical trials, even after promising results in earlier preclinical studies or clinical trials or successful later-stage trials in other related indications, including in the context of controlling complement activation through C5 and C5a or C5aR inhibition. For example, while others in our industry have attempted to develop C5a-specific antibodies, there is currently no approved therapy inhibiting C5a. These setbacks have been caused by, among other things,

preclinical findings made while clinical trials were underway and safety or efficacy observations made in clinical trials, including previously unreported adverse events as well as lack of efficacy and patient benefit as reported by clinical trial investigators. In particular, development of antibodies that target C5a rather than C5 to control complement activation is comparatively novel, and there is currently no approved therapy specifically targeting C5a. As a result, inhibition of C5a rather than C5, which blocks signaling to the two receptors C5aR and C5L2, may have unforeseen consequences or negative results that may lead to clinical failure or withdrawal in later stages of our product candidate development. Product candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through preclinical and initial clinical trials for a variety of reasons, including differences in patient populations, changes in trial protocols and complexities of larger, multi-center trials among others. For example, our Phase IIb trial for IFX-1 in HS did not meet its primary endpoint. A failure of a clinical trial to meet its predetermined endpoints may cause us to abandon a product candidate or an indication and may delay development of any other product candidates. Any delay in, or termination of, our clinical trials will delay the submission of the Biologics License Application, or BLA, to the FDA, the marketing authorization application to the EMA or other similar applications with other relevant foreign regulatory authorities and, ultimately, our ability to commercialize any of our product candidates and generate revenue.

We face substantial competition, which may result in others discovering, developing or commercializing products before or more successfully than we do, and reducing or eliminating our commercial opportunity.

The development and commercialization of new products is highly competitive. We expect that we, and any future collaborators, will face significant competition from major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide with respect to any of our product candidates that we, or any future collaborators, may seek to develop or commercialize in the future. For example, other pharmaceutical companies may commence development efforts for product candidates targeting the same indications as IFX-1, including HS, AAV, PG or indications in the oncology field, or any other indications we may target. See chapter 3.2 Business overview - Competition. If IFX-1 proves to be effective and is approved for use in patients with HS, IFX-1 may compete with adalimumab or any other treatment approach which is currently under development in HS and obtains approval. For example, in the area of HS treatment, in addition to adalimumab, IFX-1 may compete with bermekimab, a monoclonal antibody being developed by XBiotech Inc. that was acquired by Janssen Biotech, targeting interleukin-1 alpha, for which XBiotech is enrolling a Phase II randomized, double-blind, placebo-controlled clinical trial, as well as bimekizumab, a monoclonal antibody blocking interleukin-17AF, for which UCB Pharma recently completed a Phase II clinical trial, secukinumab, a monoclonal antibody blocking interleukin 17A, for which Novartis International has initiated two Phase III clinical studies, Iscalimab, an Anti-Cd40 monoclonal antibody and LYS006 a small molecule that Novartis International has initiated a Phase II clinical study including two different treatment arms, guselkumab, a monoclonal antibody being developed by Janssen Research and Development blocking interleukin 23, for which Janssen is currently running a Phase II study and INCB 54707, for which Incyte Corporation has recently completed a Phase IIa open label study and is recruiting for a Phase II dose-escalation, placebo-controlled study. Abbvie Inc., a global pharmaceutical company (“Abbvie”) has also initiated a Phase II, 190 patient, study to evaluate the safety and efficacy of 2 dose levels of risankizumab in HS. The primary endpoint will be evaluated at 16 weeks using the HiSCR.

In the area of AAV treatment and HS treatment, IFX-1 may compete with avacopan, a C5aR inhibitor being developed by Chemocentryx targeting multiple severe and rare inflammatory disorders. Though it acts through a different mechanism of action than IFX-1, avacopan has demonstrated the potential to induce remission in AAV patients and has recently completed a Phase III clinical trial. Chemocentryx also has a Phase IIb clinical trial ongoing in HS. There are additional drugs currently being developed for treatment of AAV which may be approved in the future. AstraZeneca recently initiated a Phase III study with benralizumab, a monoclonal antibody targeting interleukin-5 and inter-

leukin-5R in a type of AAV, eosinophilic granulomatosis with polyangiitis. If approved for the treatment of AAV, IFX-1 would also face competition from current therapies, including corticosteroids, azathioprine, methotrexate, mycophenolate mofetil or rituximab. In addition, several product candidates in development by other pharmaceutical companies targeting C5a have failed or remain in early stages of development, with future development unclear. If approved for the treatment of PG, IFX-1 would potentially face competition from currently used therapies, such as glucocorticoids, cyclosporin or other immunosuppressive therapies. We are not aware of any C5 or C5a or C5aR inhibitor being under development for the treatment of PG. We are also not aware of any other company currently developing a drug in PG for the US or European market; however data does exist with current approved and development stage products. Janssen's Remicade (infliximab) has been used several clinical studies in PG. The largest placebo-controlled trial with infliximab (13 patients received infliximab and 17 patients received placebo) was published in 2005 showing benefit in PG, but no formal clinical development has initiated. XBiotech completed a Phase II study in 2017 with bermekimab, but no data has been announced or presented. In addition, in December 2018 an investigator sponsored trial at Ohio State University completed a study using Taltz (ixekizumab) in PG but results have not been made public. Also, Technische Universitat Munchen is evaluating the use of Cosentyx (secukinumab) for PG. Outside the US and EU in Japan, Abbvie has filed for approval with Humira (adalimumab) from a Phase III open label study with 20 Japanese patients with active ulcers. As a result of the current competitive landscape, complement-mediated treatments, such as eculizumab, currently remain focused on C5 inhibition. However, as the area of terminal complement activation further develops, particularly if IFX-1 is approved for commercialization, our competitors may seek to develop their own product candidates targeting C5a.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than any products that we, or any future collaborators, may develop. Our competitors also may obtain FDA or other marketing approval for their products before we, or any future collaborators, are able to obtain approval for ours, which could result in our competitors establishing a strong market position before we, or any future collaborators, are able to enter the market.

Many of our existing and potential future competitors have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining marketing approvals and marketing approved products than we do, and may be able to reduce the price at which they sell their products. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller or early stage companies may also prove to be significant competitors, particularly if acquired by, or through collaborative arrangements with, large and established companies. These competitors also compete with us in recruiting and retaining qualified scientific and management personnel and establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, the development of our product candidates.

If clinical trials of our product candidates fail to satisfactorily demonstrate safety and efficacy to the FDA and other regulators, we, or any future collaborators, may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of these product candidates.

We, and any future collaborators, are not permitted to commercialize, market, promote or sell any product candidate in the United States without obtaining marketing approval from the FDA. Foreign regulatory authorities, such as the EMA, impose similar requirements. We, and any future collaborators, must complete extensive preclinical development and clinical trials to demonstrate the safety and efficacy of our product candidates in humans before we will be able to obtain these approvals.

The clinical development of our product candidates is susceptible to the risk of failure inherent at any stage of product development. It is possible that even if one or more of our product candidates has a beneficial effect, that effect will not be detected during clinical evaluation as a result of one or more

of a variety of factors, including the size, duration, design, measurements, conduct or analysis of our clinical trials. For instance, in the Phase IIb Shine trial, we failed to meet the primary endpoint utilizing the HiSCR, due in part, to a placebo efficacy rate of approximately 47%. Conversely, as a result of the same factors, our clinical trials may indicate an apparent positive effect of a product candidate that is greater than the actual positive effect, if any. Similarly, in our clinical trials we may fail to detect toxicity of or intolerability caused by our product candidate, or mistakenly believe that our product candidates are toxic or not well tolerated when that is not in fact the case. In addition, our product candidates are all in early stages of development or clinical testing. As a result, it may be years before any of our product candidates receives regulatory approval, if at all, and additional clinical trials may fail to demonstrate safety, efficacy or tolerability for our targeted indications.

Any inability to successfully complete preclinical and clinical development could result in additional costs to us or any future collaborators and impair our ability to generate revenue from product sales, regulatory and commercialization milestones and royalties. Moreover, if we or any future collaborators are required to conduct additional clinical trials or other testing of our product candidates beyond the trials and testing that we or they contemplate, if we or they are unable to successfully complete clinical trials of our product candidates or other testing or the results of these trials or tests are unfavorable, uncertain or are only modestly favorable, or there are unacceptable safety concerns associated with our product candidates, we or any future collaborators may:

- incur additional unplanned costs, including costs relating to additional required clinical trials or preclinical testing;
- be delayed in obtaining marketing approval for IFX-1 or any of our other product candidates;
- not obtain marketing approval at all;
- obtain approval for indications or patient populations that are not as broad as intended or desired;
- obtain approval with labeling that includes significant use or distribution restrictions or significant safety warnings, including boxed warnings;
- be subject to additional post-marketing testing or other requirements; or
- be required to remove the product from the market after obtaining marketing approval.

Our failure to successfully complete clinical trials of our product candidates and to demonstrate the efficacy and safety necessary to obtain regulatory approval to market any of our product candidates would significantly harm our business.

Our product candidates may cause or be perceived to cause undesirable side effects or have other properties that could delay or prevent their regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following marketing approval, if any.

Undesirable side effects caused by our product candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay, denial or withdrawal of regulatory approval by the FDA or comparable foreign regulatory authorities. Results of our clinical trials could reveal a high and unacceptable severity and prevalence of side effects or unexpected characteristics. In addition, many of the patients that we enrolled in our clinical trials of IFX-1 for HS suffer from serious pre-existing disorders. While such disorders may lead to serious adverse events during trial periods that may be found to be unrelated to IFX-1, such events may create a negative safety perception and adversely impact market acceptance of IFX-1 following any approval. For example, in our Phase IIa and IIb clinical trials of IFX-1 for HS, we observed several adverse events, even though they were judged not to be related to IFX-1 administration by the investigator.

If unacceptable side effects arise in the development of our product candidates, we, the FDA or comparable foreign regulatory authorities, the Institutional Review Boards, or IRBs, or independent ethics committees at the institutions in which our studies are conducted, or the Data Safety Monitoring Board, or DSMB, could suspend or terminate our clinical trials or the FDA or comparable foreign regulatory authorities could order us to cease clinical trials or deny approval of our product candidates for any or all targeted indications. Side effects, whether treatment-related or not, could also affect patient recruitment or the ability of enrolled patients to complete the trial or result in potential product liability claims. In addition, these side effects may not be appropriately recognized or managed by the treating medical staff. We expect to have to train medical personnel using our product candidates to understand the side effect profiles for our clinical trials and upon any commercialization of any of our product candidates. Inadequate training in recognizing or managing the potential side effects of our product candidates could result in patient injury or death. Any of these occurrences may harm our business, financial condition and prospects significantly.

Moreover, clinical trials of our product candidates are conducted in carefully defined sets of patients who have agreed to enter into clinical trials. Consequently, it is possible that our clinical trials, or those of any future collaborator, may indicate an apparent positive effect of a product candidate that is greater than the actual positive effect, if any, or alternatively fail to identify undesirable side effects. If, following approval of a product candidate, we, or others, discover that the product is less effective than previously believed or causes undesirable side effects that were not previously identified, any of the following adverse events could occur:

- regulatory authorities may withdraw their approval of the product or seize the product;
- we, or any future collaborators, may need to recall the product, or be required to change the way the product is administered or conduct additional clinical trials;
- additional restrictions may be imposed on the marketing of, or the manufacturing processes for, the particular product;
- we may be subject to fines, injunctions or the imposition of civil or criminal penalties;
- regulatory authorities may require the addition of labeling statements, such as a “black box” warning or a contraindication;
- we, or any future collaborators, may be required to create a Medication Guide outlining the risks of the previously unidentified side effects for distribution to patients;
- we, or any future collaborators, may be required to implement a REMS that imposes distribution and use restrictions or to conduct post-market studies or clinical trials;
- we, or any future collaborators, could be sued and held liable for harm caused to patients;
- the product may become less competitive; and
- our reputation may suffer.

Any of these events could harm our business and operations and could negatively impact our share price.

Our product candidates are either chimeric or humanized antibody proteins that could cause an immune response in patients, resulting in the creation of harmful or neutralizing antibodies against these therapeutic proteins.

In addition to the safety, efficacy, manufacturing, and regulatory hurdles faced by our product candidates, the administration of proteins such as monoclonal antibodies that are chimeric or humanized,

including our product candidates IFX-1 and IFX-2, respectively, can cause an immune response, resulting in the creation of antibodies against the therapeutic protein. These anti-drug antibodies can have no effect or can neutralize the effectiveness of the protein or require that higher doses be used to obtain a therapeutic effect. Whether anti-drug antibodies will be created and how they react can often not be predicted from preclinical or even clinical studies, and their detection or appearance is often delayed. As a result, neutralizing antibodies may be detected at a later date or upon longer exposure of patients with our product candidates, such as following more chronic administration in longer lasting clinical trials. In some cases, detection of such neutralizing antibodies can even occur after pivotal clinical trials have been completed. Therefore, there can be no assurance that neutralizing antibodies will not be detected in future clinical trials or at a later date upon longer exposure (including after commercialization). If anti-drug antibodies reduce or neutralize the effectiveness of our product candidates, the continued clinical development or receipt of marketing approval for any of our product candidates could be delayed or prevented and, even if any of our product candidates is approved, their commercial success could be limited, any of which would impair our ability to generate revenue and continue operations. Low levels of anti-drug antibodies were detected after the first dose of IFX-1 in the Phase IIB Shine Study.

Even if we complete the necessary preclinical studies and clinical trials for IFX-1 and any other product candidates, the marketing approval process is expensive, time consuming and uncertain and may prevent us or any future collaborators from obtaining approvals for the commercialization of some or all of our product candidates. As a result, we cannot predict when or if, and in which territories, we, or any future collaborators, will obtain marketing approval to commercialize a product candidate.

The research, testing, manufacturing, labeling, approval, selling, marketing, promotion and distribution of products are subject to extensive regulation by the FDA and comparable foreign regulatory authorities. We, and any future collaborators, are not permitted to market our product candidates in the United States or in other countries until we, or they, receive approval of a BLA from the FDA or marketing approval from applicable regulatory authorities outside the United States. Our product candidates are in various stages of development and are subject to the risks of failure inherent in drug development. We have not submitted an application for or received marketing approval for any product candidate in the United States or in any other jurisdiction. We have limited experience in conducting and managing the clinical trials necessary to obtain marketing approvals, including FDA approval of a BLA. Further, there is no prior history of regulatory approval for product candidates targeting C5a inhibition. In addition, while in the past a product was approved for HS using HiSCR as the primary endpoint, in our Phase IIB trial of IFX-1 in HS, for which HiSCR was the primary endpoint and was not met, we developed concerns about HiSCR as an endpoint. We intend to discuss with the FDA the use of an alternative endpoint to HiSCR as the primary endpoint in a potential future clinical trial of IFX-1 for HS. However, there is no guarantee that the FDA will permit us to do so. As a result, the regulatory pathway for IFX-1 is unclear.

The process of obtaining marketing approvals, both in the United States and abroad, is lengthy, expensive and uncertain. It may take many years, if approval is obtained at all, and can vary substantially based upon a variety of factors, including the type, complexity and novelty of the product candidates involved. Securing marketing approval requires the submission of extensive preclinical and clinical data and supporting information to regulatory authorities for each therapeutic indication to establish the product candidate's safety and efficacy. Securing marketing approval also requires the submission of information about the product manufacturing process to, and inspection of manufacturing facilities by, the regulatory authorities. The FDA or other regulatory authorities may determine that our product candidates are not safe and effective, only moderately effective or have undesirable or unintended side effects, toxicities or other characteristics that preclude our obtaining marketing approval or prevent or limit commercial use. In addition, approval policies, regulations, or the type and amount of clinical data necessary to gain approval may change during the course of a drug candidate's clinical development and may vary among jurisdictions. Any marketing approval we ultimately obtain may be limited or subject to restrictions or post-approval commitments that render the approved product not

commercially viable. The FDA, EMA or any comparable foreign regulatory authorities may delay, limit or deny approval of IFX-1 for many reasons, including:

- we may not be able to demonstrate that IFX-1 is safe and effective as a treatment for our targeted indications to the satisfaction of the FDA, the EMA or comparable foreign regulatory agencies;
- the FDA, EMA or comparable foreign regulatory authorities may require additional clinical trials or non-clinical studies of IFX-1 in addition to those already performed or planned, either before approval or as a post-approval commitment, which would increase our costs and prolong our development of IFX-1;
- the results of our clinical trials may not meet the level of statistical or clinical significance required by the FDA, EMA or comparable foreign regulatory authorities for marketing approval;
- the FDA, EMA or comparable foreign regulatory authorities may disagree with the number, design, size, conduct or implementation of our clinical trials, including designated clinical endpoints, such as the use of HiSCR in our planned clinical trials of IFX-1 for HS;
- the population studied in the clinical program may not be sufficiently broad or representative to assure safety in the full population for which we seek approval;
- the contract research organizations, or CROs, that we retain to conduct clinical trials may take actions outside of our control that materially adversely impact our clinical trials;
- the FDA, EMA or comparable foreign regulatory authorities may not find the data from pre-clinical studies and clinical trials sufficient to demonstrate that the clinical and other benefits of IFX-1 outweigh its safety risks;
- the FDA, EMA or comparable foreign regulatory authorities may disagree with our interpretation of data from preclinical studies and clinical trials;
- the FDA, EMA or comparable foreign regulatory authorities may not accept data generated at clinical trial sites;
- if our BLA, when submitted, is reviewed by an advisory committee, the FDA may have difficulties scheduling an advisory committee meeting in a timely manner or the advisory committee may recommend against approval of our application or may recommend that the FDA require, as a condition of approval, additional preclinical studies or clinical trials, limitations on approved labeling or distribution and use restrictions;
- the FDA, EMA or comparable foreign regulatory authorities may require development of a risk evaluation and mitigation strategy, or REMS, as a condition of approval;
- the FDA, EMA or comparable foreign regulatory authorities may identify deficiencies in the manufacturing processes or facilities of our third-party manufacturers, including non-compliance with current Good Manufacturing Practices, or cGMPs; or
- the FDA, EMA or comparable foreign regulatory authorities may change their respective approval policies or adopt new regulations.

Of the large number of drugs in development in the pharmaceutical industry, only a small percentage result in the submission of a BLA to the FDA and even fewer are approved for commercialization. Furthermore, even if we do receive regulatory approval to market IFX-1, any such approval may be subject to limitations on the indicated uses or patient populations for which we may market the product. Accordingly, even if we are able to obtain the requisite financing to continue to fund our development programs, we cannot assure you that IFX-1 will be successfully developed or commercialized.

Moreover, principal investigators for our clinical trials may serve as scientific advisors or consultants to us from time to time and receive compensation in connection with such services. Under certain circumstances, we may be required to report some of these relationships to the FDA or other regulatory authority. The FDA or other regulatory authority may conclude that a principal investigator, potentially including because of a financial relationship with us, has a conflict of interest that has affected interpretation of the study. The FDA or other regulatory authority may therefore question the integrity of the data generated at the applicable clinical trial site and the utility of the clinical trial itself may be jeopardized. This could result in a delay in approval, or rejection, of our marketing applications by the FDA or other regulatory authority, as the case may be, and may ultimately lead to the denial of marketing approval of one or more of our product candidates.

Any delay in obtaining or failure to obtain required approvals could negatively impact our ability or that of any future collaborators to generate revenue from the particular product candidate, which likely would result in significant harm to our financial position and adversely impact our share price.

Some of our conclusions regarding the potential efficacy of IFX-1 are based on retrospective analyses, which are generally considered less reliable indicators of efficacy than pre-specified analyses.

Following completion of our international SHINE Phase IIb study investigating the safety and efficacy of IFX-1 in patients suffering from moderate to severe Hidradenitis Suppurativa (HS), in which the primary endpoint was not met, we performed a post-hoc analysis. That analysis showed multiple signals of efficacy for the IFX-1 high dose group compared to the placebo group within the initial phase of the SHINE study, including reductions in all combined inflammatory lesions and draining fistula and on the International Hidradenitis Suppurativa Severity Score 4 (IHS4). The IHS4 scores all inflammatory lesions and has been developed by an international expert group to score severity and track treatment response, although it has not been utilized as a primary endpoint in late stage clinical trials in HS, nor has it served as the basis of regulatory approval of a product for HS.

Although we believe that these additional analyses were warranted, a retrospective analysis performed after unblinding trial results can result in the introduction of bias if the analysis is inappropriately tailored or influenced by knowledge of the data and actual results. In particular, the analysis that resulted in a clinically meaningful effect being observed was not pre-specified in the trial design.

Because of these limitations, regulatory authorities typically give greatest weight to results from pre-specified analyses and less weight to results from post-hoc, retrospective analyses. As a result, even if IFX-1 provides confirmatory results for the high dose group compared to the placebo group, the post-hoc nature of our analysis could negatively impact the evaluation by the EMA or the FDA.

We depend on enrollment of patients in our clinical studies for our product candidates. If we encounter difficulties enrolling patients in our clinical trials, our clinical development activities could be delayed or otherwise adversely affected.

We will also be required to identify and enroll a sufficient number of patients with HS, AAV, PG and within our planned oncology indication for our planned clinical trials of IFX-1 in these indications. Some of these are rare disease indications or indication with a relatively small patient population. Trial participant enrollment could be limited in future trials given that many potential participants may be ineligible because they are already undergoing treatment with approved medications, or are participating in other clinical trials.

Patient enrollment is affected by other factors, including

- severity of the disease under investigation;
- design of the clinical trial protocol;
- size and nature of the patient population;

- eligibility criteria for the trial in question;
- perceived risks and benefits of the product candidate under trial;
- perceived safety and tolerability of the product candidate;
- proximity and availability of clinical trial sites for prospective patients;
- availability of competing therapies and clinical trials;
- clinicians' and patients' perceptions as to the potential advantages of the drug being studied in relation to other available therapies, including standard-of-care and any new drugs that may be approved for the indications we are investigating;
- efforts to facilitate timely enrollment in clinical trials;
- patient referral practices of physicians; and
- our ability to monitor patients adequately during and after treatment.

Further, there are only a limited number of specialist physicians who treat patients with these diseases and major clinical centers are concentrated in a few geographic regions. We also may encounter difficulties in identifying and enrolling such patients with a stage of disease appropriate for our ongoing or future clinical trials. In addition, the process of finding and diagnosing patients may prove costly. Our inability to enroll a sufficient number of patients for any of our clinical trials would result in significant delays or may require us to abandon one or more clinical trials.

We have experienced slower recruitment in the clinical trials of IFX-1 for AAV and PG than anticipated because of low disease prevalence and difficulties in diagnosis. Further delays in the completion of any clinical trials will increase our costs, slow down our product candidate development and delay or potentially jeopardize our ability to commence marketing and generate revenue. In addition, we may not be able to initiate or continue clinical trials required by the FDA, EMA or other foreign regulatory agencies for IFX-1 or any of our other product candidates that we pursue if we are unable to locate and enroll a sufficient number of eligible patients to participate in these clinical trials.

Even if one of our product candidates receives marketing approval, it may fail to achieve the degree of market acceptance by physicians, patients, third-party payors and others in the medical community necessary for commercial success, in which case we may not generate significant revenues or become profitable.

Even if IFX-1 or any of our other product candidates is approved by the appropriate regulatory authorities for marketing and sale, it may nonetheless fail to gain sufficient market acceptance by physicians, patients, third-party payors and others in the medical community. As a general proposition, physicians are often reluctant to switch their patients from existing therapies (such as for the treatment of HS) even when new and potentially more effective or convenient treatments enter the market. Further, patients often acclimate to the therapy that they are currently taking and do not want to switch unless their physicians recommend switching therapy or they are required to switch therapies due to lack of reimbursement for existing therapies. Adalimumab is the only drug approved for the treatment of HS, and even if we are able to obtain marketing approval of IFX-1 for the treatment of HS, we may not be able to successfully convince physicians or patients to switch from adalimumab to IFX-1. Further, we may face a lack of acceptance by the physician community of the efficacy of targeting C5a to inhibit terminal complement activation compared to targeting C5, which is well established in clinical practice (such as eculizumab). In addition, IFX-1 may not be accepted by physicians or patients if we cannot demonstrate, or if IFX-1 is perceived as not having, strong duration of effect, including compared to existing treatments for HS. The duration of effect of IFX-1 has only been studied prospectively for durations less than the expected duration of any pivotal Phase III clinical trials that we may undertake in the future. It is possible that the effects seen in shorter term clinical trials will not be replicated at

later time points or in larger clinical trials. Further, even if we are able to demonstrate our product candidates' safety and efficacy to the FDA and other regulators, safety concerns in the medical community may hinder market acceptance.

Efforts to educate the medical community and third-party payors on the benefits of our product candidates may require significant resources, including management time and financial resources, and may not be successful. If any of our product candidates is approved but does not achieve an adequate level of market acceptance, we may not generate significant revenues and we may not become profitable. The degree of market acceptance of our product candidates, if approved for commercial sale, will depend on a number of factors, including:

- the efficacy and safety of the product;
- the potential advantages of the product compared to competitive therapies, notwithstanding success in meeting or exceeding clinical trial endpoints;
- the prevalence and severity of any side effects;
- whether the product is designated under physician treatment guidelines as a first-, second- or third-line therapy;
- our ability, or the ability of any future collaborators, to offer the product for sale at competitive prices;
- the product's convenience and ease of administration compared to alternative treatments;
- the willingness of the target patient population to try, and of physicians to prescribe, the product;
- limitations or warnings, including distribution or use restrictions contained in the product's approved labeling;
- the strength of sales, marketing and distribution support;
- changes in the standard of care for the targeted indications for the product; and
- availability and amount of coverage and reimbursement from government payors, managed care plans and other third-party payors.

The failure of any of our product candidates, if approved, to find market acceptance would harm our business and could require us to seek additional financing.

Even if we, or any future collaborators, are able to commercialize any product candidate that we, or they, develop, the product may become subject to unfavorable pricing regulations or third-party payor coverage and reimbursement policies, any of which could harm our business.

Patients who are provided medical treatment for their conditions generally rely on third-party payors to reimburse all or part of the costs associated with their treatment. Therefore, our ability, and the ability of any future collaborators, to commercialize any of our product candidates will depend in part on the extent to which coverage and reimbursement for these products and related treatments will be available from third-party payors including government health administration authorities and public or private health coverage insurers. Third-party payors decide which medications they will cover and establish reimbursement levels. We cannot be certain that reimbursement will be available for IFX-1 or any of our product candidates. Also, we cannot be certain that less fulsome reimbursement policies will not reduce the demand for, or the price we can charge for, our products, if approved. The insur-

ance coverage and reimbursement status of newly-approved products for orphan diseases is particularly uncertain and failure to obtain or maintain adequate coverage and reimbursement for IFX-1 or any other product candidates could limit our ability to generate revenue.

If coverage and reimbursement are not available, or reimbursement is available only to limited levels, we, or any future collaborators, may not be able to successfully commercialize our product candidates. Even if coverage is provided, the approved reimbursement amount may not be high enough to allow us, or any future collaborators, to establish or maintain pricing sufficient to realize a sufficient return on our or their investments. In the United States, no uniform policy of coverage and reimbursement for products exists among third-party payors and coverage and reimbursement for products can differ significantly from payor to payor. As a result, the coverage determination process is often a time-consuming and costly process that will require us to provide scientific and clinical support for the use of our products to each payor separately, with no assurance that coverage and adequate reimbursement will be applied consistently or obtained in the first instance.

There is significant uncertainty related to third-party payor coverage and reimbursement of newly approved drugs. Marketing approvals, pricing and reimbursement for new drug products vary widely from country to country. Some countries require approval of the sale price of a drug before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we, or any future collaborators, might obtain marketing approval for a product in a particular country, but then be subject to price regulations that delay commercial launch of the product, possibly for lengthy time periods, which may negatively impact the revenues we are able to generate from the sale of the product in that country. Adverse pricing limitations may hinder our ability or the ability of any future collaborators to recoup our or their investment in one or more product candidates, even if our product candidates obtain marketing approval.

The healthcare industry is acutely focused on cost containment, both in the United States and elsewhere. Government authorities and other third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications, which could affect our ability or that of any future collaborators to sell our product candidates profitably. These payors may not view our products, if any, as cost-effective, and coverage and reimbursement may not be available to our customers, or those of any future collaborators, or may not be sufficient to allow our products, if any, to be marketed on a competitive basis. Cost-control initiatives could cause us, or any future collaborators, to decrease the price we, or they, might establish for products, which could result in lower than anticipated product revenues. If the prices for our products, if any, decrease or if governmental and other third-party payors do not provide coverage or adequate reimbursement, our prospects for revenue and profitability will suffer.

There may also be delays in obtaining coverage and reimbursement for newly approved drugs, and coverage may be more limited than the indications for which the drug is approved by the FDA or comparable foreign regulatory authorities. Moreover, eligibility for reimbursement does not imply that any drug will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution. Reimbursement rates may vary, by way of example, according to the use of the product and the clinical setting in which it is used. Reimbursement rates may also be based on reimbursement levels already set for lower cost drugs or may be incorporated into existing payments for other services.

In addition, increasingly, third-party payors are requiring higher levels of evidence of the benefits and clinical outcomes of new technologies and are challenging the prices charged. We cannot be sure that coverage will be available for any product candidate that we, or any future collaborator, commercialize and, if available, that the reimbursement rates will be adequate. Further, the net reimbursement for drug products may be subject to additional reductions if there are changes to laws that presently restrict imports of drugs from countries where they may be sold at lower prices than in the United States. An inability to promptly obtain coverage and adequate payment rates from both government-

funded and private payors for any of our product candidates for which we, or any future collaborator, obtain marketing approval could significantly harm our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

If any product liability lawsuits are successfully brought against us or any of our collaboration partners, we may incur substantial liabilities and may be required to limit commercialization of our product candidates.

We face an inherent risk of product liability lawsuits related to the testing of our product candidates in seriously ill patients and will face an even greater risk if our product candidates are approved by regulatory authorities and introduced commercially. Product liability claims may be brought against us or our partners by participants enrolled in our clinical trials, patients, health care providers or others using, administering or selling any of our future approved products. If we cannot successfully defend ourselves against any such claims, we may incur substantial liabilities.

If any of our product candidates are approved for commercial sale, we will be highly dependent upon consumer perceptions of us and the safety and quality of our products. We could be adversely affected if we are subject to negative publicity associated with illness or other adverse effects resulting from patients' use or misuse of our products or any similar products distributed by other companies.

Although we maintain product liability insurance coverage, this insurance may not fully cover potential liabilities that we may incur. The cost of any product liability litigation or other proceeding, even if resolved in our favor, could be substantial. We will need to increase our insurance coverage if we commercialize any product that receives marketing approval. In addition, insurance coverage is becoming increasingly expensive. If we are unable to maintain sufficient insurance coverage at an acceptable cost or to otherwise protect against potential product liability claims, it could prevent or inhibit the development and commercial production and sale of our product candidates, which could harm our business, financial condition, results of operations and prospects.

We currently have no marketing, sales or distribution infrastructure with respect to our product candidates. If we are unable to develop our sales, marketing and distribution capability on our own or through collaborations with marketing partners, we will not be successful in commercializing our product candidates.

We currently have no marketing, sales or distribution capabilities and have limited sales or marketing experience within our organization. If any of our product candidates is approved, we intend either to establish a sales and marketing organization with technical expertise and supporting distribution capabilities to commercialize any such candidate, or to outsource this function to a third-party. Either of these options would be expensive and time consuming. Some or all of these costs may be incurred in advance of any approval of our product candidates, including our lead candidate IFX-1. In addition, we may not be able to hire a sales force in the United States, Europe or other target market that is sufficient in size or has adequate expertise in the medical markets that we intend to target. These risks may be particularly pronounced due to our focus on our initial indications of HS and AAV for IFX-1, as well as additional focus on PG and oncology, each of which are disease areas with relatively small patient populations. Any failure or delay in the development of our or third-parties' internal sales, marketing and distribution capabilities would adversely impact the commercialization of IFX-1 and other future product candidates.

With respect to our existing and future product candidates, we may choose to collaborate with third-parties that have direct sales forces and established distribution systems, either to augment or to serve as an alternative to our own sales force and distribution systems. Our product revenue may be lower than if we directly marketed or sold any approved products. In addition, any revenue we receive will depend in whole or in part upon the efforts of these third-parties, which may not be successful and are generally not within our control. If we are unable to enter into these arrangements on acceptable terms or at all, we may not be able to successfully commercialize any approved products. If we are not

successful in commercializing any approved products, our future product revenue will suffer and we may incur significant additional losses.

We may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.

We have limited financial and managerial resources, and therefore we intend to focus on developing product candidates for specific indications that we identify as most likely to succeed, in terms of both their potential for marketing approval and commercialization. As a result, we may forego or delay pursuit of opportunities with other product candidates or for other indications that may prove to have greater commercial potential.

Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research and development programs and product candidates for specific indications may not yield any commercially viable product candidates. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to the product candidate.

Clinical development involves a lengthy and expensive process, with an uncertain outcome. We may incur additional costs or experience delays in completing, or ultimately be unable to complete, the development and commercialization of IFX-1 or any future product candidate we may develop.

The risk of failure for IFX-1 and any other future product candidates we may develop is high. It is impossible to predict when or if IFX-1 will prove to be effective and safe in humans or will receive regulatory approval for the treatment of HS, AAV, PG, an oncology indication or other new indications. Additionally, before regulatory authorities grant marketing approval for IFX-1, for any future indications, or any future product candidate that we seek to develop, we will be required to conduct extensive clinical trials to demonstrate safety and efficacy in humans. Clinical testing is expensive, difficult to design and implement, can take many years to complete and is inherently uncertain as to outcome. With regard to a potential Phase III clinical trial in HS, it is unclear whether FDA will approve an alternative primary endpoint, change in dosage, and even in the event approval is received, how many trials and patients will be required for approval. Moreover, preclinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that believed their product candidates performed satisfactorily in preclinical studies and clinical trials have nonetheless failed to obtain marketing approval of their drugs.

We may experience numerous unforeseen events during or as a result of the regulatory approval process that could delay or prevent our ability to receive marketing approval from regulators or commercialize IFX-1 or any future product candidate, including:

- regulators or institutional review boards may not authorize us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- clinical trials of our product candidates may produce negative or inconclusive results, including failure to demonstrate statistical significance, and we may decide, or regulators may require us, to conduct additional clinical trials or abandon drug development programs;
- our product candidates may have undesirable side effects or other unexpected characteristics, causing us or our investigators, regulators or institutional review boards to suspend or terminate the trials;
- our third-party contractors may fail to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all; and

- regulators or institutional review boards may require that we or our investigators suspend or terminate clinical development for various reasons, including noncompliance with regulatory requirements or a finding that the participants are being exposed to unacceptable health risks.

We could also encounter delays if a clinical trial is suspended or terminated by us, by the institutional review boards of the institutions in which such trials are being conducted, by the data safety monitoring board for such trial or by the FDA or other regulatory authorities. Such authorities may impose such a suspension or termination due to a number of factors, including failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols, inspection of the clinical trial operations or trial site by the FDA or other regulatory authorities resulting in the imposition of a clinical hold, unforeseen safety issues or adverse side effects, failure to demonstrate a benefit from using a drug, changes in governmental regulations or administrative actions or lack of adequate funding to continue the clinical trial. If we experience delays in the completion of, or termination of, any clinical trial of our product candidates, the commercial prospects of our product candidates will be harmed, and our ability to generate drug revenues from any of these product candidates will be delayed. In addition, any delays in completing our clinical trials will increase our costs, slow down our product candidate development and approval process and jeopardize our ability to commence drug sales and generate revenues. Any of these occurrences may harm our business, financial condition and prospects significantly. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval.

Our product development costs will further increase if we experience delays in testing or marketing approvals. Significant clinical trial delays also could shorten any periods during which we may have the exclusive right to commercialize our product candidates or allow our competitors to bring drugs to market before we do and impair our ability to successfully commercialize our product candidates.

We are evaluating applications for orphan drug designation for IFX-1 in various indications, but we may be unable to obtain any such designation or to maintain the benefits associated with orphan drug status, including market exclusivity, even if that designation is granted.

We are evaluating applications for orphan drug designation for IFX-1 in various indications, and we may seek orphan drug designation for other preclinical product candidates in our pipeline or that we may develop. In the United States, orphan drug designation entitles a party to financial incentives such as opportunities for grant funding towards clinical trial costs, tax advantages, and user-fee waivers. After the FDA grants orphan drug designation, the generic identity of the drug and its potential orphan use are disclosed publicly by the FDA. Orphan drug designation does not convey any advantage in, or shorten the duration of, the FDA review and approval process. Although we are evaluating applications for orphan drug designation in various indications, there can be no assurance that we will obtain such designations. Moreover, obtaining orphan drug designation for one indication does not mean we will be able to obtain such designation for another indication.

If a product that has orphan drug designation from the FDA subsequently receives the first FDA approval for a particular active ingredient for the disease for which it has such designation, the product is entitled to orphan drug exclusivity, which means that the FDA may not approve any other applications, including a BLA, to market the same drug for the same indication for seven years, except in limited circumstances such as if the FDA finds that the holder of the orphan drug exclusivity has not shown that it can assure the availability of sufficient quantities of the orphan drug to meet the needs of patients with the disease or condition for which the drug was designated. Similarly, the FDA can subsequently approve a drug with the same active moiety for the same condition during the exclusivity period if the FDA concludes that the later drug is clinically superior, meaning the later drug is safer, more effective, or makes a major contribution to patient care. Even if we were to obtain orphan drug designation for IFX-1 from the FDA, we may not be the first to obtain marketing approval for any particular orphan indication due to the uncertainties associated with developing pharmaceutical products, and thus approval of IFX-1 could be blocked for seven years if another company obtains approval and orphan drug exclusivity for the same drug and same condition before us. If we do obtain exclusive

marketing rights in the United States, they may be limited if we seek approval for an indication broader than the orphan designated indication and may be lost if the FDA later determines that the request for designation was materially defective or if we are unable to assure sufficient quantities of the product to meet the needs of the relevant patients. Further, exclusivity may not effectively protect the product from competition because different drugs with different active moieties can be approved for the same condition, the same drugs can be approved for different indications and might then be used off-label in our approved indication, and different drugs for the same condition may already be approved and commercially available.

Even if we obtain FDA approval of IFX-1 or any of our other product candidates, we may never obtain approval or commercialize our products outside of the United States.

In order to market any approved products outside of the United States, we must establish and comply with numerous and varying regulatory requirements of other countries regarding clinical trial design, safety and efficacy. If approved by the relevant governmental authorities, we expect to market IFX-1 for the treatment of HS in Europe and jurisdictions outside the United States, in part due to the relatively larger patient population that exists in Europe as compared to that in the United States. Clinical trials conducted in one country may not be accepted by regulatory authorities in other countries, and regulatory approval in one country does not mean that regulatory approval will be obtained in any other country. Approval procedures vary among countries and can involve additional product testing and validation and additional administrative review periods. Seeking foreign regulatory approvals could result in significant delays, difficulties and costs for us and may require additional preclinical studies or clinical trials which would be costly and time consuming and could delay or prevent introduction of IFX-1 or any of our other product candidates in those countries. In addition, we expect to be subject to a variety of risks related to operating in foreign countries if we obtain the necessary approvals, including:

- differing regulatory requirements in foreign countries;
- the potential for so-called parallel importing, which is what happens when a local seller, faced with high or higher local prices, opts to import goods from a foreign market (with low or lower prices) rather than buying them locally;
- unexpected changes in tariffs, trade barriers, price and exchange controls and other regulatory requirements;
- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- foreign reimbursement, pricing and insurance regimes;
- compliance with tax, employment, immigration and labor laws for employees living or traveling abroad;
- foreign taxes, including withholding of payroll taxes;
- foreign currency fluctuations, which could result in increased operating expenses and reduced revenue, and other obligations incident to doing business in another country;
- difficulties staffing and managing foreign operations;
- workforce uncertainty in countries where labor unrest is more common than in the United States;
- potential liability under the Foreign Corrupt Practices Act of 1977 or comparable foreign regulations;

- challenges enforcing our contractual and intellectual property rights, especially in those foreign countries that do not respect and protect intellectual property rights to the same extent as the United States;
- production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad; and
- business interruptions resulting from geo-political actions, including war and terrorism.

If we or our partners fail to comply with regulatory requirements or to obtain and maintain required approvals, our target market will be reduced, including if we are unable to market IFX-1 for the treatment of HS in Europe or elsewhere, and our ability to realize the full market potential of our product candidates will be harmed.

We are subject to extensive government regulation and the failure to comply with these regulations may have a material adverse effect on our operations and business.

Both before and after approval of any product, we and our suppliers, contract manufacturers and clinical investigators are subject to extensive regulation by governmental authorities in the United States and other countries, covering, among other things, testing, manufacturing, quality control, clinical trials, post-marketing studies, labeling, advertising, promotion, distribution, import and export, governmental pricing, price reporting and rebate requirements. Failure to comply with applicable requirements could result in one or more of the following actions: warning letters; unanticipated expenditures; delays in approval or refusal to approve a product candidate; product recall or seizure; interruption of manufacturing or clinical trials; operating or marketing restrictions; injunctions; criminal prosecution and civil or criminal penalties including fines and other monetary penalties; adverse publicity; and disruptions to our business. Further, government investigations into potential violations of these laws would require us to expend considerable resources and face adverse publicity and the potential disruption of our business even if we are ultimately found not to have committed a violation.

Obtaining FDA, EMA or other regulatory agency approval of our product candidates requires substantial time, effort and financial resources and may be subject to both expected and unforeseen delays, and there can be no assurance that any approval will be granted on any of our product candidates on a timely basis, if at all. The FDA, EMA or other regulatory agencies may decide that our data are insufficient for approval of our product candidates and require additional preclinical, clinical or other studies or additional work related to chemistry, manufacturing and controls. If we are required to conduct additional trials or to conduct other testing of our product candidates beyond that which we currently contemplate for regulatory approval, if we are unable to complete successfully our clinical trials or other testing, or if the results of these and other trials or tests fail to demonstrate efficacy or raise safety concerns, we may face substantial additional expenses, be delayed in obtaining marketing approval for our product candidates or may never obtain marketing approval.

We are also required to comply with extensive governmental regulatory requirements after a product has received marketing authorization. Governing regulatory authorities may require post-marketing studies that may negatively impact the commercial viability of a product. Once on the market, a product may become associated with previously undetected adverse effects and/or may develop manufacturing difficulties. As a result of any of these or other problems, a product's regulatory approval could be withdrawn, which could harm our business and operating results.

Our current and future relationships with third-party payors, health care professionals and customers in the United States and elsewhere may be subject, directly or indirectly, to applicable anti-kickback, fraud and abuse, false claims, physician payment transparency, health information privacy and security and other healthcare laws and regulations, which could expose us to significant penalties.

Healthcare providers, physicians and third-party payors in the United States and elsewhere will play a primary role in the recommendation and prescription of any product candidates for which we

obtain marketing approval. Our current and future arrangements with health care professionals, third-party payors and customers may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations, including, without limitation, the federal Anti-Kickback Statute and the federal civil False Claims Act, that may constrain the business or financial arrangements and relationships through which we conduct clinical research, sell, market and distribute any drugs for which we obtain marketing approval. In addition, we may be subject to transparency laws and patient privacy regulation by the federal government and by the U.S. states and foreign jurisdictions in which we conduct our business. The applicable federal, state and foreign healthcare laws and regulations that may affect our ability to operate include the following:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons and entities from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, order or recommendation of, any good or service, for which payment may be made under federal and state healthcare programs, such as Medicare and Medicaid. A person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation. Further, several courts have interpreted the statute's intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of federal healthcare covered business, the Anti-Kickback Statute has been violated. Moreover, the government may assert that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the False Claims Act;
- federal civil and criminal false claims laws, including, without limitation, the federal civil False Claims Act (that can be enforced through civil whistleblower or qui tam actions), and the civil monetary penalties law, which impose criminal and civil penalties against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, including the Medicare and Medicaid programs, claims for payment that are false or fraudulent or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government;
- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, which imposes criminal and civil liability for, among other things, executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters. Similar to the federal Anti-Kickback Statute, a person or entity does not need to have actual knowledge of the statute or specific intent to violate it to have committed a violation;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, or HITECH, and their respective implementing regulations, which impose obligations on covered healthcare providers, health plans, and healthcare clearinghouses, as well as their business associates that create, receive, maintain or transmit individually identifiable health information for or on behalf of a covered entity, with respect to safeguarding the privacy, security and transmission of individually identifiable health information;
- the Physician Payments Sunshine Act, created under Section 6002 of Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively the Affordable Care Act, and its implementing regulations, which requires specified manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program, with specific exceptions, to report annually to the Centers for Medicare & Medicaid Services, or CMS, information related to payments or other "transfers of value" made to physicians, which is defined to include doctors, dentists, optometrists, podiatrists and chiropractors, and teaching hospitals and applicable manufacturers to report annually to CMS ownership and investment interests held by physicians and their immediate family members by the 90th day of each calendar year. All such reported information is publicly available; and

- analogous state and foreign laws and regulations, such as state anti-kickback and false claims laws, which may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers; state and foreign laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government or otherwise restrict payments that may be made to healthcare providers; state and foreign laws that require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and state and foreign laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Efforts to ensure that our business arrangements with third-parties will comply with applicable healthcare laws and regulations may involve substantial costs. It is possible that governmental authorities will conclude that our business practices, including our relationships with physicians and other healthcare providers, some of whom may recommend, purchase or prescribe IFX-1, if approved, may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations.

If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, including, without limitation, damages, fines, disgorgement, individual imprisonment, exclusion from participation in government healthcare programs, such as Medicare and Medicaid, additional reporting requirements and oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws and the curtailment or restructuring of our operations, which could have a material adverse effect on our business. If any of the physicians or other healthcare providers or entities with whom we expect to do business is found not to be in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from participation in government healthcare programs, which could also materially affect our business.

Recently enacted and future legislation may increase the difficulty and cost for us to obtain marketing approval of and commercialize IFX-1 and affect the prices we may obtain.

In the United States and some foreign jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval of IFX-1, restrict or regulate post-approval activities and affect our ability to profitably sell any product candidates for which we obtain marketing approval.

Among policy makers and payors in the United States and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and/or expanding access. In the United States, the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives. In March 2010, President Obama signed into law the Affordable Care Act, a sweeping law intended to broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for the healthcare and health insurance industries, impose new taxes and fees on the health industry and impose additional health policy reforms. Among the provisions of the Affordable Care Act of importance to our potential product candidates are the following:

- an annual, nondeductible fee on any entity that manufactures or imports certain branded prescription drugs and biologic agents, apportioned among these entities according to their market share in certain government healthcare programs;

- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program to 23.1% and 13.0% of the average manufacturer price for branded and generic drugs, respectively;
- expansion of healthcare fraud and abuse laws, including the False Claims Act and the Anti-Kickback Statute, which include, among other things, new government investigative powers and enhanced penalties for non-compliance;
- a Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 75% point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturer's outpatient drugs to be covered under Medicare Part D;
- extension of manufacturers' Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations;
- expansion of eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals, thereby potentially increasing manufacturers' Medicaid rebate liability;
- extension of manufacturers' Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations;
- expansion of eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals, thereby potentially increasing manufacturers' Medicaid rebate liability;
- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;
- the new requirements under the federal open payments program and its implementing regulations;
- a new requirement to annually report drug samples that manufacturers and distributors provide to physicians; and
- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research.

Some of the provisions of the Affordable Care Act have yet to be fully implemented, while certain provisions have been subject to judicial and Congressional challenges, as well as efforts by the Trump administration to repeal or replace certain aspects of the Affordable Care Act. Since January 2017, President Trump has signed two executive orders and other directives designed to delay, circumvent, or loosen certain requirements mandated by the Affordable Care Act. Concurrently, Congress has considered legislation that would repeal or repeal and replace all or part of the Affordable Care Act. While Congress has not passed repeal legislation, the Tax Cuts and Jobs Act of 2017 includes a provision repealing, effective January 1, 2019, the tax-based shared responsibility payment imposed by the Affordable Care Act on certain individuals who fail to maintain qualifying health coverage for all or part of a year that is commonly referred to as the "individual mandate." Additionally, on January 22, 2018, President Trump signed a continuing resolution on appropriations for fiscal year 2018 that delayed the implementation of certain ACA-mandated fees, including the so-called "Cadillac" tax on certain high cost employer-sponsored insurance plans, the annual fee imposed on certain health insurance providers based on market share, and the medical device excise tax on non-exempt medical devices. Congress may consider other legislation to repeal or replace elements of the Affordable Care Act. Although we cannot predict the ultimate content, timing or effect of any changes to the Affordable Care Act or other federal and state reform efforts, we continue to evaluate the effect that the Affordable Care Act, as

amended or replaced, will have on our business. In the coming years, additional legislative and regulatory changes could be made to governmental health programs that could significantly impact pharmaceutical companies and the success of our drug candidate.

In addition, other legislative changes have been proposed and adopted since the Affordable Care Act was enacted. These changes included aggregate reductions to Medicare payments to providers of 2% per fiscal year effective April 1, 2013 and, due to subsequent legislative amendments to the statute, will stay in effect through 2025, unless additional Congressional action is taken. In January 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, further reduced Medicare payments to several providers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These new laws may result in additional reductions in Medicare and other healthcare funding, which could have a material adverse effect on customers for our drugs, if approved, and, accordingly, our financial operations.

We expect that the Affordable Care Act, as well as other healthcare reform measures that may be adopted in the future, may result in more rigorous coverage criteria and in additional downward pressure on the price that we receive for any approved drug. Any reduction in reimbursement from Medicare or other government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our drugs.

Legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for drugs. In addition, there have been several recent Congressional inquiries and proposed federal and state legislation designed to, among other things, bring more transparency to drug pricing, review the relationship between pricing and manufacturer patient programs, reduce the cost of drugs under Medicare and reform government program reimbursement methodologies for drugs. At the federal level, Congress and the Trump administration have each indicated that it will continue to seek new legislative and/or administrative measures to control drug costs. At the state level, legislatures have become increasingly aggressive in passing legislation and implementing regulations designed to control pharmaceutical and biological product pricing, including price or patient reimbursement constraints, discounts, restrictions on certain product access and marketing cost disclosure and transparency measures, and, in some cases, designed to encourage importation from other countries and bulk purchasing. We cannot be sure whether additional legislative changes will be enacted, or whether the FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of IFX-1, if any, may be. In addition, increased scrutiny by the U.S. Congress of the FDA's approval process may significantly delay or prevent marketing approval, as well as subject us to more stringent drug labeling and post-marketing testing and other requirements.

Even if we, or any future collaborators, obtain marketing approvals for our product candidates, the terms of approvals and ongoing regulation of our products may limit how we manufacture and market our products, which could impair our ability to generate revenue.

Once marketing approval has been granted, an approved product and its manufacturer and marketer are subject to ongoing review and extensive regulation. We, and any future collaborators, must therefore comply with requirements concerning advertising and promotion for any of our product candidates for which we or they obtain marketing approval. Promotional communications with respect to prescription drugs are subject to a variety of legal and regulatory restrictions and must be consistent with the information in the product's approved labeling. Thus, we and any future collaborators will not be able to promote any products we develop for indications or uses for which they are not approved.

In addition, manufacturers of approved products and those manufacturers' facilities are required to comply with extensive FDA requirements, including ensuring that quality control and manufacturing procedures conform to current Good Manufacturing Practices, or cGMPs, which include requirements relating to quality control and quality assurance as well as the corresponding maintenance of records

and documentation and reporting requirements. We, our contract manufacturers, any future collaborators and their contract manufacturers could be subject to periodic unannounced inspections by the FDA to monitor and ensure compliance with cGMPs.

Accordingly, assuming we, or any future collaborators, receive marketing approval for one or more of our product candidates, we, and any future collaborators, and our and their contract manufacturers will continue to expend time, money and effort in all areas of regulatory compliance, including manufacturing, production, product surveillance and quality control.

Governments outside the United States tend to impose strict price controls, which may adversely affect our revenues, if any.

Outside of the United States, international operations are generally subject to extensive governmental price controls and other market regulations. In many countries, such as countries of the European Union, the pricing of prescription pharmaceuticals is subject to varying price control mechanisms, often as part of national health systems. Other countries allow companies to fix their own prices for medical products but monitor and control company profits. Pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we, or any future collaborators, may be required to conduct a clinical trial that compares the cost-effectiveness of our product to other available therapies. If reimbursement of our products is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, our business could be harmed. Additional foreign price controls or other changes in pricing regulation could restrict the amount that we are able to charge for our product candidates, and we believe the increasing emphasis on cost-containment initiatives in the Europe Union has and will continue to put pressure on the pricing and usage of our product candidates. As a result, given the relatively smaller target markets for HS and AAV, our initial indications for IFX-1, in the Europe Union and elsewhere outside the United States, any reduced reimbursement for such product candidates may be insufficient for us to generate commercially reasonable revenue and profits and would adversely affect our financial condition and results of operations.

Any of our product candidates for which we, or any future collaborators, obtain marketing approval in the future could be subject to post-marketing restrictions or withdrawal from the market and we, or any future collaborators, may be subject to substantial penalties if we, or they, fail to comply with regulatory requirements or if we, or they, experience unanticipated problems with our products following approval.

Any of our product candidates for which we, or any future collaborators, obtain marketing approval, as well as the manufacturing processes, post-approval studies and measures, labeling, advertising and promotional activities for such product, among other things, will be subject to ongoing requirements of and review by the FDA, the EMA and other regulatory authorities. These requirements include submissions of safety and other post-marketing information and reports, registration and listing requirements, requirements relating to manufacturing, quality control, quality assurance and corresponding maintenance of records and documents, requirements regarding the distribution of samples to physicians and recordkeeping. Even if marketing approval of a product candidate is granted, the approval may be subject to limitations on the indicated uses for which the product may be marketed or to the conditions of approval, including the requirement to implement a REMS.

The FDA, the EMA and other regulatory authorities may also impose requirements for costly post-marketing studies or clinical trials and surveillance to monitor the safety or efficacy of a product. The FDA and other agencies, including the Department of Justice, closely regulate and monitor the post-approval marketing and promotion of products to ensure that they are manufactured, marketed and distributed only for the approved indications and in accordance with the provisions of the approved labeling. The FDA imposes stringent restrictions on manufacturers' communications regarding off-label use and if we, or any future collaborators, do not market any of our product candidates for which we, or they, receive marketing approval for only their approved indications, we, or they, may be subject to

warnings or enforcement action for off-label marketing. Violation of the FDCA and other statutes relating to the promotion and advertising of prescription drugs may lead to investigations or allegations of violations of federal and state health care fraud and abuse laws and state consumer protection laws, including the False Claims Act.

In addition, later discovery of previously unknown adverse events or other problems with our products or their manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may yield various results, including:

- restrictions on the manufacturing of such products;
- restrictions on the labeling or marketing of such products;
- restrictions on product distribution or use;
- requirements to conduct post-marketing studies or clinical trials;
- warning letters or untitled letters;
- withdrawal of the products from the market;
- refusal to approve pending applications or supplements to approved applications that we submit;
- recall of products;
- restrictions on coverage by third-party payors;
- fines, restitution or disgorgement of profits or revenues;
- suspension or withdrawal of marketing approvals;
- refusal to permit the import or export of products;
- product seizure; or
- injunctions or the imposition of civil or criminal penalties.

Risks related to our dependence on third-parties

We rely on third-parties to conduct our clinical trials. If they do not perform satisfactorily, our business could be harmed.

We do not independently conduct clinical trials of any of our product candidates. We rely on third-parties, such as contract research organizations, or CROs, clinical data management organizations, medical institutions and clinical investigators, to conduct these clinical trials and expect to rely on these third-parties to conduct clinical trials of any other product candidate that we develop. Any of these third-parties may terminate their engagements with us under certain circumstances. We may not be able to enter into alternative arrangements or do so on commercially reasonable terms. In addition, there is a natural transition period when a new contract research organization begins work. As a result, delays would likely occur, which could negatively impact our ability to meet our expected clinical development timelines and harm our business, financial condition and prospects.

Further, although our reliance on these third-parties for clinical development activities limits our control over these activities, we remain responsible for ensuring that each of our trials is conducted in accordance with the applicable protocol, legal and regulatory requirements and scientific standards. For example, notwithstanding the obligations of a CRO for a trial of one of our product candidates, we

remain responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. Moreover, the FDA, the EMA and potentially other regulatory agencies of different countries require us to comply with requirements, commonly referred to as Good Clinical Practices, or GCPs, for conducting, recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. The FDA and regulatory agencies inside the European Union and other regulatory agencies enforce these GCPs through periodic inspections of trial sponsors, principal investigators, clinical trial sites and IRBs. If we or our third-party contractors fail to comply with applicable GCPs, the clinical data generated in our clinical trials may be deemed unreliable and the FDA or other regulatory agencies may require us to perform additional clinical trials before approving our product candidates, which would delay the marketing approval process. We cannot be certain that, upon inspection, the FDA or other regulatory agencies will determine that any of our clinical trials comply with GCPs. We are also required to register clinical trials and post the results of completed clinical trials on a government-sponsored database, such as ClinicalTrials.gov in the United States, within certain timeframes. Failure to do so can result in fines, adverse publicity and civil and criminal sanctions.

Furthermore, the third-parties conducting clinical trials on our behalf are not our employees, and except for remedies available to us under our agreements with such contractors, we cannot control whether or not they devote sufficient time, skill and resources to our ongoing development programs. These contractors may also have relationships with other commercial entities, including our competitors, for whom they may also be conducting clinical trials or other drug development activities, which could impede their ability to devote appropriate time to our clinical programs. If these third-parties, including clinical investigators, do not successfully carry out their contractual duties, meet expected deadlines or conduct our clinical trials in accordance with regulatory requirements or our stated protocols, we may not be able to obtain, or may be delayed in obtaining, marketing approvals for our product candidates. If that occurs, we will not be able to, or may be delayed in our efforts to, successfully commercialize our product candidates. In such an event, our financial results and the commercial prospects for any product candidates that we seek to develop could be harmed, our costs could increase and our ability to generate revenues could be delayed, impaired or foreclosed.

We are subject to manufacturing risks and use of third-parties to manufacture our product candidates may increase the risk that we will not have sufficient quantities of our product candidates, products, or necessary quantities at an acceptable cost.

We do not own or operate manufacturing facilities for the production of clinical or commercial quantities of our product candidates, and we lack the resources and the capabilities to do so. As a result, we currently rely on third-parties located in China for supply of IFX-1. Our current strategy is to outsource all manufacturing of our product candidates and products to third-parties while conducting certain quality control tests within our in-house manufacturing processes. As a result of the current global pandemic, the supply chain and manufacturing in China may impact our operations.

The process of manufacturing our products is complex, highly regulated and subject to several risks. The process of manufacturing biologics, such as IFX-1, is extremely susceptible to product loss due to contamination, equipment failure or improper installation or operation of equipment, vendor or operator error, inconsistency in yields, variability in product characteristics and difficulties in scaling the production process. Even minor deviations from normal manufacturing processes could result in reduced production yields, product defects and other supply disruptions. If microbial, viral or other contaminations are discovered in our product candidates or in the manufacturing facilities in which our product candidates are made, such manufacturing facilities may need to be closed for an extended period of time to investigate and remedy the contamination. Further, our product candidates that have been produced and are stored for later use may degrade, become contaminated or suffer other quality defects, which may cause the affected product candidates to no longer be suitable for their intended use in clinical trials or other development activities. If the defective product candidates cannot be replaced in a timely fashion, we may incur significant delays in our development programs that could adversely affect the value of such product candidates.

We currently engage third-party manufacturers to provide the final drug product formulation of IFX-1 that is being used in our clinical trials. Although we believe that there are several potential alternative manufacturers who could manufacture IFX-1, we may incur added costs and delays in identifying and qualifying any such replacement. We currently have a sole manufacturer for the clinical supply of IFX-1, which is located in China. There is no assurance that we will be able to timely secure needed alternative supply arrangements on satisfactory terms, or at all. Our reliance on one manufacturer and our failure to secure alternative supply arrangements as needed could have a material adverse effect on our ability to complete the development of our product candidates or, to commercialize them, if approved. There may be difficulties in scaling up to commercial quantities or optimization of processes and formulation of IFX-1 and the costs of manufacturing could be prohibitive. The current pandemic, impacting China and the globe, could impact supply, depending on how much is required for ongoing and future trials, as well as, any potential commercialization.

Even if we are able to establish and maintain arrangements with third-party manufacturers, reliance on third-party manufacturers entails additional risks beyond our control, including, but not limited to:

- reliance on third-parties for manufacturing process development, regulatory compliance and quality assurance;
- costs and validation of new equipment and facilities required for additional scale-up or optimization of processes;
- failure to comply with cGMP and similar foreign standards;
- limitations on supply availability resulting from capacity and scheduling constraints of third-parties;
- lack of qualified backup suppliers for those components that are currently purchased from a sole or single source supplier;
- closures and restrictions on critical facilities resulting from public health crises;
- the possible breach of manufacturing agreements by third-parties because of factors beyond our control; and
- the possible termination or non-renewal of the manufacturing agreements by the third-party, at a time that is costly or inconvenient to us, and our ability to obtain alternative supply.

If we do not maintain our key manufacturing relationships, we may fail to find replacement manufacturers or develop our own manufacturing capabilities, which could delay or impair our ability to obtain regulatory approval for our products. If we do find replacement manufacturers, we may not be able to enter into agreements with them on terms and conditions favorable to us and there could be a substantial delay before new facilities could be qualified and registered with the FDA and other foreign regulatory authorities. In addition, a change of the manufacturing facility contains inherent risks and is generally viewed as a major change in the manufacturing process such that comparability studies have to be conducted to assure comparability between the before established manufacturing process and the newly established manufacturing process potentially causing delays in the drug product supply or, in case of a non-comparability of the manufactured drug product, warrant further additional pre-clinical and or clinical studies with such non-comparable drug product which may also be imposed by any regulatory agency upon review of the comparability data.

We participate in the manufacturing process with crucial quality control testing within our own laboratories, and we hold the manufacturer license for, and therefore oversee, the overall manufacturing process, and we are responsible for ensuring that this part of our business also operates according to GMP standards. Additionally, we currently hold an importing license. We therefore employ key

personnel within the manufacturing process such as a head of quality assurance, a head of manufacturing, and a qualified person.

Thus, our laboratories and our quality control system and related documentation and personnel, are also subject to frequent governmental inspections to assure adherence to GMP guidelines and to maintain our manufacturing and importing license. Related to these activities, there are risks which could negatively impact our ability to meet our expected clinical development timelines and harm our business, financial condition and prospects, including, but not limited to, the following risks:

- a loss of key personnel within the manufacturing activities could result in significant delays in the manufacturing and release testing of our drug candidate and replacement of such personnel could be time consuming and be associated with additional costs for us;
- mistakes or misconduct within the release testing could result in false results which could result in both, the wrongful rejection of a manufactured drug product from being released or the wrongful acceptance of a dysfunctional drug product, causing data and trial results achieved with such drug product being false and potentially wrongly interpreted; and
- an inadequate GMP compliance could result in a potential temporary or permanent loss of the manufacturing or importing license resulting from an inspection of regulatory agencies.

Our third-party manufacturers, or we, may not be able to comply with the cGMP regulatory requirements applicable to IFX-1 and biologics, including applicable provisions of the FDA's drug cGMP regulations, device cGMP requirements embodied in the Quality System Regulation, or QSR, or similar regulatory requirements outside the United States. Our failure, or the failure of our third-party manufacturers, to comply with applicable regulations could result in sanctions being imposed on us, including clinical holds, fines, injunctions, civil penalties, delays, suspension or withdrawal of approvals, seizures or voluntary recalls of product candidates, operating restrictions and criminal prosecutions, any of which could significantly affect supplies of our product candidates. In addition, our third-party manufacturers and suppliers and we are subject to FDA and other local regulatory authority inspection from time to time. Failure by our third-party manufacturers and suppliers or us to pass such inspections and otherwise satisfactorily complete the FDA approval regimen with respect to our product candidate may result in regulatory actions such as the issuance of FDA Form 483 notices of observations, warning letters or injunctions or the loss of operating licenses. In addition, we and our third-party manufacturers and suppliers are subject to numerous environmental, health and safety laws and regulations, including those governing the handling, use, storage, treatment and disposal of waste products, and failure to comply with such laws and regulations could result in significant costs associated with civil or criminal fines and penalties for such third-parties. Based on the severity of the regulatory action, our clinical or commercial supply of drug and packaging and other services could be interrupted or limited, which could have a material adverse effect on our business, including our clinical research activities and our ability to develop our product candidates and market our products following approval, if any.

If any third-party manufacturer of our product candidates is unable to increase the scale of its production of our product candidates, and/or increase the product yield of its manufacturing, then our costs to manufacture the product may increase and commercialization may be delayed.

In order to produce sufficient quantities to meet the demand for clinical trials and, if approved, subsequent commercialization of IFX-1 or any of our other product candidates in our pipeline or that we may develop, our third-party manufacturers will be required to increase their production and optimize their manufacturing processes while maintaining the quality of the product. The transition to larger scale production could prove difficult or costly. Further, any claims in our manufacturing process as a result of scaling up or optimization of the manufacturing, supply and fill process may result in the need to obtain regulatory approvals. If our third-party manufacturers are not able to optimize manufacturing process to increase the product yield for our product candidates, or are unable to produce increased amounts of our product candidates while maintaining the quality of the product, then

we may not be able to meet the demands of clinical trials or market demands, which could decrease our ability to generate profits. Difficulty in achieving commercial scale-up production or production optimization or the need for additional regulatory approvals as a result could have a material adverse impact on our business and results of operations.

We expect to seek to establish collaborations and, if we are not able to establish them on commercially reasonable terms, we may have to alter our development and commercialization plans.

We expect to seek one or more collaborators for the development and commercialization of one or more of our product candidates. Likely collaborators may include large and mid-size pharmaceutical companies, regional and national pharmaceutical companies and biotechnology companies. In addition, if we obtain marketing approval for product candidates from foreign regulatory authorities, we may enter into strategic relationships with international biotechnology or pharmaceutical companies for the commercialization of such product candidates outside of the United States.

We face significant competition in seeking appropriate collaborators. Whether we reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the collaborator's resources and expertise, the terms and conditions of the proposed collaboration and the proposed collaborator's evaluation of a number of factors. Those factors may include the potential differentiation of our product candidate from competing product candidates, design or results of clinical trials, the likelihood of approval by the FDA, the EMA or comparable foreign regulatory authorities and the regulatory pathway for any such approval, the potential market for the product candidate, the costs and complexities of manufacturing and delivering the product to patients and the potential of competing products. The collaborator may also consider alternative product candidates or technologies for similar indications that may be available for collaboration and whether such a collaboration could be more attractive than the one with us for our product candidate. If we elect to increase our expenditures to fund development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms or at all. If we do not have sufficient funds, we may not be able to further develop our product candidates or bring them to market and generate product revenue.

Collaborations are complex and time-consuming to negotiate and document. Further, there have been a significant number of recent business combinations among large pharmaceutical companies that have may resulted in a reduced number of potential future collaborators. Any collaboration agreements that we enter into in the future may contain restrictions on our ability to enter into potential collaborations or to otherwise develop specified product candidates. We may not be able to negotiate collaborations on a timely basis, on acceptable terms, or at all.

If we are unable to do so, we may have to curtail the development of the product candidate for which we are seeking to collaborate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of any sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense.

If we enter into collaborations with third-parties for the development and commercialization of our product candidates, our prospects with respect to those product candidates will depend in significant part on the success of those collaborations.

We expect to maintain existing collaborations and enter into additional collaborations for the development and commercialization of certain of our product candidates and in certain geographies. For example, InflaRx has recently entered into a clinical trial and supply agreement with Merck (known as MSD outside the US and Canada) relating to an undisclosed indication in oncology. We may have limited control over the amount and timing of resources that our collaborators will dedicate to the development or commercialization of our product candidates. Our ability to generate revenues from these arrangements will depend on any future collaborators' abilities to successfully perform the functions assigned to them in these arrangements. In addition, any future collaborators may have the right

to abandon research or development projects and terminate applicable agreements, including funding obligations, prior to or upon the expiration of the agreed upon terms.

Collaborations involving our product candidates pose a number of risks, including the following:

- collaborators have significant discretion in determining the efforts and resources that they will apply to these collaborations;
- collaborators may not perform their obligations as expected;
- collaborators may not pursue development and commercialization of our product candidates or may elect not to continue or renew development or commercialization programs, based on clinical trial results, changes in the collaborators' strategic focus or available funding or external factors, such as an acquisition, that divert resources or create competing priorities;
- collaborators may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a product candidate, repeat or conduct new clinical trials or require a new formulation of a product candidate for clinical testing;
- collaborators could independently develop, or develop with third-parties, products that compete directly or indirectly with our product candidates;
- a collaborator with marketing and distribution rights to one or more products may not commit sufficient resources to the marketing and distribution of such product or products;
- disagreements with collaborators, including disagreements over proprietary rights, including trade secrets and other intellectual property, contract interpretation, or the preferred course of research and development might cause delays or termination of the research, development or commercialization of product candidates, might lead to additional responsibilities for us with respect to product candidates, or might result in litigation or arbitration, any of which would be time-consuming and expensive;
- collaborators may not properly prosecute, maintain, defend or enforce our intellectual property rights or may use our proprietary information or other intellectual property in such a way as to invite litigation that could jeopardize or invalidate our intellectual property or expose us to potential litigation;
- collaborators may infringe, misappropriate or otherwise violate the intellectual property rights of third-parties, which may expose us to litigation and potential liability;
- collaborations may be terminated and, if terminated, may result in a need for additional capital to pursue further development or commercialization of the applicable product candidates; and
- collaboration agreements may not lead to development or commercialization of product candidates in the most efficient manner or at all. If any future collaborator of ours is involved in a business combination, it could decide to delay, diminish or terminate the development or commercialization of any product candidate licensed to it by us.

We may be unsuccessful in evaluating material risks involved in future acquisitions.

We may, in the future, acquire companies and/or platforms that are complementary to our operational and customer needs. As part of the process, we may conduct business, legal and financial due diligence to identify and evaluate material risks involved in any particular transaction. Despite these efforts, we may be unsuccessful in ascertaining or evaluating all such risks. As a result, the intended advantages of any given acquisition may not be realized. If we fail to identify certain material risks from one or more acquisitions we may be exposed to significant costs and our business could be negatively impacted.

Risks related to our intellectual property

Our success depends on our ability to protect our intellectual property and proprietary anti-C5a technology.

Our success depends in large part on our ability to obtain, maintain, protect, defend and enforce patent, trade secret and other intellectual property protection in the United States and other countries with respect to IFX-1 and other proprietary product candidates. If we do not adequately protect, maintain, defend and enforce our intellectual property rights, competitors may be able to erode, negate or preempt any competitive advantage we may have, which could adversely affect our business and ability to achieve profitability. To seek to protect our proprietary position, we file patent applications in the United States and in certain other countries related to our novel product candidates that are important to our business. The patent application and approval process is expensive and time-consuming and we may not be able to file and prosecute all necessary or desirable patent applications and obtain and maintain issued patents at a reasonable cost or in a timely manner.

If the scope of the patent protection we obtain is not sufficiently broad, we may not be able to prevent others from developing and commercializing technology and products similar or identical to ours. The degree of patent protection we require to successfully compete in the marketplace may be unavailable or severely limited in some cases and may not adequately protect our rights or permit us to gain or keep any competitive advantage. Although we enter into non-disclosure and confidentiality agreements with parties who have access to confidential or patentable aspects of our research and development output, such as our employees, contractors and other third-parties, any of these parties could breach the agreements and disclose such output before a patent application is filed, which could jeopardize our ability to seek and obtain patent protection. In addition, publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing, or in some cases not at all. Therefore, we cannot be certain that we were the first to make the inventions claimed in our patents or pending patent applications, or that we were the first to file for patent protection of such inventions.

The patent position of biotechnology and pharmaceutical companies generally is highly uncertain, involves complex legal and factual questions, and has been the subject of much litigation in recent years. As a result, the issuance, scope, validity, enforceability, and commercial value of our patent rights may be uncertain. Our pending and future patent applications may not result in patents being issued which protect our technology or product candidates or which effectively prevent others from commercializing competitive technologies and product candidates. In addition, the coverage claimed in a patent application can be significantly reduced before the patent is issued, and its scope can be reinterpreted after issuance. Even if our patent applications issue as patents, they may not issue in a form that will provide us with any meaningful protection, prevent competitors or other third-parties from competing with us, or otherwise provide us with any competitive advantage. For example, there can be no assurance that our issued patents contain and pending patent applications will contain, when granted, claims of sufficient breadth to cover all antibodies alleged to be a biosimilar of our product candidates. Furthermore, there can be no assurance that our issued patents will not be challenged at the United States Patent and Trademark Office, or USPTO, or foreign patent offices or in court proceedings, and if any such challenge were successful, the scope of our issued patent claims could be limited so as to not cover antibodies alleged to be a biosimilar of our product candidates. In addition, changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents or narrow the scope of our patent protection. In addition, the laws of foreign countries may not protect our rights to the same extent or in the same manner as the laws of the United States. For example, patent laws in various jurisdictions, including significant commercial markets such as Europe, restrict the patentability of methods of treatment of the human body more than United States law does.

Some of our future patents and patent applications and other intellectual property may be co-owned with third-parties. If we are unable to obtain an exclusive license to any such third-party co-

owners' interest in such patents or patent applications or other intellectual property, such co-owners may be able to license their rights to other third-parties, including our competitors, and our competitors could market competing products and technology. In addition, we would need the cooperation of any such co-owners of our patents in order to enforce such patents against third-parties, and such cooperation may not be provided to us. Furthermore, we, or any future partners, collaborators, or licensees, may fail to identify patentable aspects of inventions made in the course of development and commercialization activities before it is too late to obtain patent protection on them. Therefore, we may miss potential opportunities to strengthen our patent position. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, and prospects.

Our patents covering our proprietary anti-C5a technology may be subject to challenge, narrowing, circumvention and invalidation by third-parties.

Any of our patents may be challenged, narrowed, circumvented, or invalidated by third-parties. The issuance of a patent is not conclusive as to its inventorship, scope, validity, or enforceability, and our patents may be challenged in the courts or patent offices in the United States and abroad. We may be subject to a third-party pre-issuance submission of prior art to the USPTO or become involved in opposition, derivation, revocation, reexamination, post-grant and inter partes review, or interference proceedings challenging our patent rights or the patent rights of others. An adverse determination in any such submission, proceeding or litigation could reduce the scope of, or invalidate, our patent rights, allow third-parties to commercialize our technology or products and compete directly with us, without payment to us, or result in our inability to manufacture or commercialize products without infringing third-party patent rights. Moreover, we may have to participate in interference proceedings declared by the USPTO to determine priority of invention or in post-grant challenge proceedings, such as oppositions in a foreign patent office, that challenge priority of invention or other features of patentability. Such challenges may result in loss of patent rights, loss of exclusivity, or in patent claims being narrowed, invalidated, or held unenforceable, which could limit our ability to stop others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of our technology and product candidates. Such proceedings also may result in substantial cost and require significant time from our scientists and management, even if the eventual outcome is favorable to us.

In addition, our competitors and other third-parties may be able to circumvent our patents by developing similar or alternative technologies or products in a non-infringing manner. For example, a third-party may develop a competitive therapy that provides benefits similar to IFX-1 or other product candidates but that uses a technology that falls outside the scope of our patent protection. Our competitors may also seek approval to market generic versions of any approved products and in connection with seeking such approval may claim that our patents are invalid, unenforceable or not infringed. In these circumstances, we may need to defend or assert our patents, or both, including by filing lawsuits alleging patent infringement. In any of these types of proceedings, a court or other agency with jurisdiction may find our patents invalid or unenforceable, or that our competitors are competing in a non-infringing manner. Thus, even if we have valid and enforceable patents, these patents still may not provide protection against competing products or processes sufficient to achieve our business objectives. If the patent protection provided by the patents and patent applications we hold or pursue with respect to our product candidates is not sufficiently broad to impede such competition, our ability to successfully commercialize our product candidates could be negatively affected, which could have a material adverse effect on our business, financial condition, results of operations, and prospects.

We cannot be sure that we were the first to make the anti-C5a technologies claimed in our patents or patent applications or that we were the first to file for patent protection.

Assuming the other requirements for patentability are met, currently, the first to file a patent application is generally entitled to the patent. However, prior to March 16, 2013, in the United States, the first to invent was entitled to the patent. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are not published until 18 months after filing, or in some cases not at all. Therefore, we cannot be certain

that we were the first to make the inventions claimed in our patents or pending patent applications, or that we were the first to file for patent protection of such inventions. Similarly, we cannot be certain that parties from whom we may license or purchase patent rights were the first to make relevant claimed inventions, or were the first to file for patent protection for them. If third-parties have filed patent applications on inventions claimed in our patents or applications on or before March 15, 2013, an interference proceeding in the United States can be initiated by such third-parties to determine who was the first to invent the subject matter covered our patent applications. If third-parties have filed such applications after March 15, 2013, a derivation proceeding in the United States can be initiated by such third-parties to determine whether our invention was derived from theirs.

The patent application process is subject to numerous risks and there can be no assurance that we will be successful in obtaining patents for which we have applied.

Pending patent applications cannot be enforced against third-parties practicing the technology claimed in such applications unless and until a patent issues from such applications. The patent application process is subject to numerous risks and uncertainties, and there can be no assurance that we or any of our future development partners will be successful in protecting our product candidates by obtaining and defending patents. These risks and uncertainties include the following:

- the USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other provisions during the patent process. There are situations in which noncompliance can result in abandonment or lapse of a patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. In such an event, competitors might be able to enter the market earlier than would otherwise have been the case;
- the coverage claimed in a patent application can be significantly reduced before the patent is issued, and its scope can be reinterpreted after issuance;
- patent applications may not result in any patents being issued;
- patents that may be issued or in-licensed may be challenged, invalidated, modified, revoked, circumvented, narrowed, found to be unenforceable or otherwise may not provide any competitive advantage;
- our competitors, many of whom have substantially greater resources and many of whom have made significant investments in competing technologies, may seek or may have already obtained patents that will limit, interfere with or eliminate our ability to make, use, and sell our potential product candidates;
- there may be significant pressure on the U.S. government and international governmental bodies to limit the scope of patent protection both inside and outside the United States for disease treatments that prove successful, as a matter of public policy regarding worldwide health concerns; and
- countries other than the United States may have patent laws less favorable to patentees than those upheld by U.S. courts, allowing foreign competitors a better opportunity to create, develop and market competing product candidates.

Any of the foregoing events could have a material adverse effect on our business, financial condition, results of operations, and prospects.

It is difficult and costly to protect our intellectual property and our proprietary anti-C5a technologies, and we may not be able to ensure their protection.

Our commercial success will depend in part on obtaining and maintaining patent protection and trade secret protection for the composition, use and structure of our product candidates, the methods

used to manufacture them, the related therapeutic targets and associated methods of treatment as well as on successfully defending these patents against potential third-party challenges. Our ability to protect our product candidates from unauthorized making, using, selling, offering to sell or importing by third-parties is dependent on the extent to which we have rights under valid and enforceable patents that cover these activities.

The ultimate determination by the USPTO or by a court or other trier of fact in the United States, or any corresponding foreign patent offices or courts or other triers of fact, on whether a claim meets all requirements of patentability cannot be assured. Although our C5a inhibitor portfolio consists of three families of patent applications that we own directed to C5a inhibitors and related methods of use, we cannot predict the breadth of claims that may be allowed or enforced in our patents or patent applications, in our future licensed patents or patent applications or in third-party patents.

We cannot provide assurances that any of our patent applications will be found to be patentable, including over our own prior art patents, publications or other disclosures, or will issue as patents. Furthermore, given the differences in patent laws in the United States, Europe and other foreign countries, for example, the availability of grace periods for filing patent applications and what can be considered as prior art, we cannot make any assurances as to the scope of any claims that may issue from our pending and future patent applications in the United States or in other jurisdictions. Similarly, we cannot make any assurances as to the scope of any claims that may survive a proceeding initiated by a third-party challenging the patentability, validity or enforceability of our patents and patent applications in the United States or in other jurisdictions. Any such challenge, if successful, could limit patent protection for our product candidates and/or materially harm our business.

The degree of future protection for our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- we may not be able to generate sufficient data to support patent applications that protect the entire breadth of developments in one or more of our programs, including our Hidradenitis Suppurativa (HS) program;
- it is possible that one or more of our pending patent applications will not become an issued patent or, if issued, that the patent(s) will be insufficient to protect our technology or products, provide us with a basis for commercially viable products or provide us with any competitive advantages;
- if our pending patent applications issue as patents, they may be challenged by third-parties as not infringed, invalid or unenforceable under United States or foreign laws; or
- if issued, the patents under which we hold rights may not be valid or enforceable.

In addition, to the extent that we are unable to obtain and maintain patent protection for one of our product candidates or in the event that such patent protection expires, it may no longer be cost-effective to extend our portfolio by pursuing additional development of a product or product candidate for follow-on indications. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, and prospects.

Obtaining and maintaining patent protection of our anti-C5a technologies depends on compliance with various procedural, document submission, fee payment and other requirements imposed by governmental patent agencies, and our patent protection could be reduced or eliminated for non-compliance with these requirements.

Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents and applications are required to be paid to the USPTO and various governmental patent agencies outside of the United States in several stages over the lifetime of the patents and applications. The

USPTO and various non-U.S. governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process and after a patent has issued. There are situations in which non-compliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. We may enter into certain license agreements where we will not have the ability to maintain or prosecute patents in the portfolio and must therefore rely on third-parties to take such actions and comply with certain requirements. Failure by us or our future or any existing licensors to maintain protection of our patent portfolio could have a material adverse effect on our business, financial condition, results of operations, and prospects.

In addition, it is possible that defects of form in the preparation or filing of our patents or patent applications may exist, or may arise in the future, for example with respect to proper priority claims, inventorship, claim scope, or requests for patent term adjustments. If we fail to establish, maintain or protect such patents and other intellectual property rights, such rights may be reduced, eliminated, invalid and/or unenforceable. If any of our present or future partners, collaborators, licensees, or licensors, are not fully cooperative or disagree with us as to the prosecution, maintenance or enforcement of any patent rights, such patent rights could be compromised. If there are material defects in the form, preparation, prosecution, or enforcement of our patents or patent applications, such patents may be invalid and/or unenforceable, and such applications may never result in valid, enforceable patents. Any of these outcomes could impair our ability to prevent competition from third-parties, which may have a material adverse effect on our business, financial condition, results of operations, and prospects.

Patent terms may be inadequate to protect our competitive position on our product candidates for an adequate amount of time and if we do not obtain protection under the Hatch-Waxman Amendments and similar non-U.S. legislation for extending the term of patents covering each of our product candidates, our business may be materially harmed.

Patents have a limited lifespan. In the United States, the natural expiration of a patent is generally twenty years after it is filed. Various extensions may be available, however, the life of a patent, and the protection it affords, is limited. Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our patent portfolio may not provide us with adequate and continuing patent protection sufficient to exclude others from commercializing products similar to our product candidates.

Depending upon the timing, duration and conditions of FDA marketing approval of our product candidates, one or more of our U.S. patents may be eligible for limited patent term extension under the Drug Price Competition and Patent Term Restoration Act of 1984, referred to as the Hatch-Waxman Amendments and similar legislation in the EU. The Hatch-Waxman Amendments permit a patent term extension of up to five years for a patent covering an approved product as compensation for effective patent term lost during product development and the FDA regulatory review process. A patent term extension cannot extend the remaining term of a patent beyond a total of 14 years from the date of product approval, only one patent may be extended and only those claims covering the approved drug, a method for using it, or a method for manufacturing it may be extended. In Europe, a maximum of five and a half years of supplementary protection can be achieved for an active ingredient or combinations of active ingredients of a medicinal product protected by a basic patent, if a valid marketing authorization exists (which must be the first authorization to place the product on the market as a medicinal product) and if the product has not already been the subject of supplementary protection. However, we may not receive an extension if we fail to apply within applicable deadlines, fail to apply prior to expiration of relevant patents or otherwise fail to satisfy applicable requirements. Moreover, the length of the extension could be less than we request. If we are unable to obtain patent term extension or the term of any such extension is less than we request, the period during which we can enforce our patent rights for that product will be shortened and our competitors may obtain approval to market competing products sooner. As a result, our revenue from applicable products could be reduced and could have a material adverse effect on our business, financial condition, results of operations, and prospects.

Changes to the patent law in the United States and other jurisdictions could diminish the value of patents in general, thereby impairing our ability to protect our product candidates.

As is the case with other biopharmaceutical companies, our success is heavily dependent on intellectual property, particularly patents. Obtaining and enforcing patents in the biopharmaceutical industry involves both technological and legal complexity and is therefore costly, time consuming and inherently uncertain. Recent patent reform legislation in the United States, including the Leahy-Smith America Invents Act, or the America Invents Act, could increase those uncertainties and costs. The America Invents Act was signed into law on September 16, 2011, and many of the substantive changes became effective on March 16, 2013. The America Invents Act reforms United States patent law in part by changing the U.S. patent system from a “first to invent” system to a “first inventor to file” system, expanding the definition of prior art, and developing a post-grant review system. This legislation changed United States patent law in a way that may weaken our ability to obtain patent protection in the United States for those applications filed after March 16, 2013.

Further, the America Invents Act created new procedures to challenge the validity of issued patents in the United States, including post-grant review and inter partes review proceedings, which some third-parties have been using to cause the cancellation of selected or all claims of issued patents of competitors. For a patent with an effective filing date of March 16, 2013 or later, a petition for post-grant review can be filed by a third-party in a nine-month window from issuance of the patent. A petition for inter partes review can be filed immediately following the issuance of a patent if the patent has an effective filing date prior to March 16, 2013. A petition for inter partes review can be filed after the nine-month period for filing a post-grant review petition has expired for a patent with an effective filing date of March 16, 2013 or later. Post-grant review proceedings can be brought on any ground of invalidity, whereas inter partes review proceedings can only raise an invalidity challenge based on published prior art and patents. These adversarial actions at the USPTO review patent claims without the presumption of validity afforded to U.S. patents in lawsuits in U.S. federal courts and use a lower burden of proof than used in litigation in U.S. federal courts. Therefore, it is generally considered easier for a competitor or third-party to have a U.S. patent invalidated in a USPTO post-grant review or inter partes review proceeding than invalidated in a litigation in a U.S. federal court. If any of our patents are challenged by a third-party in such a USPTO proceeding, there is no guarantee that we or our licensors or collaborators will be successful in defending the patent, which would result in a loss of the challenged patent right to us.

In addition, recent court rulings in cases such as *Association for Molecular Pathology v. Myriad Genetics, Inc.*, *BRCA1- & BRCA2-Based Hereditary Cancer Test Patent Litigation*, *Promega Corp. v. Life Technologies Corp.*, *Abbvie Deutschland GmbH v. Janssen Biotech, Inc.* and *Amgen v. Sanofi* have narrowed the scope of patent protection available in certain circumstances and weakened the rights of patent owners in certain situations. In addition to increasing uncertainty with regard to our ability to obtain patents in the future, this combination of events has created uncertainty with respect to the value of patents once obtained. Depending on future actions by the U.S. Congress, the U.S. courts, the USPTO and the relevant law-making bodies in other countries, the laws and regulations governing patents could change in unpredictable ways that would weaken our ability to obtain new patents or to enforce our existing patents and patents that we might obtain in the future. Any changes to patent law in the U.S. or other jurisdictions that impairs our ability to protect IFX-1 and other product candidates or their use in therapy could have a material adverse effect on our business, financial condition, results of operations, and prospects.

We may not be able to enforce our intellectual property rights throughout the world.

Filing, prosecuting, maintaining, enforcing and defending patents on our product candidates in all countries throughout the world would be prohibitively expensive, and our intellectual property rights in some countries outside the United States can be less extensive than those in the United States. The requirements for patentability may differ in certain countries, particularly in developing countries; thus, even in countries where we do pursue patent protection, there can be no assurance that any patents will issue with claims that cover our product candidates.

Moreover, our ability to protect and enforce our intellectual property rights may be adversely affected by unforeseen changes in the United States and foreign intellectual property laws. Additionally, laws of some countries outside of the United States and Europe do not afford intellectual property protection to the same extent as the laws of the United States and Europe. Many companies have encountered significant problems in protecting and defending intellectual property rights in certain foreign jurisdictions. The legal systems of some countries, including India, China and other developing countries, do not favor the enforcement of patents and other intellectual property rights. This could make it difficult for us to stop the infringement of our patents or the misappropriation or other violations of our other intellectual property rights. For example, many foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third-parties. Consequently, we may not be able to prevent third-parties from practicing our inventions in certain countries outside the United States and Europe. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop and market their own products and, further, may export otherwise infringing products to jurisdictions where we have patent protection, if our ability to enforce our patents to stop infringing activities is inadequate. These products may compete with our products, and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Agreements under which we may be granted a license to any patent rights may not give us sufficient rights to permit us to pursue enforcement of our licensed patents or defense of any claims asserting the invalidity of these patents (or control of enforcement or defense) of such patent rights in all relevant jurisdictions as requirements may vary.

Proceedings to enforce our patent rights in the United States or foreign jurisdictions, whether or not successful, could result in substantial costs and divert our efforts and resources from other aspects of our business. Moreover, such proceedings could put our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third-parties to assert claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful. Furthermore, while we intend to seek to protect our intellectual property rights in major markets for our product candidates, we cannot ensure that we will be able to initiate or maintain similar efforts in all jurisdictions in which we may wish to market our product candidates. Accordingly, our efforts to protect our intellectual property rights in such countries may be inadequate. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, and prospects.

Others may claim an ownership interest in our intellectual property and proprietary anti-C5a technologies which could expose us to litigation and have a significant adverse effect on our prospects.

A third-party may claim an ownership interest in one or more of our, or our future or any existing licensors', patents or other proprietary or other intellectual property rights. A third-party could bring legal actions against us and seek monetary damages and/or enjoin clinical testing, manufacturing and marketing of the affected product or products. While we are presently unaware of any material claims or assertions by third-parties with respect to our patents or other intellectual property, we cannot guarantee that a third-party will not assert a claim or an interest in any of such patents or other intellectual property. If we become involved in any litigation, it could consume a substantial portion of our resources, and could cause a significant diversion of effort by our technical and management personnel. If any of these actions are successful, in addition to any potential liability for damages, we could be required to obtain a license to continue to manufacture or market the affected product, in which case we may be required, for example, to pay substantial royalties or grant cross-licenses to our patents. We cannot, however, assure you that any such license will be available on acceptable terms, if at all. Ultimately, we could be prevented from commercializing a product, or be forced to cease some aspect of our business operations as a result of claims of patent infringement or other violations of other intellectual property rights. Further, the outcome of intellectual property litigation is subject to uncertainties that cannot be adequately quantified in advance, including the demeanor and credibility of witnesses and the identity of any adverse party. This is especially true in intellectual property cases that

may turn on the testimony of experts as to technical facts upon which experts may reasonably disagree. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, and prospects.

If we are sued for infringing, misappropriating, or otherwise violating intellectual property rights of third-parties, such litigation could be costly and time consuming and could prevent or delay us from developing or commercializing our product candidates.

Our commercial success depends, in part, on our ability to develop, manufacture, market and sell our product candidates without infringing, misappropriating, or otherwise violating the proprietary or any other intellectual property rights of third-parties. Third-parties may have U.S. and non-U.S. issued patents and pending patent applications relating to compounds, methods of manufacturing compounds and/or methods of use for the treatment of the disease indications for which we are developing our product candidates that may cover our product candidates or approach to complement inhibition. If any third-party patents or patent applications are found to cover our product candidates or their methods of use or manufacture, or our approach to complement inhibition, we may not be free to manufacture or market our product candidates as planned without obtaining a license, which may not be available on commercially reasonable terms, or at all.

There is a substantial amount of intellectual property litigation in the biotechnology and pharmaceutical industries, and we may become party to, or threatened with, litigation or other adversarial proceedings regarding intellectual property rights with respect to our product candidates, including interference and post-grant proceedings before the USPTO. There may be third-party patents or patent applications with claims to materials, formulations, methods of manufacture or methods for treatment related to the composition, use or manufacture of our product candidates. Because patent applications can take many years to issue, there may be currently pending patent applications which may later result in issued patents that our product candidates may be accused of infringing. In addition, third-parties may obtain patents in the future and claim that use of our technologies infringes upon these patents. Accordingly, third-parties may assert infringement claims against us based on intellectual property rights that exist now or arise in the future. The outcome of intellectual property litigation is subject to uncertainties that cannot be adequately quantified in advance. The pharmaceutical and biotechnology industries have produced a significant number of patents, and it may not always be clear to industry participants, including us, which patents cover various types of products or methods of use or manufacture. The scope of protection afforded by a patent is subject to interpretation by the courts, and the interpretation is not always uniform. If we are sued for patent infringement, we would need to demonstrate that our product candidates, products or methods either do not infringe the patent claims of the relevant patent or that the patent claims are invalid or unenforceable, and we may not be able to do this. Proving invalidity is difficult. For example, in the United States, proving invalidity requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents. Even if we are successful in these proceedings, we may incur substantial costs and the time and attention of our management and scientific personnel could be diverted in pursuing these proceedings, which could significantly harm our business and operating results. In addition, we may not have sufficient resources to bring these actions to a successful conclusion.

If we are found to infringe, misappropriate, or otherwise violate a third-party's intellectual property rights, we could be forced, including by court order, to cease developing, manufacturing or commercializing the infringing product candidate or product. Alternatively, we may be required to obtain a license from such third-party in order to use the infringing technology and continue developing, manufacturing or commercializing the infringing product candidate or product. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us; alternatively or additionally, it could include terms that impede or destroy our ability to compete successfully in the commercial marketplace. In addition, we could be found liable for monetary damages, including treble damages and attorneys' fees if we are found to have willfully infringed a patent. A finding of infringement could prevent us from commercializing our product candidates or force us to cease some of our business operations, which could harm our business. Claims

that we have misappropriated the trade secrets or other confidential information of any third-parties could have a similar negative impact on our business. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, and prospects.

We may be subject to claims by third-parties asserting that our employees or we have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property and proprietary anti-C5a technology.

Many of our current and former employees and our licensors' current and former employees, including our senior management, were previously employed at universities or at other biotechnology or pharmaceutical companies, including some which may be competitors or potential competitors. Although we try to ensure that our employees do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we or these employees have used or disclosed intellectual property, including trade secrets or other proprietary information, of any such third-party. Litigation may be necessary to defend against such claims. If we fail in defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel or sustain damages. Such intellectual property rights could be awarded to a third-party, and we could be required to obtain a license from such third-party to commercialize our technology or products. Such a license may not be available on commercially reasonable terms or at all. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management.

In addition, while we typically require our employees, consultants and contractors who are involved in the development of intellectual property for us within the scope of such employees', consultants' and contractors' employment or other engagement by us to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who in fact develops intellectual property that we regard as our own, or such agreements may be breached or alleged to be ineffective, which may result in claims by or against us related to the ownership of such intellectual property. If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights. Even if we are successful in prosecuting or defending against such claims, litigation could result in substantial costs and be a distraction to our senior management and scientific personnel. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, and prospects.

We may become involved in lawsuits to protect or enforce our patents or other intellectual property, which could be expensive, time consuming and unsuccessful.

Competitors may infringe, misappropriate, or otherwise violate our patents, trademarks, copyrights or other intellectual property rights. To counter infringement or unauthorized use, we may be required to file infringement or other claims, which can be expensive and time consuming and divert the time and attention of our management and scientific personnel. Any claims we assert against perceived infringers could provoke these parties to assert counterclaims against us alleging that we infringe their patents, in addition to counterclaims asserting that our patents are invalid or unenforceable, or both. In any patent infringement proceeding, there is a risk that a court will decide that a patent of ours is invalid or unenforceable, in whole or in part, and that we do not have the right to stop the other party from using the invention at issue. There is also a risk that, even if the validity of such patents is upheld, the court will construe the patent's claims narrowly or decide that we do not have the right to stop the other party from using the invention at issue on the grounds that our patent claims do not cover the invention. An adverse outcome in a litigation or proceeding involving one or more of our patents could limit our ability to assert those patents against those parties or other competitors and may curtail or preclude our ability to exclude third-parties from developing, making and selling similar or competitive products. Similarly, if we were to assert trademark infringement claims, a court may determine that the marks we have asserted are invalid or unenforceable, or that the party against whom we have asserted trademark infringement has superior rights to the marks in question. In this case, we could ultimately be forced to cease use of such trademarks.

Even if we establish infringement, the court may decide not to grant an injunction against further infringing activity and instead award only monetary damages, which may or may not be an adequate remedy. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during litigation. There could also be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could adversely affect the price of our common shares. Moreover, there can be no assurance that we will have sufficient financial or other resources to file and pursue such infringement claims, which typically last for years before they are concluded. Even if we ultimately prevail in such claims, the monetary cost of such litigation and the diversion of the attention of our management and scientific personnel could outweigh any benefit we receive as a result of the proceedings. Any such litigation could have a material adverse effect on our business, financial condition, results of operations, and prospects.

If we fail to comply with our obligations under any future or other intellectual property licenses with third-parties, we could lose license rights that are important to our business.

We may be reliant upon licenses to certain patent rights and proprietary anti-C5a technology and other intellectual property from third-parties that are important or necessary to the development of our product candidates and the manufacture and other commercialization of our products. These and other licenses may not provide exclusive rights to use such intellectual property and technology in all relevant fields of use and in all territories in which we may wish to develop, manufacture or commercialize our technology and products in the future. As a result, we may not be able to prevent competitors from developing, manufacturing and commercializing competitive products in territories included in all of our licenses. Our licensors may have sublicensed patents and other intellectual property owned by a third-party, or relied on third-party consultants or collaborators or funds from third-parties that have an ownership or other right, title or interest in or to such in-licensed intellectual property, such that our licensors are not the sole and exclusive owners of the patents and other intellectual property we in-license. This could have a material adverse effect on our competitive position, business, financial conditions, results of operations and prospects.

In addition, agreements under which we may license patent rights may not give us control over patent filings prosecution or maintenance, so that we may not be able to control which claims or arguments are presented and may not be able to secure, maintain, or successfully enforce and defend necessary or desirable patent protection from those patent rights. We cannot be certain that patent filing prosecution and maintenance activities by our licensors will be conducted in compliance with applicable laws and regulations or will result in valid and enforceable patents. Even if we are permitted to pursue such enforcement or defense, we will require the cooperation of our future or any existing licensors, and cannot guarantee that we would receive it and on what terms. We cannot be certain that our future licensors will allocate sufficient resources or prioritize their or our enforcement of such patents or defense of such claims to protect our interests in any licensed patents. If we cannot obtain patent protection or enforce existing or future patents against third-parties, it could have a material adverse effect on our business, financial condition, results of operations, and prospects.

Further, agreements under which we may license technology or any other intellectual property to or from third-parties are complex, and certain provisions in such agreements may be susceptible to multiple interpretations. The resolution of any contract interpretation disagreement that may arise could narrow what we believe to be the scope of our rights to the relevant technology or any other intellectual property, or increase what we believe to be our financial or other obligations under the relevant agreement, either of which could have a material adverse effect on our business, financial conditions, results of operations, and prospects. Moreover, if disputes over technology or other intellectual property that we may license prevent or impair our ability to maintain our licensing arrangements on commercially acceptable terms, we may be unable to successfully develop manufacture and commercialize the affected product candidates, which could have a material adverse effect on our business, financial conditions, results of operations, and prospects. Disputes may arise regarding intellectual property subject to a licensing agreement, including:

- the scope of rights that may be granted under license agreements and other interpretation-related issues;
- the extent to which our technology and processes infringe on intellectual property rights of the licensor that is not subject to the licensing agreement;
- the sublicensing of patent and other rights under current and any future collaborative development relationships;
- our diligence obligations under any license agreement and what activities satisfy such obligations;
- the inventorship and ownership of inventions and know-how and other intellectual property resulting from the joint creation or use of intellectual property by our license counterparties and us and our partners; and
- the priority of invention of patented technology.

In spite of our best efforts, our license counterparties might conclude that we have materially breached our license agreements and might therefore terminate the license agreements, which may remove our ability to develop manufacture- and commercialize the product candidates and technology covered by these license agreements. If any in-licenses are terminated, competitors may be able to seek regulatory approval of, and to market, products identical to ours. It is possible that we may be unable to obtain any additional licenses that we require at a reasonable cost or on reasonable terms, if at all. In that event, we may be required to expend significant time and resources to redesign our product candidates, technology, or the methods for manufacturing them or to develop or license replacement technology, all of which may not be feasible on a technical or commercial basis. If we are unable to do so, we may be unable to develop, manufacture or commercialize the affected product candidates, which could harm our business, financial condition, results of operations, and prospects significantly. Any of these events could have a material adverse effect on our competitive position, business, financial conditions, results of operations, and prospects.

If we are unable to protect the confidentiality of our trade secrets, the value of our technology could be negatively impacted and our business would be harmed.

In addition to the protection afforded by patents, we also rely on trade secret protection for certain aspects of our intellectual property. However, trade secrets are difficult to protect. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, consultants, independent contractors, advisors, contract manufacturers, suppliers and other third-parties. We also enter into confidentiality and invention or patent assignment agreements with employees and certain consultants and independent contractors. Any party with whom we have executed such an agreement may breach that agreement and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. Additionally, if the steps taken to maintain our trade secrets are deemed inadequate, we may have insufficient recourse against third-parties for misappropriating the trade secret. Further, if any of our trade secrets were to be lawfully obtained or independently developed by a competitor or other third-party, we would have no right to prevent such third-party, or those to whom they communicate such technology or information, from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed or otherwise obtained by a competitor or other third-party, it could have a material adverse effect on our business, financial condition, results of operations, and prospects.

If our trademarks and trade names are not adequately protected, then we may not be able to build name recognition in our marks of interest and our business may be adversely affected.

Our trademarks or trade names may be challenged, infringed, circumvented or declared generic or determined to be infringing on other marks. We may not be able to protect our rights to these trademarks and trade names or may be forced to stop using these names, which we need for name recognition by potential partners or customers in our markets of interest. During trademark registration proceedings, we may receive rejections. Although we would be given an opportunity to respond to those rejections, we may be unable to overcome such rejections. In addition, in the USPTO and in comparable agencies in many foreign jurisdictions, third-parties are given an opportunity to oppose pending trademark applications and to seek to cancel registered trademarks. Opposition or cancellation proceedings may be filed against our trademarks, and our trademarks may not survive such proceedings. If we are unable to establish name recognition based on our trademarks and trade names, we may not be able to compete effectively and our business may be adversely affected.

Certain of our employees and patents are subject to German law.

A number of our personnel, including our directors, work in Germany and may be subject to German employment law through their employment contracts. Inventions which may be the subject of a patent or of protection as a utility model as well as technical improvement proposals for other technical innovations that may not be the subject of a patent or of protection as a utility model made by such employees are subject to the provisions of the German Act on Employees' Inventions (Gesetz über Arbeitnehmererfindungen), which regulates the ownership of, and compensation for, inventions made by employees. We face the risk that disputes may occur between us and our current or past employees pertaining to the sufficiency of compensation paid by us, allocation of rights to inventions under this act or alleged non-adherence to the provisions of this act, any of which may be costly to resolve and take up our management's time and efforts whether we prevail or fail in such dispute. In addition, under the German Act on Employees' Inventions, certain employees retain rights to patents they invented or co-invented and disclosed to us prior to October 1, 2009. While we believe that all of our current and past German employee inventors have subsequently assigned to us their interest in patents and inventions they invented or co-invented, there can be no assurance that all such assignments are fully effective. Even if we lawfully own all inventions of our employee inventors who are subject to the German Act on Employees' Inventions, we are required under German law to reasonably compensate such employees for the use of the patents. If we are required to pay increased compensation or face other disputes under the German Act on Employees' Inventions, our results of operations could be adversely affected.

If any of our current or past employees obtain or retain ownership of any inventions or other intellectual property rights that we believe we own, we may lose valuable intellectual property rights and may be required to obtain and maintain licenses from such employees to such inventions or intellectual property rights, which may not be available on commercially reasonable terms or at all, or may be non-exclusive. If we are unable to obtain and maintain a license to any such employee's interest in such inventions or intellectual property rights, we may need to cease the development, manufacture, and commercialization of one or more of the product candidates we may develop. In addition, any loss of exclusivity of our intellectual property rights could limit our ability to stop others from using or commercializing similar or identical technology and products. Any of the foregoing events could have a material adverse effect on our business, financial condition, results of operations, and prospects.

Risks related to employee matters and managing growth

We only have a limited number of employees to manage and operate our business.

As of December 31, 2019, we had 45 full-time or part-time employees. Our focus on the development of IFX-1 requires us to optimize cash utilization and to manage and operate our business with

limited personnel. We cannot assure you that we will be able to hire additional employees and/or retain adequate staffing levels to develop IFX-1 or run our operations or to accomplish all of the objectives that we otherwise would seek to accomplish.

We depend heavily on our executive officers and directors, and the loss of their services would materially harm our business.

Our success depends, and will likely continue to depend, upon our ability to hire and retain the services of our current executive officers, directors, principal consultants and others. We are highly dependent on the management, development, clinical, financial and business development expertise of Professor Niels Riedemann, our Chief Executive Officer, Professor Renfeng Guo, our Chief Scientific Officer, Arnd Christ, our Chief Financial Officer and Jason Marks, our Chief Legal Officer. Our ability to compete in the biotechnology and pharmaceuticals industries depends upon our ability to attract and retain highly qualified managerial, scientific and medical personnel.

Our industry has experienced a high rate of turnover of management personnel in recent years. Any of our personnel may terminate their employment at will. If we lose one or more of our executive officers or other key employees, our ability to implement our business strategy successfully could be seriously harmed. Furthermore, replacing executive officers or other key employees may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to develop, gain marketing approval of and commercialize products successfully.

Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these additional key employees on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. We also experience competition for the hiring of scientific and clinical personnel from universities and research institutions.

We rely on consultants and advisors, including scientific, strategic, regulatory and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by other entities and may have commitments under consulting or advisory contracts with those entities that may limit their availability to us. If we are unable to continue to attract and retain highly qualified personnel, our ability to develop and commercialize our product candidates will be limited.

Our employees, independent contractors, consultants, collaborators and contract research organizations may engage in misconduct or other improper activities, including non-compliance with regulatory standards and requirements, which could cause significant liability for us and harm our reputation.

We are exposed to the risk that our employees, independent contractors, consultants, collaborators and contract research organizations may engage in fraudulent conduct or other illegal activity. Misconduct by those parties could include intentional, reckless or negligent conduct or disclosure of unauthorized activities to us that violates: (i) FDA regulations or similar regulations of comparable non-U.S. regulatory authorities, including those laws requiring the reporting of true, complete and accurate information to such authorities, (ii) manufacturing and clinical trial conduct standards, (iii) federal and state healthcare fraud and abuse laws and regulations and similar laws and regulations established and enforced by comparable non-U.S. regulatory authorities, and (iv) laws that require the reporting of financial information or data accurately. Activities subject to these laws also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. It is not always possible to identify and deter misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws, standards or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our

rights, those actions could have a significant impact on our business and results of operations, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of our operations, any of which could have a material adverse effect on our ability to operate our business and our results of operations.

We expect to expand our organization, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

We expect to experience significant growth in the number of our employees and the scope of our operations, particularly in the areas of clinical development and regulatory affairs, as well as to support our public company operations. To manage these growth activities, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities and continue to recruit and train additional qualified personnel. Our management may need to devote a significant amount of its attention to managing these growth activities. Moreover, our expected growth could require us to relocate to a different geographic area of the country. Due to our limited financial resources and the limited experience of our management team in managing a company with such anticipated growth, we may not be able to effectively manage the expansion or relocation of our operations, retain key employees, or identify, recruit and train additional qualified personnel. Our inability to manage the expansion or relocation of our operations effectively may result in weaknesses in our infrastructure, give rise to operational mistakes, loss of business opportunities, loss of employees and reduced productivity among remaining employees. Our expected growth could also require significant capital expenditures and may divert financial resources from other projects, such as the development of additional product candidates. If we are unable to effectively manage our expected growth, our expenses may increase more than expected, our ability to generate revenues could be reduced and we may not be able to implement our business strategy, including the successful development and commercialization of our product candidates.

The legal and regulatory environment related to data privacy is becoming more strict, which could result in additional costs or changes to the manner in which we handle personal information, and a failure to comply with such laws or regulations, or to otherwise protect personal data in our possession or control, could result in fines, litigation, or other penalties as well as reputational damage.

We are subject to laws, regulations, and contractual obligations related to privacy, data protection, information security, including the EU General Data Protection Regulation, which came into effect on May 25, 2018 and which provides for greater penalties for noncompliance than previous European data protection laws, with potential fines of up to the greater of €20 million or 4% of total annual worldwide turnover.

As privacy, data protection and information security laws evolve and are implemented, interpreted and applied, our compliance costs may increase, particularly in the context of ensuring that adequate data protection and data transfer mechanisms are in place. Additionally, compliance with such obligations and regulations could significantly impact our current and planned privacy and information security practices, our collection, use, sharing, retention and safeguarding of personal data, and our current and planned business activities and operations. A failure to comply with such obligations or regulations could result in fines, litigation, or other penalties and adversely impact our reputation.

Cyber-attacks or other failures in telecommunications or information technology systems could result in information theft, data corruption and significant disruption of our business operations.

We utilize information technology, or IT, systems and networks to process, transmit and store electronic information in connection with our business activities. As use of digital technologies has increased, cyber incidents, including deliberate attacks and attempts to gain unauthorized access to computer systems and networks, have increased in frequency and sophistication. These threats pose a

risk to the security of our systems and networks, the confidentiality and the availability and integrity of our data. There can be no assurance that we will be successful in preventing cyber-attacks or successfully mitigating their effects. Similarly, there can be no assurance that our collaborators, CROs, third-party logistics providers, distributors and other contractors and consultants will be successful in protecting our clinical and other data that is stored on their systems. Any cyber-attack or destruction or loss of data could have a material adverse effect on our business and prospects. In addition, we may suffer reputational harm or face litigation or adverse regulatory action as a result of cyber-attacks or other data security breaches and may incur significant additional expense to implement further data protection measures.

Risks related to our common shares and our status as a public company

The trading price of our common shares has been and may in the future be highly volatile, which could result in substantial losses for holders of our common shares, and a decline in our share price and invite securities litigation against our company or our management.

Our share price has been and is likely to be highly volatile in the future. The stock market in general and the market for smaller pharmaceutical and biotechnology companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. You should consider an investment in our common shares as risky and invest only if you can withstand a significant loss and wide fluctuations in the market value of your investment. The market price for our common shares may be influenced by many factors, including:

- the timing, enrollment and results of clinical trials of IFX-1 and any other product candidates;
- regulatory actions with respect to IFX-1, our other product candidates or our competitors' products and product candidates;
- the success of existing or new competitive products or technologies;
- any delay in our development or regulatory filings for IFX-1 or any future product candidate and any adverse development or perceived adverse development with respect to the applicable regulatory authority's review of such filings, including without limitation the FDA's issuance of a "refusal to file" letter or a request for additional information;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures, collaborations or capital commitments;
- commencement or termination of collaborations for our development programs;
- failure or discontinuation of any of our development programs;
- results of clinical trials of product candidates of our competitors;
- regulatory or legal developments in the United States and other countries;
- developments or disputes concerning patent applications, issued patents or other proprietary rights;
- the recruitment or departure of key personnel;
- the level of expenses related to any of our product candidates or clinical development programs;
- the results of our efforts to develop additional product candidates or products;
- actual or anticipated changes in estimates as to financial results or development timelines;

- announcement or expectation of additional financing efforts;
- sales of our common shares by us, our insiders or other shareholders;
- variations in our financial results or those of companies that are perceived to be similar to us;
- changes in estimates or recommendations by securities analysts, if any, that cover our shares;
- changes in the structure of healthcare payment systems;
- market conditions in the pharmaceutical and biotechnology sectors;
- general economic, industry and market conditions; and
- the other factors described in this chapter.

In the past, securities class action litigation has often been brought against a company and its management following a decline in the market price of its securities. This risk is especially relevant for biopharmaceutical companies, which have experienced significant stock price volatility in recent years. Such litigation, if instituted against us, could cause us or members of our management to incur substantial costs and divert management's attention and resources from our business.

Future sales, or the possibility of future sales, of a substantial number of our common shares could adversely affect the price of the shares and dilute shareholders.

Future sales of a substantial number of our common shares, or the perception that such sales will occur, could cause a decline in the market price of our common shares. We had a total of 26,105,255 common shares outstanding as of December 31, 2019. If our existing shareholders sell substantial amounts of common shares in the public market, or the market perceives that such sales may occur, the market price of our common shares and our ability to raise capital through an issue of equity securities in the future could be adversely affected.

Moreover, we have entered into a registration rights agreement entitling certain of our shareholders rights, subject to conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other shareholders. In addition, we have registered on a Form S-8 registration statement all common shares that we may issue under our equity incentive plan. As a result, these shares can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates and the lock-up agreements entered into in connection with our initial public offering. If these additional shares are sold, or if it is perceived that they will be sold, in the public market, the trading price of our common shares could decline.

We have broad discretion in the use of our cash on hand and may invest or spend it in way with which you do not agree and in ways that may not yield a return on your investment.

As of December 31, 2019, we had €33.1 million in cash and cash equivalents and in addition €81.9 million in marketable securities. Our management will have broad discretion in the use of such cash and could spend it in ways that do not improve our results of operations or enhance the value of our common shares. You will not have the opportunity to influence our decisions on how to use our cash on hand. The failure by our management to apply these funds effectively could result in financial losses that could harm our business, cause the price of our common shares to decline and delay the development of our product candidates. Pending its use, we may invest our cash on hand in a manner that does not produce income or that loses value.

We are a foreign private issuer and, as a result, we are not subject to U.S. proxy rules and are subject to Exchange Act reporting obligations that, to some extent, are more lenient and less frequent than those of a U.S. domestic public company.

We will report under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as a non-U.S. company with foreign private issuer status. Because we qualify as a foreign private issuer under the Exchange Act, we are exempt from certain provisions of the Exchange Act that are applicable to U.S. domestic public companies, including (i) the sections of the Exchange Act regulating the solicitation of proxies, consents or authorizations in respect of a security registered under the Exchange Act, (ii) the sections of the Exchange Act requiring insiders to file public reports of their stock ownership and trading activities and liability for insiders who profit from trades made in a short period of time and (iii) the rules under the Exchange Act requiring the filing with the SEC of quarterly reports on Form 10-Q containing unaudited financial and other specified information, or current reports on Form 8-K, upon the occurrence of specified significant events. In addition, foreign private issuers are not required to file their Annual Report on Form 20-F until four months after the end of each fiscal year, while U.S. domestic issuers that are accelerated filers are required to file their Annual Report on Form 10-K within 75 days after the end of each fiscal year. Foreign private issuers are also exempt from the Regulation Fair Disclosure, aimed at preventing issuers from making selective disclosures of material information. As a result of the above, you may not have the same protections afforded to shareholders of companies that are not foreign private issuers.

We may lose our foreign private issuer status which would then require us to comply with the Exchange Act's domestic reporting regime and cause us to incur significant legal, accounting and other expenses.

We are a foreign private issuer and therefore we are not required to comply with all of the periodic disclosure and current reporting requirements of the Exchange Act applicable to U.S. domestic issuers. If in the future we are not a foreign private issuer as of the last day of the second fiscal quarter in any fiscal year, we would be required to comply with all of the periodic disclosure, current reporting requirements and proxy solicitation rules of the Exchange Act applicable to U.S. domestic issuers. In order to maintain our current status as a foreign private issuer, either (a) a majority of our common shares must be either directly or indirectly owned of record by non-residents of the United States or (b)(i) a majority of our directors and executive officers may not be United States citizens or residents, (ii) more than 50% of our assets cannot be located in the United States and (iii) our business must be administered principally outside the United States. If we were to lose this status, we would be required to comply with the Exchange Act reporting and other requirements applicable to U.S. domestic issuers, which are more detailed and extensive than the requirements for foreign private issuers. We may also be required to make changes in our corporate governance practices in accordance with various SEC and stock exchange rules. The regulatory and compliance costs to us if we are required to comply with the reporting requirements applicable to a U.S. domestic issuer may be significantly higher than the costs we would incur as a foreign private issuer. As a result, we expect that a loss of foreign private issuer status would increase our legal and financial compliance costs and would make some activities highly time consuming and costly. These rules and regulations could also make it more difficult for us to attract and retain qualified directors.

As a foreign private issuer and as permitted by the listing requirements of NASDAQ, we follow certain home country governance practices rather than the corporate governance requirements of the NASDAQ.

We are a foreign private issuer. As a result, in accordance with the listing requirements of NASDAQ we rely on home country governance requirements and certain exemptions thereunder rather than relying on the corporate governance requirements of NASDAQ. In accordance with Dutch law and generally accepted business practices, our Articles of Association do not provide quorum requirements generally applicable to general meetings of shareholders. To this extent, our practice varies from the requirement of Nasdaq Listing Rule 5620(c), which requires an issuer to provide in its bylaws

for a generally applicable quorum, and that such quorum may not be less than one-third of the outstanding voting stock. Although we must provide shareholders with an agenda and other relevant documents for the general meeting of shareholders, Dutch law does not have a regulatory regime for the solicitation of proxies and the solicitation of proxies is not a generally accepted business practice in the Netherlands; thus, our practice will vary from the requirement of Nasdaq Listing Rule 5620(b). As permitted by the listing requirements of NASDAQ, we have also opted out of the requirements of Nasdaq Listing Rule 5605(d), which requires, among other things, an issuer to have a compensation committee that consists entirely of independent directors and makes determinations regarding the independence of any compensation consultants, Nasdaq Listing Rule 5605(e), which requires independent director oversight of director nominations, and Nasdaq Listing Rule 5605(b)(2), which requires an issuer to have a majority of independent directors on its board. In addition, we have opted out of shareholder approval requirements, as included in the Nasdaq Listing Rules, for the issuance of securities in connection with certain events such as the acquisition of shares or assets of another company, the establishment of or amendments to equity-based compensation plans for employees, a change of control of us and certain private placements. To this extent, our practice varies from the requirements of Nasdaq Rule 5635, which generally requires an issuer to obtain shareholder approval for the issuance of securities in connection with such events. Accordingly, you may not have the same protections afforded to shareholders of companies that are subject to these NASDAQ requirements.

We are an “emerging growth company” and, as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our common shares may be less attractive to investors.

We are an “emerging growth company” as defined in the JOBS Act and we intend to take advantage of some of the exemptions from reporting requirements that are applicable to other public companies that are not emerging growth companies, including:

- being permitted to provide only three years of audited financial statements with correspondingly reduced operating and financial review and prospects disclosure in this Annual Report;
- not being required to comply with the auditor attestation requirements in the assessment of our internal control over financial reporting;
- reduced disclosure obligations regarding executive compensation in our periodic reports, proxy statements and registration statements; and
- not being required to hold a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

We cannot predict if investors will find our common shares less attractive because we will rely on these exemptions. If some investors find our common shares less attractive as a result, there may be a less active trading market for our common shares and our share price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an emerging growth company. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the closing of our initial public offering, (b) in which we have total annual gross revenue of at least \$1.07 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common shares that is held by non-affiliates exceeds \$700 million as of the prior June 30, and (2) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period.

Under Section 107(b) of the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards until such time as those standards apply to private companies. Given that we currently report and expect to continue to report under IFRS as issued by the IASB, we will not be able to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required by the IASB.

If our internal controls over financial reporting fail to be effective, such failure could result in material misstatements in our financial statements, cause investors to lose confidence in our reported financial and other public information and have a negative effect on the trading price of our common shares.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. Section 404 of the Sarbanes-Oxley Act of 2002 requires management of public companies to develop and implement internal controls over financial reporting and evaluate the effectiveness thereof. If we fail to design and operate effective internal controls, it could result in material misstatements in our financial statements, impair our ability to raise revenue, result in the loss of investor confidence in the reliability of our financial statements and subject us to regulatory scrutiny and sanctions, which in turn could harm the market value of our common shares.

We are required to disclose changes made in our internal controls and procedures and our management is required to assess the effectiveness of these controls annually. However, for as long as we are an “emerging growth company” under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404. We could be an “emerging growth company” for up to five years after our initial public offering. An independent assessment of the effectiveness of our internal controls could detect problems that our management’s assessment might not. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation.

We do not anticipate paying any cash dividends on our share capital in the foreseeable future. Accordingly, shareholders must rely on capital appreciation, if any, for any return on their investment.

We have never declared nor paid cash dividends on our share capital. We currently plan to retain all of our future earnings, if any, to finance the operation, development and growth of our business. In addition, the terms of any future debt or credit agreements and any restrictions imposed by applicable law may preclude us from paying dividends. As a result, capital appreciation, if any, of our common shares will be your sole source of gain for the foreseeable future. Investors seeking cash dividends should not purchase our common shares.

See chapter 8 of this Annual Report for more information regarding the ownership of our outstanding common shares by our executive officers, directors and principal shareholders and their affiliates.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our share price and trading volume could decline.

The trading market for our common shares depends in part on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. We do not currently have research coverage, and there can be no assurance that analysts will cover us or provide favorable coverage. Securities or industry analysts may elect not to continue to provide research coverage of our common shares, and such lack of research coverage may negatively impact the market price of our common shares. In the event we do have analyst coverage, if one or more analysts downgrade our common shares, change their opinion of our common shares or publish inaccurate or unfavorable research about our business, our share price would likely decline. In addition, if one or more analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Our ability to use our net operating loss carry forwards and other tax attributes may be limited.

Our ability to utilize our net operating losses, or NOLs, is currently limited, and may be limited further, under Section 8c of the Körperschaftsteuergesetz (German Corporation Income Tax Act or KStG) and Section 10a of the Gewerbesteuergesetz (German Trade Tax Act or GewStG). These limitations apply if a qualified ownership change, as defined by Section 8c KStG, occurs and no exemption is applicable. Generally, a qualified ownership change occurs if more than 50% of the share capital or the voting rights are directly or indirectly transferred to a shareholder or a group of shareholders within a period of five years. A qualified ownership change may also occur in case of a transaction comparable to a transfer of shares or voting rights or in case of an increase in capital leading to a respective change in the shareholding. In the case of such a qualified ownership change tax loss carry forwards expire in full. To the extent that the hidden reserves (stille Reserven) taxable in Germany exceed the tax loss carry forward, they may be further utilized despite a qualified ownership change. In case of a qualified ownership change within a group, tax loss carry forwards will be preserved if certain conditions are satisfied.

An appeal has been filed by the fiscal court of Hamburg dated August 29, 2017 – 2 K 245/17 with regard to Section 8c, paragraph 1, sentence 2 KStG (in its superseded version, now: Section 8c paragraph 1 sentence 1 KStG) that is, the forfeiture of all tax loss carryforwards in case more than 50% of shares/voting rights will be assigned to a new shareholder. The appeal is still pending. It is unclear when the Federal Constitutional Court will decide this case. According to statements in German legal literature, there are good reasons to believe that the Federal Constitutional Court may come to the conclusion that Section 8, paragraph 1, sentence 2 KStG (in its superseded version) is not in line with the German constitution.

As of December 31, 2019, we had NOL carry forwards for German tax purposes of €110.6 million available. Future changes in share ownership may also trigger an ownership change and, consequently, a Section 8c KStG, or a Section 10a GewStG limitation. Any limitation may result in the expiration of the complete tax operating loss carry forwards before they can be utilized. As a result, if we earn net taxable income, our ability to use our pre-change net operating loss carry forwards to reduce German income tax may be subject to limitations, which could potentially result in increased future cash tax liability to us.

As of December 31, 2019, our U.S. subsidiary, InflaRx Pharmaceuticals, Inc., had approximately €2.2 million of net operating losses for U.S. federal income tax purposes. Transfers or issuances of our equity may impair or reduce the ability of InflaRx Pharmaceuticals, Inc. to utilize U.S. federal net operating loss carryforwards and certain other tax attributes in the future. Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”) contains rules that limit the ability of a company that undergoes an “ownership change” to utilize its net operating loss and tax credit carry forwards and certain built-in losses recognized in years after the ownership change. An “ownership change” is generally defined as an increase in ownership of a corporation’s stock by more than 50 percentage points over a rolling three-year period by stockholders that own (directly, indirectly or constructively) 5% or more of the stock of a corporation at any time during the relevant rolling three-year period. If an ownership change occurs, Section 382 imposes an annual limitation on the use of pre-ownership change net operating losses, credits and certain other tax attributes to offset taxable income earned after the ownership change. The annual limitation is generally equal to the product of the applicable long-term tax exempt rate in effect for the month in which the ownership change occurs and the value of the company’s stock immediately before the ownership change (subject to some adjustments). For example, this annual limitation may be adjusted to reflect any unused annual limitation for prior years and certain recognized (or treated as recognized) built-in gains and losses for the year. In addition, Section 383 generally limits the amount of tax liability in any post-ownership change year that can be reduced by pre-ownership change tax credit carryforwards or capital loss carryforwards. No assurance can be given that prior transactions have not resulted in an ownership change for purposes of Section 382 of the Code or that future transactions will not result in an ownership change. Even if a subsequent transaction does not result in an ownership change, it may materially increase the likelihood that we will

undergo an ownership change in the future. Sales of our common shares by stockholders, whose interests may differ from our interests, may increase the likelihood that we or one of our subsidiaries undergoes an ownership change. If we or our subsidiaries have or were to undergo an ownership change, it could result in increased future tax liability to us.

We may become taxable in a jurisdiction other than Germany and this may increase the aggregate tax burden on us.

Since incorporation we intend to have, on a continuous basis, our place of effective management in Germany. We will therefore be a tax resident of Germany under German national tax law. By reason of our incorporation under Dutch law, we are also deemed tax resident in the Netherlands under Dutch tax law. However, based on our current management structure and current tax laws of the United States, Germany and the Netherlands, as well as applicable income tax treaties, and current interpretations thereof, we should be tax resident solely in Germany for the purposes of the convention between the Federal Republic of Germany and the Netherlands for the avoidance of double taxation with respect to taxes on income of 2012. However, we may become subject to limited income tax liability in other countries with regard to the income generated in the respective other country, for example, due to the existence of a permanent establishment or a permanent representative.

The applicable tax laws or interpretations thereof may change. Furthermore, whether we have our place of effective management in Germany and are as such tax resident in Germany is largely a question of fact and degree based on all the circumstances, rather than a question of law, which facts and degree may also change. Changes to applicable laws or interpretations thereof and changes to applicable facts and circumstances (for example, a change of board members or the place where board meetings take place), may result in us becoming a tax resident of a jurisdiction other than Germany. As a consequence, our overall effective income tax rate and income tax expense could materially increase, which could have a material adverse effect on our business, results of operations, financial condition and prospects, which could cause our share price and trading volume to decline. However, if there is a double tax treaty between Germany and the respective other country the double taxation of income may be avoided. Thus, the detrimental tax effects should be mitigated by the application of the respective double tax treaty.

We believe it is likely that we were a “passive foreign investment company,” or a PFIC, for U.S. federal income tax purposes in 2018 and 2019, and we may be a PFIC in one or more future taxable years. U.S. shareholders may be subject to adverse U.S. federal income tax consequences in 2019 and in any future taxable year in which we are a PFIC.

We believe it is likely that we were a PFIC for U.S. federal income tax purposes in 2018 and 2019, and we may be a PFIC in one or more future taxable years. In addition, we may, in future directly or indirectly, hold equity interests in other PFICs. Under the Code, we will be a PFIC for any taxable year in which, after the application of certain look-through rules with respect to subsidiaries, either (i) 75% or more of our gross income consists of passive income or (ii) 50% or more of the average quarterly value of our assets consists of assets that produce, or are held for the production of, passive income. Passive income includes, among other things, dividends, interest, certain non-active rents and royalties, and capital gains. It is possible that we will be a PFIC in any future taxable year because, among other things, (i) we currently own a substantial amount of passive assets, including cash and securities, (ii) the valuation of our assets that generate non-passive income for PFIC purposes, including our intangible assets, is uncertain and may vary substantially over time, and (iii) the composition of our income may vary substantially over time.

If we are a PFIC for any taxable year during which a U.S. investor holds common shares, we would continue to be treated as a PFIC with respect to that U.S. investor for all succeeding years during which the U.S. investor holds common shares, even if we ceased to meet the threshold requirements for PFIC status, unless certain exceptions apply. Such a U.S. investor may be subject to adverse

U.S. federal income tax consequences, including (i) the treatment of all or a portion of any gain on disposition as ordinary income, (ii) the application of a deferred interest charge on such gain and the receipt of certain dividends and (iii) compliance with certain reporting requirements.

If we pay dividends, we may need to withhold tax on such dividends payable to holders of our shares in both Germany and the Netherlands.

As an entity incorporated under Dutch law, but with its place of effective management in Germany (and not in the Netherlands), our dividends are generally subject to German dividend withholding tax and not Dutch dividend withholding tax. Dutch dividend withholding tax is required to be withheld from dividends if and when paid to Dutch resident holders of our shares (and non-Dutch resident holders of our shares that have a permanent establishment in the Netherlands to which their shareholding is attributable). As a result, upon a payment (or deemed payment) of dividends, we will be required to identify our shareholders in order to assess whether there are Dutch residents (or non-Dutch residents with a permanent establishment to which the shares are attributable) in respect of which Dutch dividend tax has to be withheld. Such identification may not always be possible in practice. We may approach Dutch Revenue prior to a payment of dividends to apply for a tax ruling confirming that no withholding of any Dutch dividend tax is applicable at all (as the dividend withholding tax can generally be credited against a Dutch resident shareholder's income tax anyway). The outcome of tax ruling requests is uncertain. If a favorable tax ruling cannot be obtained and if the identity of our shareholders cannot be determined, withholding of both German and Dutch dividend tax may occur, upon a payment of dividends.

We are a Dutch public company with limited liability. The rights of our shareholders are different from the rights of shareholders in companies governed by the laws of U.S. jurisdictions and may not protect investors in a similar fashion afforded by incorporation in a U.S. jurisdiction.

We are a public company with limited liability (naamloze vennootschap) organized under the laws of the Netherlands. Our corporate affairs are governed by our Articles of Association and by the laws governing companies incorporated in the Netherlands. However, there can be no assurance that Dutch law will not change in the future or that it will serve to protect investors in a similar fashion afforded under corporate law principles in the United States, which could adversely affect the rights of investors.

The rights of shareholders and the responsibilities of directors may be different from the rights and obligations of shareholders and board members in companies governed by the laws of U.S. jurisdictions. In the performance of its duties, our executive officers and board of directors are required by Dutch law to consider the interests of our company, its shareholders, its employees and other stakeholders, in all cases with due observation of the principles of reasonableness and fairness. It is possible that some of these parties will have interests that are different from, or in addition to, your interests as a shareholder.

Provisions of our Articles of Association or Dutch corporate law might deter acquisition bids for us that might be considered favorable and prevent, delay or frustrate any attempt to replace or remove the members of our board of directors.

Under Dutch law, various protective measures are possible and permissible within the boundaries set by Dutch law and Dutch case law. Our governance arrangements include several provisions that may have the effect of making a takeover of our company more difficult or less attractive. In this respect, our general meeting of shareholders granted the right to an independent foundation under Dutch law, or protective foundation, to acquire preferred shares pursuant to a call option agreement, or the call option agreement, entered into between us and such foundation. This call option under the call option agreement shall be continuous in nature and can be exercised repeatedly on multiple occasions.

If the protective foundation exercises the call option pursuant to the call option agreement, an amount of preferred shares up to 100% of our issued capital held by others than the protective foundation, minus one share, will be issued to the protective foundation. These preferred shares will be issued

to the protective foundation under the obligation to pay up to 25% of their nominal value upon issuance. In order for the protective foundation to finance the issue price in relation to the preferred shares, the protective foundation is expected to enter into a finance arrangement with a bank. As an alternative to securing financing with a bank, subject to applicable restrictions under Dutch law, the call option agreement provides that the protective foundation may request us to provide, or cause our subsidiaries to provide, sufficient funding to the protective foundation to enable it to satisfy the payment obligation (or part thereof) in cash and/or to charge an amount equal to the payment obligation (or part thereof) against our profits and/or reserves in satisfaction of such payment obligation.

The protective foundation's articles of association provide that it will promote and protect the interests of the company, the business connected with the company and the company's stakeholders from time to time, and repressing possible influences which could threaten the strategy, continuity, independence and/or identity of the company or the business connected with it, to such an extent that this could be considered to be damaging to the aforementioned interests. These influences may include a third-party acquiring a significant percentage of our common shares, the announcement of an unsolicited public offer for our common shares, shareholder activism, other concentration of control over our common shares or any other form of undue pressure on us to alter our strategic policies. The protective foundation shall be structured to operate independently of us.

If the protective foundation were to exercise its call option, the preferred shares to be issued pursuant thereto would be issued against the obligation to pay up to 25% of their nominal value. The voting rights of our shares are based on nominal value and, as we expect our common shares to trade substantially in excess of nominal value, preferred shares issued at 25% of their nominal value can carry significant voting power for a substantially reduced price compared to the price of our common shares and thus can be used as a defensive measure. These preferred shares will have both a liquidation and dividend preference over our common shares and will accrue cash dividends at a pre-determined rate. The protective foundation would be expected to require us to cancel its preferred shares once the perceived threat to the company and its stakeholders has been removed or sufficiently mitigated or neutralized. However, subject to the same limitations described above, the protective foundation would continue to have the right to exercise the call option in the future in response to a new threat to the interests of us, our business and our stakeholders from time to time.

In addition, certain provisions of our Articles of Association may make it more difficult for a third-party to acquire control of us or effect a change in our board of directors. These provisions include: a provision that our directors are appointed on the basis of a binding nomination prepared by our board of directors which can only be overruled by a two-thirds majority of votes cast representing more than 50% of our issued share capital; a provision that our directors may only be removed by the general meeting of shareholders by a two-thirds majority of votes cast representing more than 50% of our issued share capital (unless the removal is proposed by the board in which case a simple majority of the votes can be sufficient); and a requirement that certain matters, including an amendment of our Articles of Association, may only be brought to our shareholders for a vote upon a proposal by our board of directors.

We are not obligated to and do not comply with all the best practice provisions of the Dutch Corporate Governance Code. This may affect your rights as a shareholder.

We are a Dutch public company with limited liability (naamloze vennootschap), and we are subject to the Dutch Corporate Governance Code, or DCGC. The DCGC contains both principles and best practice provisions that regulate relations between the board of directors and the shareholders (such as the general meeting of shareholders). The DCGC is based on a "comply or explain" principle. Accordingly, companies are required to disclose in their annual reports, filed in the Netherlands, whether they comply with the provisions of the DCGC. If they do not comply with those provisions (for example, because of a conflicting NASDAQ requirement), the company is required to give the reasons for such non-compliance.

The DCGC applies to all Dutch companies listed on a government-recognized stock exchange, whether in the Netherlands or elsewhere, including NASDAQ. We do not comply with all the best practice provisions of the DCGC. For a list of the most substantial DCGC best practices that we do not comply with, see chapter 7.1 of this Annual Report. This may affect your rights as a shareholder and you may not have the same level of protection as a shareholder in a Dutch company that fully complies with the DCGC.

Claims of U.S. civil liabilities may not be enforceable against us.

We are incorporated under the laws of the Netherlands, and our headquarters is located in Germany. Substantially all of our assets are located outside the United States. The majority of our directors and executive officers reside outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or to enforce against them or us in U.S. courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States.

There is currently no treaty between the United States and the Netherlands for the mutual recognition and enforcement of judgments (other than arbitration awards) in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, would not be enforceable in the Netherlands unless the underlying claim is relitigated before a Dutch court of competent jurisdiction. Under current practice, however, a Dutch court will generally, subject to compliance with certain procedural requirements, grant the same judgment without a review of the merits of the underlying claim if such judgment (i) is a final judgment and has been rendered by a court which has established its jurisdiction vis-à-vis the relevant Dutch companies or Dutch company, as the case may be, on the basis of internationally accepted grounds of jurisdiction, (ii) has not been rendered in violation of principles of proper procedure (*behoorlijke rechtspleging*), (iii) is not contrary to the public policy of the Netherlands, and (iv) is not incompatible with (a) a prior judgment of a Netherlands court rendered in a dispute between the same parties, or (b) a prior judgment of a foreign court rendered in a dispute between the same parties, concerning the same subject matter and based on the same cause of action, provided that such prior judgment is capable of being recognized in the Netherlands. Dutch courts may deny the recognition and enforcement of punitive damages or other awards.

Moreover, a Dutch court may reduce the amount of damages granted by a U.S. court and recognize damages only to the extent that they are necessary to compensate actual losses or damages. Enforcement and recognition of judgments of U.S. courts in the Netherlands are solely governed by the provisions of the Dutch Code of Civil Procedure. Based on the foregoing, there can be no assurance that U.S. investors will be able to enforce any judgments obtained in U.S. courts in civil and commercial matters, including judgments under the U.S. federal securities.

The United States and Germany currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Consequently, a final judgment for payment or declaratory judgments given by a court in the United States, whether or not predicated solely upon U.S. securities laws, would not automatically be recognized or enforceable in Germany. German courts may deny the recognition and enforcement of a judgment rendered by a U.S. court if they consider the U.S. court not to be competent or the decision to be in violation of German public policy principles. For example, judgments awarding punitive damages are generally not enforceable in Germany. A German court may reduce the amount of damages granted by a U.S. court and recognize damages only to the extent that they are necessary to compensate actual losses or damages.

In addition, actions brought in a German court against us, our directors, our executive officers and the experts named herein to enforce liabilities based on U.S. federal securities laws may be subject to certain restrictions. In particular, German courts generally do not award punitive damages. Litigation in Germany is also subject to rules of procedure that differ from the U.S. rules, including with respect to the taking and admissibility of evidence, the conduct of the proceedings and the allocation of costs.

German procedural law does not provide for pre-trial discovery of documents, nor does Germany support pre-trial discovery of documents under the 1970 Hague Evidence Convention. Proceedings in Germany would have to be conducted in the German language and all documents submitted to the court would, in principle, have to be translated into German. For these reasons, it may be difficult for a U.S. investor to bring an original action in a German court predicated upon the civil liability provisions of the U.S. federal securities laws against us, our directors, our executive officers and the experts named in this Annual Report.

Based on the lack of a treaty as described above, U.S. investors may not be able to enforce against us or directors, executive officers or certain experts named herein who are residents of or possessing assets in the Netherlands, Germany, or other countries other than the United States any judgments obtained in U.S. courts in civil and commercial matters, including judgments under the U.S. federal securities laws.

3 INFORMATION ON THE COMPANY

3.1 History and development of the Company

We are a clinical-stage biopharmaceutical company focused on applying our proprietary anti-C5a technology to discover and develop first-in-class, potent and specific inhibitors of the complement activation factor known as C5a. C5a is a powerful inflammatory mediator involved in the progression of a wide variety of autoimmune and other inflammatory diseases. Our lead product candidate, IFX-1, is a novel intravenously delivered first-in-class anti-C5a monoclonal antibody that selectively binds to free C5a and has demonstrated disease-modifying clinical activity and tolerability in multiple clinical settings. We are developing IFX-1 for the treatment of Hidradenitis Suppurativa, or HS, a rare and chronic debilitating systemic inflammatory skin disease, for which we completed a Phase IIb clinical trial in the fourth quarter of 2019. Beyond HS, we intend to develop IFX-1 and other proprietary antibodies to address a wide array of complement-mediated diseases with significant unmet medical needs, including ANCA-associated vasculitis, or AAV, a rare and life-threatening autoimmune disease and Pyoderma Gangrenosum, a chronic inflammatory skin disorder, and defined oncological indications and potentially other new indications.

Our legal and commercial name is InflaRx N.V. InflaRx was founded in 2007 as InflaRx GmbH by Professor Niels Riedemann and Professor Renfeng Guo in Jena, Germany. Our agent for service of process in the United States is InflaRx Pharmaceuticals, Inc. located at 368 9th Avenue New York, NY 10001. Our principal executive offices are located in Winzerlaer Str. 2, 07745 Jena, Germany, telephone: (+49) 3641 508 180, and our additional offices and laboratories are located in Munich, Germany, Ann Arbor, Michigan, United States. We employ 45 employees, 16 of whom have M.D. or Ph.D. degrees. Our management team has extensive experience in the field of complement research, clinical research and the biopharmaceutical industry. Both our Chief Executive Officer and founder, Professor (Dr.) Niels Riedemann, and our Chief Scientific Officer and founder, Professor Renfeng Guo, have 19 years of complement research experience, having published extensively on C5a and its receptors. Additionally, our Chief Financial Officer, Arnd Christ, has served in the same capacity for various private and public European biotechnology companies over the last 20 years. Our General Counsel and Chief Legal Officer, Jason Marks, has extensive global experience in legal and compliance for large multi-national companies in life sciences, working both in the United States and Europe.

In connection with our initial public offering in the fourth quarter of 2017, InflaRx 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, the existing preferred and common shareholders of InflaRx GmbH each became a party to a notarial deed of issue pursuant to which they subscribed for 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 SEC maintains an Internet website that contains reports and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov. Our website can be found at www.inflarx.de. The information on our website is not incorporated by reference into this Annual Report, and you should not consider information contained on our website to be a part of this Annual Report.

3.2 Business overview

Overview

C5a is a central part of the complement system and a critical component of the innate immune system. The most prominent role of the complement system is to help the body defend itself against invading microorganisms through several mechanisms, including the rapid creation of an inflammatory environment and the production of factors that directly kill pathogens and recruit immune cells to sites of infection. Activation of the complement system ultimately results in the cleavage of C5, which leads to the generation of C5a and C5b. C5a creates an inflammatory environment by attracting and strongly activating neutrophils as well as by causing many different cell types to generate pro-inflammatory molecules. Such inflammation normally benefits the body by helping to fight infection, but excessive or uncontrolled generation of C5a can cause severe damage to the body's own tissue, thereby contributing to the pathophysiology of many autoimmune and inflammatory diseases.

While the mode of action of C5a in inflammation has been intensely researched and confirmed, developing a highly specific antibody with the ability to fully block C5a while preserving a critical innate defense mechanism, the formation of the Membrane Attack Complex, or MAC, has been challenging. As such, there are currently no approved drugs that specifically target C5a.

Our discovery of a novel epitope, or binding site, on C5a allowed us to overcome this challenge. We have identified antibodies that potently and selectively bind to this conformational epitope to completely block C5a without compromising important upstream functions of the complement system, as well as MAC formation. We intend to discover and develop treatments leveraging our proprietary anti-C5a technology to address a wide array of complement-mediated diseases with significant unmet needs.

IFX-1 is currently being developed for the treatment of HS, a chronic debilitating systemic inflammatory skin disease, where we estimate that moderate to severe HS has a prevalence of up to 200,000 patients, while increasing evidence exists that the prevalence may be higher. HS results in painful inflammation of the skin and hair follicles, especially in the armpit, groin and genitalia regions. In the more chronic form of the disease, patients experience draining fistulas, often requiring the use of bandages and diapers to absorb the constant flow of pus, thus adversely affecting quality of life. We have demonstrated that HS patients have significant complement activation, and in particular that C5a is a key promoter of neutrophil activation, believed to play a potential disease promoting role.

The only approved drug in the United States and in Europe to treat HS is adalimumab, an inhibitor of tumor necrosis factor-alpha, or TNF-alpha. Although adalimumab provides clinical benefit to a portion of moderate to severe HS patients, a high unmet medical need still persists.

On June 5, 2019, we announced the top-line results of the international SHINE Phase IIb study, investigating the safety and efficacy of IFX-1 in patients suffering from moderate to severe Hidradenitis Suppurativa (HS). The randomized, double-blind, placebo-controlled, multicenter study enrolled a total of 179 patients in four active dose arms and a placebo arm at over 40 sites in 9 countries in North America and Europe. The primary endpoint of the trial was a dose response signal, assessed by HiSCR

at week 16. The primary endpoint was not met and statistical analysis by multiple-comparison procedure modelling (MCP-mod) showed no significant dose response for IFX-1 treatment on the HiSCR, but it was well tolerated.

On July 18, 2019 we published a post-hoc analysis showing multiple signals of efficacy for the IFX-1 high dose group compared to the placebo group within the initial phase of the SHINE study, including reductions in all combined inflammatory lesions and draining fistula and on the International Hidradenitis Suppurativa Severity Score 4 (IHS4). The IHS4 scores all inflammatory lesions and has been developed by an international expert group to score severity and track treatment response, although it has not been utilized as a primary endpoint in late stage clinical trials in HS nor has it served as the basis of regulatory approval of a product for HS. The IHS4 weights the most fluctuating lesions such as inflammatory nodules (1 point), less than abscesses (2 points) or draining fistulas (4 points).

On November 6, 2019, we reported additional encouraging data from the open label extension (OLE) phase of the international SHINE Phase IIb study. The data were from a analysis at the end of the overall 9-month study treatment period (week 40). A total of 156 patients entered the 6-month OLE period upon completion of the 16-week initial phase of the SHINE study. Overall, patients completing the OLE period showed a sustained improvement in inflammatory lesion count at week 40 compared to baseline counts of the OLE treatment group on day 1 of the SHINE study.

We have submitted a request for an end of Phase II meeting to the FDA in March 2020 to discuss a potential Phase III trial program based on the results of the SHINE study. The company plans to provide an update on the results of the end of Phase II meeting and potential further development steps with IFX-1 in HS in the second half of the year 2020.

We are also developing IFX-1 for the treatment of AAV, a rare, life-threatening autoimmune disease associated with powerful inflammatory flares that impair kidney function and lead to fatal organ dysfunction. This disease affects approximately 40,000 and 75,000 patients in the United States and Europe, respectively. In addition, this disease has a reported incidence of 4,000 and 7,500 new patients per year in the United States and Europe, respectively.

In October 2018, we dosed the first patient in the randomized, triple blind, placebo-controlled US Phase II IX-PLORE study with IFX-1 in patients with AAV. The main objective of the study is to evaluate the efficacy and safety of two dosing regimens of IFX-1 in patients with moderate to severe AAV, when dosed in addition to standard of care, which includes treatment with high dose glucocorticoids. The primary endpoint of the study is the number and percentage of subjects who experience at least one treatment-emergent adverse event (TEAE) per treatment group at week 24. It was originally planned that we would enroll approximately 36 patients at centers in the US. At present, we have recruited 19 patients in this trial and conducted a blinded interim analysis as well as an assessment of the potential impact of the COVID-19 pandemic. The company has developed a consolidated moving forward strategy with the AAV program with the goal to achieve phase III readiness. As part of this strategy, we plan to stop and read out the IX-PLORE trial early.

In May 2019, we initiated a randomized, double-blind, placebo-controlled European Phase II IXCHANGE study with IFX-1 in patients with AAV. The main objective of the study is to evaluate the efficacy and safety of IFX-1 in patients with moderate to severe AAV. The primary endpoint of the study is a 50% reduction in Birmingham Vasculitis Activity Score (BVAS) at week 16. It was originally planned that we would enroll approximately 80 patients at about 60 sites in up to 12 European countries and Russia. The study is being conducted in two parts. In Part 1, patients are being randomized to receive either IFX-1 plus a reduced dose of glucocorticoids, or placebo plus a standard dose of glucocorticoids. Patients in both arms will receive the standard of care dosing of immunosuppressive therapy (rituximab or cyclophosphamide). In Part 2 of the study, patients will be randomized to receive either IFX-1 plus placebo glucocorticoids or placebo plus a standard dose of glucocorticoids (both in addition to standard of care immunosuppressive therapy with rituximab or cyclophosphamide). The first part of the study has already been fully enrolled. After analyzing the impact of

COVID-19 on the study, we conducted a blinded interim analysis of Part 1. Based on our analysis, we intend to continue with Part 2 of the study but decrease the number of enrolled patients.

We believe that this streamlined development strategy will provide important information on safety and efficacy using IFX-1 in AAV, while concurrently mitigating perceived or actual risks to the clinical trial associated with the COVID-19 pandemic. The goal of this strategy remains for the program to gain phase III readiness.

We plan to seek orphan drug designation for AAV in the United States and Europe once we obtain data from the running clinical Phase II trials in the United States and Europe.

We are also developing IFX-1 for the treatment of PG, a rare neutrophilic dermatosis associated with chronic cutaneous ulcerations. PG usually has a devastating effect on patient's life due to severe pain and induction of significant movement impairment depending on lesions' location. The exact prevalence of PG is not yet known, but it is estimated that up to 50,000 patients in the US and Europe are affected by this disease. We plan to seek orphan drug designation for PG in the United States and Europe.

In February 2019, we received approval of a Phase IIa exploratory study from Health Canada to initiate in Canada an open label study in which we plan to enroll 18 patients with moderate to severe PG. The objectives of this study are to evaluate the safety and efficacy of IFX-1 in this patient population. In February 2020, we announced positive initial data from the first five patients in this trial two patients achieved complete closure of the target ulcer. The drug was well tolerated and no drug-related severe adverse events (SAE) have been recorded to date in the study. The study continues to enroll with the addition of two higher dose cohorts.

We are also developing IFX-1 for the treatment of oncological indications. We plan to initiate a placebo-controlled Phase II proof of concept study within an oncological indication within the second half of 2020. We also intend to develop IFX-1 in various other inflammatory conditions, with a focus on complement-mediated diseases and oncology.

We are also developing IFX-1 in severe COVID-19 induced pneumonia with a randomized open label multicenter trial in Europe. On March 31, 2020, the Company initiated a clinical development program with IFX-1 in COVID-19 patients with severely progressed pneumonia and enrolled the first patient at the Amsterdam University Medical Centers in the Netherlands. Additional centers have been opened in the Netherlands. In the study, patients are being randomized to two treatment arms, either Arm A, best supportive care and IFX-1 or Arm B, best supportive care alone. The primary endpoint is the relative percentage change from baseline to day 5 in the Oxygenation Index ($\text{PaO}_2 / \text{FiO}_2$). After all patients have been treated in the first part of the trial, an interim analysis will be performed to assess the clinical benefit of the treatment using the assessed clinical parameters in order to potentially adapt the confirmatory second part of the study. Part 1 is fully enrolled with 30 patients as of April 2020.

To expand the breadth of our anti-C5a technology, we are developing IFX-2 for the treatment of chronic inflammatory indications. IFX-2 shares the same mechanism of action as IFX-1, blocking C5a with high specificity, but is designed with a dosing regimen that may be more suitable for chronic therapy. IFX-2 is in early pre-clinical development.

We intend to leverage our expertise within the complement field as well as our proprietary technology to sustain our lead in the anti-C5a space by developing a diverse pipeline focused on complement-mediated autoimmune and inflammatory diseases with high unmet need. Rights to our proprietary anti-C5a technology are currently expected to extend up to 2038 if our latest filed patent applications are granted.

The figure below summarizes key information about our current pipeline of product candidates:



Our programs

IFX-1 for Hidradenitis Suppurativa

HS is a chronic debilitating systemic skin disease which results in painful inflammation of the hair follicles, most notably in the armpit, groin and genitalia regions. The clinical hallmarks of this disease include very painful inflammatory nodules, boils or abscesses that typically open and release odorous inflammatory fluids. In the more chronic form of the disease, patients experience draining fistulas, also referred to as sinus tracts, which ultimately lead to scarring and related functional disability in certain areas. HS patients suffer primarily from pain and significant discomfort resulting from the constant formation of pus, often requiring the use of bandages and diapers, resulting in social isolation. Not surprisingly, HS severely adversely affects patients' quality of life. The Hurley system is a classification system used to characterize the disease from early and easier-to-treat forms of HS in Hurley stage 1 to the chronic and difficult to treat forms in Hurley stages 2 and 3.

HS typically presents in the second and third decade of a patient's life and often develops into a life-long debilitating chronic disease. The target patient population for IFX-1 is HS patients displaying a moderate to severe form of the disease. In the United States we estimate that moderate to severe HS has a prevalence of up to 200,000 patients, although recent publications suggest a higher prevalence.

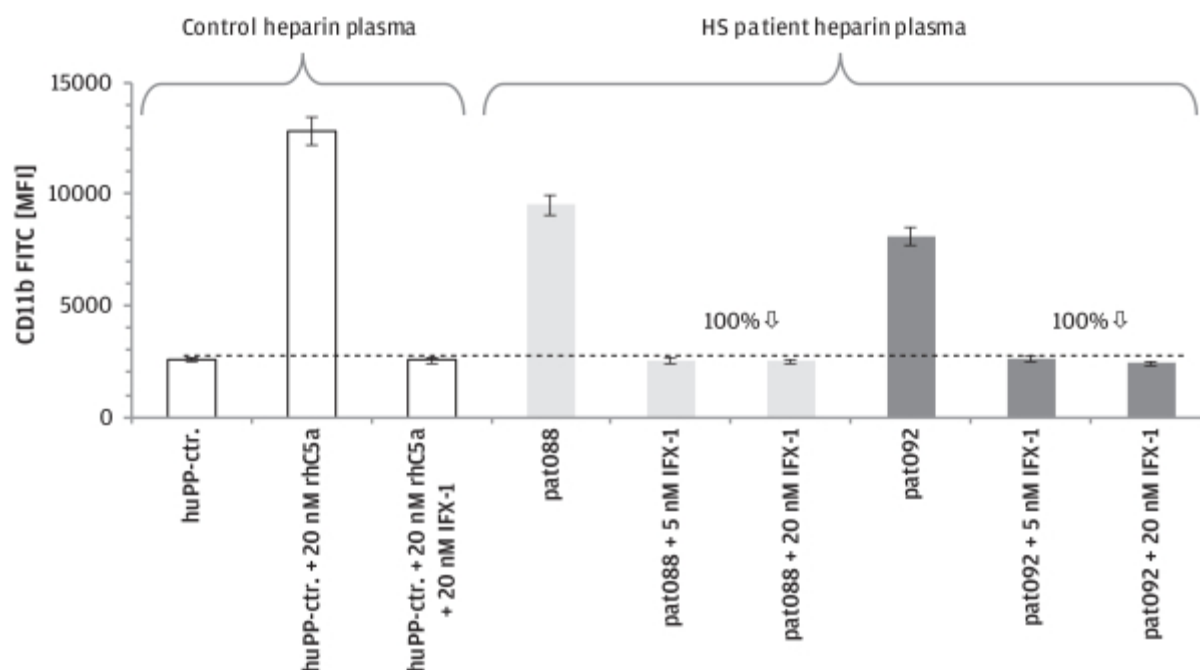
In Europe, the number of affected patients is also believed to be greater, with higher prevalence and incidence of HS in countries with warmer climates. The diagnosis and treatment are in most countries handled by dermatologists even though patients often first present with early symptoms to primary care physicians or even to emergency departments in order to seek surgical relief of formed abscesses.

The accepted (but not approved) standard of care for HS patients includes topical, oral or intravenous antibiotic treatment, as well as surgery, which often provide only temporary symptomatic relief. In some cases, patients also undergo different types of surgery. HS is recognized as a systemic autoimmune disease, for which there are numerous suggested etiological factors, including genetics. Neutrophils are believed to play a potential disease-promoting role as well as certain cytokines and mediators commonly found in autoimmune diseases such as TNF-alpha, IL-17, IL-1 and others. This rationale is supported by the 2015 approval in the United States and Europe of adalimumab, an anti-TNF-alpha monoclonal antibody, for the treatment of patients with moderate to severe HS (Hurley stage 2 and 3). The Hurley system is a classification system used to characterize the disease from early and easier-to-

treat forms of HS in Hurley stage 1 to the chronic and difficult to treat forms in Hurley stages 2 and 3. The system has been used as the basis for clinical trials. Combined results from the two pivotal adalimumab trials, which enrolled a total of 633 patients, showed that approximately 50% of the 316 patients who were treated with adalimumab achieved a response in the HiSCR, while approximately 27% of the 317 patients who received placebo achieved a HiSCR response, in each case at the end of a 12-week treatment period. Patients are HiSCR responders when they achieve a 50% or higher reduction of the combined abscess and nodule, or AN, count from baseline, but no increase of the abscess or draining fistula count from baseline. The HiSCR is the primary endpoint that was used to support regulatory approval by the FDA and EMA of adalimumab for the treatment of HS patients. Despite having demonstrated clinical benefit, approximately 50% or more of the patients with moderate to severe HS did not respond to adalimumab, thus a high unmet need remains among HS patients.

C5a promotes inflammatory mediators and is a strong activator of neutrophils, which was the basis for our investigation of our C5a blocking drug candidate IFX-1 in patients with HS. We established that patients suffering from HS show proof of significant systemic complement activation with elevated plasma concentrations of C5a and other markers.

We further elaborated that C5a is activated in the plasma of HS patients and appears to be the main factor activating neutrophils in human whole blood from healthy humans. Neutrophil activation was assessed by observing the upregulation of the neutrophil surface marker CD11b (an established method to demonstrate neutrophil activation). These data were derived from studies conducted in 2013 and 2014 as part of an investigative project in collaboration with an investigator from the University of Athens, who provided HS patient plasma samples for the studies. In these studies, we found that CD11b, as a marker for neutrophil activation, was greatly enhanced in fresh human whole blood from healthy volunteers when either recombinant human C5a was added or when plasma from HS patients was added. IFX-1, our highly specific anti-C5a antibody, completely inhibited neutrophil activation resulting from the addition of the HS plasma, suggesting that C5a may be the key mediator in plasma from HS patients leading to neutrophil activation.



Flow cytometry assay in fresh human whole blood demonstrating CD11b increase on blood neutrophils as marker of neutrophil activation: recombinant human C5a strongly activates human neutrophils in whole blood (huPP-ctr + 20 nM rhC5a) which can be fully blocked by addition of IFX-1 (huPP-ctr + 20 nM rhC5a + 20 nM IFX-1) (open white bars). Plasma from two different HS patients (pat088 and pat092) also activates human neutrophils in whole blood and this effect can be fully blocked by the addition of IFX-1 (middle and darker grey bars) thus implying that C5a in HS patient plasma is the key neutrophil activating factor.

IFX-1 was evaluated in a Phase IIa, single center open-label study in 12 patients who were diagnosed with Hurley stage 3 and had failed to respond to prior treatment attempts, including adalimumab, to which nine out of the 12 patients failed to respond. Patients received weekly intravenous injections of IFX-1 for eight consecutive weeks and were subject to follow up for three months thereafter. Results from the trial demonstrated a HiSCR response in 75% of patients at the end of eight weeks of treatment and in 83% of patients at the end of the 12-week trial observation period, demonstrating initial clinical evidence of the product candidate's disease-modifying effect. The results from the trial revealed that weekly injections of IFX-1 resulted in reduced C5a levels at 22 days and 50 days following the start of treatment while leaving MAC formation intact. The results also demonstrated that IFX-1 administration was well tolerated, with no drug-related adverse events detected and no infusion-related, allergic or anaphylactic reactions were observed.

In addition to the HiSCR response, we observed additional trends for the disease-modifying effect of IFX-1 treatment in HS patients. We investigated the absolute and percentage change from day one in the total combined count of abscesses and nodules, or AN count. The median AN count was 6.0 at baseline and decreased during the treatment period: at day 50 the AN count had decreased by a median of 3.5 (69.70%), and at the end of the trial observation period (day 134) the AN count had decreased by 4.5 (76.39%). At baseline, none of the 12 patients had an AN count of zero, one or two. At day 50, the end of the treatment period, the number of patients displaying an AN count of zero, one or two increased to eight patients and, by day 134 (end of the trial observation period) to 10 patients¹.

Based on the initial Phase IIa results, we completed a larger multi-center, international Phase IIb study to determine the efficacy and safety of IFX-1 in moderate to severe HS patients. The trial was a randomized, double-blind and placebo-controlled multicenter study with five dose groups, including one placebo group. After a placebo-controlled double-blind period of 16 weeks, each patient received IFX-1 open label for additional 28 weeks to assess long-term efficacy and safety. The main objective of the study was to evaluate a dose response signal assessed by the HiSCR score at week 16 as the primary endpoint. Secondary objectives included evaluation of safety and tolerability of IFX-1.

On June 5, 2019, we announced the top-line results of the international SHINE Phase IIb study, in which we failed to meet our primary endpoint utilizing HiSCR at week 16. The randomized, double-blind, placebo-controlled, multicenter study enrolled a total of 179 patients in four active dose arms and a placebo arm at over 40 sites in 9 countries in North America and Europe. The primary statistical analysis by multiple-comparison procedure modelling (MCP-mod) showed no significant dose response for the IFX-1 treatment.

The individual HiSCR rates at week 16 for the four different dose arms and the placebo arm are outlined below:

IFX-1				Placebo
Minimal dose	Low dose	Medium dose	High dose	placebo Q2W
400mg every 4 weeks (Q4W)	800mg every 4 weeks (Q4W)	800mg every 2 weeks (Q2W)	1200mg every 2 weeks (Q2W)	
40.0%	51.5%	38.7%	45.5%	47.1%

A statistically significant reduction of the dermatology life quality index (DLQI) could be detected comparing the overall treatment arms with the placebo arm at week 16 ($p=0.031$). The median DLQI reduction at week 16 compared to pre-dose values was highest in the medium dose group (-5.5 points) when compared to the reduction in the placebo group (-1.5 points). There was a trend in the reduction of the overall AN count comparing the placebo group (median reduction of -3.0) and the low, medium and high dose group (-5.0, -5.0, and -4.5, respectively).

¹ In order to assess the potential long-lasting effect of IFX-1 treatment at the end of the three months observations period of the initial Phase IIa study, an observational study was conducted on 10 of the 12 clinical subjects. The data revealed that the time after concluding IFX-1 treatment to the first flare, defined as need for antibiotic treatment upon worsening of HS symptoms, was 209 days (range 54 to 318 days) and that, while being off of medication, 50% of patients had no flares until day 203.

IFX-1 was well tolerated. No difference could be detected in treatment emergent adverse events between placebo and treatment groups. Overall, 72% of placebo treated patients experienced a treatment emergent adverse event when compared to 66% of the combined IFX-1 treated groups. The most common treatment emergent adverse events were exacerbation of HS and nasopharyngitis.

On July 18, 2019 we published a post-hoc analysis. This analysis showed multiple additional signals of efficacy for the IFX-1 high dose group compared to the placebo group within the initial phase of the SHINE study, which demonstrated significant reductions in all combined inflammatory lesions, on draining fistula and on the International Hidradenitis Suppurativa Severity Score 4 (IHS4) ² which also scores all inflammatory lesions and has been developed by an international expert group to score severity and track treatment response, although it has not been utilized in late stage clinical studies in HS. The IHS4 weights the most fluctuating lesions such as inflammatory nodules (1 point), less than abscesses (2 points) or draining fistulas (4 points).

At week 16, there was a statistically significant reduction of draining fistulas (“DF”) relative to baseline in the high dose IFX-1 group when compared to placebo (Figure 1 – relating to all patients with at least 1DF at baseline).

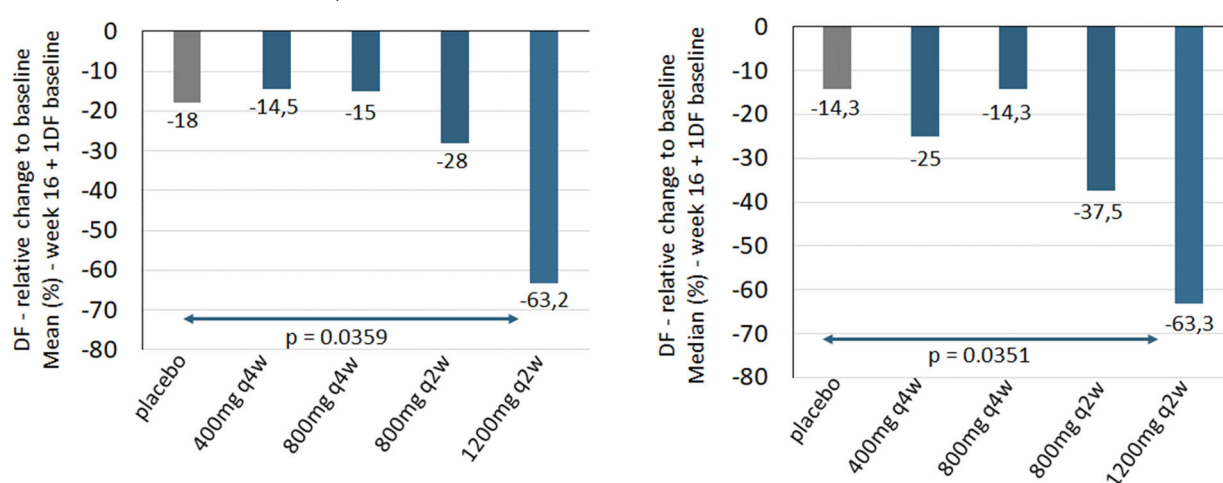


Figure 1: Draining Fistula (DF) reduction relative to baseline at week 16 (left: Mean, right: Median) in all patients with at least 1 draining fistula at baseline. For mean comparisons and the p-value of high dose versus placebo, an ANCOVA model adjusted for DF and Hurley stage at baseline was calculated. The p-value for the median comparison of high dose versus placebo was based on the Wilcoxon rank-sum test. Complete case analysis, no imputation of missing values.

This reduction in DF was visible as early as 2 weeks after induction of high dose IFX-1 therapy and consistent over time with the strongest observed reductions seen at weeks 6, 8 and 16 (Figure 2). A temporary weakening of the strong reduction was observed between weeks 10 to 14 which could not be explained by pharmacokinetic or pharmacodynamic parameters. The strong relative reduction of draining fistulas observed in the SHINE trial was consistent with earlier findings in the open label Phase IIa study (manuscript under revision for publication).

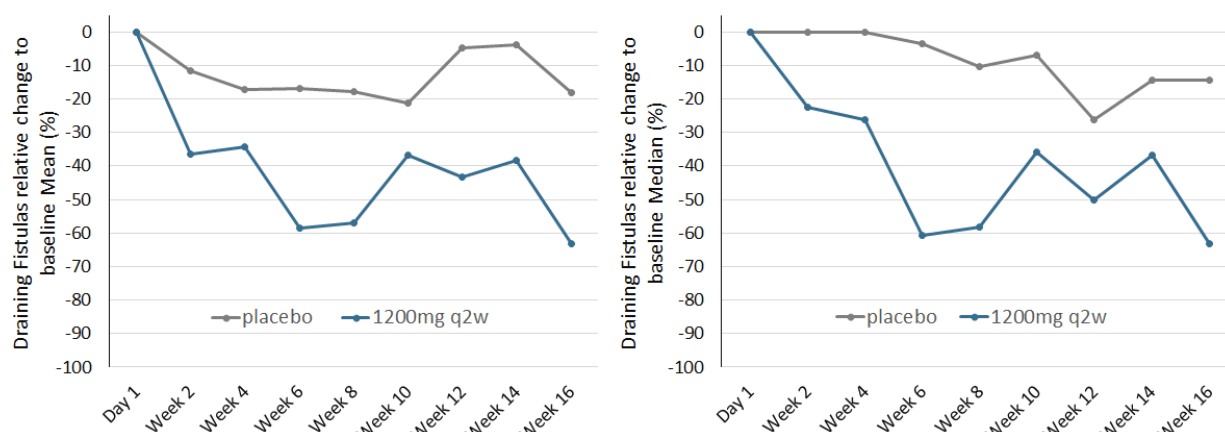


Figure 2: Draining Fistula (DF) reduction relative to baseline per visit (left: Mean, right: Median) until week 16 for placebo and the high dose group (IFX-1 1200mg q2w) in all patients with at least one DF at baseline. For mean comparisons of high dose versus placebo, an ANCOVA model adjusted for DF and Hurley stage at baseline was calculated. Complete case analysis, no imputation of missing values.

IFX-1 therapy also reduced the AN count at week 16 relative to baseline with a trend to a dose dependent effect. Further analysis showed that high dose IFX-1 therapy reduced abscesses and inflammatory nodule counts over time (Figure 3):

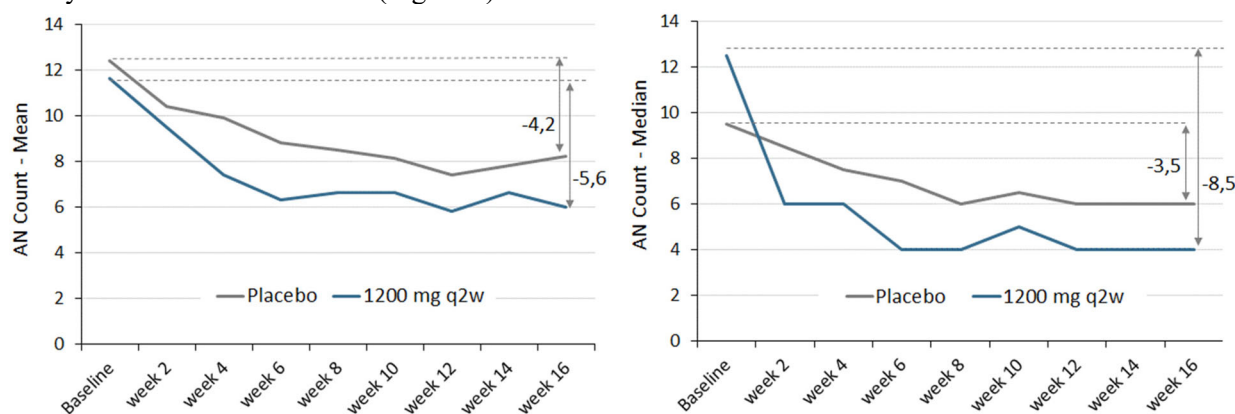


Figure 3: AN count per patient visit (left: Mean, right: Median) until week 16 for placebo and high dose group (IFX-1 1200mg q2w). Complete case analysis, no imputation of missing values.

On November 6, 2019, we reported positive results of the open label extension (OLE) part of the international SHINE Phase IIb study. The data were from a snapshot analysis at the end of the overall 9-month study treatment period (week 40). A total of 156 patients entered the 6-month OLE period upon completion of week 16 of the first part of the SHINE study. Patients participating in the OLE part of the study remained blinded to their initial treatment regimen and were grouped into two arms, responders and non-responders, according to the HiSCR at week 16. The Responder Group received a maintenance IFX-1 treatment dose of 800 mg every 4 weeks to investigate if they would maintain their response. The Non-responder Group received an IFX-1 treatment of 800 mg every 2 weeks to investigate if they would become responders. As induction therapy, patients transitioning from the former minimal dose or placebo groups received one or two additional 800 mg infusions, respectively. The endpoint for the OLE part of the study was HiSCR response rate at week 40. Key results include:

- 70.6% of the Responder Group maintained their HiSCR response during the OLE, and
- 41.8% of the Non-responder Group became responders at week 40.

Thus, at the end of the 9-month treatment period, 56.3% of all patients who completed the OLE were HiSCR responders.

Overall, patients completing the OLE period showed a sustained improvement in inflammatory lesion count at week 40 compared to baseline counts of the OLE treatment group on day 1 of the SHINE study. There was a relative reduction in the total body count of:

- abscesses and inflammatory nodules (AN count) of -66.9% (mean) and -75.0% (median), and
- draining fistula of -46.0% (mean) and -51.5% (median)

These results were also reflected in IHS4, which demonstrated an improvement with a relative change of - 54.5% (mean) and -64.1% (median) when compared to the day 1 baseline values of the OLE patient group.

Based on these results and on an in depth medical and statistical data analysis we plan to discuss with regulators the initiation of a phase III program for IFX-1 in HS which may be based on an alternative primary endpoint to the HiSCR. As first step, we have requested an end-of-phase II meeting with the FDA in March 2020.

IFX-1 for ANCA-associated Vasculitis

AAV is a rare, life-threatening autoimmune disease with a relapsing nature, characterized by necrotizing vasculitis, an inflammation of blood vessels. The disease is characterized by life-threatening flare phases affecting the kidney function and other organs leading to organ dysfunction and failure, a potentially fatal outcome unless treated appropriately. AAV predominantly affects small vessels associated with anti-neutrophil cytoplasmic antibodies, or ANCA. It comprises three disease entities: GPA, or granulomatosis with polyangiitis (known as Wegener's Granulomatosis); MPA, or microscopic polyangiitis; and eGPA, or eosinophilic granulomatosis with polyangiitis (known as Churg-Strauss syndrome).

AAV is designated as an orphan disease and affects approximately 40,000 and 75,000 patients in the United States and Europe, respectively. In addition, AAV has a reported incidence of 4,000 and 7,500 new patients per year in the United States and Europe, respectively.

Because of the life-threatening character of this disease, it is crucial to induce remission rapidly when a flare presents. The treatment to induce remission differs from maintenance therapy. The current treatment regimen to induce remission uses a combination of High Dose Corticosteroids, or HDCS, together with either rituximab or cyclophosphamide. The long lasting HDCS therapy is associated with significant side effects and additional life-threatening risks for the patients.

The disease promoting role of C5a for AAV is well established. A priming effect of C5a for neutrophils appears to be the essential factor leading to neutrophil-related damage of the endothelial cells in the vessels. In addition, patients with acute AAV disease have significantly elevated complement activation parameters in their plasma when compared to AAV patients in remission. In an experimental AAV disease model in mice, it was shown that while C5aR deficiency leads to reduction in disease activity, C6 deficiency does not lead to such improvement, suggesting that MAC formation might not play a major role in this disease. However, additional research is warranted to confirm this conclusion.

Our clinical development strategy for IFX-1 in AAV will first focus on acutely ill AAV patients, where we believe IFX-1 has the potential to successfully induce remission and reduce or eliminate the need for HDCS therapy, leading to reduction or elimination of HDCS therapy and providing an improved safety profile. Thereby we also intend to focus on speed of induction of remission and reducing rate of renal replacement and kidney dysfunction. An additional focus could address the maintenance of remission in patients.

We conducted a pre-IND meeting for IFX-1 therapy in AAV patients in February 2018 and, based on this, we have initiated a US clinical phase II study with IFX-1 in AAV patients primarily investigating safety and tolerability of IFX-1 in AAV patients as well as exploring efficacy of IFX-1 when added to standard of care therapy. In addition, we have initiated a second phase II study with IFX-1 in AAV patients outside the US focusing on safety as well as on investigating the potential to reduce and

avoid high dose glucocorticoid treatment during the induction phase of acute AAV. Part of the development strategy will also be submission of an orphan drug application to the FDA and EMA once first data are available.

In October 2018, we dosed the first patient in the randomized, triple blind, placebo-controlled US Phase II IX-PLORE study with IFX-1 in patients with AAV. The main objective of the study is to evaluate the efficacy and safety of two dosing regimens of IFX-1 in patients with moderate to severe AAV, when dosed in addition to standard of care, which includes treatment with high dose glucocorticoids. Patients are randomized to either receive a low dose of IFX-1 in combination with a standard dose of glucocorticoids, a high dose of IFX-1 in combination with a standard dose of glucocorticoids or placebo in combination with a standard dose of glucocorticoids. Patients in all three groups will receive the standard of care dosing of immunosuppressive therapy (rituximab or cyclophosphamide). The primary endpoint of the study is the number and percentage of subjects who experience at least one treatment-emergent adverse event (TEAE) per treatment group at week 24. The key secondary endpoint of the study is a 50% reduction in Birmingham Vasculitis Activity Score (BVAS) at week 16, a well-established endpoint that has been used in the previous AAV studies, along with clinical remission. It was originally planned that we would enroll approximately 36 patients at centers in the US. At present, we have recruited 19 patients in this trial and conducted a blinded interim analysis as well as an assessment of the potential impact of the COVID-19 pandemic. The company has developed a consolidated moving forward strategy with the AAV program with the goal to achieve phase III readiness. As part of this strategy, we plan to stop and read out the IX-PLORE trial early.

In May 2019, we initiated a randomized, double-blind, placebo-controlled European Phase II IX-CHANGE study with IFX-1 in patients with AAV. The main objective of this study is to evaluate the efficacy and safety of IFX-1 in patients with moderate to severe AAV. The primary endpoint of the study is a 50% reduction in Birmingham Vasculitis Activity Score (BVAS) at week 16. Secondary efficacy endpoints being analyzed include clinical remission, evaluation of the Vasculitis Damage Index, reduction of glucocorticoid toxicity, several relevant biomarkers like glomerular filtration rate, and patient reported outcomes. It was originally planned that we would enroll approximately 80 patients at about 60 sites in up to 12 European countries and Russia. The study will be conducted in two parts. In Part 1, patients are being randomized to receive either IFX-1 plus a reduced dose of glucocorticoids, or placebo plus a standard dose of glucocorticoids. Patients in both arms will receive the standard of care dosing of immunosuppressive therapy (rituximab or cyclophosphamide). This part has been fully enrolled with 30 patients. After analyzing the impact of COVID-19 on the study, we conducted a blinded internal interim analysis, in addition to obtaining review by an independent data monitoring committee related to safety and efficacy.

In Part 2 of the study, patients will be randomized to receive either IFX-1 plus placebo glucocorticoids or placebo plus a standard dose of glucocorticoids (both in addition to standard of care immunosuppressive therapy with rituximab or cyclophosphamide). Based on the results of the blinded interim analysis of Part 1 of the IX-CHANGE study, we have streamlined our development strategy for IFX-1 in AAV. As part of this strategy, we intend to continue with Part 2 of the study but decrease the number of enrolled patients.

We believe that this streamlined development strategy will provide important information on safety and efficacy using IFX-1 in AAV, while concurrently mitigating perceived or actual risks to the clinical trial associated with the COVID-19 pandemic. The goal of this strategy remains for the program to gain phase III readiness.

We believe that the potential advantages of treatment with IFX-1 in AAV are the following:

- **Rapid onset of action:** IFX-1 has fast onset of action such that after its intravenous administration, IFX-1 inhibits C5a-induced signaling completely, providing immediate protection from C5a induced priming and activation of neutrophils in this disease. This may result in a faster response rate and a potentially quicker induction of remission when compared to the currently available treatment options.

- **Potential potency advantages (over receptor inhibition):** IFX-1 blocks the upstream ligand C5a, which inhibits signaling through both receptors, C5aR and C5L2; C5a pro-inflammatory MoA through both C5aR and C5L2 has been shown to be important for ANCA-primed and C5a-induced neutrophil degranulation as key disease-driving mechanism in AAV (published by Hao and Wang et al 2013, PloS ONE).

IFX-1 for the treatment of Pyoderma Gangraenosum

We are also developing IFX-1 for the treatment of Pyoderma Gangraenosum (PG). PG is a chronic inflammatory form of neutrophilic dermatosis characterized by accumulation of neutrophils in the affected skin areas. The exact pathophysiology is not fully understood, but it is postulated that inflammatory cytokine production as well as neutrophil activation and dysfunction contribute to a sterile inflammation in the skin. PG presents as painful pustule or papule, mainly on the lower extremities which rapidly progress to an extremely painful enlarging ulcer. Associated symptoms include fever, malaise, weight loss and myalgia. PG usually has a devastating effect on a patient's life due to the severe pain and induction of significant movement impairment depending on lesions' location. The exact prevalence of PG is not yet known, but is estimated that up to 50,000 patients in the US and Europe are affected by this disease. We plan to seek orphan drug designation for PG in the United States and Europe.

In February 2019, we received the approval of an open label Phase IIa exploratory study from Health Canada with a planned enrollment of 18 patients with moderate to severe PG. We dosed the first patient in this trial in June 2019 and we plan to study 3 different dosing regimens of IFX-1 in a dose-escalation manner. The objectives of this study are to evaluate the safety and efficacy of IFX-1 in this patient population. The primary endpoint of the study is safety while the key secondary endpoints focus on the responder rate defined as a Physicians Global Assessment ≤ 3 of the target ulcer at visits V4, V6, V10, and V16 (end of treatment) as well as time to complete closure of Pyoderma Gangraenosum target ulcer (investigator assessment). In February 2020, we announced initial data from the first 5 patients. Patients in this first dosing group are being treated with 800mg of IFX-1 biweekly for 12 weeks after an initial run-in phase with three doses of 800mg on day 1, 4 and 8 of the study, with a three-month observational period. Out of the first 5 initial patients dosed with IFX-1, 2 patients achieved complete closure of the target ulcer. One patient completed the treatment period demonstrating a full healing of all affected areas. This patient continues to remain disease free approximately 2 months after being taken off IFX-1 therapy. The second patient exhibited healing of PG affected areas except for one minimal opening. This patient is close to completion of therapy. Both patients in remission had previously failed to respond to different therapeutic treatment attempts, including high dose glucocorticoids, and both patients showed elevated C5a levels in plasma at baseline. An additional patient who completed the study showed initial wound healing activity in the first 2-3 weeks of treatment, but no wound size decrease or closure was detected. The remaining 2 patients who are still under treatment have severe disease, including large and extensive ulcers. Both patients did not show a healing response but are eligible for a dose escalation. Pharmacodynamic analysis of the C5a levels over time of treatment indicated that a dose escalation may provide better control over C5a levels throughout the treatment period. The drug was well tolerated and no drug-related severe adverse events (SAE) have been recorded to date in the study. We are continuing to enroll the study with the addition of higher dose cohorts.

IFX-1 for the treatment of oncological diseases

We are also developing IFX-1 for the treatment of oncological diseases and plan to initiate a clinical proof of concept phase II study for IFX-1 in an undisclosed oncological indication within the second half of 2020. We plan to disclose this indication only at the start of the trial.

IFX-1 for the treatment of COVID-19-induced Severe Pneumonia

We are also developing IFX-1 for the treatment of COVID-19-induced severe pneumonia. On March 31, 2020, the Company initiated a clinical development program with IFX-1 in COVID-19 patients with severely progressed pneumonia and enrolled the first patient at the Amsterdam University Medical Centers in the Netherlands. Additional centers have been opened in the Netherlands. In the study, patients are being randomized to two treatment arms, either Arm A, best supportive care and IFX-1 or Arm B, best supportive care alone. The primary endpoint is the relative percentage change from baseline to day 5 in the Oxygenation Index (PaO₂ / FiO₂). After all patients have been treated in the first part of the trial, an interim analysis will be performed to assess the clinical benefit of the treatment using the assessed clinical parameters in order to potentially adapt the confirmatory second part of the study. Part 1 is fully enrolled with 30 patients as of April 2020.

Our strategy

Our goal is to maintain and further advance our leadership position within the anti-C5a complement space, delivering first-in-class autoimmune and anti-inflammatory therapies to market. To achieve this goal, we are executing on the following strategies:

- **Advance our lead program IFX-1 for HS.** Following the read-out of the Phase IIb trial, we plan to design and discuss with the FDA and EMA a Phase III program that would support a regulatory application for IFX-1 for the treatment of HS.
- **Complete Phase II clinical development of IFX-1 for AAV, PG, oncological diseases and COVID-19 induced severe pneumonia and other complement-mediated autoimmune and inflammatory diseases.** We are developing IFX-1 for the treatment of AAV, and we have initiated a Phase II program consisting of two clinical trials. We plan to seek orphan drug designation for AAV in the United States and Europe. For PG, we plan to complete an open-label proof-of-concept Phase IIa study, in which we have released preliminary results of the first dosing cohort. In addition, we plan to study the potential benefit of IFX-1 treatment in an oncological indication with the initiation of a clinical phase II proof of concept study within the second half of 2020. We are developing IFX-1 for the treatment of COVID-19 induced severe pneumonia and have initiated an adaptive randomized clinical trial with the goal to initially assess the safety and efficacy of IFX-1 and, in a second step, to provide proof of efficacy. We plan to eventually develop IFX-1 for other complement-mediated autoimmune and inflammatory diseases in the future.
- **Pursue the clinical development of IFX-2 and continue to expand the breadth of our anti-C5a technology.** We are developing IFX-2 as an injectable with a longer half-life than IFX-1, making it suitable for chronic inflammatory indications with less severe flares or closer to the onset of disease. IFX-2 shares the same features as IFX-1 with respect to its mechanism of action, covered binding epitope and selectivity. The pre-clinical development of IFX-2 is supported by a grant from the German government. We believe IFX-2 holds the potential to treat various chronic inflammatory diseases that could benefit from a dosing regimen more suitable for chronic therapy.
- **Commercialize IFX-1, if approved, either independently or in collaboration with a partner.** We intend to independently pursue the approval and commercialization of IFX-1 for HS and potentially other indications in the United States and Europe. We plan to employ a targeted commercial infrastructure to promote access to IFX-1 through centers-of-excellence that treat HS in these core markets. Outside of the United States and Europe, we may pursue the approval and commercialization of IFX-1 for HS and potentially other indications either independently or in collaboration with others. For other indications, we intend to develop and commercialize IFX-1 either independently or through collaborations with other parties.

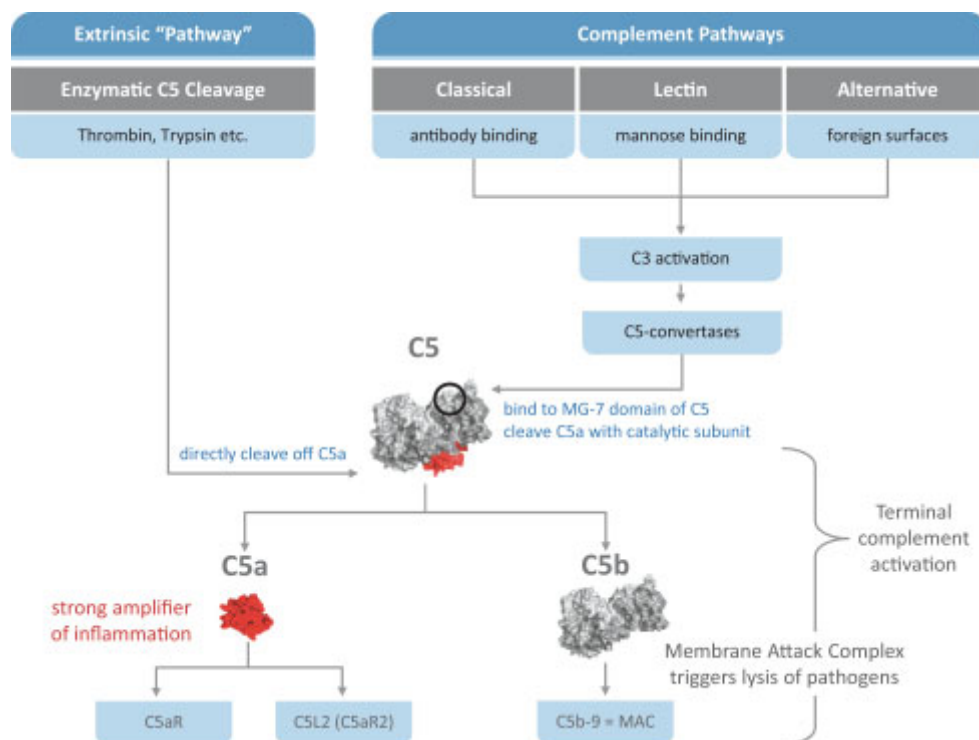
- **Solidify our leadership position in the anti-C5a space by leveraging the full potential of our proprietary anti-C5a technology and expertise in complement and inflammation.** We intend to continue to discover and develop treatments that have the potential to address a broad spectrum of complement-mediated or immune response mediated indications with significant unmet need, either internally or in collaboration with a partner. To accomplish this, we continue to supplement our research and development activities with our discovery unit in Ann Arbor, Michigan and we are further building out our business development capabilities.

The complement system and role of C5a

The complement system: overview and terminal complement activation

The complement cascade consists of approximately 30 interacting proteins and forms a critical component of the innate immune system. This system protects the body, for example by recognizing and removing bacteria, viruses and other infectious agents, collectively referred to as pathogens. Activation of the complement system leads to a series of enzyme-like reactions that produce factors that both directly kill pathogens and recruit immune cells to sites of infection. This activation can be triggered via three major pathways: the classical pathway, the mannose binding lectin, or MBL, pathway and the alternative pathway. Activation of any pathway will lead to the cleavage of C3 and formation of C5-convertases. Terminal complement activation, which is also referred to as cleavage of C5, can be achieved by these C5 convertases. In addition, terminal complement activation can also be achieved directly through the extrinsic pathway by naturally occurring enzymes present throughout the body but not considered part of the complement system.

Cleavage of C5 results in the generation of C5a and C5b, two molecules with distinct biological activities. C5a is a strong inflammatory amplifier that exerts its biological functions by binding to two different receptors, C5aR and C5L2. C5b on the other hand assembles with C6, C7, C8 and many C9 molecules to form the MAC, an important intrinsic defense mechanism that causes the membranes of microorganisms to become permeable, leading to their disintegration, or lysis.



Functional importance of the complement system and the need for control

Overview of critical functions

The complement system serves many crucial functions within the innate immune response, such as:

- **Rapid creation of an inflammatory environment.** Production of pro-inflammatory molecules, such as C5a, optimizes the conditions under which enzymatic and other processes can act against microorganisms. These inflammatory conditions include the onset of a fever or release of aggressive enzymes and oxygen radicals by neutrophils.
- **Lysis of microorganisms through formation of the Membrane Attack Complex.** A rapid, first-line defense mechanism resulting in the formation of pores in the cell membranes of invading microorganisms, leading to their disintegration.
- **Bridge to the adaptive immune system.** This function is promoted by an activation product of C3, called C3b, which tags particles and makes them visible and more easily processed by immune stimulatory cells. Such cells then present these particles to B-cells, which in turn generate antibodies against the particles, leading to targeted elimination. This mechanism takes a few weeks to take full effect.
- **Clearance of dead cell particles.** The complement system also serves various other purposes, including the clearance of dead cell particles from the body. This function is especially important because uncleared cell particles are believed to potentially induce generation of antibodies against normal cells and tissues, leading to autoimmune inflammatory responses and diseases..

Need for control

Complement activation is a double-edged sword: the fast acting and relatively non-specific functions of pro-inflammatory responses driven by C5a and the lysis of microorganisms through MAC formation are usually very tightly controlled. However, inappropriate activation of the system can quickly turn it from a beneficial defense system into an uncontrolled inflammatory response. C5a's uncontrolled activity in certain disease states can generate an inflammatory environment within the body that results in tissue damage and promotes pro-inflammatory T-cell autoimmune responses. The resulting tissue damage is believed to critically contribute to the disease progression of many acute as well as chronic inflammatory and autoimmune diseases, particularly during flare-up phases. Examples of this include Lupus disease, inflammatory bowel disease and neutrophil-driven diseases.

Despite the MAC's role as a rapid, first-line defense mechanism, MAC formation can also result in damage to our body's cells in some diseases. Normally, the body's cells and tissues are protected from MAC-mediated lysis through surface inhibitors that prevent MAC formation. However, in paroxysmal nocturnal hemoglobinuria, or PNH, the patients' cells lack the ability to hold MAC inhibitors on their cell surface, resulting in extreme susceptibility to MAC-related cell lysis. In addition, patients with diseases involving the kidney endothelial cells, such as atypical hemolytic uremic syndrome and certain forms of glomerulonephritis, also often appear to be burdened by MAC-related damage. Blockade of MAC formation in these very rare diseases can be lifesaving.

While blockade of MAC formation can be beneficial in certain circumstances, substantially blocking MAC formation can also result in susceptibility to life-threatening infections. For example, patients dosed with drugs that block MAC formation, such as with the marketed antibody eculizumab, must be immunized against meningococcal disease, which also carries the risk of side effects. Therefore, it is desirable to leave MAC formation intact when blocking complement-mediated damage in the broad variety of diseases in which an uncontrolled inflammatory response, and especially C5a, has been described as key driver of the damage.

We believe that C5a is a key inflammatory mediator driving tissue damage in many inflammatory diseases and thus represents a very meaningful drug target with large therapeutic potential. Therefore, we have conducted substantial research over the last 18 years to generate highly specific antibodies targeting only C5a while leaving MAC formation intact, to deliver an ideal therapeutic approach for this attractive target.

Mechanisms of C5 activation

C5 can be produced by many cells, including epithelial cells of various organs, T-cells and other immune competent cells. Terminal C5 activation does not require activation of the three complement pathways and related formation of C5-convertases. Other enzymes can also directly cleave and activate C5, such that functionally active C5a can be generated in the complete absence of other complement components. For example, in the absence of other complement factors in the cell culture, lung epithelial cells can generate C5 upon stimulation, and lung macrophages can cleave and activate C5, leading to generation of C5a. This example illustrates that C5 can be activated and C5a can be generated independently from the complement pathways.

In a recently published article in *Clinical Immunology*, we further demonstrated that direct enzymatic cleavage of C5 occurs uninhibited in the presence of eculizumab, a known C5 inhibitor that binds to the MG-7 domain of C5 and hinders the C5 convertases from engaging and binding to C5. This research suggests that direct enzymatic cleavage of C5a from C5 works through a mechanism that is not blocked by C5 inhibitors such as eculizumab. Our studies further demonstrate that patients sufficiently dosed with eculizumab may still display elevated plasma C5a levels, implying that C5 inhibitors like eculizumab are not capable of fully blocking and controlling the C5a signaling pathway. Therefore, in diseases in which it plays a key promoting role, we believe targeting C5a directly may yield a meaningful therapeutic benefit.

C5a and its role in disease and inflammation

C5a is a small, 74-amino acid-spanning protein whose biochemical and immunological properties have been well documented in the scientific literature. C5a creates an inflammatory environment by attracting and strongly activating neutrophils as well as by causing many different cell types to generate pro-inflammatory and inflammation-related molecules. While this can help the body to respond strongly and rapidly to infections by optimizing the defense environment, uncontrolled C5a generation can induce damage to the body's tissues in a broad variety of diseases. As a result, we believe that controlling and limiting C5a generation in the body may prevent the negative effects of an over-activated C5a immune response.

C5a quickly interacts with at least two independent receptors—C5aR and C5L2 (sometimes referred to as C5aR2). C5aR and C5L2 serve as a large signaling pool for effects elicited by C5a. C5aR has been well characterized as a signaling receptor that can be strongly upregulated in almost any cell across a variety of disease settings. Although less understood, C5L2 has also been shown to promote inflammation and negatively affect outcomes in various experimental disease settings by promoting the adverse effects elicited by uncontrolled C5a. Importantly, various other complement activation products such as C3a, C3a-desArg, C4a etc. have been shown to bind to C5L2 and elicit effects different from those elicited by C5a. Thus, blocking specifically C5a as achieved by use of IFX-1 will eliminate only C5a mediated effects.

In the inflammatory response, C5a is an accelerator or “booster” of inflammation. This role of C5a extends to a broad variety of responses that include, but are not limited to, the following mechanisms:

- C5a boosts the generation of many different cytokines such as IL-8, IL-6, IL17, TNF-alpha and others in a variety of cell types as well as within the bloodstream.
- C5a induces a complex change in the cell-signaling cascade of immune-competent cells that leads to an altered and often intensified signal transduction of other known signaling stimuli, such as the Toll-like receptor signaling.

- C5a affects T-cell responses and causes a pro-inflammatory response, leading to the generation of further pro-inflammatory cytokines.
- C5a is capable of inducing adhesion molecule expression on the surfaces of blood vessels, leading to neutrophil adherence to the internal vessel wall and migration through the vessel to the site of infection.

When C5a binds to its receptors on neutrophils, they are strongly activated and move to the source of damage or infection, through a process referred to as chemotaxis, generating oxygen radicals and activated enzymes both believed to be major contributors to cellular and tissue damage in the body. Given this central function, C5a is a powerful tool that, when inappropriately activated, is capable of promoting damage to the body, ultimately leading to organ dysfunction and failure.

Various chronic inflammatory and autoimmune diseases in humans are characterized by flare-up phases during which substantial tissue damage occurs. Given C5a's numerous inflammatory promoting functions, blocking it in chronic inflammatory diseases may have a positive effect on T-cell function, overall control of the inflammatory status of the disease and a strong anti-inflammatory effect on neutrophils, which may reduce tissue damage during the flare-up phases. Multiple international research groups have demonstrated in various inflammatory animal models that blocking the C5a/C5aR signaling axis leads to reduced inflammation, improved organ performance and favorable outcomes on clinical endpoints, including improved mortality rate, disease severity or damage scores.

C5a also has been described as a potential disturbing factor for a balanced T-cell response by down-regulating regulatory T-cells and promoting pro-inflammatory T-cell responses. Research published in 2013 in *Nature Immunology* and the *Journal of Experimental Medicine* demonstrated that blocking the C5a/C5aR signaling axis in mice restored regulatory T-cell function, inhibiting the progression of induced autoimmune diseases. Therefore, C5a is a potential drug target for the treatment of autoimmune and chronic inflammatory diseases associated with T-cell imbalance.

Role of C5a in cancer growth and metastatic disease

Different cancer cells have been found to generate their own C5a when cultured in vitro in the absence of any other complement factors or intact complement pathways. This result is possible because cancer cells produce C5, together with enzymes to directly cleave C5, thereby generating functionally active C5a. Recent research suggests that C5a contributes to cancer growth and metastatic disease, with multiple mechanisms proposed in the literature to explain this phenomenon. C5a appears to be associated with the recruitment and activation of myeloid-derived suppressor cells, also referred to as MDSCs, in tumors. Activating MDSCs suppresses the important T-cell-mediated mechanisms that usually inhibit tumor growth. Recently published findings in *Cancer Cell* in 2018 confirmed this mode of action that has been suggested in earlier published work. It has also been documented that C5a generates a microenvironment favorable for tumor growth by increasing angiogenesis and enhancing the expression of the checkpoint molecule PDL1, as well as other mediators that enable tumor growth. These and other existing data may explain why combined therapy of anti-PD-1 and C5a blockade has been shown to effectively reduce tumor growth and metastasis in a pre-clinical mouse model.

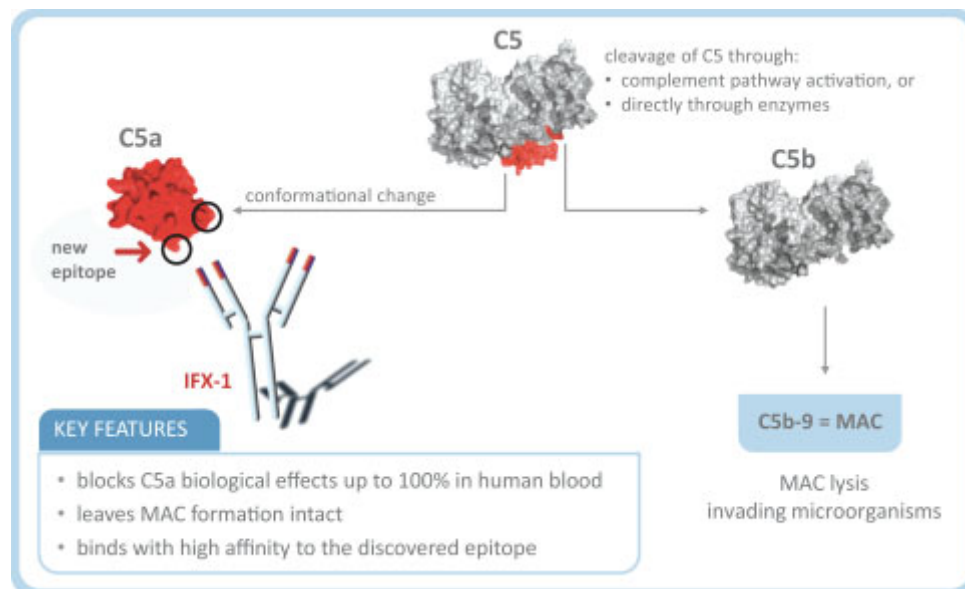
Our proprietary anti-C5a technology and product candidates

Despite C5a's well-characterized role in promoting inflammation and related tissue and organ damage in different diseases, no marketed drug targeting C5a exists. Based on more than 17 years of research in this field, we believe the challenge in targeting C5a is to fully block the biological functions of C5a in its natural environment and leave MAC formation intact. We believe our proprietary anti-C5a technology enables us to overcome this challenge.

Our anti-C5a technology

When targeting C5a with a drug, the challenge is to fully control and block C5a while leaving MAC formation intact. We believe our discovery of a new conformational epitope, a binding site that

can be detected by antibodies, on C5a has allowed us to solve this challenge. We believe this conformational epitope is formed only after the cleavage of C5a from the C5 molecule, suggesting that the three-dimensional structure of C5a changes upon release from C5, creating new epitopes that are only present on the free C5a molecule. This permits binding to free C5a only after it is cleaved from C5 and thus allows blocking of C5a while keeping MAC formation intact. We believe that this represents a breakthrough in the field of terminal complement C5a inhibition and that this may be particularly valuable when treating diseases that are driven by C5a, such as HS and AAV.



A conformational epitope on the surface of the C5a molecule allows for generation of highly specific blocking antibodies directed against C5a.

Our anti-C5a monoclonal antibodies are designed to have the following properties:

- **Complete immunological blockade and inhibition of C5a-induced effects:** The human body has an abundant capacity to generate C5a, and induce inflammatory effects through its two receptors, C5aR and C5L2. Therefore our anti-C5a antibodies are designed to:
 - generate complete immunological blockade of the C5a molecule to achieve potent and effective treatments. Antibodies or inhibitors lacking this quality may leave a “signaling gap” for C5a, which, in a disease setting, will likely be sufficient to allow for strong pro-inflammatory effects. This signaling gap would limit the ability to silence the C5a/C5aR and C5a/C5L2 signaling axis to achieve the desired therapeutic effect; and
 - bind with high affinity to C5a to counteract the molecule’s rapid interactions with its two receptors, C5aR and C5L2, which are abundantly present on the vast majority of cell types in the human body and that can be up-regulated in various disease settings.
- **Limited effect on MAC formation:** C5 blocking molecules that inhibit MAC formation in the blood increase the risk of life-threatening infections caused by encapsulated bacteria such as meningococci. Therefore, leaving MAC formation intact may offer a significant advantage in C5a driven diseases.

We believe that all of these features are necessary for a drug targeting C5a to achieve clinically meaningful pharmacological performance for the treatment of C5a-driven diseases such as HS or AAV. Furthermore, we believe that C5a-driven diseases may not be effectively targeted with complement inhibitory approaches that do not specifically and fully block C5a. These approaches such as blocking the complement pathway-driven cleavage of C5 or inhibiting the complement pathways upstream of C5, are characterized by two fundamental shortcomings:

- **Inability to fully block C5a without targeting it directly:** C5a can be generated through C5 activation by various enzymes in the complete absence of the complement pathways. For example, blocking the complement C5-convertase-driven cleavage with the C5 inhibitor eculizumab cannot block direct enzymatic C5 activation and C5a generation in an experimental setting. This may explain why elevated C5a levels remain measurable in patients effectively dosed with eculizumab. Therefore, non-specific approaches that do not bind and inhibit C5a directly may fail to fully block its effects; and
- **Lack of control over C5a's signaling ability:** C5a receptors are abundantly present on the majority of cells in humans and can be strongly and rapidly upregulated in certain disease states. As such, even with low levels of C5a, the receptors create a large "signaling sink" providing an abundant ability for even small amounts of C5a to transmit a signal. Therefore, a fully blocking targeted C5a approach is warranted in order to achieve full control over C5a-induced signaling events which may be especially important in highly acute inflammatory settings.

IFX-1 as first-in-class anti-C5a monoclonal antibody

Our lead product candidate, IFX-1, is an intravenously delivered monoclonal anti-C5a antibody. It is based on our proprietary anti-C5a technology and was the first C5a monoclonal antibody to enter clinical development. IFX-1 is differentiated by its ability to:

- **fully inhibit C5a-induced signaling and derived biological functions**, as evidenced by its ability to completely prevent C5a-induced neutrophil activation in human whole blood; and
- **leave MAC formation intact**, as evidenced by testing the intact complement pathway driven MAC formation on red blood cells, leading to the lysis of these cells.

We are currently evaluating IFX-1 in various disease indications. In our lead indication HS, we have completed an international Phase IIb and an open-label Phase IIa study including a follow-on observational analysis. We have also completed one placebo-controlled, single-center Phase I study of IFX-1 in healthy volunteers and completed two double-blind, placebo-controlled, multi-center Phase IIa studies in two other acute care indications, early septic organ dysfunction and complex cardiac surgery. In all completed studies, IFX-1 was observed to be well tolerated. The placebo-controlled, multi-center Phase IIa studies in the two acute care indications demonstrated that the occurrence of adverse events was comparable between treatment groups and placebo group. The results of these studies also demonstrated that IFX-1 blocked C5a with high statistical significance (p-values < 0.001) and that MAC formation, as demonstrated by a CH50 assay described below, in the groups treated with IFX-1 was not influenced, with mean CH50 values for treatment groups and control groups within the normal range. To determine whether data is statistically significant, we use a "p-value," which represents the probability that random chance could explain the results. The FDA utilizes the reported statistical measures when evaluating the results of a clinical trial, including statistical significance as measured by p-value as an evidentiary standard of efficacy, to evaluate the reported evidence of a product candidate's safety and efficacy. If not otherwise specified, we used a conventional 5% or lower p-value ($p < 0.05$) to define statistical significance for the clinical trials and studies and data presented in this Annual Report.

Based on our clinical trials completed to date as well as the results from an EpiScreen ex vivo immunogenicity T-cell response assay, we believe that IFX-1 carries a low risk of provoking an immune response following administration. The immunogenicity assay used peripheral blood mononuclear cells from 21 donors and tested how many donors' cells showed a CD4⁺ T-cell response following introduction of IFX-1 ex vivo. A response rate of over 10% (or more than three out of 21) means the applicable protein is considered to be high risk for immunogenicity, while a response rate of less than 10% means the protein is considered to be low risk. The results of the assay for IFX-1 showed that zero out of the 21 donors had a T-cell response rate, as compared to a control arm (using the A33 antibody) which showed a 30% response rate. In addition, based on an anti-drug antibody detection assay

conducted in connection with our Phase IIa clinical trial in HS patients (measured pre-dose (day 1) and post-treatment (day 50 and day 134)), anti-drug antibodies were detected in only one participant on day 134 (end of the trial observation period).

In addition to HS, we are developing IFX-1 as a therapy for AAV given C5a's well-established disease promoting role in AAV, as well as in PG, a well characterized neutrophilic dermatosis, in which we have initiated a Phase II clinical development. We plan to advance development of IFX-1 in other disease settings where we believe an anti-C5a antibody could be successfully developed into a marketed therapy.

Additional clinical and pre-clinical development for IFX-1

Beyond HS, AAV and PG, the indications we described in the above sections, we plan to advance the clinical development of IFX-1 in additional inflammatory and chronic complement-mediated autoimmune disease indications as well as for defined oncological indications for which a good pre-clinical proof of concept exists and where C5a has been demonstrated as a critical disease promoting factor or where similar mechanisms, such as neutrophil-driven systemic diseases affecting the skin and other organs, are identified.

Additional clinical and pre-clinical development for IFX-1

We have also completed one Phase I clinical trial of IFX-1 in healthy volunteers and two Phase II clinical trials in patients with septic organ dysfunction and complex cardiac surgery, respectively.

Phase I: Placebo controlled dose escalation study in healthy human volunteers

We have completed a Phase I randomized, double-blind, placebo controlled clinical trial of IFX-1 in healthy volunteers to assess the safety, tolerability, PK and PD of IFX-1 following escalated single-dose IV administration. Five dosing groups were assessed with doses of 0.02 mg, 0.1 mg, 0.5 mg, 2 mg and 4 mg per kg of bodyweight, and each dose group was accompanied by placebo dosed patients. Each subject received a single IV administration of the study medication or placebo. The first subject was screened on March 23, 2011 and the last patient's last visit was on October 11, 2011. Out of 26 total patients, 24 patients completed the study as planned (one subject receiving the placebo was withdrawn due to protocol deviations and another subject withdrew his consent). Of those patients, 15 were treated with IFX-1 and the other patients were treated with a placebo. To be included in the clinical trial, patients had to be healthy male Caucasian subjects, aged between 18 and 40 years, with specified body mass index and bodyweight parameters. The study was sponsored by us and conducted in Neuss, Germany.

In all dose groups, we observed that single intravenous doses of IFX-1 were well tolerated in healthy volunteers. No clinically significant changes were observed in vital signs, physical examination or clinical laboratory parameters, including hematology, blood chemistry, coagulation, urinalysis and ECGs. Local tolerability was positive, and no serious adverse events occurred.

Ex vivo performance of IFX-1 was assessed in a secondary PD analysis in fresh human whole blood with IFX-1 samples from the two high dose groups. This assessment resulted in a mean ex vivo effect of IFX-1 for blocking C5a-induced neutrophil activation (CD11b upregulation) of approximately 100%.

Previously completed Phase IIa clinical trials with IFX-1

We have completed clinical Phase IIa studies in two acute care indications, early septic organ dysfunction and complex cardiac surgery. The purpose of both trials was to evaluate the safety and tolerability of IFX-1, assess pharmacokinetics, or PK, and pharmacodynamics, or PD, as well as various clinical and surrogate endpoints. Neither trial was powered for statistical significance with respect to clinical endpoints.

SCIENS Phase IIa clinical trial: Placebo controlled multi-center dose escalation study in patients suffering from early septic organ dysfunction

We completed a multi-center, double-blind, placebo-controlled Phase IIa study in 72 patients with early septic organ dysfunction (SCIENS). The study was conducted to assess the occurrence of adverse events, tolerability, PK and PD of IFX-1 at different dose regimens. It was sponsored by us and conducted at 17 study centers in Germany. Eligible patients suffered from early, newly developing organ dysfunction and were diagnosed with either abdominal or pulmonary infection as cause of sepsis. IFX-1 was administered to patients within 3 hours after screening in three dose groups: three doses of 4 mg/kg of bodyweight over 72 hours (high dose), two doses of 4 mg/kg of bodyweight over 24 hours (medium dose) or 2 mg/kg of bodyweight over 12 hours (low dose), or placebo. The first patient entered the study on April 25, 2014, and the last patient was treated on December 3, 2015.

In all dose groups, we observed that IFX-1 was well tolerated, with levels of adverse events or serious adverse events in treatment groups comparable to those in the control group. No relevant differences between placebo and treated patients were observed with respect to clinical laboratory parameters, ECGs or local tolerability. No anti-drug antibodies were detected during the 28 days of observation.

The study demonstrated that IFX-1 reduced elevated C5a levels in these patients with statistical significance in a dose dependent manner. Mean C5a concentrations were decreased in the different dose groups with high statistical significance ($p < 0.01$) starting at the first blood sampling two hours after the start of IFX-1 infusion. The duration of statistical significant decrease of C5a compared to placebo was 24 hours for the low dose group, 5 days for the medium dose group and 13 days for the high dose group (with $p < 0.01$ at all time points except for the last time point at day 13 in the high dose group, for which $p = 0.039$).

Ex vivo secondary PD analysis with plasma samples from treated patients added to fresh human whole blood in which recombinant C5a was added showed ex vivo IFX-1 was fully active in blocking C5a-induced neutrophil activation.

Although we were encouraged by our observations from SCIENS, we have determined that focusing on HS and AAV would provide more efficient clinical and regulatory paths forward, due to the historically increased risk and uncertainty relating to clinical development for product candidates within the sepsis indication.

CARDIAC Phase IIa clinical trial: Placebo controlled multi-center dose escalation study in patients undergoing complex cardiac surgery

We have also completed a multi-center, double-blind, placebo-controlled Phase IIa study in 116 patients electively undergoing pre-specified complex cardiac surgery (CARDIAC). IFX-1 or placebo was administered to patients prior to the start of surgery. The primary objective was to evaluate safety and tolerability of IFX-1, as well as assess the effect of IFX-1 on peak IL-6 levels. It was sponsored by us and conducted at 10 sites in Germany. Four dosing groups were assessed with IFX-1 doses of 1 mg, 2 mg, 4 mg and 8 mg per kg of bodyweight, and each dose group was accompanied by placebo-dosed patients. The first patient was dosed on June 6, 2016, and the last patient's last visit was on January 24, 2017.

In all dose groups we observed, IFX-1 was well tolerated, and adverse events detected were comparable to those from the control group. No relevant differences between placebo and treated patients were observed with respect to clinical laboratory parameters, ECGs or local tolerability. C5a plasma levels were decreased with high statistical significance ($p < 0.001$) and in a dose-dependent manner. In all dose groups, MAC formation as assessed by the CH50 test was intact.

However, we observed a high level of variability in the patient population across the placebo and treatment arms. For example, IL-6 levels were more variable than estimated in advance based on liter-

ature, and IFX-1 did not affect IL-6 levels with statistical significance. In addition, the overall mortality in this study was 1.9%, significantly below the levels in the published literature and the estimations conducted with the principle investigator, which were in the range of 12% to 18%. As a result, we have decided to discontinue development of IFX-1 for complex cardiac surgery.

Pre-clinical studies involving IFX-1

We established pre-clinical proof of concept for IFX-1 in various different pre-clinical settings and studies in monkeys. Collectively, these studies demonstrated that IFX-1 is highly effective in blocking C5a-induced biological effects while leaving MAC formation intact and that IFX-1 administration showed strong initial clinical evidence of disease-modifying effect in reducing neutrophil-driven organ damage in monkeys.

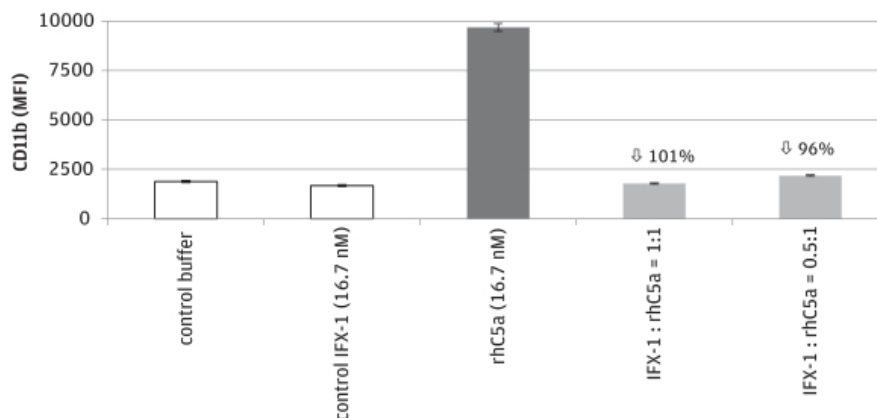
IFX-1 improves outcome in pre-clinical disease model in monkeys

IFX-1 was tested in an African green monkey model of acute lung injury, or ALI, induced by the new avian flu virus, H7N9, that exhibits clinical features comparable to H7N9 viral pneumonia in humans. In the absence of IFX-1, extensive complement activation accompanied by severe lung structural damage was detected in infected monkeys. Twelve two- to four-year-old African green monkeys were used in this study. Ten monkeys were inoculated intratracheally with 106 50% tissue culture infective dose of H7N9 while two monkeys were mock-infected. Four of the 10 virus-infected monkeys were treated intravenously with 5 mg/kg of IFX-1 and the remaining six monkeys received a sham intravenous treatment. Treatment with IFX-1 resulted in: greatly attenuated lung damage in histological analysis, reduced viral replication within the lungs, significantly lowered levels of inflammatory mediators, including IL-1 β , IP-10, MCP-1, IL-6, TNF-alpha and INF-gamma, and significantly fewer inflammatory infiltrating cells, especially neutrophils, in the lung.

The study was performed in 2014 at the State Key Laboratory of Pathogen and Biosecurity, Beijing Institute of Microbiology and Epidemiology, in Beijing, China. The primary goal of this study was to evaluate if IFX-1 treatment could reduce H7N9-induced lung tissue damage as expressed by the histopathological, or HE, score and decrease cytokine levels. The results demonstrated that treatment with IFX-1 significantly reduces HE score post-H7N9 infection ($p < 0.001$) and strongly reduced the levels of cytokines including IL-1 β , MCP-1, IL-6, TNF-alpha and INF-gamma ($p < 0.001$), suggesting a beneficial effect of IFX-1 on this viral-induced lung injury.

IFX-1 fully blocks C5a-induced effects on neutrophils in human whole blood

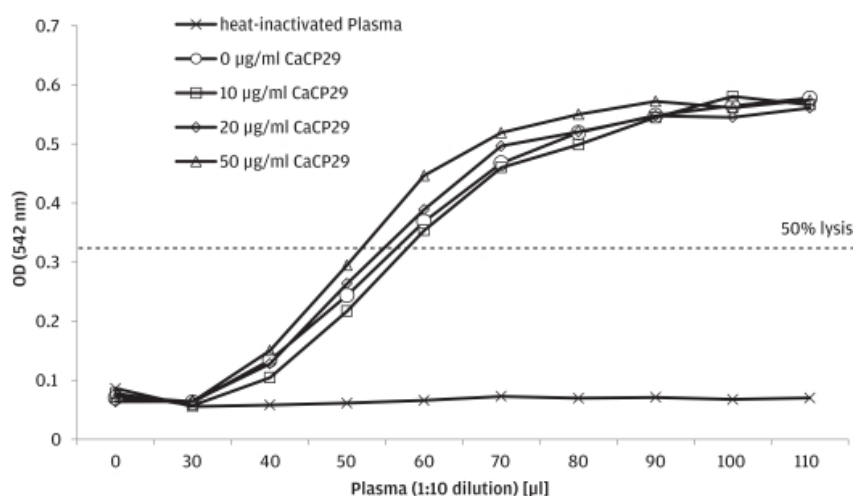
To assess IFX-1's ability to block C5a-induced biological effects on neutrophils in human blood, fresh human whole blood from voluntary blood donors was used, with the activation of neutrophils assessed using flow cytometric measurement of the known marker CD11b. This marker is expressed on neutrophil surfaces at low levels in non-activated neutrophils in the blood of healthy humans (controls in the figure below) and is strongly upregulated when neutrophils are activated, such as by recombinant human C5a (represented by the bar denoted as rhC5a (16.7 nM) in the figure below). Upon C5a stimulation, Cd11b expression was significantly upregulated ($p < 0.0001$). When IFX-1 was added together with recombinant C5a, CD11b upregulation was completely abolished with statistical significance ($p < 0.0001$).



IFX-1 blocks rhC5a-induced CD11b expression on human neutrophils: CD11b expression on neutrophils was assessed by flow cytometer analysis and was up-regulated by recombinant human C5a. IFX-1 was capable of strikingly reducing the CD-11b upregulation on neutrophils.

IFX-1 leaves MAC formation intact in human whole blood

IFX-1 was added to plasma samples from healthy human individuals (voluntary blood donors) and tested for potential disturbance of the ability of intact human plasma to generate MAC formation. This is assessed with the CH50 assay. In this test, intact MAC formation leads to the lysis of red blood cells, which is also referred to as the hemolytic activity and which is assessed indirectly by optical measurement of hemoglobin in the sample being released from lysed red blood cells. When IFX-1 was added to this test, the hemolytic activity curves from plasma alone and plasma plus IFX-1 were substantially similar, indicating that IFX-1 in the dose range of zero to 50 µg/mL had no influence on C5 cleavage and MAC formation (C5b-9).



IFX-1 does not influence the hemolytic activity curves in intact human plasma and therefore leaves C5 cleavage and formation of C5b-9 (MAC) intact. Hemolytic activity is assessed with the optical density (OD)

IFX-2 as follow-on anti-C5a monoclonal antibody

To expand the breadth of our anti-C5a technology, we are developing IFX-2, a follow-on anti-C5a monoclonal antibody for the treatment of chronic inflammatory applications. IFX-2 shares the same mechanism of action as IFX-1 in its potential to block C5a with high specificity but is designed with a dosing regimen that may be more suitable for chronic therapy. We are optimizing IFX-2 to provide a prolonged half-life and potentially to be administered subcutaneously or intravenously. IFX-2 will keep the performance relevant properties to fully block C5a-induced biological effects while leaving MAC formation intact. We believe that IFX-2 holds the potential to treat various chronic inflammatory

diseases that may be T-cell driven and could benefit from a dosing regimen more suitable for chronic therapy. IFX-2 is in early pre-clinical development.

Intellectual property

We aim to protect our product candidates and other commercially important proprietary anti-C5a technology by seeking and maintaining U.S. and foreign patents that are intended to cover our product candidates and compositions, and their methods of use, the methods used to manufacture them, the related therapeutic targets and associated methods of treatment and any other inventions that are commercially important to our business. We also rely on trade secrets and know-how and other intellectual property rights to protect aspects of our business that are not amenable to, or that we do not consider appropriate for, patent protection. Our success will depend significantly on our ability to obtain and maintain such patent and other proprietary protection, defend and enforce our patents, preserve the confidentiality of our trade secrets and operate our business without infringing, misappropriating or otherwise violating any patents or other intellectual property, including any proprietary rights of third-parties. See the section titled “Risk factors—Risks related to intellectual property” for additional information.

As of December 31, 2019, we owned three issued U.S. patents, five pending U.S. non-provisional patent applications, 14 issued foreign patents, one Eurasian Patent validated in 9 countries, as well as one European patent validated in 37 countries, 32 pending foreign patent applications and two pending applications filed under the Patent Cooperation Treaty (PCT). These patents include claims relating to C5a inhibitors and associated methods of use.

Our patent portfolio relating to IFX-1 and IFX-2, as of December 31, 2019, is summarized below.

As of December 31, 2019, we owned three issued U.S. patents and one pending U.S. non-provisional patent application covering the composition of matter of antibodies that block C5a and their use in blocking C5a-induced biological effects in patients with diseases that involve acute or chronic inflammation, which would include in their scope HS and AAV. In addition, we owned 12 issued foreign patents, ten pending foreign patent applications, one Eurasian Patent validated in nine countries, as well as one European patent validated in 37 countries covering the composition of matter of antibodies that block C5a and their use in the treatment of various diseases that involve acute or chronic inflammation, which would include in their scope HS and AAV, and, depending on the jurisdiction of the applicable patent, specifically cover the use of such antibodies in treating diseases such as ischemia and reperfusion related injuries, acute lung injury and pneumonia.

The issued U.S. and foreign patents are expected to expire in 2030, excluding any additional term for patent term adjustments or patent term extensions. If granted, the pending U.S. and foreign patent applications would be expected to expire in 2030, excluding any additional term for patent term adjustments or patent term extensions.

As of December 31, 2019, we owned two pending U.S. non-provisional patent application and 16 pending foreign patent applications covering the use of certain binding moieties, such as antibodies, that inhibit C5a for the treatment of viral pneumonia. If granted, the pending U.S. and foreign patent applications would be expected to expire in 2035, excluding any additional term for patent term adjustments or patent term extensions.

As of December 31, 2019, we owned two pending U.S. non-provisional patent applications, 7 pending foreign patent applications, on pending European patent application and two pending applications under the PCT covering the use of an inhibitor of C5a activity, for example, IFX-1, for treating HS and other cutaneous, neutrophilic inflammatory diseases. We plan to file additional European and foreign patent applications on the basis of the two pending applications under the PCT which, if granted, would be expected to expire in 2038, excluding any additional term for patent term adjustments or patent term extensions.

Collaboration agreements

On December 28, 2015, we entered into a co-development agreement with Beijing Defengrei Biotechnology Co. Ltd., or BDB, for the use of the IFX-1 cell line in BDB's development of drug candidates for sale in China. Pursuant to the agreement, we granted BDB an exclusive, non-transferable license to use the IFX-1 cell line and related intellectual property solely to develop and commercialize in China BDB's drug candidates BDB-1 and BDB-2, as well as molecules that bind or interact with certain specified targets ("target-binding molecules").

Pursuant to the agreement, we are entitled to receive mid-single-digit percentage royalties on net sales of BDB's products containing BDB-1 or BDB-2. We retain the right to develop and manufacture IFX-1 and IFX-2 in China solely for the purpose of commercializing products outside of China and to use the IFX-1 cell line and IFX-2 cell line in China for non-commercial purposes. To the extent that we are granted regulatory approval outside of China for commercialization of a product using IFX-1 or IFX-2 for an indication, and BDB does not pursue regulatory approval for BDB-1 or BDB-2 in the same or a substantially similar indication in China, by providing written notice to BDB, we may elect to pursue regulatory approval to commercialize such products in the relevant indication in China. Should we exercise such right, we would be required to pay BDB mid-single-digit percentage royalties on our net sales of such products.

Pursuant to the Co-Development Agreement, BDB is investigating the utilization of the IFX-1 technology and IFX-1 cell line used to manufacture BDB-1 for the treatment of COVID19 for patients in China (PRC). BDB-1 may only be developed and commercialized in China (PRC) by BDB, and InflaRx is not directly involved in the BDB-1 development, which is the sole responsibility of BDB. Pursuant to the Co-Development Agreement, InflaRx has all global rights outside China to any and all discoveries derived from the development of BDB-1 in China. IFX-1 is not the product being tested in clinical trials by BDB in China for COVID19. Rather, it is BDB's own antibody called BDB-1. InflaRx is not able to disclose the details of BDB's development program for COVID19 with BDB-1 in China (PRC) at this time.

In addition, we reserve the right to commercialize products containing BDB-1 and BDB-2 outside of China in indications for which we elect not to commercialize IFX-1 or IFX-2. To the extent that we exercise this right, we would be required to pay BDB low single-digit percentage royalties on our net sales of such products.

BDB must notify us without undue delay of tests it conducts on target-binding molecules. If any such test results in binding or interaction with targets in a satisfactory manner to both BDB and us, BDB must notify us of such results and may, within a six-month period following such notice, exercise an option to commence commercializing the successfully tested target-binding molecules in China. To the extent that BDB exercises such option, BDB would be required to pay us low single-digit percentage royalties on net sales of products containing such target-binding molecules. BDB also grants us the right to exploit any target-binding molecules outside of China or, to the extent that BDB does not pursue regulatory approval in the same or a substantially similar indication, in China. To the extent that we exercise such rights, we would be required to pay BDB low to mid single-digit percentage royalties on our net sales of such products.

The agreement continues in force unless earlier terminated. The agreement may be terminated upon the mutual agreement of the parties, or by one party upon a breach by the other party that is not cured within 30 days after receiving notice of such breach. In addition, either party may terminate the agreement if the other party challenges the terminating party's ownership of any intellectual property licensed to the non-terminating party under the agreement or undergoes certain bankruptcy or insolvency events. Moreover, we may terminate the agreement if BDB has not established a GMP standard manufacturing process or initiated any approved toxicology program by 2020.

On March 20, 2020, we entered into a clinical trial collaboration and supply agreement with Merck (known as MSD outside the US and Canada) to evaluate the combination of IFX-1 and Merck's

anti-PD-1 therapy, KEYTRUDA® (pembrolizumab) in patients with a selected specific tumor type. Under the terms of the agreement, InflaRx will conduct a Phase IIa clinical study with two IFX-1 arms including one with KEYTRUDA®. The first patient is expected to be dosed in the second half of 2020.

Sales and marketing

Subject to receiving marketing approval, we intend to independently pursue the commercialization of IFX-1 for HS in the United States and Europe, when approved by the applicable regulators, by employing a targeted commercial infrastructure to promote access to IFX-1 through centers-of-excellence that treat HS in these core markets. We believe that such an organization will be able to address the community of physicians who are key specialists in treating the patient populations for which IFX-1 and any other product candidates are being developed. The responsibilities of the organization would include developing educational initiatives with respect to approved products and establishing relationships with key specialists in HS and any other relevant fields of medicine.

Manufacturing

We do not currently own or operate manufacturing facilities for the production of clinical or commercial quantities of our product candidates. We intend to rely on third-party contract manufacturers to produce our products and intend to recruit personnel with experience to manage the third-party contract manufacturers producing our product candidates and other product candidates or products that we may develop in the future. In addition, we expect to engage third-party manufacturers in the United States for sales of any of our approved products in the United States. We hold the manufacturer and importing license and participate in the drug product release procedure by running a key immunological release assay in-house, allowing us to release only antibody batches that demonstrate high biological blocking activity. Thus, we are responsible for overseeing the entire manufacturing process and we release final fill-finished drug product with our qualified person.

Competition

The biopharmaceutical industry is characterized by rapidly advancing biotechnologies, intense competition and a strong emphasis on proprietary products. While we believe that our technologies, knowledge, experience and scientific resources provide us with competitive advantages, we face potential competition from many different sources, including major pharmaceutical, specialty pharmaceutical and biotechnology companies, academic institutions and governmental agencies and public and private research institutions. Any product candidates that we successfully develop and commercialize will compete with existing therapies and new therapies that may become available in the future.

The only approved product to treat HS in the United States and Europe is adalimumab (Humira), an inhibitor of TNF-alpha. Humira is marketed by AbbVie. A number of additional companies are developing product candidates to treat HS with varying mechanisms of action. These companies include Novartis AG, UCB Pharma GmbH, Janssen Research and Development LLC, Incyte Corporation and Chemocentryx Inc.

XBiotech has recently initiated a randomized, double-blind, placebo-controlled Phase II clinical study evaluating bermekimab, a monoclonal antibody targeting interleukin-1 alpha, in patients with moderate to severe HS. The multi-center, international study will enroll approximately 150 patients into three groups: two bermekimab dosing regimens versus a placebo arm over 16 weeks of therapy. The study's primary endpoint is the percentage of subjects achieving HiSCR at week 12 (secondary endpoint is HiSCR at week 16). XBiotech previously completed a multicenter, open-label Phase II clinical trial for a subcutaneously administered bermekimab in HS. The rights to bermekimab was acquired by Janssen Biotech in 2019. Results of the study demonstrated that weekly treatment with bermekimab was associated with statistically significant improvement in HS, using HiSCR. In the study, 61% of patients with no prior biological therapy achieved positive HiSCR at 12 weeks, while 63% of patients who had failed previous biological therapy also achieved a positive HiSCR. An earlier

single-center placebo-controlled trial as an intravenous formulation demonstrated significant improvement in the treatment arm as well (involving ten placebo and ten patients on therapy who previously failed to respond to adalimumab with the same compound). In 2016, Novartis completed a Phase II clinical trial for CJM112, a monoclonal antibody targeting interleukin-17 alpha, in moderate to severe HS patients. A limited amount of data presented within a conference poster presentation suggested certain benefits. Novartis has since launched a large Phase III clinical development program involving the marketed anti-IL17A monoclonal antibody, secukinumab, to be studied in two phase III trials with a goal of enrolling over 900 patients combined. This compound has not recently been studied by Novartis in HS before, but 2 smaller investigator-initiated trials have recently been completed as detailed in the paragraph below. Also, Novartis has initiated a Phase II clinical study in moderate to severe HS with iscalimab, an Anti-Cd40 monoclonal antibody and LYS006 a small molecule, in 90 patients including two active and two placebo arms. The primary endpoint for each investigational drug is the proportion of patients achieving a HiSCR after 16 weeks of treatment. In addition, UCB Pharma has recently completed a Phase II clinical trial in moderate to severe HS patients for bimekizumab, a monoclonal antibody blocking interleukin-17AF. The study enrolled 157 patients that received bimekizumab for 12 weeks and were evaluated using the HiSCR as the primary endpoint. The study results have not been published. Janssen Research and Development has initiated a Phase II study with guselkumab, a monoclonal antibody targeting IL-23 targeting enrollment of 184 patients evaluating the proportion of patients achieving a HiSCR at week 16. Chemocentryx, Inc. is recruiting a 390 patient, Phase II study in moderate to severe HS in two doses of CCX168, a C5aR inhibitor, using the primary endpoint as the proportion of subjects a HiSCR at Week 12. Incyte Corporation has recently completed a Phase IIa open label study and is recruiting for a Phase II dose-escalation, placebo-controlled study for INCB 54707. The Phase II clinical study is a 36 patient, dose escalating, placebo-controlled study aimed at evaluating the safety of INCB 54707 over an 8-week treatment period in patients with moderate to severe HS. The primary endpoint is the number of treatment emergent adverse events at week 8, with a secondary endpoint using the proportion of patients achieving a HiSCR up to week 16. Abbvie has also initiated a Phase II, 190 patient, study to evaluate the safety and efficacy of 2 dose levels of risankizumab in HS. The primary endpoint will be evaluated at 16 weeks using the HiSCR.

Additionally, a number of investigator-initiated trials have been conducted or are in progress in HS:

- An open-label single center trial in the US enrolling 18 out of originally planned 21 patients with moderate to severe HS has recently been concluded with Secukinumab, a monoclonal antibody blocking interleukin-17A and initial conference reports suggested improvement of the HiSCR at last observation carried forward.
- Another open-label trial with Secukinumab enrolling 17 HS patients at a center in France has recently been conducted and reported first results during the European HS foundation meeting in February 2019, suggesting that 13 patients showed a HiSCR response at 4 months of treatment. In this study, two patients developed Crohn's disease on month four of treatment which remained active after an immediate treatment stop throughout the 14 months trial period. Induction of Crohn's disease is a known side effect of secukinumab and Crohn's disease has been reported to be associated with HS disease.
- An open-label trial for Janssen-Cilag's ustekinumab was recently completed in 12 HS patients. Ustekinumab is a monoclonal antibody directed against IL12 and IL23.
- A small placebo-controlled Phase II study for Swedish Orphan Biovitrum AB's anakinra, as well as an open-label single-center trial in six patients, were completed in HS patients suggesting potential efficacy in a modified intent-to-treat population. Anakinra is an IL-1 receptor antagonist.
- An ongoing open-label single center 20 patient study at the Florida Academic Dermatology Centers, sponsored by Ortho Dermatologics (Bausch Health) to evaluate the efficacy of

SILIQ™ (brodalumab) for the treatment of moderate HS using the HiSCR for a period of 24 weeks of treatment, followed by an observational four-week post treatment visit.

Finally, a range of surgical procedures, topically applied medicinal products, laser and radiotherapy procedures are being investigated for the treatment of HS.

If approved for the treatment of AAV, IFX-1 would potentially face competition from currently used therapies, including corticosteroids, azathioprine, methotrexate, mycophenolate mofetil and rituximab. The current standard of care to induce remission in acutely ill AAV patients is a combination of either rituximab or azathioprine with high dose corticosteroids. Rituximab is approved and marketed by Genentech for this indication and label extension studies are ongoing. In addition, biosimilars of Rituximab are approved and marketed in Europe. Therapies to maintain remission include low dose corticosteroids, methotrexate, mycophenolate mofetil and rituximab.

We are not aware of any C5 or C5a inhibitors under development for the treatment of AAV, except, Chemocentryx, Inc.'s avacopan, a C5aR inhibitor. Though it acts through a different mechanism of action than IFX-1, avacopan has demonstrated the potential to induce and maintain remission in AAV patients in a Phase III clinical trial. This global study enrolled a total of 331 patients with acute ANCA vasculitis met both of its primary endpoints, disease remission at 26 weeks and sustained remission at 52 weeks, which was assessed by the Birmingham Vasculitis Activity Score, or BVAS. Remission was defined as a BVAS score of zero and being off glucocorticoid treatment for at least the preceding four weeks. The pre-specified primary endpoints were remission of acute vasculitis activity at week 26 and sustained remission at week 52, where avacopan was statistically non-inferior to glucocorticoid-containing standard of care. BVAS remission was achieved at week 26 in 72.3% of the avacopan treated subjects versus 70.1% of subjects in the glucocorticoid control group ($p < 0.0001$ for non-inferiority). Sustained remission at 52 weeks was observed in 65.7% of the avacopan treated patients versus 54.9% in the glucocorticoid control group ($p = 0.0066$ for superiority of avacopan). Avacopan treatment also resulted in additional benefits for patients when compared to the glucocorticoid control group such as significant reduction in glucocorticoid-related toxicity, significant improvement in kidney function in patients with renal disease as measured by the glomerular filtration rate at weeks 26 and 52 (statistically significant improvements at both time points), significant improvement in health-related quality of life measures such as the validated quality of life instrument SF-36 at and the EuroQOL-5D-5L instrument (for both at weeks 26 and 52). A completed Phase II trial for avacopan was designed to assess whether high dose chronic steroids used as the standard for induction of remission in severe AAV flares could be reduced or eliminated, without compromising efficacy, by replacement with avacopan. The trial met its primary clinical endpoint, which was based on the Birmingham Vasculitis Score 3, or BVAS 3 at week 12 in patients receiving avacopan treatment, compared to the response of patients receiving the standard of care treatment. We are encouraged by the published outcome data for avacopan that validates the role of the C5a/C5aR signaling axis in AAV patients and provides evidence that inhibition of the C5a pathway may be beneficial in treatment of AAV.

An additional therapy for AAV in development include an ongoing investigator-initiated trial, Abatacept, a selective T-cell costimulation modulator from Bristol-Meyers Squibb, being investigated for efficacy to achieve sustained corticosteroid-free remission in a subset of AAV patients with severe GPA. Abatacept is approved in the United States for treatment moderate to severe rheumatoid arthritis. In a large investigator-initiated clinical trial, the efficacy of a plasma exchange procedure has recently been tested in conjunction with corticosteroid treatment with respect to its impact on all-cause mortality and end-stage renal disease but did not reveal an outcome benefit for this treatment. Recently, AstraZeneca initiated a 140 patient, Phase III study with benralizumab, a monoclonal antibody targeting interleukin-5 and interleukin-5R in a type of AAV, eosinophilic granulomatosis with polyangiitis.

If approved for the treatment of PG, IFX-1 would potentially face competition from currently used therapies, such as glucocorticoids, cyclosporin or other immunosuppressive therapies. We are also not aware of any other company currently developing a drug in PG for the US or European market. However, Janssen's Remicade (infliximab) has been used several clinical studies in PG. The largest placebo-controlled trial (13 patients received infliximab and 17 patients received placebo) was published

in 2005 showing benefit in PG, but no formal clinical development has continued. XBiotech completed a Phase II clinical study in 10 patients using bermekimab in 2016. Janssen, which acquired the product in 2019 has not announced any further plans to continue development. In 2015, XOMA (now Novartis AG) completed an 8-patient open label proof of concept study in 2015 with gevokizumab. Novartis AG has not announced any plans to continue the program in PG. Outside the US and EU in Japan, Abbvie has filed for approval with Humira (adalimumab) from a Phase III open label study with 22 Japanese patients with active ulcers in February 2020.

There have been previously completed investigator studies in PG as stated below:

- The Technical University of Munich has an ongoing Phase II, single arm study in 5 patients with secukinumab (using the PGA five-point scale at week 16 compared to week 0 as the primary endpoint).
- The Ohio State University completed a 5 patient, Phase II open label study with ixekizumab in 2018
- The University of Zurich in 2015 completed an open label study evaluating canakinumab (Ilaris) for treatment of subjects with PG.

More generally, in the terminal complement space, there is currently one approved drug, Eculizumab, marketed by Alexion Pharmaceuticals, Inc. for the treatment of PNH and typical hemolytic uremic syndrome, or aHUS. However, there are several other companies developing C5 inhibitors for other indications, including Hoffmanm-La Roche AG together in collaborations with Chugai Pharmaceutical Co., Ltd, Ra Pharmaceuticals, Inc., Akari Therapeutics Plc, Ophthotech Corporation, Alnylam Pharmaceuticals, Inc., Regeneron Pharmaceuticals, Inc. and Novartis. In addition, Alexion is known to have had a C5a inhibitor under development for graft versus host disease. Clinical stage companies focusing on the inhibition of the C5a receptor C5aR include Chemocentryx as mentioned above, with its product candidate CCX168, as well as Innate Pharma S.A., with the in-licensed antibody IPH5401, which is currently being developed in collaboration with Astra Zeneca within the oncology field. In addition, there are clinical stage companies targeting complement inhibition upstream from C5, such as C3, factor D and components of the lectin pathway. These approaches will likely also result in a lowering of C5a generation in blood. Companies in this area include Apellis Pharmaceuticals, Inc., Achillion Pharmaceuticals, Inc. (acquired by Alexion) and Omeros Corporation. Furthermore, there are numerous additional companies developing pre-clinical drug candidates which target terminal complement factors and their receptors.

The key competitive factors affecting the success of our product candidates, if approved, are likely to be their efficacy, safety, dosing convenience, price and degree of market acceptance, as well as our marketing capabilities, the level of competition and the availability of reimbursement from government and other third-party payors.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than any products that we may develop. Our competitors may also obtain FDA or other regulatory approval for their products more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market. In addition, even if our product candidates are approved for marketing and sale, they may fail to gain sufficient market acceptance by physicians, patients, third-party payors and others in the medical community, including if physicians are reluctant to switch their patients from existing therapies (such as adalimumab for the treatment of HS). See chapter 2.2 Risk factors—Risks related to the discovery, development and commercialization of our product candidates—Even if one of our product candidates receives marketing approval, it may fail to achieve the degree of market acceptance by physicians, patients, third-party payors and others in the medical community necessary for commercial success, in which case we may not generate significant revenues or become profitable.”

Government regulation and product approval

Government authorities in all major pharmaceutical markets extensively regulate, among other things, the research, development, testing, manufacture, packaging, storage, recordkeeping, labeling, advertising, promotion, distribution, marketing and import and export of pharmaceutical products such as those we are developing. Although our initial focus will be on the United States and Europe, we will develop and seek marketing approval for our products also in other countries and territories, such as Canada or Japan, and for markets that follow the leading authorities, such as Brazil or South Korea. The processes for obtaining regulatory approvals in the United States, Europe and other countries, along with subsequent compliance with applicable statutes and regulations, require the expenditure of substantial time and financial resources.

International conference on harmonization (ICH)

The International Conference on Harmonization of Technical Requirements for Registration of Pharmaceuticals for Human Use, or the ICH, is a project that brings together the regulatory authorities of Europe, Japan and the United States and experts from the pharmaceutical industry in the three regions to discuss scientific and technical aspects of pharmaceutical product registration. The purpose of ICH is to reduce or obviate the need to duplicate the testing carried out during the research and development of new medicines by recommending ways to achieve greater harmonization in the interpretation and application of technical guidelines and requirements for product registration. Harmonization would lead to a more economical use of human, animal and material resources, the elimination of unnecessary delay in the global development and availability of new medicines while maintaining safeguards on quality, safety, efficacy and regulatory obligations to protect public health.

ICH guidelines have been adopted as law in several countries, but are only used as guidance for the FDA. Nevertheless, in many areas of drug regulation ICH has resulted in comparable requirements, for instance with respect to the Common Technical Document, or the CTD, which has become the core document for filings for market authorization in several jurisdictions. Thus, ICH has facilitated a more efficient path to markets.

FDA approval process

All of our current product candidates are subject to regulation in the United States by the FDA as biological products, or biologics. The FDA subjects biologics to extensive pre- and post-market regulation. The Public Health Service Act (PHSA), the Federal Food, Drug, and Cosmetic Act and other federal and state statutes and regulations govern, among other things, the research, development, testing, manufacture, storage, recordkeeping, approval, labeling, promotion and marketing, distribution, post-approval monitoring and reporting, sampling, and import and export of biologics. Failure to comply with applicable U.S. requirements may subject a company to a variety of administrative or judicial sanctions, such as FDA refusal to approve pending BLAs, withdrawal of approvals, clinical holds, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines or civil or criminal penalties.

The PHSA emphasizes the importance of manufacturing control for products whose attributes cannot be precisely defined. The PHSA also provides authority to the FDA to immediately suspend licenses in situations where there exists a danger to public health, to prepare or procure products in the event of shortages and critical public health needs, and to authorize the creation and enforcement of regulations to prevent the introduction or spread of communicable diseases in the United States and between states.

The process required by the FDA before a new biologic may be marketed in the United States is long, expensive, and inherently uncertain. Biologics development in the United States typically involves preclinical laboratory and animal tests, the submission to the FDA of an IND (which must become effective before clinical testing may commence) and adequate and well-controlled clinical trials to establish the safety, purity and potency (safety and effectiveness) of the biologic for each indication

for which FDA approval is sought. Developing the data to satisfy FDA pre-market approval requirements typically takes many years and the actual time required may vary substantially based upon the type, complexity, and novelty of the product or disease.

Preclinical studies include laboratory evaluation of the purity and stability of the manufactured drug substance or active pharmaceutical ingredient and the formulated drug or drug product, as well as in vitro and animal studies to assess the safety and activity of the drug for initial testing in humans and to establish a rationale for therapeutic use. The conduct of preclinical studies is subject to federal regulations and requirements, including GLP regulations. The results of the preclinical tests, together with manufacturing information, analytical data, any available clinical data or literature and plans for clinical trials, among other things, are submitted to the FDA as part of an IND. Some long-term preclinical testing, such as animal tests of reproductive adverse events and carcinogenicity, may continue after the IND is submitted.

An IND must become effective before United States clinical trials may begin. A 30-day waiting period after the submission of each IND is required prior to the commencement of clinical testing in humans. If the FDA has neither commented on nor questioned the IND within this 30-day period, the clinical trial proposed in the IND may begin.

Clinical trials involve the administration of the investigational new drug or biologic to healthy volunteers or patients with the condition under investigation, all under the supervision of a qualified investigator. Clinical trials must be conducted: (i) in compliance with federal regulations; (ii) in compliance with good clinical practice, or GCP, an international standard meant to protect the rights and health of patients and to define the roles of clinical trial sponsors, administrators, and monitors; as well as (iii) under protocols detailing the objectives of the trial, the parameters to be used in monitoring safety, and the effectiveness criteria to be evaluated. Each protocol involving testing on U.S. patients and subsequent protocol amendments must be submitted to the FDA as part of the IND.

The FDA may order the temporary, or permanent, discontinuation of a clinical trial at any time, or impose other sanctions, if it believes that the clinical trial either is not being conducted in accordance with requirements or presents an unacceptable risk to the clinical trial subjects. The study protocol and informed consent information for subjects in clinical trials must also be submitted to an institutional review board (IRB) for approval. An IRB may also require the clinical trial at the site to be halted, either temporarily or permanently, for failure to comply with the IRB's requirements, or may impose other conditions. The study sponsor may also suspend a clinical trial at any time on various grounds, including a determination that the subjects or patients are being exposed to an unacceptable health risk.

Clinical trials to support BLAs for marketing approval are typically conducted in three sequential phases, but the phases may overlap or be combined. In Phase I, the biologic is initially introduced into healthy human subjects or patients and is tested to assess PK, pharmacological actions, side effects associated with increasing doses, and, if possible, early evidence on effectiveness. In the case of some products for severe or life-threatening diseases, such as cancer treatments, initial human testing may be conducted in the intended patient population. Phase II usually involves trials in a limited patient population to determine the effectiveness of the biologic for a particular indication, dosage tolerance and optimum dosage, and to identify common adverse effects and safety risks. If a compound demonstrates evidence of effectiveness and an acceptable safety profile in Phase II evaluations, Phase III trials are undertaken to obtain additional information about clinical efficacy and safety in a larger number of patients, typically at geographically dispersed clinical trial sites. These Phase III clinical trials are intended to establish data sufficient to demonstrate substantial evidence of the efficacy and safety of the product to permit the FDA to evaluate the overall benefit-risk relationship of the biologic and to provide adequate information for the labeling of the biologic. Trials conducted outside of the US under similar, GCP-compliant conditions in accordance with local applicable laws may also be acceptable to the FDA in support of product licensing.

Sponsors of clinical trials for investigational drugs must publicly disclose certain clinical trial information, including detailed trial design and trial results in public government databases. These requirements are subject to specific timelines and apply to most controlled clinical trials of FDA-regulated products.

After completion of the required clinical testing, a BLA is prepared and submitted to the FDA. FDA review and approval of the BLA is required before marketing of the product may begin in the United States. The BLA must include the results of all preclinical, clinical, and other testing and a compilation of data relating to the product's pharmacology, chemistry, manufacture and controls, and must demonstrate the safety and efficacy of the product based on these results. The BLA must also contain extensive manufacturing information. The cost of preparing and submitting a BLA is substantial. Under federal law, the submission of most BLAs is additionally subject to a substantial application user fee, as well as an annual program user fee, which may total several million dollars and are typically increased annually.

The FDA has 60 days from its receipt of a BLA to determine whether the application will be accepted for filing based on the agency's threshold determination that it is sufficiently complete to permit substantive review. Once the submission is accepted for filing, the FDA begins an in-depth review. The FDA has agreed to certain performance goals in the review of BLAs. Most such applications for standard review biologics are reviewed within 10 months from the date the application is accepted for filing. Although the FDA often meets its user fee performance goals, it can extend these timelines if necessary, and its review may not occur on a timely basis. The FDA usually refers applications for novel biologics, or biologics which present difficult questions of safety or efficacy, to an advisory committee—typically a panel that includes clinicians and other experts—for review, evaluation, and a recommendation as to whether the application should be approved. The FDA is not bound by the recommendation of an advisory committee, but it generally follows such recommendations. Before approving a BLA, the FDA will typically inspect one or more clinical sites to assure compliance with GCP. Additionally, the FDA will inspect the facility or the facilities at which the biologic is manufactured. The FDA will not approve the product unless it verifies that compliance with cGMP standards is satisfactory and the BLA contains data that provide substantial evidence that the biologic is safe and effective in the indication studied.

After the FDA evaluates the BLA and the manufacturing facilities, it issues either an approval letter or a complete response letter. A complete response letter generally outlines the deficiencies in the submission and may require substantial additional testing, or information, in order for the FDA to reconsider the application. If, or when, those deficiencies have been addressed to the FDA's satisfaction in a resubmission of the BLA, the FDA will issue an approval letter. The FDA has committed to reviewing such resubmissions in two or six months depending on the type of information included. The FDA approval is never guaranteed, and the FDA may refuse to approve a BLA if applicable regulatory criteria are not satisfied.

Under the PHS Act, the FDA may approve a BLA if it determines that the product is safe, pure and potent and the facility where the product will be manufactured meets standards designed to ensure that it continues to be safe, pure, and potent. An approval letter authorizes commercial marketing of the biologic with specific prescribing information for specific indications. The approval for a biologic may be significantly more limited than requested in the application, including limitations on the specific diseases and dosages or the indications for use, which could restrict the commercial value of the product. The FDA may also require that certain contraindications, warnings, or precautions be included in the product labeling. In addition, as a condition of BLA approval, the FDA may require a risk evaluation and mitigation strategy, or REMS, to help ensure that the benefits of the biologic outweigh the potential risks. REMS can include medication guides, communication plans for healthcare professionals, and elements to assure safe use, or ETASU. ETASU can include, but are not limited to, special training or certification for prescribing or dispensing, dispensing only under certain circumstances, special monitoring, and the use of patient registries. The requirement for a REMS or use of a companion diagnostic with a biologic can materially affect the potential market and profitability of the biologic. Moreover, product approval may require, as a condition of approval, substantial post-approval testing and

surveillance to monitor the biologic's safety or efficacy. Once granted, product approvals may be withdrawn if compliance with regulatory standards is not maintained or problems are identified following initial marketing.

After a BLA is approved, the product may also be subject to official lot release. As part of the manufacturing process, the manufacturer is required to perform certain tests on each lot of the product before it is released for distribution. If the product is subject to official lot release by the FDA, the manufacturer submits samples of each lot of product to the FDA together with a release protocol showing a summary of the history of manufacture of the lot and the results of all of the manufacturer's tests performed on the lot. The FDA may also perform certain confirmatory tests on lots of some products, such as viral vaccines, before releasing the lots for distribution by the manufacturer. In addition, the FDA conducts laboratory research related to the regulatory standards on the safety, purity, potency, and effectiveness of biological products. After approval of biologics, manufacturers must address any safety issues that arise, are subject to recalls or a halt in manufacturing, and are subject to periodic inspection.

Fast track

The Fast Track program, a provision of the FDA Modernization Act of 1997, is designed to facilitate interactions between a sponsoring company and the FDA before and during submission of a BLA for an investigational agent that, alone or in combination with one or more other drugs, is intended to treat a serious or life-threatening disease or condition, and which demonstrates the potential to address an unmet medical need for that disease or condition. Under the Fast Track program, the FDA may consider reviewing portions of a marketing application before the sponsor submits the complete application if the FDA determines, after a preliminary evaluation of the clinical data, that a fast track product may be effective. A Fast Track designation provides the opportunity for more frequent interactions with the FDA, and a fast track product could be eligible for priority review if supported by clinical data at the time of submission of the BLA.

Biosimilars

The Patient Protection and Affordable Care Act, which we refer to as the Affordable Care Act, signed into law on March 23, 2010, includes a subtitle called the Biologics Price Competition and Innovation Act of 2009. That Act created an approval pathway authorizing the FDA to approve biosimilars and interchangeable biosimilars. Biosimilars are biological products which are "highly similar" to a previously approved biologic product or "reference product" and for which there are no clinically meaningful differences between the biosimilar product and the reference product in terms of safety, purity, and potency. For FDA to approve a biosimilar product as interchangeable with a reference product, the agency must find that the biosimilar product can be expected to produce the same clinical results as the reference product and, for products administered multiple times, the biosimilar and the reference biologic may be switched after one has been previously administered without increasing safety risks or risks of diminished efficacy relative to exclusive use of the reference biologic. However, complexities associated with the larger, and often more complex, structures of biological products, as well as the processes by which such products are manufactured, pose significant hurdles to implementation which are still being worked out by the FDA.

A reference biologic is granted 12 years of exclusivity from the time of first licensure of the reference product. A biosimilar application may be filed four years after the approval of the reference biologic. Although the patents for the reference biologic may be challenged by an applicant seeking approval of a biosimilar or interchangeable product after submission of its application but before FDA approval pursuant to the BPCIA statutory patent challenge framework, no biosimilar or interchangeable product will be licensed by the FDA until the end of the exclusivity period.

Accelerated approval pathway

The FDA may grant accelerated approval to a product for a serious or life-threatening condition that provides meaningful therapeutic advantage to patients over existing treatments based upon a determination that the product has an effect on a surrogate endpoint that is reasonably likely to predict clinical benefit. The FDA may also grant accelerated approval for such a condition when the product has an effect on an intermediate clinical endpoint that can be measured earlier than an effect on irreversible morbidity or mortality, or IMM, and that is reasonably likely to predict an effect on irreversible morbidity or mortality or other clinical benefit, taking into account the severity, rarity or prevalence of the condition and the availability or lack of alternative treatments. Products granted accelerated approval must meet the same statutory standards for safety and effectiveness as those granted traditional approval.

For the purposes of accelerated approval, a surrogate endpoint is a marker, such as a laboratory measurement, radiographic image, physical sign, or other measure that is thought to predict clinical benefit, but is not itself a measure of clinical benefit. Surrogate endpoints can often be measured more easily or more rapidly than clinical endpoints. An intermediate clinical endpoint is a measurement of a therapeutic effect that is considered reasonably likely to predict the clinical benefit of a product, such as an effect on IMM. The FDA has limited experience with accelerated approvals based on intermediate clinical endpoints, but has indicated that such endpoints generally may support accelerated approval where the therapeutic effect measured by the endpoint is not itself a clinical benefit and basis for traditional approval, if there is a basis for concluding that the therapeutic effect is reasonably likely to predict the ultimate clinical benefit of a product.

The accelerated approval pathway is most often used in settings in which the course of a disease is long and an extended period of time is required to measure the intended clinical benefit of a product, even if the effect on the surrogate or intermediate clinical endpoint occurs rapidly. Thus, accelerated approval has been used extensively in the development and approval of products for treatment of a variety of cancers in which the goal of therapy is generally to improve survival or decrease morbidity and the duration of the typical disease course requires lengthy and sometimes large trials to demonstrate a clinical or survival benefit.

The accelerated approval pathway is usually contingent on a sponsor's agreement to conduct, in a diligent manner, additional post-approval confirmatory studies to verify and describe the product's clinical benefit. As a result, a product candidate approved on this basis is subject to rigorous post-marketing compliance requirements, including the completion of Phase IV or post-approval clinical trials to confirm the effect on the clinical endpoint. Failure to conduct required post-approval studies, or confirm a clinical benefit during post-marketing studies, would allow the FDA to withdraw the product from the market on an expedited basis. All promotional materials for product candidates approved under accelerated regulations are subject to prior review by the FDA.

Advertising and promotion

Once a BLA is approved, a product will be subject to continuing post-approval regulatory requirements. For instance, the FDA closely regulates the post-approval marketing and promotion of biologics, including standards and regulations for direct-to-consumer advertising, off-label promotion, industry-sponsored scientific and educational activities and promotional activities involving the internet. Failure to comply with these regulations can result in significant penalties, including the issuance of warning letters directing a company to correct deviations from FDA standards, a requirement that future advertising and promotional materials be pre-cleared by the FDA, and federal and state civil and criminal investigations and prosecutions.

Biologics may be marketed only for the approved indications and in accordance with the provisions of the approved labeling. Changes to some of the conditions established in an approved application, including changes in indications, labeling or manufacturing processes or facilities, require submission and FDA approval of a new BLA or BLA supplement before the change can be implemented.

A BLA supplement for a new indication typically requires clinical data similar to that in the original application, and the FDA uses the same procedures and actions in reviewing BLA supplements as it does in reviewing BLAs.

Adverse event reporting and cGMP compliance

Adverse event reporting and submission of periodic reports are required following FDA approval of a BLA. The FDA also may require post-marketing testing, known as Phase IV testing, REMS and surveillance to monitor the effects of an approved product, or may place conditions on an approval that could restrict the distribution or use of the product. In addition, manufacture, packaging, labeling, storage and distribution procedures must continue to conform to current cGMPs after approval. Biologics manufacturers and certain of their subcontractors are required to register their establishments with the FDA and certain state agencies. Registration with the FDA subjects entities to periodic unannounced inspections by the FDA, during which the agency inspects manufacturing facilities to assess compliance with cGMPs. Accordingly, manufacturers must continue to expend time, money and effort in the areas of production and quality control to maintain compliance with cGMPs. Regulatory authorities may withdraw product approvals, request product recalls or impose marketing restrictions through labeling changes or product removals if a company fails to comply with regulatory standards, if it encounters problems following initial marketing, or if previously unrecognized problems are subsequently discovered.

Orphan drug

Under the Orphan Drug Act, the FDA may grant orphan drug designation to biologics intended to treat a rare disease or condition—generally a disease or condition that affects fewer than 200,000 individuals in the United States. Orphan drug designation must be requested before submitting a BLA. After the FDA grants orphan drug designation, the generic identity of the biologic and its potential orphan use are disclosed publicly by the FDA. Orphan drug designation does not necessarily convey any advantage in, or shorten the duration of, the regulatory review and approval process. The first BLA applicant to receive FDA approval for a particular product to treat a particular disease with FDA orphan drug designation is entitled to a seven-year exclusive marketing period in the United States for that product, for that indication. During the seven-year exclusivity period, the FDA may not approve any other applications to market the same drug for the same disease, except in limited circumstances, such as a showing of clinical superiority to the product with orphan drug exclusivity. Orphan drug exclusivity does not prevent the FDA from approving a different biologic for the same disease or condition, or the same biologic for a different disease or condition. Among the other benefits of orphan drug designation are tax credits for certain research and a waiver of the BLA application user fee.

Other healthcare laws and compliance requirements

In the United States, our activities are potentially subject to regulation by federal, state and local authorities in addition to the FDA, including the Centers for Medicare and Medicaid Services, other divisions of the U.S. Department of Health and Human Services (for example, the Office of Inspector General), the U.S. Department of Justice and individual U.S. Attorney offices within the Department of Justice, and state and local governments.

EU approval process

The European Medicines Agency, or EMA, is a decentralized scientific agency of the European Union. It coordinates the evaluation and monitoring of centrally-authorized medicinal products. It is responsible for the scientific evaluation of applications for EU marketing authorizations, as well as the development of technical guidance and the provision of scientific advice to sponsors. The EMA decentralizes its scientific assessment of medicines by working through a network of about 4,500 experts throughout the European Union, nominated by the member states. The EMA draws on resources of over 40 National Competent Authorities (the NCAs) of EU member states. The Paul Ehrlich Institute, or PEI, is one of the NCAs for Germany, and regulates, among others, antibody products.

The process regarding approval of medicinal products in the European Union follows roughly the same lines as in the United States and likewise generally involves satisfactorily completing each of the following:

- preclinical laboratory tests, animal studies and formulation studies all performed in accordance with the applicable EU Good Laboratory Practice regulations;
- submission to the relevant national authorities of a clinical trial application or CTA for each trial in humans, which must be approved before the trial may begin in each country where patient enrollment is planned;
- performance of adequate and well-controlled clinical trials to establish the safety and efficacy of the product for each proposed indication;
- submission to the relevant competent authorities of a Marketing Authorization Application or MAA, which includes the data supporting safety and efficacy as well as detailed information on the manufacture and composition of the product in clinical development and proposed labelling;
- satisfactory completion of an inspection by the relevant national authorities of the manufacturing facility or facilities, including those of third-parties, at which the product is produced to assess compliance with strictly enforced current Good Manufacturing Practices;
- potential audits of the non-clinical and clinical trial sites that generated the data in support of the MAA; and
- review and approval by the relevant competent authority of the MAA before any commercial marketing, sale or shipment of the product.

Preclinical studies

Preclinical tests include laboratory evaluations of product chemistry, formulation and stability, as well as studies to evaluate toxicity in animal studies, in order to assess the quality and potential safety and efficacy of the product. The conduct of the preclinical tests and formulation of the compounds for testing must comply with the relevant international, EU and national legislation, regulations and guidelines. The results of the preclinical tests, together with relevant manufacturing information and analytical data, are submitted as part of the CTA.

Clinical trial approval

Pursuant to the Clinical Trials Directive 2001/20/EC, as amended, a system for the approval of clinical trials in the European Union has been implemented through national legislation of the member states. Under this system, approval must be obtained from the competent national authority of each EU member state in which a study is planned to be conducted. To this end, a CTA is submitted, which must be supported by an investigational medicinal product dossier, or IMPD, and further supporting information prescribed by the Clinical Trials Directive and other applicable guidance documents including, but not limited to, the study protocol. Furthermore, a clinical trial may only be started after a competent ethics committee has issued a favorable opinion on the clinical trial application in that country. In Germany, CTA is often not granted until after one or more rounds of questions to be answered or requests to be met by the regulatory authority.

Directive 2001/20/EC will be replaced by Regulation (EU) No 536/2014, which became effective on June 16, 2014. The timing of its first application depends, however, on a fully functional EU clinical trials portal and database. The Regulation becomes applicable six months after the European Commission publishes a notice of confirmation that the required functionality is in place. The entry into application of the Regulation is currently estimated to occur in 2019. The Regulation introduces an authorization procedure based on a single submission via a single EU portal, an assessment procedure

leading to a single decision, as well as transparency requirements (the proactive publication of clinical trial data in the EU database). Since October 2016, based on its Policy 0070, the EMA has been publishing clinical data submitted by pharmaceutical companies to support their MAA for human medicines under this centralized procedure.

Manufacturing and import into the EU of investigational medicinal products is subject to the holding of appropriate authorizations and must be carried out in accordance with current Good Manufacturing Practices.

Marketing authorization application

Authorization to market a product in the EU member states proceeds under one of four procedures: a centralized authorization procedure, a mutual recognition procedure, a decentralized procedure or a national procedure. Since our products by their virtue of being antibody-based biologics fall under the centralized procedure, only this procedure will be described here.

Centralized authorization procedure

Certain drugs, including medicinal products developed by means of biotechnological processes, must be approved via the centralized authorization procedure for marketing authorization. A successful application under the centralized authorization procedure results in a marketing authorization from the European Commission, which is automatically valid in all EU member states. The other European Economic Area member states (namely Norway, Iceland and Liechtenstein) are also obligated to recognize the Commission decision. The EMA and the European Commission administer the centralized authorization procedure.

Under the centralized authorization procedure, the CHMP serves as the scientific committee that renders opinions about the safety, efficacy and quality of human products on behalf of the EMA. The CHMP is composed of experts nominated by each member state's national drug authority, with one of them appointed to act as Rapporteur for the co-ordination of the evaluation with the possible assistance of a further member of the Committee acting as a Co-Rapporteur. After approval, the Rapporteur(s) continue to monitor the product throughout its life cycle. The CHMP is required to issue an opinion within 210 days of receipt of a valid application, though the clock is stopped if it is necessary to ask the applicant for clarification or further supporting data. The process is complex and involves extensive consultation with the regulatory authorities of member states and a number of experts. Once the procedure is completed, a European Public Assessment Report, or EPAR, is produced. If the CHMP concludes that the quality, safety and efficacy of the medicinal product is sufficiently proven, it adopts a positive opinion. The CHMP's opinion is sent to the European Commission, which uses the opinion as the basis for its decision whether or not to grant a marketing authorization. If the opinion is negative, information is given as to the grounds on which this conclusion was reached.

After a drug has been authorized and launched, it is a condition of maintaining the marketing authorization that all aspects relating to its quality, safety and efficacy must be kept under review. Sanctions may be imposed for failure to adhere to the conditions of the marketing authorization. In extreme cases, the authorization may be revoked, resulting in withdrawal of the product from sale.

Accelerated assessment procedure

When an application is submitted for a marketing authorization in respect of a drug for human use which is of major interest from the point of view of public health and in particular from the viewpoint of therapeutic innovation, the applicant may request an accelerated assessment procedure pursuant to Article 14(9) of Regulation (EC) 726/2004. Under the accelerated assessment procedure, the CHMP is required to issue an opinion within 150 days of receipt of a valid application, subject to clock stops. We believe that some of the disease indications in which our product candidates are currently being or may be developed in the future qualify for this provision, and we will take advantage of this provision as appropriate.

Conditional approval

As per Article 14(7) of Regulation (EC) 726/2004, a medicine that would fulfill an unmet medical need may, if its immediate availability is in the interest of public health, be granted a conditional marketing authorization on the basis of less complete clinical data than are normally required, subject to specific obligations being imposed on the authorization holder. These specific obligations are to be reviewed annually by the EMA. The list of these obligations shall be made publicly accessible. Such an authorization shall be valid for one year, on a renewable basis.

Period of authorization and renewals

A marketing authorization is initially valid for five years and may then be renewed on the basis of a re-evaluation of the risk-benefit balance by the EMA or by the competent authority of the authorizing member state. To this end, the marketing authorization holder shall provide the EMA or the competent authority with a consolidated version of the file in respect of quality, safety and efficacy, including all variants introduced since the marketing authorization was granted, at least six months before the marketing authorization ceases to be valid. Once renewed, the marketing authorization shall be valid for an unlimited period, unless the Commission or the competent authority decides, on justified grounds relating to pharmacovigilance, to proceed with one additional five-year renewal. Any authorization which is not followed by the actual placing of the drug on the EU market (in case of centralized procedure) or on the market of the authorizing member state within three years after authorization shall cease to be valid (the so-called sunset clause).

Orphan drug designation

Regulation (EC) 141/2000 states that a drug shall be designated as an orphan drug if its sponsor can establish:

- that it is intended for the diagnosis, prevention or treatment of a life-threatening or chronically debilitating condition affecting not more than five in 10,000 persons in the European Union when the application is made, or;
- that it is intended for the diagnosis, prevention or treatment of a life-threatening, seriously debilitating or serious and chronic condition in the European Union and that without incentives it is unlikely that the marketing of the drug in the European Union would generate sufficient return to justify the necessary investment; and
- that there exists no satisfactory method of diagnosis, prevention or treatment of the condition in question that has been authorized in the European Union or, if such method exists, the drug will be of significant benefit to those affected by that condition.

Regulation (EC) 847/2000 sets out criteria for the designation of orphan drugs.

An application for designation as an orphan product can be made any time prior to the filing of an application for approval to market the product. Marketing authorization for an orphan drug leads to a 10-year period of market exclusivity, which means that no similar medicinal product can be authorized in the same indication. This period may, however, be reduced to six years if, at the end of the fifth year, it is established that the product no longer meets the criteria for orphan drug designation, for example because the product is sufficiently profitable not to justify continued market exclusivity. In addition, derogation from market exclusivity may be granted on an individual basis in very selected cases, such as consent from the marketing authorization holder, inability to supply sufficient quantities of the product or demonstration of “clinically relevant superiority” by a similar medicinal product. Medicinal products designated as orphan drugs pursuant to Regulation (EC) 141/2000 are eligible for incentives made available by the European Union and by the member states to support research into, and the development and availability of, orphan drugs.

If the MAA of a medicinal product designated as orphan drug pursuant to Regulation (EC) 141/2000 includes the results of all studies conducted in compliance with an agreed PIP, and a corresponding statement is subsequently included in the marketing authorization granted, the 10-year period of market exclusivity will be extended to 12 years.

We intend to apply for orphan status for the HS indication in the United States for IFX-1. Depending on the outcome and available data of IFX-1 studies in the AAV indication, we may apply for orphan drug status in the United States as well as in Europe.

Regulatory data protection

Without prejudice to the law on the protection of industrial and commercial property, marketing authorizations for new medicinal products benefit from an 8+2+1 year period of regulatory protection.

This regime consists of a regulatory data protection period of eight years plus a concurrent market exclusivity of 10 years plus an additional market exclusivity of one further year if, during the first eight years of those 10 years, the marketing approval holder obtains an approval for one or more new therapeutic indications which, during the scientific evaluation prior to their approval, are determined to bring a significant clinical benefit in comparison with existing therapies. Under the current rules, a third-party may reference the preclinical and clinical data of the reference product beginning eight years after first approval, but the third-party may market a generic version of the reference product after only 10 (or 11) years have lapsed.

International regulation

In addition to regulations in the United States and Europe, a variety of foreign regulations govern clinical trials, commercial sales, and distribution of product candidates. The approval process varies from country to country and the time to approval may be longer or shorter than that required for FDA or European Commission approval.

Pharmaceutical coverage, pricing and reimbursement

Significant uncertainty exists as to the coverage and reimbursement status of products approved by the FDA and other government authorities. Sales of products will depend, in part, on the extent to which third-party payors, including government health programs in the United States such as Medicare and Medicaid, commercial private and public health insurers and managed care organizations, provide coverage and establish adequate reimbursement levels for, such products. The process for determining whether a payor will provide coverage for a product may be separate from the process for setting the price or reimbursement rate that the payor will pay for the product once coverage is approved. Third-party payors are increasingly challenging the prices charged, examining the medical necessity, and reviewing the cost-effectiveness of medical products and services and imposing controls to manage costs. Third-party payors may limit coverage to specific products on an approved list, or formulary, which might not include all of the approved products for a particular indication.

In order to secure coverage and reimbursement for any product approved for sale, a company may need to conduct expensive pharmacoeconomic studies in order to demonstrate the medical necessity and cost-effectiveness of the product, in addition to the costs required to obtain FDA or other comparable regulatory approvals. Nonetheless, product candidates may not be considered medically necessary or cost effective. Additionally, a payor's decision to provide coverage for a drug product does not imply that an adequate reimbursement rate will be approved. Further, one payor's determination to provide coverage for a drug product does not assure that other payors will also provide coverage for the drug product. Third-party reimbursement may not be sufficient to maintain price levels high enough to realize an appropriate return on investment in product development.

The containment of healthcare costs also has become a priority of federal, state and foreign governments and the prices of drugs have been a focus in this effort. Governments have shown significant

interest in implementing cost-containment programs, including price controls, restrictions on reimbursement and requirements for substitution of generic products. Adoption of price controls and cost-containment measures, and adoption of more restrictive policies in jurisdictions with existing controls and measures, could further limit our net revenue and results. Coverage policies and third-party reimbursement rates may change at any time. Even if favorable coverage and reimbursement status is attained for one or more products for which a company or its collaborators receive regulatory approval, less favorable coverage policies and reimbursement rates may be implemented in the future.

Outside the United States, ensuring adequate coverage and payment for our product candidates will face challenges. Pricing of prescription pharmaceuticals is subject to governmental control in many countries. Pricing negotiations with governmental authorities can extend well beyond the receipt of regulatory marketing approval for a product and may require us to conduct a clinical trial that compares the cost effectiveness of our product candidates or products to other available therapies. The conduct of such a clinical trial could be expensive and result in delays in our commercialization efforts.

In the European Union, pricing and reimbursement schemes to restrict the range of drug products for which their national health insurance systems provide reimbursement and to control the prices of medicinal products for human use vary widely from country to country. Some countries provide that drug products may be marketed only after a reimbursement price has been agreed. Some countries may require the completion of additional studies that compare the cost-effectiveness of a particular drug candidate to currently available therapies. European Union member states may also require approval of a specific price for a drug product or may instead adopt a system of direct or indirect controls on the profitability of the company placing the drug product on the market. Other member states allow companies to fix their own prices for drug products, but monitor and control company profits. The downward pressure on health care costs in general, particularly prescription drugs, has become intense. As a result, increasingly high barriers are being erected to the entry of new products. In addition, in some countries, cross-border imports from low-priced markets exert competitive pressure that may reduce pricing within a country. Any country that has price controls or reimbursement limitations for drug products may not allow favorable reimbursement and pricing arrangements.

3.3 Organizational structure

InflaRx N.V. has two direct wholly-owned subsidiaries, InflaRx GmbH and InflaRx Pharmaceuticals, Inc. We primarily operate our business out of our operating subsidiary InflaRx GmbH.

3.4 Property, plant and equipment

Our headquarters are in Jena, Germany, where we occupy approximately 8,000 square feet of office and laboratory space under an extendable lease that expires in December 2022. In addition, we occupy approximately 13,700 square feet of office space in Munich, Germany under a lease that expires in May 2022. Furthermore, we have leased office and laboratory space in Ann Arbor, United States under an extendable lease that expires in April 2021.

3.5 Stakeholder dialogue

We believe communication with our key stakeholders is crucial. Key stakeholders of the Company are shareholders, employees, suppliers, patients and regulatory authorities. We communicate with our shareholders regularly via press releases and webcasts. We also regularly communicate with our employees, among other things on major changes and achievements. We conduct transparent communication with suppliers, patients and regulatory authorities.

4 OPERATING AND FINANCIAL REVIEW AND PROSPECTS

4.1 Operating results

You should read the following discussion and analysis of our financial condition and results of operations together with the information in our Consolidated Financial Statements and the notes thereto.

The following discussion is based on our financial information prepared in accordance with IFRS as issued by the IASB, which may differ in material respects from generally accepted accounting principles in the United States and other jurisdictions. The following discussion includes forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to, those described under “2.2 Risk factors” and “1.2 Forward-Looking Statements.”

Overview

We are a clinical-stage biopharmaceutical company focused on applying our proprietary anti-C5a technology to discover and develop first-in-class, potent and specific inhibitors of the complement activation factor known as C5a. C5a is a powerful inflammatory mediator involved in the progression of a wide variety of autoimmune and other inflammatory diseases. Our lead product candidate, IFX-1, is a novel intravenously delivered first-in-class anti-C5a monoclonal antibody that selectively binds to free C5a and has demonstrated disease-modifying clinical activity and tolerability in multiple clinical settings.

We have been developing IFX-1 for the treatment of HS, a chronic debilitating systemic inflammatory skin disease. In June 2019, we announced that our Phase IIb clinical trial of IFX-1 in HS did not meet its primary endpoint. We subsequently announced the results of additional analysis and first interim results of the open label extension trial. In light of all available data from the completed Shine study, the Company continues to consider options with respect to the development of IFX-1 for HS, including seeking to engage regulatory authorities in connection with pursuing further clinical trials in HS. We intend to develop IFX-1 and other proprietary antibodies and molecules, and evaluate other technologies as well, to address a wide array of complement-mediated and other diseases with significant unmet needs, including AAV, a rare, life-threatening autoimmune disease, PG, a rare inflammatory skin disorder and indications in oncology and potentially other indications and diseases. Since our inception in December 2007, we have devoted substantially all of our resources to establishing our company, raising capital, developing our proprietary anti-C5a technology, identifying and testing potential product candidates and conducting clinical trials of our lead product candidate, IFX-1. To date, we have not generated any product revenue and have financed our operations primarily through public offerings, the private placement of our securities and other income from various grants. As of December 31, 2019, we had raised an aggregate of approximately €206.75 million, comprised of €49.2 million in net proceeds from a follow-on public offering in May 2018, €81.8 million in net proceeds from our initial public offering, €74.0 million in gross proceeds from private placements of our securities and €1.75 million in payments in connection with various grants. As of December 31, 2019, we had cash and cash equivalents of €33.1 million and €81.9 million in marketable securities.

As of December 31, 2019, we had an accumulated deficit of €134.4 million. We have incurred significant net operating losses in every year since our inception and expect to continue to incur increasing net operating losses for the foreseeable future. Our net losses may fluctuate significantly from quarter to quarter and year to year. We anticipate that our expenses may increase significantly if, and as we

- evaluate any additional clinical development of IFX-1 in HS;
- continue to advance IFX-1 through clinical development for additional indications, including AAV, PG and oncology indications;
- initiate and continue research programs and development activities, including development of IFX-2;
- actively seek to identify additional research programs and additional product candidates;

- maintain, expand and protect our intellectual property portfolio;
- hire and retain personnel, such as for business development and others; and
- incur additional costs with operating as a public company, including expanding our operational, finance and management teams.

We do not expect to generate revenue from product sales unless and until we successfully complete development and obtain regulatory approval for a product candidate, which we expect will take a number of years and is subject to significant uncertainty. If we obtain regulatory approval for any product candidate, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing and distribution. Accordingly, we may seek to further fund our operations through public or private equity or debt financings or other sources, including strategic collaborations. We may, however, be unable to raise additional funds or enter into such other arrangements when needed on favorable terms or at all. Our failure to raise capital or enter into such other arrangements as and when needed, could have a negative impact on our financial condition and our ability to develop IFX-1 or any additional product candidates.

Financial operations overview

Revenue

To date, we have not generated any revenue and do not expect to do so in the near future. We expect that our revenue will be less than our expenses for the foreseeable future and that we will experience increasing losses as we continue our development of, and seek regulatory approvals for, IFX-1 and any other product candidates and, if approved, begin to commercialize any approved products. Our ability to generate revenue for each product candidate for which we receive regulatory approval will depend on numerous factors, including level of competition, availability of reimbursement from payers, commercial manufacturing capability, market acceptance and approved use by regulators.

Other income

We have historically earned other income through several grants from the German government, the European Union and other educational institutions on behalf of the German government, primarily with respect to research and development activities related to the development of IFX-1 and IFX-2. 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. We recognized €0.4 million of other income from grants in 2019 and €0.2 million in 2018 respectively.

Research and development expenses

Research and development expenses have consisted principally of:

- expenses incurred under agreements with contract research organizations, or CROs, contract manufacturing organizations, or CMOs, consultants and independent contractors that conduct research and development, preclinical and clinical activities on our behalf;
- employee-related expenses, including salaries, benefits and stock-based compensation expense based upon employees' role within the organization; and
- professional fees for lawyers related to the protection and maintenance of our intellectual property.

We expect that our total research and development expenses in 2020 will decrease compared to our expenses in 2019 and 2018 but costs might increase again in 2021 in case we continue with the development of IFX-1 in HS. The increase of research and development expenses in 2019 primarily relate to the following key programs:

- ***IFX-1.*** In 2019, we completed enrollment and dosing in our Phase IIb clinical trial of IFX-1 in patients with HS. We expect our expenses associated with IFX-1 will decrease in 2020 and increase in 2021 in case we continue to develop IFX-1 in patients with HS, conduct our Phase II clinical program of IFX-1 in patients with AAV and continue our Phase II clinical trial program in patients with PG as well as our currently running program in COVID-19. We anticipate that our research and development expenses will increase substantially in connection with the commencement of these and any additional clinical trials. In addition, we are also incurring expenses related to the manufacturing of clinical trial material and investigating commercial scale production options
- ***IFX-2.*** We are continuing preclinical development of IFX-2, expenses for which mainly consist of salaries, costs for preclinical testing conducted by CROs and costs for the production of preclinical material.
- ***Other development programs.*** Our other research and development expenses relate to our preclinical studies of other product candidates and discovery activities, expenses for which mainly consist of salaries, costs for production of preclinical compounds and costs paid to CROs.

In 2019 and 2018, we incurred €44.6 million and €25.0 million of research and development expense, respectively. Our research and development expenses may vary substantially from period to period based on the timing of our research and development activities, including due to timing of clinical trial initiation and potential enrollment. Research and development expenses are expected to decrease in 2020 and then increase again as we advance the clinical development of IFX-1 and IFX-2 and further advance the research and development of our preclinical product candidates.

We expense research and development costs as incurred. We recognize costs for certain development activities, such as preclinical studies and clinical trials, based on an evaluation of the progress to completion of specific tasks. We use information provided to us by our vendors such as patient enrollment or clinical site activations for services received and efforts expended. Research and development activities are central to our business model. We expect research and development costs to increase significantly for the foreseeable future as our current development programs progress and new programs are added.

The successful development of our product candidates is highly uncertain. At this time, we cannot reasonably estimate the nature, timing and estimated costs of the efforts that will be necessary to complete the development of, or the period, if any, in which material net cash inflows may commence from, any of our product candidates. This is due to numerous risks and uncertainties associated with developing drugs, including the uncertainty of:

- clinical trials of our product candidates producing negative or inconclusive results, including failure to demonstrate statistical significance;
- the scope, rate of progress, results and cost of our clinical trials, nonclinical testing, and other related activities;
- delays in reaching, or failing to reach, agreement on acceptable clinical trial contracts or clinical trial protocols with prospective trial sites or prospective CROs, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- the cost of manufacturing clinical supplies and establishing commercial supplies of our product candidates and any products that we may develop;
- third-party contractors failing to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all;
- the number and characteristics of product candidates that we pursue;
- undesirable side effects or other unexpected characteristics, causing us or our investigators, regulators or institutional review boards to suspend or terminate the trials;
- potential additional safety monitoring or other studies requested by regulatory agencies;
- the cost, timing, and outcomes of regulatory approvals;
- the number of trials required for approval;
- the duration of patient follow-up;
- the cost and timing of establishing sales, marketing, and distribution capabilities; and
- the terms and timing of any collaborative, licensing and other arrangements that we may establish, including any milestone and royalty payments thereunder.

A change in the outcome of any of these variables with respect to the development of IFX-1, IFX-2 or any other product candidate that we may develop could mean a significant change in the costs and timing associated with the development of such product candidate.

General and administrative expenses

Our general and administrative expenses consist principally of:

- employee-related expenses, including salaries, benefits and stock-based compensation expense based upon employees' role within the organization;
- professional fees for auditors and consulting expenses not related to research and development activities;
- professional fees for lawyers not related to the filing, prosecution, protection and maintenance of our intellectual property; and
- cost of facilities, communication and office expenses.

We expect that our general and administrative expenses will increase in the future as our business expands and we incur additional costs associated with operating as a public company. These public company-related costs relate primarily to additional personnel, additional legal fees, audit fees, directors' and officers' liability insurance premiums and costs associated with investor relations.

Critical judgments and accounting 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 our financial statements, the critical judgments made by management in applying our accounting policies involves the accounting estimates identified in note '2. Risk – (a) Critical estimates and judgements' to our consolidated financial statements included elsewhere in this Annual Report.

New standards and interpretations not yet adopted

The standards, amendments to standards and interpretations that are effective for annual periods beginning after December 31, 2019 and have not been applied in preparing these consolidated financial statements are disclosed in note '4. Other information – (g) Summary of significant accounting policies – 3. New standards and interpretations not yet adopted' to our consolidated financial statements included elsewhere in this Annual Report.

Results of operations

The numbers below have been derived from our consolidated financial statements included elsewhere herein. The discussion below should be read along with these consolidated financial statements, and it is qualified in its entirety by reference to them.

Comparison of the years ended December 31, 2019 and 2018

	2019	2018	Change
		(in €)	
Other income and expenses (net)	315,011	299,058	15,953
Research and development expenses	(44,582,136)	(25,028,554)	(19,553,582)
General and administrative expenses	(12,501,048)	(12,786,869)	285,821
Loss before interest and income taxes	(56,768,173)	(37,516,364)	(19,251,809)
Net financial result	3,513,355	7,701,731	(4,188,376)
Loss before tax	(53,254,817)	(29,814,634)	(23,440,183)
Income tax expense	—	—	—
Loss for the period	(53,254,817)	(29,814,634)	(23,440,183)
Exchange differences on translating operations in foreign currency	2,177,033	50,196	2,126,837
Total comprehensive loss	(51,077,785)	(29,764,438)	(21,313,347)

Other income and expenses (net)

Other income and expenses (net) increased by €0.0 million in the year ended December 31, 2019 compared to the year ended December 31, 2018.

Research and development expenses

	2019	2018	Change
		(in €)	
Third-party expenses	36,783,223	15,909,366	20,873,857
Personnel expenses	6,231,812	8,037,082	(1,805,270)
Other expenses	1,567,101	1,082,106	484,995
Total	44,582,136	25,028,554	19,553,582

Research and development expenses increased by €19.6 million in the year ended December 31, 2019 compared to the year ended December 31, 2018. This increase is primarily attributable to a €20.9 million increase in CRO and CMO costs related to IFX-1 in connection with the clinical trial Phase IIb in patients with HS, the Phase II clinical program in patients with AAV, the Phase II clinical program in patients with PG, the preparation of a Phase II clinical program in patients in the oncology field as well as with the ongoing manufacturing activities for clinical trial related material for these clinical trials with IFX-1. In addition there was a €1.8 million decrease in employee-related costs mainly caused by a €2.6 million decrease in expenses from non-cash share-based compensation.

General and administrative expenses

	2019	2018	Change
		(in €)	
Personnel expenses	7,534,073	9,146,955	(1,612,882)
Legal, consulting and audit fees	2,199,640	2,020,447	179,193
Other expenses	2,767,335	1,619,467	1,147,868
Total	12,501,048	12,786,869	(285,821)

General and administrative expenses decreased by €0.3 million to €12.5 million for the year ended December 31, 2019, from €12.8 million for the year ended December 31, 2018. This decrease is primarily attributable to a €1.6 million decrease in employee-related costs associated with a €2.6 million anticipated decline in non-cash share-based compensation expense, partially offset by €1.0 million higher personnel expense due to new hires. Legal, consulting and audit fees and other expenses increased by €0.2 million to €2.2 million for the year ended December 31, 2019, from €2.0 million for the year ended December 31, 2018, which increase is mainly attributable to higher consulting cost.

The increase of other expenses by €1.1 million is primarily related to higher D&O insurance cost, IT and office expenses.

Exchange differences on translating operations in foreign currency:

The exchange differences on translating operations in foreign currency has increased by €2.1 million to €2.2 million for the year ended December 31, 2019, from €0.1 million for the year ended December 31, 2018. This increase is primarily attributable to change in functional currency in 2019 for the Company from euro (€) to dollar (\$).

Finance costs-net

	2019	2018	Change
		(in €)	
Foreign exchange gain	3,379,643	8,249,853	(4,870,210)
Interest and other income	2,840,676	2,182,842	657,834
Total finance costs	6,220,320	10,432,695	(4,212,375)
Foreign exchange loss	2,684,699	2,623,782	60,917
Other finance costs	22,265	107,182	(84,917)
Total finance costs	2,706,964	2,730,964	(24,000)
Net financial result	3,513,355	7,701,731	(4,188,376)

Net financial result decreased by €4.2 million to €3.5 million for the year ended December 31, 2019, from €7.7 million for the year ended December 31, 2018. This decrease is mainly attributable to (a) lower foreign exchange gains, which decreased by €4.8 million and (b) interest on marketable securities, which increased by €0.6 million. Foreign exchange income and expense is mainly derived from the translation of our U.S. dollar dominated cash, cash equivalents and marketable securities held by InflaRx GmbH. These amounts are translated into euros at the exchange rates prevailing on the reporting date. Any resulting translation differences are recognized in profit and loss.

4.2 Liquidity and capital resources

Since inception, we have incurred significant operating losses. For the years ended December 31, 2019 and 2018, we incurred net losses of €53.3 million and €29.8 million, respectively. To date, we have financed our operations primarily through the sale of our securities including in our initial public offering and secondary placement of shares. As of December 31, 2019, we had cash and cash equivalents of €33.1 million, plus marketable securities totaling €81.9 million.

Our cash and cash equivalents primarily consist of bank deposit accounts and money market investment funds. Our marketable securities consist of quoted debt securities. Our banks, the issuer of the money-market funds and other securities are graded in the top investment category (A- to AAA) by credit rating agencies as S&P Global.

Cash flows

Comparison of the years ended December 31, 2019 and 2018

The table below summarizes our consolidated statement of cash flows for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
	(in €)	
Net cash used in operating activities	(43,204,492)	(21,549,248)
Net cash from investing activities	20,341,554	(99,449,341)
Net cash from financing activities	(294,344)	49,641,542
Cash and cash equivalents at the beginning of the period	55,386,240	123,281,888
Exchange gains on cash and cash equivalents	902,321	3,461,399
Cash and cash equivalents at the end of the period	33,131,280	55,386,240

Net cash used in operating activities

The use of cash in all periods resulted primarily from our net losses adjusted for non-cash charges and changes in components of working capital.

Net cash used in operating activities increased to €43.2 million in the year ended December 31, 2019, from €21.5 million in the year ended December 31, 2018, mainly due to the increase of research and development expenditures and higher personnel costs, excluding stock-based compensation.

Net cash used in investing activities

Net cash used for investing activities decreased by €119.8 million in the year ended December 31, 2019 mainly due to high investments in marketable securities in 2018.

Net cash provided by financing activities

Net cash generated from financing activities in 2019 mainly relates to repayments of leasing debt and in 2018 relates primarily to the cash received from secondary placement of shares in May 2018.

Funding requirements

We expect our operating expenses to decrease in 2020 and to increase again in the subsequent years in connection with our ongoing activities. In particular, we might conduct a Phase III clinical trial of IFX-1 in patients with HS and we are conducting Phase II clinical trials in AAV and PG and plan to initiate an additional Phase II clinical trial in oncology. We also want to continue preclinical development of IFX-2 including a subcutaneous formulation for IFX-2. We plan to initiate new research and preclinical development efforts and we may seek marketing approval for any product candidates that we successfully develop and where we receive approval for. In case we get regulatory clearance of the FDA, we plan to commence a Phase III program of IFX-1 in HS and currently anticipate that the cost of such program could be in the range of €60 to €80 million. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to establishing sales, marketing, distribution and other commercial infrastructure to commercialize such products. Furthermore, we expect to incur additional costs associated with operating as a public company. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts. We believe that our existing cash and cash equivalents will enable us to fund our operating expenses and capital expenditure requirements for at least the next 24 months.

Until such time, if ever, that we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings, debt financings, royalty-based financings,

future collaborations, strategic alliances and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interest will be diluted, and the terms of these securities may include voting or other rights that adversely affect your rights as a common shareholder. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise funds through additional collaborations, strategic alliances or licensing arrangements with third-parties, we may have to relinquish valuable rights to our technologies, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable to us.

5 LEGAL PROCEEDINGS

From time to time we are involved in legal proceedings that arise in the ordinary course of business. We believe that the outcome of these proceedings, if determined adversely, will not have a material adverse effect on our financial position. During the period covered by the audited and approved financial statements contained herein, we have not been a party to or paid any damages in connection with litigation that has had a material adverse effect on our financial position. Any future litigation may result in substantial costs and be a distraction to management and our employees. No assurance can be given that future litigation will not have a material adverse effect on our financial position. See “2.2 Risk factors.”

6 CONTROLS AND PROCEDURES

6.1 Disclosure controls and procedures

Our board of directors is responsible for reviewing the Company's risk management and control systems in relation to the financial reporting by the Company. The board of directors has charged its audit committee with the periodic oversight of these risk management and control systems, with reports being provided to the board of directors. Our audit committee assists the board of directors, among other things, in reviewing and discussing with the board of directors and the independent auditor the audit plan as well as our annual audited financial statements and quarterly financial statements prior to the filing of the respective annual and quarterly reports and (ii) the effectiveness of the Company's internal control over financial reporting.

Our success as a business depends on our ability to identify opportunities while assessing and maintaining an appropriate risk appetite. Our risk management considers a variety of risks, including those related to our industry and business, those related to our ongoing relationship with our shareholders and those related to our intellectual property. Our approach to risk management is designed to provide reasonable, but not absolute, assurance that our assets are safeguarded, the risks facing the business are being assessed and mitigated and all information that may be required to be disclosed is reported to our senior management including, where appropriate, to our Chief Executive Officer and Chief Financial Officer.

As of December 31, 2019, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). There are inherent limitations to the effectiveness of any disclosure controls and procedures system, including the possibility of human error and circumventing or overriding them. Even if effective, disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives.

On June 1, 2019, we replaced our DATEV accounting system and introduced an ERP system (enterprise resource planning) called ‘Microsoft Dynamics NAV 2018’. There have been no further changes in our internal control over financial reporting during the period covered by this annual report that have materially affected or reasonably likely to materially affect our internal control over financial reporting.

Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that the information we are required to disclose in the reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management to allow timely decisions regarding required disclosures.

On the basis of reports and information provided to our board of directors, our board of directors is of the opinion that:

- a. this report provides sufficient insight into any failings in the effectiveness of the Company's risk management and control systems;
- b. the Company's risk management and control systems provide reasonable assurance that the Company's financial reporting does not contain material inaccuracies;
- c. based on the Company's state of affairs as at the date of this report, it is justified that the Company's financial reporting is prepared on a going concern basis; and
- d. this report states those material risks and uncertainties that are relevant to the expectation of the Company's continuity for a period of twelve months after the date of this report.

Any material failings in, material changes to, and/or material improvements of the Company's risk management and control systems which have been observed, made and/or planned, respectively, during the fiscal year to which this report relates, have been discussed with our audit committee and with our non-executive directors.

7 CORPORATE GOVERNANCE

7.1 Dutch Corporate Governance Code

For the fiscal year to which this report relates, the DCGC applied to the Company. The text of the DCGC can be accessed at <http://www.mccg.nl>.

Except as set out below, during the fiscal year to which this report relates, the Company complied with the principles and best practice provisions of the DCGC, to the extent that these are directed at our board of directors.

Internal audit function (best practice provisions 1.3.1 and 1.3.2)

The Company has not established an internal audit department. Our board of directors is of the opinion that adequate alternative measures have been taken in the form of the Company's risk management and control systems, as outlined elsewhere in this report, and that it is presently not necessary to establish an internal audit function.

Committee chairmanship (best practice provision 2.3.4)

Given the current composition of our board of directors, the independence of our directors and their qualifications (as well as the rules applicable to the Company with respect to the composition of our board of directors and its committees), all committees of our board of directors are chaired by Mr. Fulpius, who is also the chairman of our board of directors. Our board of directors regularly evaluates its composition and that of its committees.

Vice chairman (best practice provision 2.3.7)

Given the current organization of the Company, our board of directors has not appointed a vice chairman. Our board of directors is of the opinion that the tasks and duties of the chairman will sufficiently be done by the other non-executive directors.

Company secretary (best practice provision 2.3.10)

During the fiscal year to which this report relates, our board of directors had not appointed a company secretary. In the first quarter of 2019, Mr. Jason Marks has been appointed as company secretary.

Compensation (best practice provisions 3.1.2, 3.2.3, 3.3.2, 3.3.3 and 3.4.1)

Consistent with market practice in the United States, the trading jurisdiction of our common shares, and in order to further support our ability to attract and retain the right highly qualified candidates for our board of directors:

- options awarded to our executive directors as part of their compensation could (subject to the terms of the option awards) vest and become exercisable during the first three years after the date of grant;
- our directors may generally sell our common shares held by them at any point in time, subject to applicable law, Company policy and applicable lock-up arrangements;
- our non-executive directors may be granted compensation in the form of shares, options and/or other equity-based compensation; and
- our executive directors may be entitled to a severance payment in excess of their respective annual base salaries.

Also, given the current organization of the Company and its recent transformation into a listed company, our board of directors has not yet determined the pay ratios within the Company.

Majority requirements for dismissal and overruling binding nominations (best practice provision 4.3.3)

Our directors are appointed by our general meeting of shareholders upon the binding nomination by our board of directors. Our general meeting of shareholders may only overrule the binding nomination by a resolution passed by a two thirds majority of votes cast, provided such majority represents more than half of the Company's issued share capital. In addition, except if proposed by our board of directors, our directors may be suspended or dismissed by our general meeting of shareholders at any time by a resolution passed by a two thirds majority of votes cast, provided such majority represents more than half of the Company's issued share capital. The possibility to convene a new general meeting of shareholders as referred to in Section 2:120(3) DCC in respect of these matters has been excluded in the our Articles of Association. We believe that these provisions support the continuity of the Company and its business and that those provisions, therefore, are in the best interests of our shareholders and our other stakeholders.

7.2 Code of conduct and other corporate governance practices

The Company has adopted a code of ethics, which explicitly incorporates and refers to core values of the Company, being honesty, accountability, integrity, professionalism and fairness. The text of the Company's code of ethics can be accessed at <http://www.inflarx.de/Home/Investors/Corporate-Governance.html>. The Company does not voluntarily apply other formal codes of conduct or corporate governance practices.

7.3 Risk management and control systems

See chapter 6.1 of this report for an overview of the main characteristics of the Company's risk management and control systems relating to the process of financial reporting by the Company and the Company's subsidiaries whose financial information is included in the Consolidated Financial Statements.

7.4 General meeting of shareholders

7.4.1 Functioning of our general meeting of shareholders

Annually, at least one general meeting of shareholders of the Company must be held. This annual general meeting must be held within six months after the end of the Company's fiscal year. A general meeting of shareholders must also be held within three months after our board of directors has decided that it is likely that the Company's equity has decreased to or below 50% of its paid up and called up share capital. In addition, without prejudice to the relevant best practice provisions of the DCGC with respect to invoking a 'response period', a general meeting of shareholders must be held when requested by one or more shareholders and/or others with meeting rights under Dutch law collectively representing at least 10% of the Company's issued share capital, provided that certain criteria are met. Any additional general meeting of shareholders shall be convened whenever our board of directors would so decide. Each general meeting of shareholders must be held in Amsterdam, Arnhem, The Hague, Rotterdam, Schiphol (Haarlemmermeer) or Utrecht.

For purposes of determining who have voting rights and/or meeting rights under Dutch law at a general meeting of shareholders, our board of directors may set a record date. The record date, if set, shall be the 28th day prior to that of the general meeting of shareholders. Those who have voting rights and/or meeting rights under Dutch law on the record date and are recorded as such in one or more registers designated by our board of directors shall be considered to have those rights at the general meeting of shareholders, irrespective of any changes in the composition of the shareholder base between the record date and the date of the meeting. Our Articles of Association require shareholders and others with meeting rights under Dutch law to notify the Company of their identity and their intention to attend our general meeting of shareholders. This notice must be received by the Company ultimately on the seventh day prior to our general meeting of shareholders, unless indicated otherwise when the meeting is convened.

7.4.2 Powers of our general meeting of shareholders

All powers that do not vest in our board of directors pursuant to applicable law, our Articles of Association or otherwise, vest in our general meeting of shareholders. The main powers of our general meeting of shareholders include, subject in each case to the applicable provisions in our Articles of Association:

- a. the appointment, suspension and dismissal of our directors;
- b. the approval of certain resolutions of our board of directors concerning a material change to the identity or the character of the Company or its business;
- c. the reduction of the Company's issued share capital through a decrease of the nominal value, or cancellation, of shares in its capital;
- d. the adoption of the Company's statutory annual accounts;
- e. the appointment of the Dutch independent auditor to examine the Company's statutory annual accounts;
- f. amendments to the Company's Articles of Association;
- g. approving a merger or demerger by the Company, without prejudice to the authority of our board of directors to resolve on certain types of mergers and demergers if certain requirements are met; and
- h. the dissolution of the Company.

In addition, our general meeting of shareholders has the right, and our board of directors must provide, any information reasonably requested by our general meeting of shareholders, unless this would be contrary to an overriding interest of the Company.

7.4.3 Shareholder rights

Each share in the Company's capital, irrespective of its class, carries one vote. Shareholders, irrespective of whether or not they have voting rights, have meeting rights under Dutch law (including the right to attend and address our general meeting of shareholders, subject to the concept of a record date as described in chapter 7.4.1 of this report). Furthermore, each share in the Company's capital carries an entitlement to dividends and other distributions as set forth in our Articles of Association. Pursuant to our Articles of Association, any such dividend or other distribution shall be payable on such date as determined by our board of directors and our board of directors may also set a record date for determining who are entitled to receive any such dividend or other distribution (irrespective of subsequent changes in the shareholder base). The record date for dividends and other distributions shall not be earlier than the date on which the dividend or other distribution is announced. In addition, shareholders have those rights awarded to them by applicable law.

7.5 Board of directors

The Company has a one-tier board, consisting of executive directors and non-executive directors. Our executive directors are charged primarily with the Company's day-to-day business and operations and the implementation of the Company's strategy. Our non-executive directors are charged primarily with the supervision of the performance of the duties of our board of directors. Each director is charged with all tasks and duties of our board of directors that are not delegated to one or more other specific directors by virtue of Dutch law, our Articles of Association or any arrangement catered for therein (e.g., the internal rules of our board of directors). In performing their duties, our directors shall be guided by the interests of the Company and of the business connected with it.

Our executive directors have developed a view on long-term value creation by the Company and have formulated a strategy consistent with that view. The non-executive directors have been actively engaged at an early stage in formulating the Company's strategy and supervise the manner in which the strategy is implemented.

As at December 31, 2019, our board of directors was composed as follows:

Name and age	Gender	Nationality	Date of initial appointment	Expiration of current term of office	Participation rate
Nicolas Fulpius (46)**	Male	Swiss	8 November 2017	2022 AGM	100%
Niels Riedemann (48)*	Male	German	6 June 2017	2022 AGM	100%
Katrin Uschmann (55)**	Female	German	8 November 2017	2021 AGM	83%
Mark Kubler (44)**	Male	Swiss	8 November 2017	2021 AGM	100%
Lina Ma (42)**	Female	Chinese	8 November 2017	2021 AGM	100%
Renfeng Guo (50)*	Male	American	8 November 2017	2022 AGM	100%
Jens Holstein (56) **	Male	German	21 September 2018	2021 AGM	100%
Richard Brudnick (63) **	Male	American	23 May 2019	2022 AGM	100%

* Executive director

** Non-executive director

Nicolas Fulpius, Chairman. Mr. Fulpius is one of our co-founders and has served as a director and chairman of our Board since 2007. He has served as Chief Digital Officer for Swisscom Cloud Lab and for Swisscom Schweiz AG since 2015 and is member of the Venture Investment Committee of the Swisscom Venture Funds. Previously he was Chief Executive Officer and Shareholder of Veltigroup

SA from 2010 to 2015. Prior to that role, he was a partner and shareholder in Affentrager Associates from 2006 to 2010, Investment Director and shareholder in Ultreia Capital from 2002 to 2006 and an Investment Manager at Lombard Odier from 1998 to 2002 for the Immunology Fund. He has served as chairman of the board of Idros S.A. and Baszanger SA since 2016 and as a member of the boards of Anaroll Holding S.A. since 2014, BRS Immobilier S.A. since 2013, Affentrager Associates AG since 2006 and CIMA Corporate Investment Management Affentrager Holding AG since 2006. He previously served on the boards of Swisscom Digital Technology S.A., Akenes S.A., Skwisch Holding S.A., Veltigroup S.A., LANexpert S.A., insentia S.A., ITS Information Technologie Services S.A., epyx S.A. and Veltigroup Consulting S.A., among others. He holds an M.S. in Management Science and Engineering from Stanford University and the Swiss equivalent of an MBA from St. Gall University.

Katrin Uschmann. Ms. Uschmann joined our board as a director and deputy chairwoman in 2007. She has served as an Investment Manager at beteiligungsmanagement thüringen gmbh since 1999. Prior to joining beteiligungsmanagement thüringen gmbh, Ms. Uschmann served in various roles at several banks, such as Credit Analyst and Corporate Relationship Manager at Bayerische Vereinsbank AG and at Thüringer Aufbaubank, and taught Economics at Fachhochschule in Gotha, Germany. She has served on the boards of eZono AG since 2007, where she was the board's deputy chairwoman from 2009 to 2010, and has served as the chairwoman since 2010, and of Preventicus GmbH since 2014 and of JenaCell GmbH since 2017. She holds a skilled worker degree and an MBA from Fachhochschule für Finanzen (University of Applied Financial Sciences), as well as a degree in project management from GPM Deutsche Gesellschaft für Projektmanagement.

Mark Kubler. Mr. Kubler has served as a director on our board since 2015. Mr. Kubler has been a partner with the GIG Ltd., a venture capital advisory firm with offices in Switzerland and Malta, since 2012. He previously served on the boards of WWM AG and Jobydu AG, each based in Switzerland. Mr. Kubler was a managing director and corporate secretary of a private equity holding company from 2003 to 2010. Before 2003, he held various roles in international investment banks and boutiques. Mr. Kubler has a master's degree in business and economics, as well as a master's degree in law from the University of St. Gallen, in Switzerland.

Lina Ma. Ms. Ma has been a director on our board since September 2016. Ms. Ma has been the Vice President and Secretary of the board of Staidson (Beijing) BioPharmaceuticals Co., Ltd. since June 2012 and a director since September 2018, the chairman of the board of Beijing Defengrei Biotechnology Co. Ltd since September 2015, the Company Secretary of Staidson BioPharma Inc., in California, since 2013 and the Chief Executive Officer of Staidson Hong Kong Investment Company Limited, in Hong Kong, since 2015. In previous roles, she has served as the General Manager and Securities Affair Representative of Staidson (Beijing) BioPharmaceuticals Co., Ltd. from 2009 to 2012, in JOINN Laboratories (Beijing) from 2002 to 2009, and in the China Medical Association Telemedicine Consultation Center from 2000 to 2001. Ms. Ma holds a bachelor's degree from Hunan Medical University in China and an MBA from HKU SPACE Community College.

Jens Holstein. Mr. Holstein was appointed to our board as a director on September 21, 2018. Mr. Holstein currently serves as Chief Financial Officer of MorphoSys AG, a dual-listed (Frankfurt and Nasdaq) drug development company. He joined MorphoSys in 2011 from Fresenius Kabi AG, a global healthcare company, where he most recently served as Regional Chief Financial Officer (CFO) for the region EME (Europe/Middle East) and as Managing Director of Fresenius Kabi Deutschland GmbH. Over the last almost 16 years at Fresenius he had held a variety of financial and general management positions. From 2006 to 2010, he was Regional Chief Financial Officer of Fresenius Kabi Asia Pacific Ltd., based in Hong Kong. Prior to this appointment, Mr. Holstein was Managing Director of Fresenius ProServe GmbH and Chief Financial Officer and Labor Director of the company's subsidiary Wittgensteiner Kliniken AG. Earlier positions within Fresenius included General Manager of hospitalia care GmbH, Commercial Manager of the Projects & Service business unit of Fresenius AG and Commercial Manager of hospitalia international GmbH. Prior to joining Fresenius, Mr. Holstein spent several years in the consulting industry, with positions in Frankfurt and London. Mr. Holstein graduated from University of Muenster with a diploma in Business Administration.

Richard Brudnick. Mr. Brudnick has been a director on our board since 2019. Mr. Brudnick currently serves as Chief Business Officer and Head of Strategy for Codiak BioSciences, a leader in the field of exosome therapeutics since June 2018. Prior to joining Codiak, Mr. Brudnick was Executive Vice President of Business Development and Alliance Management at Bioverativ, Inc., a company he helped found in 2016. From 2001 to 2016, Mr. Brudnick held various roles of increasing responsibility at Biogen, Inc. including Senior Vice President of Corporate Development. Mr. Brudnick graduated from Massachusetts Institute of Technology with an SB and he also graduated from the Sloan School of Management with an MBA.

Niels Riedemann, Chief Executive Officer. Professor Riedemann is one of our co-founders and has served as our Chief Executive Officer since 2007. He is specialized as an intensive care physician and was the Vice Director of Intensive Care Medicine at the Friedrich Schiller University in Jena, Germany from 2008 to 2015. He spent several years working in basic science at the University of Michigan in the field of complement immunology and inflammation before completing his board certification as General Surgeon at the Hannover Medical School where he holds an adjunct Professorship for Experimental Surgery. He has served as a member of the scientific advisory board of the Center for Innovation Competence Septomics, a large scientific governmental program, since 2015 and served on the board of directors of the Center for Sepsis Control and Care in Jena, Germany, from 2014 to 2015. Professor Riedemann received his medical training at the Albert-Ludwig University in Freiburg, Germany and Stanford University in the United States and graduated from Albert-Ludwig University in 1998.

Renfeng Guo, Chief Scientific Officer. Professor Guo is one of our co-founders and has served as our Chief Scientific Officer since 2007. Prior to joining us, he served as a faculty member of the University of Michigan since 2001, where he holds a position as Adjunct Research Associate Professor. He holds an Adjunct Professorship at the Beijing Institute of Microbiology and Epidemiology, since 2008. Professor Guo received his medical degree from Norman Bethune Medical School in China and he did his post-doctoral training in immunology at University of Michigan.

All of our non-executive directors are independent within the meaning of the DCGC.

7.6 Committees

7.6.1 General

Our board of directors has established an audit committee, a compensation committee and a nomination and corporate governance committee. Each committee operates pursuant to its charter.

As at December 31, 2019, the committees were composed as follows:

Name	Audit committee (and participation rate)	Compensation committee (and participation rate)	Nomination and corpo- rate governance commit- tee (and participation rate)
Nicolas Fulpius	8* (100%)	1* (100%)	1* (100%)
Mark Kubler		1 (100%)	1 (100%)
Richard Brudnick	3 (38%)		
Jens Holstein	8 (100%)		

* Chairman

7.6.2 Audit committee

The responsibilities of our audit committee include:

- recommending the appointment of the independent auditor to the general meeting of shareholders;
- the appointment, compensation, retention and oversight of any accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit services;
- pre-approving the audit services and non-audit services to be provided by our independent auditor before the auditor is engaged to render such services;
- evaluating the independent auditor's qualifications, performance and independence, and presenting its conclusions to the full supervisory board on at least an annual basis;
- reviewing and discussing with the board of directors and the independent auditor the audit plan as well as our annual audited financial statements and quarterly financial statements prior to the filing of the respective annual and quarterly reports;
- reviewing our compliance with laws and regulations, including major legal and regulatory initiatives and also reviewing any major litigation or investigations against us that may have a material impact on our financial statements;
- reviewing internal audit results, including the effectiveness of the design and operation of our internal controls;
- reviewing the operation of and our compliance with our code of ethics; and
- approving or ratifying any related person transaction (as defined in our related person transaction policy) in accordance with our related person transaction policy and reviewing potential conflicts of interest involving our directors.

During the fiscal year to which this report relates, our audit committee met eight times in order to carry out its responsibilities. The main items discussed at those meetings related to quarterly financial statements and external auditor engagement.

7.6.3 Compensation committee

The responsibilities of our compensation committee include:

- identifying, reviewing and approving corporate goals and objectives relevant to compensation of our executive officers and directors;
- analyzing the possible outcomes of the variable remuneration components and how they may affect the remuneration of our executive officers;
- determining any long-term incentive component of each executive officer's compensation in line with the compensation policy and reviewing our executive officer compensation and benefits policies generally;
- preparing periodic compensation reports for our board of directors;
- reviewing and assessing risks arising from our employee compensation policies and practices and whether any such risks are reasonably likely to have a material adverse effect on us; and
- retaining or obtaining advice from a compensation consultant, legal counsel or other advisor as the compensation committee deems necessary or appropriate to carry out its responsibilities.

During the fiscal year to which this report relates, our compensation committee met once in order to carry out its responsibilities. The main items discussed at those meetings related to the compensation of our directors and executive officers.

7.6.4 Nomination and corporate governance committee

The responsibilities of our nomination and corporate governance committee include:

- preparing and reviewing selection criteria and appointment procedures for our board of directors;
- reviewing the size and composition of our board of directors and submitting proposals for the composition profile of our board of directors;
- leading the board of directors in self-evaluation to determine whether it and its committees are functioning effectively;
- preparing and reviewing a plan for succession of directors; and
- submitting proposals for the appointment or reappointment of directors.

During the fiscal year to which this report relates, our nomination and corporate governance committee met once in order to carry out its responsibilities. The main items discussed at those meetings related to the nomination of board and committee members.

7.7 Evaluation

During the financial year to which this report relates, our board of directors has evaluated its own functioning, the functioning of its committees and that of the individual members of the board of directors on the basis of self-evaluation form distributed to, and completed by, the directors. As part of these evaluations, the board of directors has considered (i) substantive aspects, mutual interaction and the interaction between the non-executive directors and the executive directors, (ii) events that occurred in practice from which lessons may be learned and (iii) the desired profile, composition, competencies and expertise of the board of directors. These evaluations are intended to facilitate an examination and discussion by the board of directors of its effectiveness and potential areas for improvement. On the basis of these evaluations, the board of directors has concluded that it is functioning

properly. The board of directors further believes that its committees have functioned well in carrying out their duties.

7.8 Diversity

The Company has a diversity policy with respect to the composition of our board of directors. The Company is committed to supporting, valuing and leveraging the value of diversity. However, the importance of diversity, in and of itself, should not set aside the overriding principle that someone should be recommended, nominated and appointed for being "the right person for the job". Although the Company has not set specific targets with respect to particular elements of diversity, the Company believes that it is important for our board of directors to represent a diverse composite mix of personal backgrounds, experiences, qualifications, knowledge, abilities and viewpoints. The Company seeks to combine the skills and experience of long-standing members of our board of directors with the fresh perspectives, insights, skills and experiences of new members. To further increase the range of viewpoints, perspectives, talents and experience within our board of directors, the Company strives for a mix of ages in the composition of those bodies, but also does not set a specific target in this respect. Under the Company's diversity policy, to the extent possible and practicable, the Company intends for the composition of our board of directors to be such that at least 30% of the Directors are men and at least 30% of them are women, consistent with applicable Dutch law. In addition to age and gender, the Company recognises and welcomes the value of diversity with respect to race, ethnicity, nationality, sexual orientation and other important cultural differences. The Company is committed to seeking broad diversity in the composition of our board of directors and will consider these attributes when evaluating new candidates in the best interests of the Company and its stakeholders. In terms of experience and expertise, the Company intends for our board of directors to be composed of individuals who are knowledgeable in one or more specific areas detailed in the Company's diversity policy.

The Company believes that the composition of its board of directors is such, that the Company's diversity objectives, as outlined above, have been achieved in the financial year to which this board report relates. As at 31 December 2019, the composition of the board of directors does not meet the Company's diversity targets in term of gender (presently, 25% of our directors are women). This is primarily due to the selection of the current members of our board of directors based on the required profile and their backgrounds, experiences, qualifications, knowledge, abilities and viewpoints without positive or negative bias on gender. In the future, this will continue to be the Company's basis for selection of new members of our board of directors.

7.9 Corporate values and code of conduct

We have adopted a code of ethics (see chapter 7.2 of this report), implementing our main corporate values, being honesty, accountability, integrity, professionalism and fairness. The board of directors measures the extent to which the code is complied with by the number of reports that are made in relation to the code of ethics. In the financial year to which this board report relates, no reports were made in relation to the code of ethics. Our board of directors has no reason to believe that the code of ethics would not be functioning effectively.

8 COMPENSATION

8.1 Compensation policy

Pursuant to Section 2:135(1) DCC, our general meeting of shareholders has adopted a compensation policy. Our compensation policy is designed to (i) attract, retain and motivate directors with the leadership qualities, skills and experience needed to support and promote the growth and sustainable success of the Company and its business, (ii) drive strong business performance, promote accountability and incentivize our directors to achieve short and long-term performance targets with the objective of increasing the Company's equity value and contributing to the Company's strategy for long-term value creation, (iii) assure that the interests of our directors are closely aligned to those of the Company, its business and its stakeholders, and (iv) ensure the overall market competitiveness of the compensation packages which may be granted to our directors, while providing our board of directors sufficient flexibility to tailor the Company's compensation practices on a case-by-case basis, depending on the market conditions from time to time. We believe that this approach and philosophy benefits the realization of the Company's long-term objectives while keeping with the Company's risk profile.

8.2 Compensation of directors and senior management

The aggregate compensation, including benefits in kind, accrued or paid to our senior management with respect to the year ended December 31, 2019, for services in all capacities was EUR 5,411,960. In 2019, we didn't grant options to purchase common shares to our senior management.

We have established a policy in respect of the remuneration of our directors in accordance with Dutch law. Such policy addresses the following topics: the fixed and variable components of the remuneration (if any), remuneration in the form of shares and severance payments. The policy for our board of directors was adopted and approved by the general meeting of shareholders prior to the consummation of our initial public offering. The board of directors determines the remuneration of the directors in accordance with the compensation policy, with the understanding that executive directors will not participate in the decision-making process regarding the determination of the compensation of executive directors. Compensation schemes in the form of shares or rights to shares must be submitted by the board of directors to the general meeting for its approval. Any such proposal must set out at least the maximum number of shares or rights to shares to be granted to the directors and the criteria for granting or amendment.

As of December 31, 2019, we have no amounts set aside or accrued to provide pension, retirement or similar benefits to our directors, and in 2019, our non-executive directors received EUR 265,859 in total compensation, including benefits in kind, from us for services in such capacity. In 2019, we granted options to purchase 18,450 of our common shares to our non-executive directors under the Plan.

Management and director service agreements

We have entered into management services agreements with each of our executive directors that became effective upon the consummation of our initial public offering. The management services agreements contain a termination notice period for us, and the executive directors appointed as such by a general meeting of shareholders. All of the management services agreements provide that the executive director may be terminated in the event of an urgent cause (*dringende reden*) without advance notice. In the event that an executive director no longer serves as an executive director but remains employed in his role as an executive employee of the Company, the executive director will not be entitled to any contractual severance or termination payments. Rather, we will enter into an employment agreement with the executive director, which may include substantially similar compensation terms as provided under the management services agreements. The management services agreements contain post-termination restrictive covenants, including perpetual confidentiality, and post-termination non-competition and non-solicitation covenants.

In addition, we have entered into letter agreements with each of our non-executive directors which became effective upon the consummation of our initial public offering. The letter agreements may be terminated, without advance notice, if the non-executive director is removed from the board of directors, resigns from the board of directors or such director's term of office on the board of directors expires without his reappointment as a non-executive director. Additionally, each letter agreement provides for compensation, including an annual cash fee, an annual equity grant, a discretionary annual fee for membership on a committee of the board of directors, and a discretionary annual fee for acting as a chairperson of a committee of the board of directors. Also, the letter agreements contain a perpetual confidentiality covenant.

2016 option plan

Under the Stock Option Plan 2016 Terms and Conditions, or the 2016 Plan, we have granted rights to subscribe for our common shares to directors, senior management and key employees.

All outstanding option awards under the 2016 Plan automatically vested upon closing of our initial public offering.

In conjunction with the corporate reorganization undertaken prior to our initial public offering, all outstanding awards granted under the 2016 Plan or otherwise converted into awards exercisable for common shares of InflaRx N.V. and will be governed by the terms of the 2016 Plan.

2017 equity incentive plan

In conjunction with the closing of our initial public offering, we established a new omnibus plan, or the 2017 Plan, 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 a committee appointed by the board of directors, which committee will consist of not less than three directors (the "plan committee").

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 plan committee but that is no less than fair market value of the underlying common shares on the date of grant.

Vesting. 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 plan 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 plan 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.

2019 repricing of option plans

On July 3, 2019, the board approved an amendment of the 2016 Option Plan and the 2017 equity incentive plan. Following the amendment, the strike price of all vested and unvested options, other than those held by persons who were not employees or directors at the time of the amendment, was reduced to \$3.35 per share.

9 PROTECTIVE MEASURES

Under Dutch law, various protective measures are possible and permissible within the boundaries set by Dutch law and Dutch case law. Our governance arrangements include several provisions that may have the effect of making a takeover of our company more difficult or less attractive. In this respect, our general meeting of shareholders granted the right to the protective foundation to acquire preferred shares pursuant to the call option agreement entered into between us and such foundation. This call option under the call option agreement shall be continuous in nature and can be exercised repeatedly on multiple occasions.

If the protective foundation exercises the call option pursuant to the call option agreement, an amount of preferred shares up to 100% of our issued capital held by others than the protective foundation, minus one share, will be issued to the protective foundation. These preferred shares will be issued to the protective foundation under the obligation to pay up to 25% of their nominal value upon issuance. In order for the protective foundation to finance the issue price in relation to the preferred shares, the protective foundation is expected to enter into a finance arrangement with a bank. As an alternative to securing financing with a bank, subject to applicable restrictions under Dutch law, the call option agreement provides that the protective foundation may request us to provide, or cause our subsidiaries to provide, sufficient funding to the protective foundation to enable it to satisfy the payment obligation (or part thereof) in cash and/or to charge an amount equal to the payment obligation (or part thereof) against our profits and/or reserves in satisfaction of such payment obligation.

The protective foundation's articles of association provide that it will promote and protect the interests of the company, the business connected with the company and the company's stakeholders from time to time, and repressing possible influences which could threaten the strategy, continuity, independence and/or identity of the company or the business connected with it, to such an extent that this could be considered to be damaging to the aforementioned interests. These influences may include a third party acquiring a significant percentage of our common shares, the announcement of an unsolicited public offer for our common shares, shareholder activism, other concentration of control over our common shares or any other form of undue pressure on us to alter our strategic policies. The protective foundation shall be structured to operate independently of us.

If the protective foundation were to exercise its call option, the preferred shares to be issued pursuant thereto would be issued against the obligation to pay up to 25% of their nominal value. The voting rights of our shares are based on nominal value and, as we expect our common shares to trade substantially in excess of nominal value, preferred shares issued at 25% of their nominal value can carry significant voting power for a substantially reduced price compared to the price of our common shares and thus can be used as a defensive measure. These preferred shares will have both a liquidation and dividend preference over our common shares and will accrue cash dividends at a pre-determined rate.

The protective foundation would be expected to require us to cancel its preferred shares once the perceived threat to the company and its stakeholders has been removed or sufficiently mitigated or neutralized. However, subject to the same limitations described above, the protective foundation would continue to have the right to exercise the call option in the future in response to a new threat to the interests of us, our business and our stakeholders from time to time.

In addition, certain provisions of our Articles of Association may make it more difficult for a third party to acquire control of us or effect a change in our board of directors. These provisions include: a provision that our directors are appointed on the basis of a binding nomination prepared by our board of directors which can only be overruled by a two-thirds majority of votes cast representing more than 50% of our issued share capital; a provision that our directors may only be removed by the general meeting of shareholders by a two-thirds majority of votes cast representing more than 50% of our issued share capital (unless the removal is proposed by the board in which case a simple majority of the votes can be sufficient); and a requirement that certain matters, including an amendment of our Articles of Association, may only be brought to our shareholders for a vote upon a proposal by our board of directors.

9.1 Branches

The Company has a branch registered in the commercial register of Jena, Germany.

Signature page to the Dutch statutory board report of InflaRx N.V. for the fiscal year ended December 31, 2019.

By signing this signature page, the Dutch statutory board report of InflaRx N.V. for the fiscal year ended December 31, 2019, the InflaRx N.V. 2019 consolidated financial statements and the InflaRx N.V. 2019 company financial statements (appendices A and B, respectively) are approved.

N.C. Riedemann

R. Guo

N.F. Fulpius

M. Kubler

K. Uschmann

L. Ma

R. Brudnick

J. Holstein

INFLARX N.V.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2019

These financial statements are consolidated financial statements for the Group consisting of InflaRx N.V. and its subsidiaries. The financial statements are presented in Euro (€).

InflaRx N.V. is a company limited by shares, incorporated and domiciled in Amsterdam, The Netherlands. Its registered office and principal place of business is in Germany, Jena, Winzerlaer Str. 2.

All press releases, financial reports and other information are available in the investor's register on our website: www.inflarx.com

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InflaRx N.V. and subsidiary
Consolidated Statement of profit or loss and other comprehensive income for the Years Ended December 31, 2019, 2018 and 2017

	<u>Note</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
		<u>(in €)</u>		
Operating Expenses				
Research and development expenses		(44,582,136)	(25,028,554)	(14,414,628)
General and administrative expenses		(12,501,048)	(12,786,869)	(5,138,498)
Total Operating Expenses	1. (a)	(57,083,184)	(37,815,422)	(19,553,126)
Other income		400,253	303,860	115,525*
Other expenses		(85,242)	(4,802)	(7,644)*
Operating Result		(56,768,173)	(37,516,364)	(19,445,245)
Finance income		6,220,320	10,432,695	130,032
Finance expenses		(2,706,964)	(2,730,964)	(4,922,535)
Net Financial Result	1. (a)	3,513,355	7,701,731	(4,792,503)
Tax expense	1. (b)	—	—	—
Loss for the Period		(53,254,817)	(29,814,634)	(24,237,748)
Share Information	4. (f)			
Weighted average number of shares outstanding		26,004,519	25,095,027	9,410,524
Loss per share in euro (basic/diluted)		(2.05)	(1.19)	(2.58)
Loss for the Period		(53,254,817)	(29,814,634)	(24,237,748)
Other comprehensive income				
Exchange differences on translation of operations in foreign currency		2,177,033	50,196	0
Total other Comprehensive Income		2,177,033	50,196	0
Total Comprehensive Loss		(51,077,785)	(29,764,438)	(24,237,748)

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

* Comparative amounts have been restated in line with current years' classification.

InflaRx N.V. and subsidiary
Consolidated Statements of Financial Position as of December 31, 2019 and 2018

	Note	2019	2018
		(in €)	
ASSETS			
Non-current assets			
Property, plant and equipment	1. (c)	1,413,297	624,668
Intangible assets	1. (g)	452,400	222,866
Non-current other non-financial assets	1. (f)	452,217	—
Non-current financial assets	1. (g)	272,614	207,444
Total non-current assets		2,590,528	1,054,979
Current assets			
Current other non-financial assets	1. (f)	3,500,884	1,588,702
Current financial assets	1. (g)	82,353,867	101,184,240
Cash and cash equivalents	1. (i)	33,131,280	55,386,240
Total current assets		118,986,031	158,159,183
TOTAL ASSETS		121,576,558	159,214,161
EQUITY AND LIABILITIES			
Equity			
	1. (h)		
Issued capital		3,132,631	3,115,725
Share premium		211,006,606	211,021,835
Other capital reserves		25,142,213	18,310,003
Accumulated deficit		(134,362,006)	(81,107,188)
Currency translation reserve		2,227,228	50,196
Total equity		107,146,673	151,390,571
Non-current liabilities			
Lease liabilities	1. (e)	330,745	—
Provisions and Government grants		39,013	67,945
Total non-current liabilities		369,758	67,945
Current liabilities			
Lease liabilities	1. (e)	515,203	—
Employee benefits		975,629	789,800
Social securities, other tax and non-financial liabilities		105,634	308,533
Trade and other payables	1. (g)	12,413,662	6,657,312
Provisions		50,000	—
Total current liabilities		14,060,128	7,755,645
Total Liabilities		14,429,886	7,823,590
TOTAL EQUITY AND LIABILITIES		121,576,558	159,214,161

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

InflaRx N.V. and subsidiary
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2019,
2018 and 2017

	<u>Note</u>	<u>Shares out- standing</u>	<u>Issued capital</u>	<u>Share premium</u>
			(in €)	
Balance at January 1, 2017		2,362,500	31,428	—
Loss for the Period		—	—	—
Exchange differences on translation of operations in foreign currency		—	—	—
Total Comprehensive Loss		—	—	—
Transactions with owners of the Company				
Contributions				
Issue of common shares	1. (h)	7,068,129	848,175	90,055,312
Transaction costs		—	—	(9,114,770)
Equity-settled share-based payment	4. (e)	—	—	—
Total Contributions		7,068,129	848,175	80,940,542
Changes in ownership interests				
Reorganization		16,482,071	1,977,849	80,698,025
Liquidation of a Subsidiary		—	—	—
Total changes in ownership interests		16,482,071	1,977,849	80,698,025
Total transactions with owners of the Company		23,550,200	2,826,024	161,638,566
Balance at December 31, 2017		23,812,100	2,857,452	161,638,566
Loss for the Period		—	—	—
Exchange differences on translation of operations in foreign currency		—	—	—
Total Comprehensive Loss		—	—	—
Transactions with owners of the Company				
Contributions				
Issue of common shares	1. (h)	1,850,000	222,000	52,768,733
Transaction costs		—	—	(3,801,265)
Equity-settled share-based payment	4. (e)	—	—	—
Share options exercised		302,279	36,273	415,801
Total Contributions		2,152,279	258,273	49,383,269
Total transactions with owners of the Company		2,152,279	258,273	49,383,269
Balance at December 31, 2018		25,964,379	3,115,725	211,021,835
Loss for the Period		—	—	—
Exchange differences on translation of operations in foreign currency		—	—	—
Total Comprehensive Loss		—	—	—
Transactions with owners of the Company				
Contributions				
Equity-settled share-based payment		—	—	—
Share options exercised		140,876	16,905	(15,229)
Total Contributions		140,876	16,905	(15,229)
Total transactions with owners of the Company		140,876	16,905	(15,229)
Balance at December 31, 2019		26,105,255	3,132,631	211,006,606

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

InflaRx N.V. and subsidiary
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2019,
2018 and 2017 - continued

	Note	Other capital re- serves	Accumulated deficit	Currency trans- lation reserve	Total equity
			(in €)		
Balance at January 1, 2017		1,325,006	(27,054,806)	8,839	(25,689,533)
Loss for the Period		—	(24,237,748)	—	(24,237,748)
Exchange differences on translation of operations in foreign currency		—	—	—	—
Total Comprehensive Loss		—	(24,237,748)	—	(24,237,748)
Transactions with owners of the Company					
Contributions					
Issue of common shares	1.(h)	—	—	—	90,903,488
Transaction costs		—	—	—	(9,114,770)
Equity-settled share-based payment	4.(e)	4,550,105	—	—	4,550,105
Total Contributions		4,550,105	—	—	86,338,823
Changes in ownership interests					
Reorganization		350,242	—	—	83,026,115
Liquidation of a Subsidiary		—	—	(8,839)	(8,839)
Total changes in ownership inter- ests		350,242	—	(8,839)	83,017,276
Total transactions with owners of the Company		4,900,347	—	(8,839)	169,356,099
Balance at December 31, 2017		6,225,353	(51,292,555)	—	119,428,816
Loss for the Period		—	(29,814,634)	—	(29,814,634)
Exchange differences on translation of operations in foreign currency		—	—	50,196	50,196
Total Comprehensive Loss		—	(29,814,634)	50,196	(29,764,830)
Transactions with owners of the Company					
Contributions					
Issue of common shares	1.(h)	—	—	—	52,990,733
Transaction costs		—	—	—	(3,801,265)
Equity-settled share-based payment	4.(e)	12,084,651	—	—	12,084,651
Share options exercised		—	—	—	452,074
Total Contributions		12,084,651	—	—	61,726,193
Total transactions with owners of the Company		12,084,651	—	—	61,726,193
Balance at December 31, 2018		18,310,003	(81,107,188)	50,196	151,390,571
Loss for the Period		—	(53,254,817)	—	(53,254,817)
Exchange differences on translation of operations in foreign currency		—	—	2,177,033	2,177,033
Total Comprehensive Loss		—	(53,254,817)	2,177,033	(51,077,784)
Transactions with owners of the Company					
Contributions					
Equity-settled share-based payment		6,832,210	—	—	6,832,210
Share options exercised		—	—	—	1,676
Total Contributions		6,832,210	—	—	6,833,886
Total transactions with owners of the Company		6,832,210	—	—	6,833,886
Balance at December 31, 2019		25,142,213	(134,362,006)	2,227,228	107,146,673

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

InflaRx N.V. and subsidiary
Consolidated Statements of Cash Flows for the Years ended December 31, 2019, 2018 and 2017

	Note	2019	2018	2017
			(in €)	
Operating activities				
Loss for the Period		(53,254,817)	(29,814,634)	(24,237,748)
Adjustments for:				
Depreciation & Amortization		663,166	173,630	70,910
Net Financial Result	1. (a)	(3,513,355)	(7,701,731)	4,792,503
Share based payment expense	4. (e)	6,832,210	12,084,651	4,550,105
Other non-cash adjustments		(307,849)	196,699	24,076
Changes in:				
Other non-financial assets		(2,364,399)	(893,602)	(522,818)
Current financial assets		—	(316,112)	89,599
Employee benefits*		235,500	494,837	132,304
Social securities, other tax and non-financial liabilities*		(209,948)	304,627	(30,024)
Trade and other payables, Provisions*		5,734,795	2,243,137	2,912,740
Interest received		3,001,109	1,679,250	66,391
Interest paid		(20,903)	—	—
Net cash flows from operating activities		(43,204,492)	(21,549,248)	(12,151,962)
Investing activities				
Cash outflow from the purchase of intangible assets, laboratory and office equipment		(594,889)	(806,531)	(148,542)
Cash outflow for the investment in non-current other financial assets	1. (g), 2. (b)	(75,543)	(209,705)	(18,481)
Proceeds from the disposal of non-current other financial assets	1. (g), 2. (b)	—	21,811	—
Proceeds from the disposal of current financial assets or repayment of maturing securities	1. (g), 2. (b)	103,559,395	7,990,204	—
Purchase of current & non-current financial assets	1. (g), 2. (b)	(82,547,409)	(106,445,120)	—
Net cash flows from investing activities		20,341,554	(99,449,341)	(167,023)
Financing activities				
Proceeds from issuance of share capital**		—	52,990,733	90,903,488
Transaction cost from issuance of share capital		—	(3,801,265)	(9,114,770)
Proceeds from exercise of share options**	4. (e)	1,676	452,075	—
Proceeds from issuance of preferred shares		—	—	27,012,050
Repayment of leasing debt		(296,020)	—	—
Net cash flows from financing activities		(294,344)	49,641,542	108,800,767
Effect of exchange rate changes		902,321	3,461,399	(2,316,631)
Net Change in cash and cash equivalents*		(22,254,960)	(71,357,047)	94,165,152
Cash and cash equivalents at beginning of period		55,386,240	123,281,888	29,116,737
Cash and cash equivalents at end of period	1. (i)	33,131,280	55,386,240	123,281,888

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

* Comparative amounts have been restated in line with current years' classification.

** Proceed from exercise share options EUR 452,075 presented in the "Proceeds from issuance of share capital, under financing activities" in 2018 have been reclassified to "Proceed from exercise of share options, under financing activities" in the comparative financial statements for 2019.

InflaRx N.V. and subsidiary**Notes to the Consolidated Financial Statements as of and for the Years Ended December 31, 2019 and 2018****Basis of preparation**

The consolidated financial statements of the Company are part of the statutory financial statements of the Company.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS.

The financial statements comply with IFRS as adopted by the European Union (IFRS) and with Section 2:362(9) of the Netherlands Civil Code. We have developed our disclosures and tables in this document. In this context, we have adapted the presentation of tables and the structure of this document. The composition of figures or subtotals may differ from the presentation in the previous year. However, there have been no changes content-wise compared to previous year.

The financial statements have been prepared on a historical cost basis except for share-based payments which are measured at fair value.

These financial statements are consolidated financial statements for the Group consisting of InflaRx N.V. and its subsidiaries. The financial statements are presented in euro (€). USD (\$) is also the functional currency of InflaRx N.V. since January 1, 2019. The functional currency of InflaRx N.V. has changed to U.S. Dollars from €, as most of the income and expenses of InflaRx N.V. occur in U.S. Dollar. The presentation currency of the Group did not change and continues to be €, as the functional currency of the largest operating company InflaRx GmbH continues to be the €. The functional currency of InflaRx Pharmaceutical Inc is USD.

All financial information presented in Euro has been rounded to the nearest Euro. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that precede them or may deviate from other tables by one euro at a maximum.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and could affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Group. They are deconsolidated from the date control ceases. The acquisition method of accounting is used to account for business combinations by the Group. Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

The financial statements were authorized for issue by the board of directors on April 28, 2020.

These financial statements were issued under the going concern assumption, i.e. valuation and capitalization of assets and liabilities was based on the going concern assumption. Based on the monetary funds of the Company and the intended business development, management expects going concern for at least the next fifteen months after the release of these financial statements.

1. Information on how numbers were calculated

(a) Material profit or loss items

1. Research and development expenses

Research and development increased compared to the prior year due to the Company's expanded activities in the area of clinical studies and manufacturing. The items below drive research and development expenses.

Research and development expenses	2019	2018	2017
		(in €)	
Third-party services	36,783,223	15,909,366	8,856,431
<i>manufacturing of clinical material</i>	13,479,235	4,828,534	5,558,719
<i>clinical, pre-clinical</i>	23,303,988	11,080,832	3,297,712
Personnel expenses	6,231,812	8,037,082	4,680,877
<i>share-based compensation expense</i>	2,580,983	5,256,194	3,070,707
Legal and consulting fees	668,676	421,041	643,074
Other expenses	898,425	661,065	234,129
Total	44,582,136	25,028,554	14,414,511

2. General and administrative expenses

General and administrative expenses include the items below. Compared to the prior year the increase is mainly caused by higher personnel expenses, as well as expansion of the Company's business activities and the expense of operating as a public company in the United States.

General and administrative expenses	2019	2018	2017
		(in €)	
Personnel expenses	7,534,073	9,146,955	2,948,229
<i>share-based compensation expense</i>	4,251,227	6,828,457	1,479,398
Legal and consulting fees	2,199,640	2,020,447	1,478,210
Other expenses	2,767,335	1,619,467	712,059
Total	12,501,048	12,786,869	5,138,498

Besides numerous smaller line items other expenses mainly include EUR894 thousands insurance expense (2018: EUR441 thousands. 2017: EUR111 thousands) and EUR504 thousands depreciation and amortization expense (2018: EUR115 thousands. 2017: EUR71 thousands).

3. Employee benefits

The following table shows the items of employee benefits:

Employee benefits	2019	2018	2017
		(in €)	
Wages and salaries	5,974,807	4,501,840	2,896,929
Social Security contributions (employer's share)	562,255	350,024	182,189
Equity-settled share-based payments	6,832,210	12,084,651	4,550,105
Other	396,613	247,522	—
Total	13,765,885	17,184,037	7,629,223

The number of employees rose to 43.7 full time equivalents (FTE) at the end of 2019 from 36.8 FTE at the end of 2018, respectively 20.0 FTE at the end of 2017 (numbers as of balance sheet date, not an average number).

4. Net Financial Result

The Net Financial Result is comprised of the following items:

Finance income	2019	2018	2017
		(in €)	
Foreign exchange income	3,379,644	8,249,853	—
Interest income	2,840,676	2,182,842	130,032
Total	6,220,320	10,432,695	130,032
Finance costs			
Foreign exchange expense	2,684,699	2,623,782	2,358,631
Other	22,265	107,182	2,563,904
Total	2,706,964	2,730,964	4,922,535
Net Financial Result	3,513,356	7,701,731	(4,792,503)

Foreign exchange income and expense is mainly derived from group entities that do not use U.S. dollar as functional currency. Those entities translate U.S. dollar cash, cash equivalents and marketable securities at the exchange rates prevailing on the reporting date. Any resulting translation differences are recognized in profit and loss. These gains (€3,380 thousand in 2019, €8,250 thousand in 2018 and € nil in 2017) and losses (€2,685 thousand in 2019, €2,624 thousand in 2018 and €2,358 thousand in 2017) are caused by the exchange rates on the reporting dates, and may not ultimately be realized. Any such gains or losses ultimately will be realized when U.S. dollar funds are used for R&D expenses or other activities.

Other finance cost in 2017 was mainly driven by interest expense for preferred shares (€2,229 thousand).

(b) Income tax expense

InflaRx N.V. and its German subsidiary InflaRx GmbH are subject to corporate taxes, a solidarity surcharge and trade taxes. InflaRx Pharmaceutical Inc. is subject to U.S. federal and state tax. In prior years as well as in 2017 and 2018 the Group did not incur any income tax. Taxes paid were reimbursed after annual tax declaration. The same applies for the year 2019. The Group has the following tax carry forwards:

	December 31, 2019	December 31, 2018
	(in €)	
InflaRx N.V.	75,767,524	33,571,438
InflaRx GmbH	34,786,686	34,787,686
InflaRx Pharmaceutical Inc.	3,816,023	1,651,579

Since January 1, 2018 InflaRx GmbH has distributed its losses to the parent Company InflaRx N.V. under a profit and loss transfer agreement. This tax group was formed in Germany and is subject to German tax legislation.

German tax loss carried forwards are available indefinitely for offsetting against future taxable profits. Tax losses of InflaRx GmbH are frozen from 2018 onwards due to the tax Group with InflaRx N.V.

The Group recognizes deferred tax assets arising from tax loss carried forwards only to the extent that the Group has sufficient taxable temporary differences or there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses can be utilized. As of December 31, 2019, management's judgment is that such convincing evidence is currently not sufficiently available and a deferred tax asset is therefore not recognized.

Furthermore current tax assets and liabilities would be offset only if certain criteria are met.

The tables below show 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.

The applicable tax rate is composed of 15.0% corporate income tax and 0.8% solidarity surcharge plus 13.9% trade tax (trade tax is the sum of the Company's two German locations, 9.7 percentage points must be paid in Jena and 4.2 percentage points in Martinsried respectively; the split between Jena and Martinsried is based on salary costs, therefore the tax rate decreased as the Company hired new personnel in Martinsried):

InflaRx in Germany	2019	2018	2017
		(in €)	
Loss before taxes	(53,254,817)	(29,814,634)	(24,237,748)
Tax rate	29.7%	29.2%	31.2%
Tax benefits at tax rate	15,815,083	8,715,116	7,559,754
Tax losses for which no deferred tax asset was recognized	(15,815,083)	(8,715,116)	(7,559,754)
Income taxes	—	—	—

The applicable tax rate on income in the U.S. is composed of 21% federal tax and 6% state tax:

InflaRx in the U.S.	2019	2018	2017
		(in U.S. dollars)	
Loss before taxes	(2,177,602)	(1,891,058)	—
Tax rate	27%	27%	—
Tax benefits at tax rate	587,953	510,586	—
Tax losses for which no deferred tax asset was recognized	(587,953)	(510,586)	—
Income taxes	—	—	—

(c) Property, plant and equipment

	Buildings, Office prop- erties	Laboratory, office and other equip- ment	Advance payments	Total
Cost				
		(in €)		
At January 1, 2018	—	394,609	—	394,609
Additions	—	504,423	86,068	590,491
Disposals	—	1,544	—	1,544
Reclassification	—	86,068	(86,068)	—
Exchange differences	—	8,534	—	8,534
At December 31, 2018	—	995,179	—	995,179
Right-of-use assets at January 1, 2019, see note 1. (e)	695,614	35,058	—	730,672
Additions	636,754	259,647	54,338	950,740
Disposals	(266,057)	(142,400)	—	(408,457)
Reclassification	—	54,408	(54,408)	—
Exchange differences	1,512	6,639	70	8,221
At December 31, 2019	1,067,823	1,208,531	—	2,276,355
Depreciation				
At January 1, 2018	—	(221,970)	—	(221,970)
Depreciation charge for the year	—	(148,375)	—	(148,375)
Exchange differences	—	(166)	—	(166)
At December 31, 2018	—	(370,510)	—	(370,510)
Depreciation charge for the year	(283,350)	(273,458)	—	(556,808)
Disposals	38,008	26,235	—	64,243
Exchange differences	216	(198)	—	18
At December 31, 2019	(245,126)	(617,932)	—	(863,058)
Net book value				
At December 31, 2019	822,697	590,600	—	1,413,297
At December 31, 2018	—	624,668	—	624,668

(d) Intangible assets

	Patents and licenses with definite use- ful life	Construction in progress	Total
Cost		(in €)	
At January 1, 2018	148,749	—	148,749
Additions	97,620	—	97,620
Disposals	(17)	—	(17)
Reclassification	—	109,852	109,852
Exchange differences	—	—	—
At December 31, 2018	246,351	109,852	356,204
Additions	84,449	251,493	335,942
Disposals	—	—	—
Reclassification	353,155	(353,155)	—
Exchange differences	(64)	—	(64)
At December 31, 2019	683,891	8,190	692,081
Amortization			
At January 1, 2018	(108,083)	—	(108,083)
Depreciation charge for the year	(25,255)	—	(25,255)
Exchange differences	—	—	—
At December 31, 2018	(133,337)	—	(133,337)
Depreciation charge for the year	(106,358)	—	(106,358)
Disposals	—	—	—
Exchange differences	14	—	14
At December 31, 2019	(239,681)	—	(239,681)
Net book value	—	—	—
At December 31, 2019	444,210	8,190	452,400
At December 31, 2018	113,014	109,852	222,866

(e) Leases

The Group leases various properties, laboratory and office equipment and cars. Rental contracts are typically made for fixed periods of one to three years but may have renewal options. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Property and cars are part of the balance sheet line ‘Property, plant and equipment.’ Set out below, are the carrying amounts of the Group’s right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use assets		Foreign ex- change difference	Total	Lease liabilities
	Property	Cars	(in €)		
As of January 1, 2019	695,614	35,058	—	730,672	730,672
Additions	636,754	—	1,512	638,266	636,754
Depreciation expense	(245,342)	(20,831)	216	(265,957)	—
Derecognition	(266,057)	—	—	(266,057)	(228,547)
Interest expense	—	—	—	—	(12,765)
Payments (incl. interest and foreign exchange difference)	—	—	—	—	(281,535)
As of December 31, 2019	820,969	14,227	1,728	836,924	844,579

The line “Derecognition” refers to leased office premises, which were replaced by a new office (see line “Additions”).

The maturity analysis of lease liabilities is disclosed in the following table:

Maturity analysis for capitalized leases	Contractual minimum lease obligations	Effect of discounting	Lease liabilities
		(in €)	
Within one year	354,878	7,175	347,703
After one year but not more than five years	500,062	3,185	496,877
More than five years	—	—	—
Total	854,940	10,361	844,579

The Group also has certain leases of cars and office equipment with lease terms of 12 months or less and leases of office equipment with low value. The Group applies the ‘short-term lease’ and ‘lease of low-value assets’ recognition exemptions for these leases.

Maturity analysis for all lease obligations	Total	Low value leases	Short-term leases	Capitalized leases
				(in €)
Within one year	371,105	5,387	10,841	354,878
After one year but not more than five years	532,845	12,779	20,005	500,062
More than five years	—	—	—	—
Total	903,951	18,166	30,845	854,940

The following are the amounts recognized in profit or loss:

	December 31, 2019*	December 31, 2018*
	(in €)	
Depreciation expense of right-of-use assets	265,957	—
Interest expense on lease liabilities	12,765	—
Rental expense from leases	70,451	213,200
<i>short-term leases (included in administrative expenses)</i>	65,348	—
<i>leases of low-value assets (included in administrative expenses)</i>	5,103	—
Total amounts recognized in profit or loss	349,173	213,200

* in 2019 leases under IFRS 16, in 2018 operating leases under IAS 17

The Group had total cash outflows for leases of €378,035 in 2019 (€213,200 in 2018). The future cash outflows relating to leases that have not yet commenced are disclosed in ‘3.(a) Lease obligations.’

(f) Other non-financial assets

Other non-financial assets	December 31, 2019	December 31, 2018
	(in €)	
Prepaid expense	1,920,153	1,032,676
Pre-payments	698,891	14,607
Other	1,334,056	541,419
Total	3,953,100	1,588,702

Prepaid expense mainly consists of accrued insurance expense, the non-current portion is € 452,217 in 2019 (nil in 2018). All other non-financial assets are current. Pre-payments mainly relate to prepayments under CRO and manufacturing contracts..

(g) Financial assets and financial liabilities

Set out below is an overview of financial assets and liabilities, other than cash and short-term deposits, held by the Group as at December 31, 2018 and December 31, 2017:

Financial assets and financial liabilities	December 31, 2019	December 31, 2018
	(in €)	
Financial assets at amortized cost		
Non-current financial assets	272,614	207,444
Current financial assets	82,353,867	101,184,240
Financial liabilities at amortized cost		
Trade and other payables	12,413,662	6,657,312
Interest bearing loans and borrowings		
Non-current lease liabilities	330,745	—
Current lease liabilities	513,834	—

The fair value of current and non-current financial assets (primarily quoted debt securities) amounted to €82,661 thousand (level 1). The Group's debt instruments at amortized cost consist solely of quoted securities that are graded in the top investment category (AA- to AAA) by credit rating agencies such as S&P Global and therefore are considered low credit risk investments. Based on statistical historical probabilities of default, adjusted for forward-looking factors specific to the debtors and the economic environment, the Group believes that the expected credit losses for these debt instruments are immaterial. Furthermore, since the acquisition of these debt securities, their credit ratings have remained stable.

The maturities of all securities are between one and eleven months (2018: between six and eleven months), the beard nominal interests range between 1.5% and 2.1% (2018: between 1.0% and 4.9%).

(h) Equity

1. Issue of share capital

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 €90,903,488, 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.

On May 8, 2018, a public offering of common shares was completed pursuant to which the Company sold an aggregate of 1,850,000 common shares with a nominal value of €0.12 per share, resulting in gross proceeds from the sale of common shares of €52,990,733. Directly attributable transaction costs of €3,801,265 were incurred and paid in connection with the sale of these common shares and deducted from capital reserves.

2. Shares Outstanding

As of December 31, 2019, the issued capital of the Company is divided into 26,105,255 common shares. Refer to 'Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2019, 2018 and 2017.'

(i) Cash and cash equivalents information

Cash and cash equivalents	December 31, 2019	December 31, 2018
	(in €)	
Short-term deposits		
Deposits held in U.S. dollars (3 months original maturity and less)	27,803,153	32,918,604
Deposits held in euro	—	—
Total	27,803,153	32,918,604
Cash at banks		
Cash held in euro	1,211,478	21,719,699
Cash held in U.S. dollars	4,116,649	747,937
Total	5,328,127	22,467,636
Total cash and cash equivalents	33,131,280	55,386,240

2. Risk

(a) Critical estimates and judgements

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 'Other information — (e) Share-based payments' as well as the measurement of R&D expenses that have to be accrued at period end for outstanding invoices (e.g. for pass-through costs charged by the Company's Contract Research Organizations ('CROs')).

(b) Financial risk management

1. Financial risk management objectives and policies

The Group's risk management is predominantly controlled by central treasury activities under policies approved by the Board of Directors. Those treasury activities identify, evaluate and hedge financial risks consistently with the Group's operating needs. The board provides policies for overall risk management, covering specific areas, such as foreign exchange risk and credit risk. The Company does not intend to use derivative financial instruments because the Group's future risk exposures cannot be reliably forecasted (volume of business activity, liquidity needs, foreign exchange exposure).

Hedge accounting is not applied as most of the business activity is intended to be executed in U.S. dollars and paid with the U.S. dollars funds raised in public offerings. The foreign exchange exposure from costs incurred in currencies other than euro is deemed immaterial and not worth hedging.

The Group's principal financial assets comprise quoted debt securities with credit ratings range from AA- to AAA. Besides these financial assets, the Group has significant cash and cash equivalents. The Group's principal financial liabilities comprise trade payables. The main purpose of these financial assets, cash/cash equivalents and liabilities is to finance the Group's development activities.

The Group is exposed to market risk, credit risk and liquidity risk. The Board of Directors reviews and adopts policies for managing each of these risks, which are summarized below. The Group's senior management oversees the management of these risks.

	Exposure	Measurement	Risk Management
Market risk	Future development costs; Recognized financial assets and liabilities not denominated in euro	Forecasted cash flows Sensitivity analysis	Achievement of a natural hedge in the future
Credit risk	Cash and cash equivalents, debt investments	Credit rating	Diversification of bank deposits, Investment guidelines for debt investments
Liquidity	R&D and G&A cost and trade payables	Rolling cash flow forecast	Availability of funds through financing rounds or public offerings

2. Market risk

Market risk is the risk that changes in market prices (e.g. due to foreign exchange rates) will affect the Group's income, expenses or the value of its holdings of financial instruments. The objective of market risk management is to identify, manage and control market risk exposures within acceptable parameters.

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 transactional foreign currency risk to the extent that there is a mismatch between the currencies in which costs and purchases are denominated and the respective functional currencies of Group companies. The functional currencies of Group companies are primarily U.S. dollars and the euro for InflaRx GmbH only. The currencies in which these transactions and financial assets are primarily denominated are U.S. dollars and the euro. The Group is exposed to the exchange rate between the euro and the U.S. dollars. Due to the initial public offering in 2017 and public offering in 2018, the Group has a significant U.S. dollar amount on its statements of financial position. Currently the Group does not hedge U.S. dollars but intends to achieve a natural hedge by contracting suppliers in U.S. dollars in the future. In 2019 the Group recognized significant foreign exchange gains and losses as the natural hedge is not yet achieved and the functional currency for InflaRx GmbH is euro.

The Group is primarily exposed to changes in U.S. dollars/euro exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from U.S. dollar denominated financial instruments at InflaRx GmbH.

In 2019, if the euro had weakened/strengthened by 10% against U.S. dollars with all other variables held constant, the Group's loss would have been €3.4 million higher/€4.1 million lower, mainly as a result of foreign exchange on translation of U.S. dollars-denominated assets of InflaRx GmbH.

Cash, cash equivalents and financial assets that belong to InflaRx GmbH	December 31, 2019
	(in €)
Current financial assets	32,947,491
Cash and cash equivalents (securities and accrued interest)	4,123,532
Total assets exposed to the risk	37,071,023

Conversion rate EUR/USD at reporting date 1/1.1234

Sensitivity analysis:	Conversion rate	Profit/(loss)	carrying amount
		(in €)	
Euro weakens by 1% against U.S. dollars	1.1346	(367,040)	36,703,983
Euro strengthens by 1% against U.S. dollars	1.1122	374,455	37,445,478
Euro weakens by 5% against U.S. dollars	1.1796	(1,765,287)	35,305,736
Euro strengthens by 5% against U.S. dollars	1.0672	1,951,106	39,022,129
Euro weakens by 10% against U.S. dollars	1.2357	(3,370,093)	33,700,930
Euro strengthens by 10% against U.S. dollars	1.0111	4,119,003	41,190,026

3. Credit risk

The maximum exposure to counterparty credit risk is €115.8 million at December 31, 2019 (December 31, 2018: €156.8 million). This amount equals the carrying amount at year end of cash and cash equivalents (2019: €33.1 million; 2018: €55.4 million) plus financial assets (2019: €82.6 million; 2018: €101.4 million).

The cash and cash equivalents are held with banks, what are rated BBB to A based on Standard & Poor's and Moody's. The issuer of the money-market funds and other securities are graded in the top investment category (AA- to AAA) by credit rating agencies as S&P Global.

4. Liquidity risk

Prudent liquidity risk management involves maintaining sufficient cash and marketable securities and the availability of funding to meet obligations when due. At the end of the reporting period the Group held the following deposits that are expected to readily generate cash inflows for managing liquidity risk.

Liquidity	December 31, 2019	December 31, 2018
	(in €)	
Short-term deposits	27,803,153	32,918,604
Cash at banks	5,328,127	22,467,636
Marketable Securities (current)	81,895,377	100,868,129
Other (non-current portion)	272,614	207,444
Other (current)	458,491	316,112
Total funds available	115,757,762	156,777,925

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

In November 2017 and May 2018, InflaRx raised significant funding that it estimates will enable the Group to fund operating expenses and capital expenditure requirements for at least the 12 months from December 31, 2019.

The Group expects to require additional funding to continue to advance the development of product candidates. In the event regulatory approval is received and the Company implements a strategy to commercialize the products itself the Group would require additional capital.

The remaining contractual maturities of financial assets at the reporting period is less than one year in amount of €115,757,762. The remaining contractual maturities of financial liabilities at the reporting period is less than one year in amount of €12,413,662. The amounts are gross and undiscounted.

(c) Capital management

The Group's policy for capital management is to ensure that it maintains its liquidity in order to finance its operating activities, future business development and meet its liabilities when due. The Group manages its capital structure primarily through equity. The Group does not have any financial debt, besides trade and other payables.

Under the 2017 long-term incentive plan the board and key employees may participate in the Group's share price development through long-term remuneration consisting of a share option plan set up in 2017, please refer to Note 'Other information - (e) Share-based payments.'

No changes were made in the objectives, policies or processes for managing capital during the year.

3. Commitments

(a) Lease obligations

	December 31, 2019	December 31, 2018
	(in €)	
Commitments for minimum lease payments in relation to non-cancellable leases		
Within one year	371,105	282,711
After one year but not more than five years	532,845	292,300
More than five years	—	—
Total	903,951	575,011

Anticipated future lease expenses were converted with the exchange rate as of December 31, 2019, 1 Euro = 1.1234 USD.

Lease obligations consist of payments pursuant to non-cancellable lease agreements mainly relating to the Company's leases of office space. The lease terms of the Company's premises expires in the next three years: Jena, Germany December, 2022, Martinsried, Germany May, 2022 and Ann Arbor, United States April, 2021.

(b) Other Commitments

	December 31, 2019	December 31, 2018
	(in €)	
Commitments for minimum payments in relation to non-cancellable operating contracts or services:		
Within one year	10,602,651	19,623,790
After one year but not more than five years	13,844,857	9,683,700
More than five years	—	—
Total	24,447,508	29,307,490

Anticipated future lease expenses were converted with the exchange rate as of December 31, 2019, 1 Euro = 1.1234 USD.

The Group enters into contracts in the normal course of business with 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.

During 2019, the Group did not enter into contracts to purchase property, plant and equipment or patents and trademarks (respectively nil in 2018).

4. Other information

(a) Reporting entity and Group's structure

InflaRx N.V. is a Dutch public company with limited liability (naamloze vennootschap) with its corporate seat in Amsterdam, The Netherlands, and is 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. Since November 10, 2017, InflaRx N.V.'s common shares have been listed on The NASDAQ Global Select Market under the symbol IFRX.

InflaRx is a clinical-stage biopharmaceutical Group focused on applying its proprietary anti-C5a technology to discover and develop first-in-class, potent and specific inhibitors of the complement activation factor known as C5a. 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 €90,903,488, 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. 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 result for fiscal year 2016 were not restated.

These consolidated financial statements of InflaRx comprise the Company and its subsidiaries InflaRx GmbH, and, since January 5th, 2018, InflaRx Pharmaceutical Inc., Ann Arbor, Michigan/USA (together, the 'Group').

(b) Material subsidiaries

The Group's principal subsidiaries at December 31, 2019 are set out below. Unless otherwise stated, they have share capital consisting solely of common shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name	Place of business/ country of incorporation	Functional currency	Ownership interest held by the Group		Principal activities
			2019	2018	
InflaRx GmbH	Germany	EUR	100%	100%	Principal operating subsidiary, biopharmaceutical company
InflaRx Pharmaceutical Inc.	U.S.	USD	100%	100%	Subsidiary for basic research

InflaRx GmbH is a clinical-stage biopharmaceutical company founded in 2008. In 2017, InflaRx N.V. became the sole shareholder of InflaRx GmbH through the contribution of the subsidiary's shares to InflaRx N.V. by its existing shareholders in exchange of new shares issued by InflaRx N.V.

InflaRx Pharmaceutical Inc., a Delaware corporation, was founded on January 5, 2018 by InflaRx N.V.

(c) Segment reporting

The Group has one Segment. The Group is a clinical-stage biopharmaceutical Group focused on applying its proprietary anti-C5a technology. These activities are conducted as own project development. The Executive

Board of Directors is the chief operating decision maker. Management of resources and reporting to the decision maker is based on the Group as a whole.

All operational activities are conducted in Germany and the United States. No revenues were generated in 2019, 2018 and 2017. The geographic location of the Group's non-current assets are as follows:

- 31 December 2019: €2,217 thousand in Germany and €374 thousand in the United States,
- 31 December 2018: €704 thousand in Germany and €351 thousand in the United States.

(d) Related party transactions

The Group's executive management comprises the following persons:

- Professor Niels C. Riedemann, Chief Executive Officer (CEO)
- Professor Renfeng Guo, Chief Scientific Officer (CSO)
- Arnd Christ, Chief Financial Officer (CFO)
- Jason Marks, Chief Legal Officer, General Counsel (CLO), since January 1, 2019

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

Executive Directors

- Professor Niels C. Riedemann, CEO
- Professor Renfeng Guo, CSO

Non-executive Directors

- Nicolas Fulpius, Chairman, Chairman of the Audit Committee
- Jens Holstein, Member of the Audit Committee
- Richard Brudnick, Member of the Audit Committee since May 2019
- Katrin Uschmann
- Lina Ma
- Mark Kübler

The compensation of the Group's executive management comprises the following for the twelve months ending December 31:

Board Compensation	2019	2018	2017
		(in €)	
Executive Management			
Short-term employee benefits	2,793,529	2,524,202	1,986,973
Share-based payments	5,218,324	9,801,454	3,187,438
Total	8,011,853	12,325,656	5,174,441
Non-executive Board of Directors			
Short-term employee benefits	269,031	238,180	80,735
Share-based payments	710,611	1,085,917	42,860
Total	979,642	1,324,098	123,596
Total Compensation	8,991,495	13,649,754	5,298,007

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

We entered into indemnification agreements with our directors and senior management. The indemnification agreements and our Articles of Association require us to indemnify our directors to the fullest extent permitted by law. See “Item 6. Directors, Senior Management and Employees—B. Compensation—Insurance and indemnification” in the Annual Report on Form 20-F for a description of these indemnification agreements.

(e) Share-based payments

1. Equity-settled share-based payment arrangements

In the course of its historical financing rounds InflaRx GmbH established equity-settled share-based payment programs. Under these programs, the Company granted to its managing directors and senior executives options to acquire common shares. In total options covering 6,088 shares were granted to senior management and key employees. In addition, 267 options were granted to members of the Supervisory Board of InflaRx GmbH. All options have vested. Those InflaRx GmbH options were converted into options covering 511,392 common shares of InflaRx N.V. at the initial public offering in November 2017, plus the 22,428 options of the Supervisory Board of InflaRx GmbH. In 2019 140,876 shares were issued following the exercise of share options, resulting in proceeds to the Company of €1.7 thousand (2018: €9.8 thousand). The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2019 number	2019 WAEP	2018 number	2018 WAEP
Outstanding at January 1	289,309	€0.01	533,820	€0.01
Exercised during the year (1)	140,876	€0.01	244,511	€0.01
Outstanding at December 31	148,433	€0.01	289,309	€0.01
Exercisable at December 31	148,433	€0.01	289,309	€0.01

(1) The weighted average share price at the date of exercise of these options was \$3.02/€2.70* (2018: \$33.82/ €28.62*).

* average conversion rates used for one \$: 2019 \$0.8932, 2018 \$0.8464

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 was 3.43 years (2018: 4.16 years). The exercise price for all options outstanding at the end of the year was €0.01 per share or less (2018: €0.01 or less).

Under the terms and conditions of the share option plan 2016 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 in November 2017). Any additional awards available under the 2016 plan lapsed upon the closing of the Series D financing in October 2017. In 2016, InflaRx also established a share-based payment plan for its non-executive board members and granted options covering 484 shares. Grants under this plan were not subject to service or performance conditions. In 2018 57,768 shares were issued following the exercise of share options, resulting in proceeds to the Company of €442.2 thousand. The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year:

	2019 number	2019 WAEP	2018 number	2018 WAEP
Outstanding at January 1	1,181,484	€7.81	1,239,252	€7.81
Exercised during the year (1)	—	—	57,768	€7.81
Outstanding at December 31	1,181,484	\$3.35/€2.98*	1,181,484	€7.81
Exercisable at December 31	1,181,484	\$3.35/€2.98*	1,181,484	€7.81

(1) The weighted average share price at the date of exercise in 2018 for these options was \$32.82/€27.78*.

* conversion rates used for one €: December 31, 2019 \$0.8902, average rate 2018 \$0.8464

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 was 11.95 years (2018: 12.95 years). The exercise price for all options outstanding at the end of the year was \$3.35/€2.98 (2018: €7.81).

In conjunction with the closing of its initial public offering, InflaRx N.V. established a new plan (‘2017 long-term incentive plan’). The initial maximum number of common shares available for issuance under equity

incentive awards granted pursuant to the 2017 long term incentive 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 long-term incentive plan.' The following table illustrates the number and weighted average exercise prices of, and movements in, share options during the year:

	2019 number	2019 WAEP	2018 number	2018 WAEP
Outstanding at January 1	2,051,009	\$3,61/€3.16*	1,869,192	\$3,35/€2.79*
Granted during the year	242,450	\$3,25/€2.91*	208,073	\$5,96/€5.05*
Forfeited during the year	112,354	\$6,17/€5.51*	26,256	\$3,35/€2.84*
Outstanding at December 31	2,181,105	\$3,44/€3.06*	2,051,009	\$3,61/€3.16*
Exercisable at December 31	1,319,548	\$3,52/€3.13*	626,933	\$3,35/€2.93*

* conversion rates used for one €: December 31, 2019 \$0.8902, average rate 2019 \$0.8932, January 1, 2019/December 31, 2018 \$0.8734, average rate 2018 \$0.8464

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 was 6.21 years (2018: 6.74 years).

The weighted average fair value of options granted during the year was € 7.29 (2018: €15.63). The range of exercise prices for options outstanding at the end of the year was \$2.28/€2.03 to \$22.75/€20.25 (2018: \$3.35/€2.93 to \$22.75/€19.87).

On July 3, 2019, the board approved an amendment of the 2016 Share Option Plan and the 2017 Long-Term Incentive Plan. Following the amendment, the exercise price of all vested and unvested options, other than those held by persons who were not employees or directors at the time of the amendment, was reduced to \$3.35 per share.

The repricing decision on July 3, 2019 affected the 2016 Plan and the 2017 Long-Term Incentive Plan. 1,181,484 share options from the 2016 plan and 2,105,459 share options from the 2017 long-term incentive plan were affected. The valuation of past grants with the new exercise price of \$3.35 resulted in incremental fair values of the outstanding options, i.e. additional compensation expense had to be recognized. We refer to the table below regarding the measurement of fair values of share options granted.

There were no cancellations or further modifications to the awards in 2019 or 2018.

2. *Measurement of fair values of share options granted*

The fair value of options granted in 2019 under the 2017 long-term incentive plan 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. The modification, resulting from the repricing as described above, increased the fair value of the equity instruments granted under the 2017 Long-Term Incentive Plan and the 2016 Plan. In accordance with IFRS 2.B43, the incremental fair value is recognized over the remaining vesting period, whereas the balance of the grant-date fair value is recognized immediately for fully vested options, or over the remaining original vesting period. The incremental fair value is the difference between the fair value of the modified share-based payment and that of the original share-based payment, both measured at the date of the modification - i.e. July 3, 2019. Other significant inputs into the model are as follows (weighted average):

Share options granted	Number	Per option	FX rate as of grant date	Per option	Share price at grant date / Exercise price	Expected volatility	Ex-pected life (midpoint based)	Risk-free rate (interpolated, U.S. sovereign strips curve)
2018								
February 7*	28,002	\$13.79	0.82	€11.24	\$22.75	0.73	4.9	2.60%
May 30	20,000	\$22.37	0.86	€19.23	\$37.85	0.73	4.6	2.70%
July 20	54,000	\$19.80	0.86	€16.96	\$32.40	0.73	4.9	2.80%
Sept. 21*	18,450	\$20.17	0.85	€17.15	\$33.06	0.73	4.9	3.00%
Nov. 20*	12,621	\$13.39	0.88	€11.75	\$26.02	0.65	4.0	2.93%
November 20/ Jan. 1, 2019*	75,000	\$14.45	0.88	€12.69	\$26.02	0.65	4.8	3.00%
	<u>208,073</u>							
2019								
January 1	—	\$14.45	0.88	€12.69	\$26.02	0.65	4.8	3.00%
February 4	18,450	\$18.17	0.87	€15.87	\$32.63	0.65	4.9	2.60%
May, 14	36,000	\$22.54	0.89	€20.08	\$41.39	0.65	4.7	2.30%
Repricing, July 3	—	\$0.46- \$1.08	0.89	€0.40- €0.96	\$3.35	1.35	2.3-4.6	2.30%
October 24	50,000	\$1.96	0.90	€1.76	\$2.28	1.35	4.7	1.65%
December 16	38,000	\$3.07	0.90	€2.75	\$3.57	1.35	4.7	1.79%
December 16*	<u>100,000</u>	\$3.07	0.90	€2.75	\$3.57	1.35	4.7	1.79%
	<u>242,450</u>							

Expected dividends are nil for all share options listed above.

* Options granted to the executive management or board of directors

On November 20, 2018 75,000 stock options were awarded subject to a specified condition, which was satisfied on January 1, 2019, therefore, the expense for these share options occurred in 2019.

Expected volatility has been based on the historical volatility of InflaRx' share price. Considering a significant price drop on June 5, 2019, we calculated averages including and excluding said trading day which results in an average volatility of 124%. For grants after June 2019 we have selected a volatility of 135% that accounts for expectations of the management.

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 dividend yield has no impact due to the anti-dilution clause as defined in the 2017 Long-Term Incentive Plan.

Expenses are determined based on the number of share options granted within a tranche and the vesting period of a tranche. This implies two effects:

- the more options are granted within a tranche, the higher the expense of a tranche is, and
- the shorter the vesting period of a tranche is, the higher the expense of a tranche is.

For example, 33.33% of all share options granted are allocated to the first tranche which vests over 1 year after the grant date, whereas 8.33% of all share options granted are allocated to the ninth tranche which vests over three years.

The following table shows the recognized compensation expenses per share option plan and the repricing of share options, consummated on July 3, 2019 for the twelve-month period ended December 31, 2019, 2018 and 2017. Anticipated expenses for the twelve-month period ending December 31, 2022, 2021 and 2020 were converted with the exchange rate as of December 31, 2019, 1 Euro = 1.1234 USD:

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(in million €)					
2016 Plan	—	—	—	—	—	4.0
2017 Long-Term Incentive plan	0.0	0.3	2.1	5.2	12.1	0.6
Repricing consummated on July 3, 2019						
2016 Plan	—	—	—	0.5	—	—
2017 Long-Term Incentive plan	0.0	0.0	0.3	1.1	—	—
Total compensation expense	<u>0.0</u>	<u>0.3</u>	<u>2.4</u>	<u>6.8</u>	<u>12.1</u>	<u>4.6</u>

None of the equity-settled share-based payments awards were dilutive in determining earnings per share due to the Group's loss position.

(f) Loss per 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. The weighted number of common shares outstanding for the financial year 2019 is 26,004,519, for 2018 is 25,095,027 and for 2017 is 9,410,524.

(g) Protective foundation

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 order to deter acquisition bids, the Company's general meeting of shareholders approved the right of an independent foundation under Dutch law, or protective foundation, to exercise a call option pursuant to the call option agreement, upon which preferred shares will be issued by the Company to the protective foundation of up to 100% of the Company's issued capital held by others than the protective foundation, minus one share. The protective foundation is expected to enter into a finance arrangement with a bank or, subject to applicable restrictions under Dutch law, the protective foundation may request us to provide, or cause the Company's subsidiaries to provide, sufficient funding to the protective foundation to enable it to satisfy its payment obligation under the call option agreement.

These preferred shares will have both a liquidation and dividend preference over the Company's common shares and will accrue cash dividends at a pre-determined rate. The protective foundation would be expected to require us to cancel its preferred shares once the perceived threat to the Company and its stakeholders has been removed or sufficiently mitigated or neutralized. We are of the opinion that the call option does not represent a significant fair value based on a level 3 valuation, due to the fact that the preference shares are restricted in use and can be cancelled by us as stated above.

As of December 31, 2019, the Company expensed €70,000 of ongoing costs to reimburse expenses incurred by the protective foundation.

(h) Summary of significant accounting policies

This section describes significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of InflaRx N.V. and its subsidiaries.

1. New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for its annual reporting period commencing January 1, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. Most of the new standards and amendments listed below did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods, except for IFRS 16 Leases:

- IFRS 16 Leases
- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.

The Group applies IFRS 16 Leases for the first time in its financial statements. The Group has lease contracts for various items of property, vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Before the adoption of IFRS 16, the Group did not identify any finance leases. For an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under prepayments and trade and other payables, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The Group also applied the available practical expedients wherein it:

- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application

	2019
Operating lease commitments disclosed as of December 31, 2018	575,000
Short-term leases recognized on a straight-line basis as expense	(17,765)
Low-value leases recognized on a straight-line basis as expense	(5,993)
Adjustments as a result of a different treatment of extension and termination options	201,127
Total	752,369
Discount using the lessee's incremental borrowing rate of at the date of initial application	(21,697)
Lease liability recognized as of January 1, 2019	730,672
<i>thereof current lease liability</i>	<i>215,312</i>
<i>thereof non-current lease liabilities</i>	<i>515,360</i>

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 1.8%.

Most of the other amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

2. New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for December 31, 2019 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

- Amendments to References to Conceptual Framework in IFRS Standards, effective on January 1, 2020
- Definition of a Business (Amendments to IFRS 3), effective on January 1, 2020
- Definition of Material (Amendments to IAS 1 and IAS 8), effective on January 1, 2020
- IFRS 17 Insurance Contracts, effective on January 1, 2021

These new standards and interpretations are not expected to have a material impact on the Group's consolidated financial statements.

3. Current and non-current distinction

The Group presents current and non-current assets and current and non-current liabilities as separate classifications in its balance sheet. Current assets include assets that are sold, consumed or realized as part of the normal operating cycle. The operating cycle of an entity is the time between the acquisition of assets for processing and their realization in the form of cash or cash equivalents. The Group's operating cycle is assumed to be 12 months. Some current liabilities, such as trade payables and some accruals for employee and other operating costs, are part of the working capital used in the entity's normal operating cycle. Such operating items are classified as current liabilities even if they are due to be settled more than 12 months after the reporting period.

4. 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.

On consolidation, the assets and liabilities of operations in foreign currency are translated into euros at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated with monthly average exchange rates during the reporting period. The exchange differences arising on translation for consolidation are recognized in other comprehensive income (OCI). On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss. OCI is disclosed as 'other components of equity' in Consolidated Statements of Financial Position.

5. 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 with an original maturity of three month or less. Interest paid and received is included in the cash from operating activities.

6. Research and development

Research and development expenses comprise third party services, wages and salaries, cost of materials, intellectual property related expenses, depreciation and amortization of relevant equipment and intangibles as well as overhead. Research and development expenses mainly consist of costs for clinical trials and manufacturing of our clinical drug product, additionally costs have incurred by pre-clinical activities as well as basic research activities.

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.

As research expenditure and development expenditure does not meet the recognition criteria they are treated as an expense when incurred.

7. *Employee benefits*

(i) Short-term employee benefits

Liabilities for wages and salaries and cash bonuses are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet. A liability is recognized, 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.

(ii) 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 true-up for differences between expected and actual outcomes.

8. *Government grants*

The Group received government grants in 2018 and prior years on certain investments in non-current assets and the Group still receives grant funds on specified research and development activities. Income from government grants is recognized under 'other income' in the consolidated statement of comprehensive loss.

Income from the government grants is recognized at fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached terms and conditions. In prior years grants were collected together with investments in non-current assets, the income was deferred on a straight-line basis over the useful lives of the respective assets. Contributions supporting certain costs of research and development are recognized as income when respective reimbursable costs also are incurred.

9. *Lease arrangements*

Set forth below are the new accounting policies of the Group upon adoption of IFRS 16, which have been applied from the date of initial application:

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for

the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. Some of the Group's lease arrangements provide it the option to extend or renew the lease term. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. In doing so, management considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise the option to renew.

10. Finance income and finance costs

Finance income is derived from interest-bearing financial assets, including cash equivalents. Interest income from financial assets at fair value through profit and loss is included in the net fair value gains/(losses) on these assets. Interest income on cash and cash equivalents, financial assets at amortized cost calculated using the effective interest method is recognized in the statement of profit or loss as part of finance income.

11. Intangible assets

Intangible assets mainly comprise purchased IT software and implementation costs. 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 three years. 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. The Group only owns intangible assets with a definite useful life.

12. 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: three to 13 years
- Office equipment: one to five 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.

13. Financial assets and liabilities (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.

The Group's financial liabilities comprise trade and other payables. 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.

14. 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 tax 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. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

15. Fair Value Measurement

Several the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- 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).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values of share-based payments is included in "1. Equity-settled share-based payment arrangements".

The carrying amount of all financial instruments approximates their fair value.

(i) Significant events after the reporting date

COVID-19 could adversely impact our business, including our supply chain, clinical trials and commercialization of our product candidates

The recent outbreak of COVID-19 has evolved from a regional epidemic to a global pandemic, impacting almost every corner of the globe. The continued spread of COVID-19 is adversely impacting clinical and preclinical trials globally and in different therapeutic areas. As a result, our clinical trials or preclinical studies, including our ability to recruit and retain patients, principal investigators and site staff who, as healthcare providers, may have heightened exposure to COVID-19, may be significantly impacted. In response to the COVID-19 pandemic, we are implementing mitigation procedures designed to enable us to address the various issues that may arise from the COVID-19 pandemic, although there can be no assurance that these procedures will be successful or that we can avoid a material and adverse disruption to our business. As the pandemic continues, we may experience the prioritization of hospital resources toward the outbreak and further restrictions on travel. Furthermore, some patients may be unwilling to enroll in our trials or be unable to comply with clinical trial protocols if quarantines or travel restrictions impede patient movement or interrupt healthcare services.

COVID-19 may also negatively affect the operations of third-party contract research organizations that we rely upon to carry out our clinical trials or the operations of our third-party manufacturers, each of which could result in delays or disruptions in the supply of our product candidates. While we do not currently believe our supply chain has been affected, there can be no assurances that we will not experience supply disruptions in the future. The negative impact COVID-19 has had and may continue to have on patient enrollment and treatment, and the timing and execution of our clinical trials could cause costly delays to our clinical trial activities, which could adversely affect our ability to obtain regulatory approval for and to advance towards commercialization, increase operating expenses and have a material adverse effect on our business and financial results.

In addition, COVID-19 has resulted in significant governmental measures being implemented to control the spread of the virus. Public health officials have recommended and mandated precautions to mitigate the spread of COVID-19, including prohibitions on congregating, traveling across borders, shelter-in-place orders and other similar measures. We have taken precautionary measures intended to help minimize the risk of the virus to our employees, including temporarily requiring some or all of our employees to work remotely, suspending all non-essential travel and discouraging employee attendance at industry events and in-person work-related meetings. Such measures could negatively affect our business. For instance, temporarily requiring employees to work remotely may disrupt our operations or create unforeseen issues related to the use of technology designed to allow for remote communication and collaboration. The COVID-19 pandemic has also caused volatility in the global financial markets and has threatened a slowdown in the global economy, which may negatively affect our ability to raise additional capital on attractive terms or at all.

The full extent to which the COVID-19 pandemic may impact our business will depend on future developments, which are highly uncertain and cannot be predicted at this time. As such, we cannot presently predict the scope and severity of any potential business shutdowns or disruptions, the impacts on our business, financing or clinical trial activities or on the healthcare system and the global economy as a whole.

Accordingly, we are closely evaluating the recent developments and will take necessary actions to keep our operations running, and most importantly, protect our employees, suppliers and all other stakeholders. Based on our current knowledge and available information, we do not expect COVID-19 to have an impact on our ability to continue as a going concern.

Collaboration agreement with MSD

On March 20, 2020 InflaRx GmbH entered into a clinical trial collaboration and supply agreement with MSD International GmbH, Luzern, Suisse. Following the agreement MSD will deliver a specified compound for a clinical study administered by InflaRx GmbH. The study shall investigate the effect of the MSD's compound together with IFX-1. Any results or intellectual property directly derived from this clinical study will be equally shared between both parties. The collaboration is limited to this study and will end after the study.

Clinical Study AAV

As of October 2018, 19 patients have been recruited in the randomized, triple blind, placebo-controlled US Phase II IXPLORE study with IFX-1 in patients with AAV. The main objective of the study is to evaluate the efficacy and safety of two dose regimens of IFX-1 in patients with moderate to severe AAV, when dosed on top

of standard of care, which includes treatment with high dose glucocorticoids. The trial originally planned to enroll approximately 36 patients at centers in the US. Based on a blinded interim analysis and assessment of the potential impact of the COVID-19 pandemic, the Company has decided to stop the study and read out the existing results earlier than initially planned as part of a strategy to align and streamline the US and EU AAV development program.

In May 2019, the Company initiated a randomized, double-blind, placebo-controlled European Phase II IXCCHANGE study with IFX-1 in patients with AAV. The main objective of the study is to evaluate the efficacy and safety of IFX-1 in patients with moderate to severe AAV. The primary endpoint of the study is a 50% reduction in Birmingham Vasculitis Activity Score (BVAS) at week 16. The study was originally planned to enroll approximately 80 patients at about 60 sites in up to 12 European countries and Russia. The study is being conducted in two parts. In Part 1, patients are being randomized to receive either IFX-1 plus a reduced dose of glucocorticoids, or placebo plus a standard dose of glucocorticoids. Patients in both arms receive the standard of care dosing of immunosuppressive therapy (rituximab or cyclophosphamide). In Part 2 of the study, patients will be randomized to receive either IFX-1 plus placebo glucocorticoids or placebo plus a standard dose of glucocorticoids (both on top of standard of care immunosuppressive therapy with rituximab or cyclophosphamide). The first part of the study has been fully enrolled. After analyzing the impact of COVID-19 on the study, a blinded interim analysis of Part 1 has been completed. Based on the analysis, the Company intends to continue with Part 2 of the study but decrease the number of enrolled patients.

Phase 3 development program for the use of IFX-1 in the treatment of hidradenitis suppurativa

In June 2020, InflaRx completed an end of Phase 2 meeting with the Food and Drug Administration (FDA) to discuss a Phase 3 development program for the use of IFX-1 in the treatment of hidradenitis suppurativa (HS). During the course of the meeting, the FDA agreed to key proposals to support a biologics license application (BLA) submission, including aspects of the Phase 3 trial design, IFX-1 dosing, target study population, and the nonclinical and clinical pharmacology packages. As part of the Phase 3 design, the company proposed using the International Hidradenitis Suppurativa Severity Score (IHS4) as the primary efficacy endpoint. While the FDA did not agree that the IHS4 score is fit for purpose as a primary efficacy endpoint tool to support labeling, the FDA recommended that the company obtain HS patient input to help determine the validity of the IHS4 score. The FDA also indicated a reasonable primary endpoint would be the Hidradenitis Suppurativa Clinical Response Score 50 (HiSCR). InflaRx is now assessing different strategies for a potential pathway to regulatory approval for IFX-1 in the US and plans to engage with the FDA on next steps. Additionally, the company has requested scientific advice from the EMA about the European pathway for regulatory approval.

Board of Directors

Jens Holstein has decided to step down from the Board of Directors of InflaRx effective as of the close of the 2020 annual general meeting of InflaRx on July 16, 2020 for personal reasons unrelated to InflaRx.

Appendix B - InflaRx N.V. Separate Financial Statements

Balance sheet as at 31 December 2019

(before appropriation of result)

EUR	Note	2019	2018
Fixed assets			
Intangible Assets		5,729	-
Fixed Assets		18,434	-
Financial fixed assets	1.	<u>841,944</u>	<u>20,501,848</u>
Total fixed assets		<u>866,107</u>	<u>20,501,848</u>
Current assets			
Other receivables and prepaid expenses	2.	31,174,893	2,655,862
Securities	3.	48,969,537	100,868,129
Cash and cash equivalents	4.	<u>27,170,443</u>	<u>31,783,033</u>
Total current assets		<u>107,314,873</u>	<u>135,307,024</u>
Total assets		<u>108,180,980</u>	<u>155,808,872</u>
Shareholders' equity	5.		
Issued capital		3,132,631	3,115,725
Share premium reserve		171,964,167	171,979,396
Other legal reserve		2,227,228	50,196
Other reserves		(16,922,536)	6,059,888
Net Result for the period		<u>(53,254,817)</u>	<u>(29,814,634)</u>
		<u>107,146,673</u>	<u>151,390,571</u>
Liabilities	6.	<u>1,034,307</u>	<u>4,418,301</u>
Total equity and liabilities		<u>108,180,980</u>	<u>155,808,872</u>

Company only profit and loss account for the year ended 31 December 2019

EUR	Note	2019	2018
Share of result of participating interests after tax	1.	(43,104,952)	(21,708,490)
Other result, after tax		(10,149,865)	(8,106,144)
Net loss		(53,254,817)	(29,814,634)

Notes to the 2019 Company only financial statements

General

These Company only financial statements and the consolidated financial statements together constitute the statutory financial statements of InflaRx N.V. (hereafter: 'the Company'). The financial information of the Company is included in the Company's consolidated financial statements.

Financial reporting period

The Company financial statements cover the year 2019, which ended at the balance sheet date of December 31, 2019. These are the third year's financial statements of the Company and the comparative period relates to the year 2018, which ended at the balance sheet date of December 31, 2018.

Basis of preparation

These Company only financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code. For setting the principles for the recognition and measurement of assets and liabilities and determination of results for its separate financial statements, the Company makes use of the option provided in section 2:362(8) of the Netherlands Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the separate financial statements of the Company are the same as those applied for the consolidated EU-IFRS financial statements. These principles also include the classification and presentation of financial instruments, being equity instruments or financial liabilities. In case no other principles are mentioned, refer to the accounting principles as described in the consolidated financial statements. For an appropriate interpretation of these statutory financial statements, the separate financial statements should be read in conjunction with the consolidated financial statements.

Information on the use of financial instruments and on related risks for the group is provided in the notes to the consolidated financial statements of the group.

Since January 1, 2019, the functional currency of InflaRx N.V. has changed to U.S. Dollars from Euro, as the majority of income and expenses of InflaRx N.V. occurs in U.S. Dollar. From the date of change the functional currency is used prospectively. The presentation currency did not change and continues to be Euro.

All amounts in the company financial statements are presented in Euro, unless stated otherwise. Financial information presented has been rounded to the nearest Euro. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that precede them or may deviate from other tables by one Euro at a maximum.

The Company is required to adopt IFRS 16 Leases beginning on 1 January 2019. For a detailed assessment and result we refer to the notes of the consolidated financial statements.

Participating interests in group companies

Group companies are all entities in which the Company has directly or indirectly control. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the group companies and has the ability to affect those returns through its power over the group companies. Group companies are recognised from the date on which control is obtained by the Company and derecognised from the date that control by the Company over the group company ceases. Participating interests in group companies are accounted for in the separate financial statements according to the equity method, with the principles for the recognition and measurement of assets and liabilities and determination of results as set out in the notes to the consolidated financial statements.

Participating interests with a negative net asset value are valued at nil. This measurement also covers any receivables provided to the participating interests that are, in substance, an extension of the net investment. In particular, this relates to loans for which settlement is neither planned nor likely to occur in the foreseeable future. A share in the profits of the participating interest in subsequent years will only be recognised if and to the extent that the cumulative unrecognised share of loss has been absorbed. If the Company fully or partially guarantees the debts of the relevant participating interest, or if has the constructive obligation to enable the participating interest to pay its debts (for its share therein), then a provision is recognised accordingly to the amount of the estimated payments by the Company on behalf of the participating interest.

Share of result of participating interests

The share in the result of participating interests consists of the share of the Company in the result of participating interests. Results on transactions involving the transfer of assets and liabilities between the Company and its participating interests are eliminated to the extent that they can be considered as not realised.

The Company makes use of the option to eliminate intragroup expected credit losses against the book value of loans and receivables from the Company to participating interest, instead of elimination against the equity value of the participating interests.

1. Fixed assets

Financial assets include the 100% investment of the Company in its fully owned subsidiary InflaRx GmbH, with statutory seat in Jena, Germany, and its fully owned subsidiary InflaRx Pharmaceutical Inc., a Delaware corporation, US. The latter was established on January 5, 2018 by the Company. On October 1, 2019 a capital contribution of EUR 1,376,399 thousand was conducted.

A summary of the movement in the value of the investments is given below:

(EUR)	<u>Total Investments</u>
Net asset value at December 31, 2018	20,501,848
InflaRx GmbH's loss 2018 paid to InflaRx GmbH in 2019	20,393,879
Contribution InflaRx Pharmaceutical Inc.	1,376,399
Repayments by InflaRx Pharmaceutical Inc.	(91,277)
Exchange difference on translating foreign operations	(120)
Share in result subsidiaries	(43,104,952)
InflaRx GmbH's loss 2019 that was deducted from the intercompany receivable	1,766,167
Net asset value at December 31, 2019	<u>841,944</u>

On March 2, 2018 InflaRx N.V. as controlling company and InflaRx GmbH as controlled company entered into a domination and loss transfer agreement for an indefinite period of time. The final settlement between the Company and its subsidiary takes place right after determination of the annual result of the subsidiary. The investment InflaRx GmbH has made a loss of EUR 40,922,589 in 2019. As a result of this loss, the Company's investment in InflaRx GmbH has been fully written off. The EUR 1,766,167 excess part of this loss from InflaRx GmbH over the investment balance of zero, has been deducted from the outstanding receivable with InflaRx GmbH (see note 2). Further, because of the aforementioned agreement the parent company InflaRx N.V. paid EUR 20,393,879 to InflaRx GmbH in 2019 (2018: nil).

Following the loan agreement from 2018 between InflaRx N.V. and InflaRx Pharmaceutical Inc. an interest payment of EUR 91,277 occurred in 2019 (2018: nil).

2. Other receivables and prepaid expenses

(EUR)	December 31, 2019	December 31, 2018
Receivables group parties	28,113,181	999,964
Prepaid expense (current & non-current)	1,603,321	886,784
Corporate income tax and other receivables	1,021,553	430,585
Other	436,838	338,529
Net asset value at December 31, 2019	31,174,893	2,655,862

The receivable with group companies covers short-term lending to InflaRx GmbH (2019: EUR 27,943,474; 2018: nil) and a short-term loan provided to its subsidiary InflaRx Pharmaceutical Inc. that may be terminated any time with a notice of three months (2019: EUR 169,707; 2018: EUR 999,964).

The Company's investment in InflaRx GmbH has been fully written off because of the losses in 2019. InflaRx GmbH's losses exceeded the Company's investment in InflaRx GmbH by EUR 1,766,167. The excess part of this loss was deducted from the outstanding receivable with InflaRx GmbH (see note 1.).

Prepaid expense mainly consists of accrued insurance expense for D&O and insurance expenses incurred in connection with the placement of shares in May 2018. The proportion that continues for more than 1 year is EUR 432,989 (2018: nil).

The short-term loan with InflaRx Pharmaceutical Inc. beard an interest rate of 6% per annum.

All receivables are due within one year.

3. Securities

The securities relate to listed debt securities (with credit ratings ranging from AA- to AAA) measured at amortized cost using the effective interest rate method. The market value of these securities amounts to EUR81,929,426 at 31 December 2019 (EUR 100,722,926 at 31 December 2018). Acquisition costs of securities disclosed at December 31, 2019 were EUR 48,980,312 (EUR 100,593,889 at 31 December 2018). None of the securities have been pledged.

The maturities of all securities are all less than one year and the beard nominal interests range between 1.0% and 4.9%.

4. Cash and cash equivalents

Cash and cash equivalents are at free disposal of the Company. Deposits included under cash and cash equivalents only represent deposits that are available on demand.

5. Shareholders' equity

Movement in shareholder's equity

The structure of the equity components for the Company only financial statements is predominately based on legal aspects, accordingly the presentation of the movement in the shareholders' equity is different from the presentation in the consolidated financial statements. The movement in shareholder's equity is as follows:

(EUR)	Issued capital	Share premium	Other legal reserves	Other reserves	Unappropriated result	Total equity
January 1, 2018	2,857,452	122,596,127	-	581,135	(6,605,897)	119,428,816
Changes in the financial year 2018:						
Appropriation of the result	-	-	-	(6,605,897)	6,605,897	-
Issue of common shares	222,000	52,768,733	-	-	-	52,990,733
Transaction costs	-	(3,801,265)	-	-	-	(3,801,265)
Equity-settled share-based payment	-	-	-	12,084,651	-	12,084,651
Share options exercised	36,273	415,801	-	-	-	452,074
Net Loss for the period	-	-	-	-	(29,814,634)	(29,814,634)
Exchange differences on translation of foreign operations	-	-	50,196	-	-	50,196
December 31, 2018	3,115,725	171,979,396	50,196	6,059,888	(29,814,634)	151,390,571
Changes in the financial year 2019:						
Appropriation of the result	-	-	-	(29,814,634)	29,814,634	-
Equity-settled share-based payment	-	-	-	6,832,210	-	6,832,210
Share options exercised	16,905	(15,229)	-	-	-	1,676
Net Loss for the period	-	-	-	-	(53,254,817)	(53,254,817)
Exchange differences on translation of foreign currency*	-	-	2,177,033	-	-	2,177,033
December 31, 2019	3,132,631	171,964,167	2,227,228	(16,922,536)	(53,254,817)	107,146,673

* On January 1, 2019 the Company changed its functional currency from Euro to US dollars, since then, this line item also includes translation differences from the translation of the Company's US dollar financial statements

Common and preferred shares

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 EUR 0.12 (EUR 12 cent) per share are authorized to be issued. All shares are registered shares. No share certificates shall be issued.

As of December 31, 2019, following the public offering in May 2018 and the exercise of stock options in 2018 and the third quarter of 2019, the issued capital of the Company is divided into 26,105,255 common shares (December 31, 2018: 25,964,379 common shares) with a par value of EUR 0.12 (EUR 12 cent) per share. All issued shares are fully paid. No preferred shares have been issued.

The Company's general meeting of shareholders approved the right of an independent foundation under Dutch law, or protective foundation, to acquire up to 100% of the Company's issued share capital held by others than the protective foundation, minus one share, pursuant to a call option agreement entered into between the Company and such foundation, in order to deter acquisition bids. The protective foundation is expected to enter into a finance arrangement with a bank or, subject to applicable restrictions under Dutch law, the protective foundation may request the Company to provide, or cause the Company's subsidiaries to provide, sufficient funding to the protective foundation to enable it to satisfy its payment obligation under the call option agreement.

These preferred shares will have both a liquidation and dividend preference over the Company's common shares and will accrue cash dividends at a pre-determined rate. The protective foundation would be expected to require us to cancel its preferred shares once the perceived threat to the Company and its stakeholders has been removed or sufficiently mitigated or neutralized. At year-end the call option does not represent a significant fair value due to the fact that the preference shares are restricted in use and can be cancelled by us as stated above.

The preferred shares in the Company's capital carry a limited entitlement to the Company's profit and reserves. As at 31 December 2019, no preferred shares in the Company's capital were issued.

Issued capital and share premium

On May 8, 2018, a public offering of common shares was completed pursuant to which the Company sold an aggregate of 1,850,000 common shares with a nominal value of EUR 0.12 per share, resulting in gross proceeds from the sale of common shares of EUR 52,990,733. Directly attributable transaction costs of EUR 3,801,265 were incurred and paid in connection with the sale of these common shares and deducted from share premium.

Other legal reserve

Besides the minimum amount of share capital to be held under Dutch law and EUR 2,227,228 translation reserve, there are no distribution restrictions applicable to equity of the Company.

Other Reserves

The Company has adopted share-based compensation plans, pursuant to which the Company's directors, selected employees and consultants are granted the right to acquire common shares of the Company (note 4d of the consolidated financial statements). The share-based payment expenses are recorded in the profit and loss account. The plans are equity-settled. In case of an equity-settled plan, there is no obligation to transfer economic benefits, therefore the credit entry should be recognized as an increase in equity. The Company uses "Other reserves" as the equity classification.

Profit appropriation provisions

Pursuant to our Articles of Association, any profits shown in the adopted statutory annual accounts of the Company shall be appropriated as follows, and in the following order of priority:

- a. to the extent that any preferred shares have been cancelled without full repayment as described in the articles of association and without such deficit subsequently having been paid in full, an amount equal to any such (remaining) deficit shall first be distributed to those who held those preferred shares at the moment of such cancellation becoming effective;
- b. if preferred shares are issued and outstanding and to the extent that the mandatory annual distribution on the preferred shares (i.e., an amount equal to the applicable interest rate calculated over the aggregate amount paid up on those preferred shares, calculated in accordance with the relevant provisions of the articles of association), or part thereof, in relation to previous financial years has not yet been paid in full, an amount equal to any such (remaining) deficit shall be distributed on the preferred shares;
- c. if preferred shares are issued and outstanding, the mandatory annual distribution (as described above under b.) payable on preferred shares shall then be distributed on the preferred shares;
- d. following those distributions, our board of directors shall determine which part of the remaining profits shall be added to the Company's reserves; and
- e. subject to a proposal by our board of directors to that effect, the remaining profits shall be at the disposal of our general meeting of shareholders for distribution on our common shares.

Unappropriated result

Appropriation of result of 2018:

The financial statements for the reporting year 2018 have been adopted by the General Meeting on May 17, 2018. The General Meeting has adopted the appropriation of the result after tax as proposed by the Board of Management.

Proposal for result appropriation:

The General Meeting will be proposed to carry forward the loss after tax for 2019 and deduct EUR 53,254,817 from the other reserves.

The result after tax for 2019 is included in the item unappropriated result within equity.

6. Liabilities

(EUR)	December 31, 2019	December 31, 2018
Trade payables	638,856	335,411
Salaries	336,283	288,333
Liabilities to group companies	-	3,702,128
Other liabilities	59,167	92,428
Total	1,034,307	4,418,300

The 2018 liabilities to group companies includes a liability to its subsidiary InflaRx GmbH and a liability to its subsidiary InflaRx Pharmaceutical Inc. which have been settled in 2019. The liabilities to group companies are not interest bearing. Other liabilities include EUR 28,902 German income taxes on salaries and board compensation withheld by the Company (2018: EUR 92,428) and Provision for statutory archive requirements (EUR 30,265, 2018: nil).

All current liabilities are due within one year.

7. Financial instruments

The Company's principal financial assets comprise securities and 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 subsidiary's development activities. The Company's other financial instruments relate to other receivables and liabilities.

The risks associated with the Company financial instruments are similar to the ones disclosed in notes to the consolidated financial statements.

8. Remuneration of the Board of Directors

The emolument as referred to in Section 2:383(1) of the Netherlands Civil Code, charged in the financial period to the company can be detailed as follows.

2019 Board of Directors' remuneration

In 2019 no stock options were granted to the Board of Directors under the 2017 Equity Incentive Plan, but on July 3, 2019, the board approved an amendment of the 2016 Stock Option Plan and the 2017 Long-Term Incentive Plan. Following the amendment, the strike price of all vested and unvested options, other than those held by persons who were not employees or directors at the time of the amendment, was reduced to \$3.35 per share. The valuation of past grants with the new strike price of \$3.35 resulted in incremental fair values of the outstanding options, i.e. additional compensation expense had to be recognized which is included in the last column of the table below.

(EUR)	Periodically paid com- pensation	Retirement benefit ex- penses	Variable compensa- tion	Share based expense*
Executive directors				
Prof. Niels C. Riedemann, CEO	539,970	24,000	208,000	2,112,833
Prof. Renfeng Guo, CSO	432,647	19,344	175,308	1,899,858
Non-executive directors				
Nicolas Fulpius, Chairman, and Chairman of the Audit Committee	88,000	-	-	96,443
Jens Holstein, Member of the Audit Committee	37,500	-	-	196,241
Richard Brudnick, Member of the Audit Com- mittee (since May 23, 2019)	26,713	-	-	189,924
Anthony Gibney (until June 11, 2019)	13,646	-	-	** (61,327)
Mark Kübler	40,000	-	-	96,443
Katrin Uschmann	30,000	-	-	96,443
Lina Ma	30,000	-	-	96,443
Total	1,238,477	43,344	383,308	4,723,301

* this includes 2017 Long-Term Incentive plan as well as the expense following the repricing of options on July 3, 2019

** 16,335 options forfeited in 2019

For further details and other information with regard to related-party transactions as well as the Executive and Non-executive directors compensation, reference is made to note 4c of the consolidated financial statements.

2018 Board of Directors' remuneration

(EUR)	Periodically paid com- pensation	Retirement benefit ex- penses	Variable com- pensation	Share based expense 2017 Plan
Executive directors				
Prof. Niels C. Riedemann, CEO	544,000	16,320	335,000	4,243,268
Prof. Renfeng Guo, CSO	420,636	16,538	235,364	3,845,202
Non-executive directors				
Nicolas Fulpius, Chairman, and Chairman of the Audit Committee	88,000	-	-	208,993
Jens Holstein, Member of the Audit Committee	10,292	-	-	59,183
Anthony Gibney (until June 11, 2019)	33,708	-	-	190,760
Mark Kübler	45,442	-	-	208,993
Katrin Uschmann	30,738	-	-	208,993
Lina Ma	30,000	-	-	208,993
Total	1,202,815	32,858	570,364	9,174,387

For further details and other information with regard to related-party transactions as well as the Executive and Non-executive directors compensation, reference is made to note 4c of the consolidated financial statements.

Stock options granted under the 2018 Equity Incentive Plan

Beneficiary	Grant date	Number of options outstanding *	Strike price in USD**	Expiration date
Executive directors				
Prof. Niels C. Riedemann	November 20, 2019	5,409	USD 26.02	November 20, 2026
Prof. Renfeng Guo	November 20, 2019	5,409	USD 26.02	November 20, 2026
Total		10,818		
Non-executive directors				
Anthony Gibney	February 7, 2019	28,002	USD 22.75	February 7, 2026
Jens Holstein	September 21, 2019	18,450	USD 33.06	September 21, 2026
Total		46,452		

* None of the options above were exercised or forfeited as December 31, 2019

** On July 3, 2019 strike prices were reduced to \$3.35

For further disclosure related to the share-options we refer to note 4d of the consolidated financial statements. The Company aims to meet its obligation by virtue of the granted option rights by issuing new shares (no purchase of treasury shares).

9. Audit fees

With reference to Section 2:382a(1) and (2) of the Netherlands Civil Code, the following fees for the financial year have been charged by KPMG Accountants N.V. to the Company, its subsidiaries and other consolidated entities.

(EUR)	KPMG Accountants N.V. 2019	Other KPMG network 2019	Total KPMG 2019
Audit of the financial statements	81,315	166,739	248,054
Other audit engagements	-	-	-
Tax-related advisory services	-	-	-
Other non-audit services	-	-	-
	81,315	166,739	248,054

(EUR)	KPMG Accountants N.V. 2018	Other KPMG network 2018	Total KPMG 2018
Audit of the financial statements	40,000	153,999	193,999
Other audit engagements	-	252,500	252,500
Tax-related advisory services	-	-	-
Other non-audit services	-	-	-
	40,000	406,499	446,499

10. Income taxes

Since January 1, 2018 InflaRx GmbH has distributed its losses to the Company under a profit and loss transfer agreement (tax group). Future losses of InflaRx GmbH will be transferred to the Company.

The Company has not recorded income tax gain or deferred tax assets in view of the negative operating results. The accumulated tax losses for the year amount to EUR 75,767,524 (2018: EUR 33,571,438).

11. Subsequent events

The recent outbreak of Covid-19 (Coronavirus) continues to impact the global economy and markets. At this time, the impact of the outbreak on our business has been limited as research at our plants is uninterrupted and our liquidity remains healthy.

We will take all necessary actions to keep our operations running and, most importantly, protect our employees, suppliers, customers and all other stakeholders.

Based on our current knowledge and available information, we do not expect Covid-19 to have an impact on our ability to continue as a going concern in the future.

Jens Holstein has decided to step down from the Board of Directors of InflaRx effective as of the close of the 2020 annual general meeting of InflaRx on July 16, 2020 for personal reasons unrelated to InflaRx.

(signature page follows)

Board of Directors:

N.C. Riedemann

R. Guo

N.F. Fulpius

M. Kuebler

K. Uschmann

L. Ma

R. Brudnick

J. Holstein

Amsterdam, June 26, 2020

Other information

Auditor's report

The independent auditor's report is set forth on the next page.

Provisions in the Articles of Association governing the appropriation of profit

Under article 32 of the Company's Articles of Association, the profits of a financial year shall be appropriated as follows, and in the following order of priority:

- To the extent any preferred shares have been cancelled without having paid in full, an amount equal to any such (remaining) deficit shall be distributed to those who held those preferred shares at the moment of such cancellation become effective;
- To the extent that any preferred distribution in relation to previous financial years has not yet been paid in full, an amount equal to any such (remaining) deficit shall be distributed on the preferred shares;
- The preferred distribution shall be distributed on the preferred shares in respect of the financial year to which the annual accounts pertain;
- The Board of Directors shall determine which part of the remaining profits shall be added to the Company's reserves; and
- The remaining profits shall be at the disposal of the General Meeting for distribution on the ordinary shares.