Interim Report
1 January–31 March 2017

First quarter

- Group net sales amounted to SEK 462,979 (411,834).
- Income after financial Items for the Group amounted to SEK –19,036,869 (–11,696,747).
- Episurf Medical announced and conducted a rights issue and raised approximately SEK 109.5M prior to transaction costs.
- Episurf Medical is expanded its Clinical Advisory Board with Radiologist Adam Mitchell.
- Dennis D. Stripe to act as executive chairman.
- Episurf Medical obtained its first granted patents in China.
- Positive patent development in the US for Episurf Medical's 3D-based damage assessment tool.
- Episurf Medicals CEO Rosemary Cunningham Thomas stepped down – search for new CEO initiated.

Q1 The period in brief

First quarter compared to 2016, Group

» Group net sales increased by 12% to SEK 462,979 (411,834).

» Other operating income amounted to SEK 71,902 (–).

» Income after financial items amounted to SEK –19,036,869 (–11,696,747).

» Earnings per share (weighted average) amounted to SEK –0.66 (–0.89).

Significant events during the first quarter

» Episurf Medical announced and conducted a rights issue and raised approximately SEK 109.5 M prior to transaction costs.

» Episurf Medical is expanded its Clinical Advisory Board with Radiologist Adam Mitchell.

» Dennis D. Stripe to act as executive chairman.

» Episurf Medical obtained its first granted patents in China.

» Positive patent development in the US for Episurf Medical's 3D-based damage assessment tool.

» Episurf Medicals CEO Rosemary Cunningham Thomas stepped down – search for new CEO initiated.

Significant events after the first quarter

» Episurf Medical announced that the 50th implantation in Germany of the Episealer® knee implant will take place in the coming days.

» Episurf Medical obtained further granted patent in Australia.

» Episurf Medical strengthened the company's management group.

» Episurf Medical obtained further granted patent in the US.

» Episurf Medical reached milestone of 200 implants.

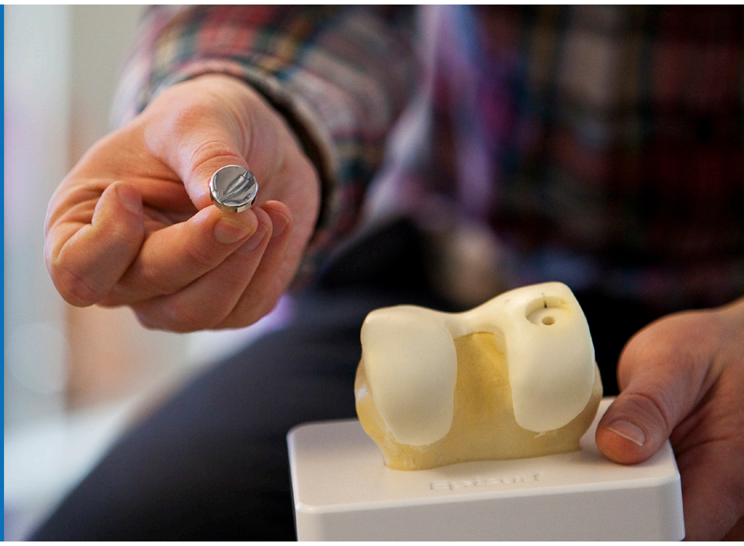
Our priorities for 2017 will be focused around the following four cornerstones

» **Continued commercialization in our European key markets together with production of clinical evidence;**

» **Next step on our US strategy with the aim of submitting a FDA approval application;**

» **Continued product development with focus on our 3D based damage marking tool (Epioscopy®) as well as;**

» **Continued strengthening within the areas of reimbursement, health economic studies and IP.**



Pål Ryfors,
Acting CEO and CFO

Message from the CEO

Progress across the business

During the first quarter, the Episurf Medical team continued to inform and educate surgeons across Europe about the benefits of Episealer technology, winning new converts and new patients. We also participated formally at an industry congress in the US for the first time, and reached a number of other important milestones.

As I write this, 193 patients have been treated with the Episealer® knee implant technology and, as we recently announced, we look forward to our 200th surgery in the coming days. Over 40 patients have now had their Episealer® implants for two years or longer, and 12 for three years or more. These numbers will continue to grow rapidly, supported by very strong clinical data.

In our 2016 annual report on April 20, 2017, we summarized Episurf Medical's participation at the AAOS 2017 (American Academy of Orthopaedic Surgeons annual meeting 2017), our first formal participation in a major US congress. We maintain our very strong focus towards the US, and the US market constitutes a significant opportunity for Episurf Medical. I refer to the annual report for a longer review of the AAOS meeting, but our main conclusions were regarding the growing demand in the industry for personalized treatment options and the confirmation that our strategy of consistent collection and production of clinical data is correct. We continue to develop our strategy for the US and we will maintain an open dialogue with our shareholders on this topic.

Just at the close of the first quarter, we announced to the market that we had performed our 50th implantation in Germany. I am proud to say that our sales force is now covering all 16 local German regions, with a population of well over 80 million people. We are working our way systematically through the regions, and our technology has gained real traction in the German market, with many surgeons interested in starting to use the Episealer® technology. With broadening knowledge about the Episealer® technology among surgeons in Germany, we can now also increase our informational activities and marketing towards patients.

In the first quarter, we also announced changes in our management group. The Episurf management team is becoming a close-knit group with a wide variety of relevant competences and backgrounds. I feel that the organization is now well-staffed and working efficiently, and we do not expect any significant changes to the workforce during 2017. I look forward to working with this leadership team and all our dedicated employees to develop Episurf Medical together.

The result for the first quarter 2017 was negatively impacted by expenses of some SEK 3 million related to the termination of the previous CEO. Further, we have developed our accounting methodology for intangible assets, leading to a negative effect or SEK 0.6 million during the first quarter.

On a final note, we are humbled by and truly grateful for the confidence in our company demonstrated by both existing and new shareholders in our most recent capital raise of SEK 109.5 million. This capital raise was closed during the first quarter and it is the fuel we need to take Episurf Medical to the next level, and help even more patients back to life.

Stockholm, May 2017

Pål Ryfors
Acting CEO and CFO

"As I write this, 195 patients have been treated with the Episealer® knee implant technology and, as we recently announced, we look forward to our 200th surgery in the coming days."

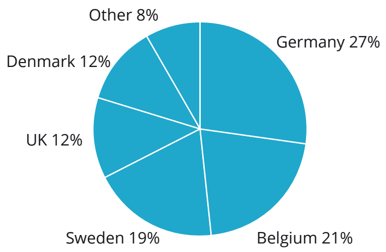
Business update and forward-looking statements

By the reporting date on May 15 2017, Episurf Medical's implants had been used in 193 surgeries. The second quarter 2017 started with 14 surgeries performed in the first weeks. Episurf Medical's patients are experiencing significant improvements in pain and mobility. Furthermore, they are also experiencing a short recovery time. Out of the total implant portfolio of 193 implants, we now have 4 patients who have had their implants for more than 4 years and 41 patients have now had their implants for more than 2 years since the surgery date.

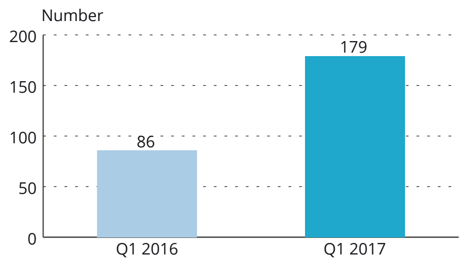
During the first quarter, 20 surgeries were performed with the Episealer® knee implant. We continued to make progress in all of our key markets and we performed our first surgery in Israel. Israel is currently not a key market for us, however, we were approached by a surgeon and a patient who had a strong desire to try the Episealer® technology, and we made arrangements to deliver on this request. This patient had undergone several biological procedures without any lasting results, and as in several other cases, the prospects were actually quite bad. 26 orders were approved for surgery during the first quarter.

We continue to note a demand for the Episealer® Femoral Twin implant as 70% of the surgeries performed in the first quarter were of this product. This clearly shows that there is a demand for treating the more elongated lesions and the Episurf technology and the Episealer® Femoral Twin implant meets this demand in a very good way.

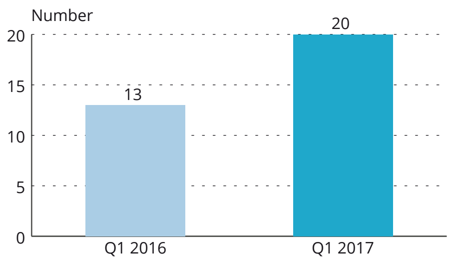
Implant portfolio



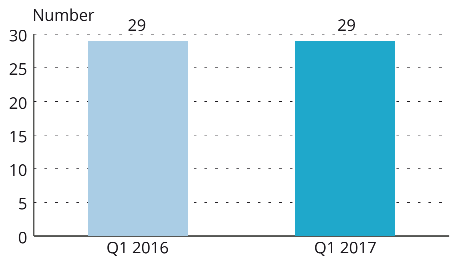
Cumulative implants



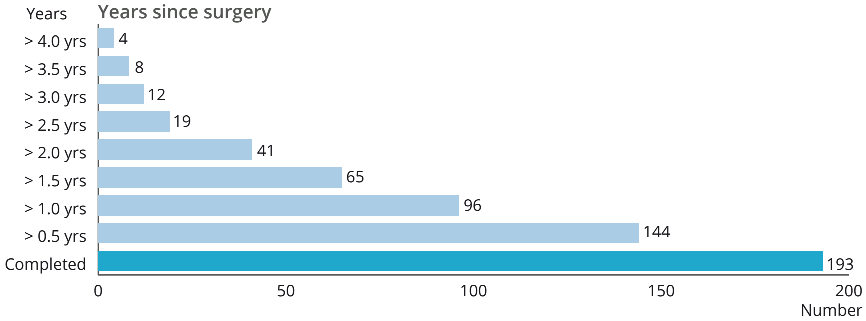
Implants in quarter



Approved orders in quarter



Years since surgery



Financial information

Group

Net sales and operating profit/loss

Group net sales amounted to SEK 462,979 (411,834) in the quarter as a result from increased sales activities in prioritized markets. The increase in personnel expenses compared with the previous year is a direct result of the Company's increased commercial focus. 11 new employees have been hired since last March, seven for Sales and Market two in England, three in Germany and two in Sweden. Four new employees have also been hired for Operation, Management and Administration and five have left the company.

The result for the first quarter was allso negatively impacted by expenses of some SEK 3 million related to the termination of the previous CEO. In addition we have conducted a bookkeeping measure relating to intangible assets that negatively impacts the operating profit of approximately SEK 0,6 million.

Financial position

Group cash and cash equivalents at end of period amounted to SEK 127,321,236 (88,790,487). The equity ratio was 87.4% (94.1). Group investments in intangible assets amounted to SEK 1,718,275 (1,318,950) for the quarter of which SEK 1,001,754 (553,299) are related to capitalized development costs, remaining investments relates to patents. Investments in tangible assets amounted to SEK 32,690 (16,924) for the quarter. A rights issue was performed during the third quarter and the Company raised SEK 109.5 million before issue related costs which amounted to SEK 11.0 million.

Human resources

Number of employees in the Group at end of the period was 29 (23). The increase is primarily a result of recruitment in marketing and sales.

Parent Company

Net sales and operating profit/loss

Other operating income amounted to SEK 71,902 (553,299) and capitalised development expenditure amounted to 472,841 (553,299) for the quarter. Income after financial items amounted to SEK –10,874,246 (–5,814,849) for the quarter.

Financial position

Cash and cash equivalents at the end of period for the Parent Company amounted to SEK 124,821,191 (85,733,831). The equity ratio was 93.8% (97.3). Investments in intangible assets, capitalized development costs, amounted to SEK 1,001,754 (553,299) for the quarter. Investments in tangible assets amounted to SEK – (–) for the quarter.

Human resources

Number of employees in the Parent Company at end of the period was 14 (14).

Transactions with closely related parties

Shareholder and Board member Leif Ryd has received consulting fees during the period of SEK 165,000 (135,000).

Right issue

Episurf Medical has during the first quarter completed a new share issue with preferential rights for the company's shareholders. The subscription price for the new shares of series A and B was SEK 7.50 per share and the subscription period took place from and including 27 February 2017 until and including 13 March 2017. The final outcome shows that 91.54 per cent of the new shares were subscribed by shareholders through primary and subsidiary pre-emptive rights. The total count shows that 13,477,883 shares (of which 2,983,597 were class A and 10,494,286 were class B shares), equal to 84.5 per cent of the offered shares, were subscribed through the exercise of subscription rights, while 1,121,808 shares, equal to 7.0 per cent of the offered shares, were subscribed without the support of subscription rights. The rights issue was subscribed to 91.5 per cent and the company raised approximately MSEK 109.5 before issue expenses (10,960,233). Through the new share issue, Episurf Medical's share capital increased by SEK 4,383,614.75. The number of class A shares increased by 2,985,597 and the number of class B shares increased by 11,614,094. The total number of shares thus increased by 14,599,691 and the total number of votes by 20,570,885.

Share information

There are two types of shares in the Company. Each Class A-share carries three votes, and entitles the holder to three votes at the General Meeting and each class B-share carries one vote and entitles the holder to one vote at the General Meeting. Class B shares have traded on Nasdaq Stockholm's Small Cap segment since 11 June 2014 with the ticker EPIS B.

31 March 2017	
A-shares	6,386,468
B-shares	24,163,027
Total number of shares	**30,549,495**
Total number of votes	**43,322,431**

The ten largest shareholders in Episurf Medical AB at 31 March 2017

	No. of A-shares	No. of B-shares	Share capital in %	Voting rights, %
Serendipity Ixora AB	5,645,126	0	18.5	39.1
JP Morgan Luxembourg	112,066	2,163,630	7.5	5.8
SEB London- Luxemburg, (SICAV Fond)	0	1,324,693	4.3	3.1
AMF Aktiefond småbolag	0	1,240,448	4.1	2.9
Försäkringsaktiebolaget, Avanza Pension	0	1,215,821	4.0	2.8
LMK Forward AB	0	1,200,000	3.9	2.8
Gile Medicinkonsult AB	279,945	142,954	1.4	2.3
Swedbank Försäkring	0	766,602	2.5	1.8
Person, Rutger	0	634,074	2.1	1.5
Lönn, Mikael	106,179	280,000	1.3	1.4
Total, 10 largets shareholders	**6,143,316**	**8,968,222**	**49.6**	**63.5**
Summary, other	**6,386,468**	**24,163,027**	**50.4**	**36.5**
Total	**6,386,468**	**24,163,027**	**100.0**	**100.0**

Other information

Significant risks and uncertainty factors

Episurf Medical's material business risks, for the Group as well as for the Parent Company, are to obtain regulatory approval and market acceptance, the outcome of clinical studies, the ability to protect intellectual property rights and dependence on key personnel and partners. The Company does not see any new material risks for the upcoming three months. For a more detailed description of significant risks and uncertainties, refer to Episurf Medical's annual report.

Annual General Meeting 2017

Annual General Meeting in Episurf Medical AB (publ) will be held on Monday, May 22, 2017, at 6:00 pm at Odenplan 7A, Odengatan 65 in Stockholm, Sweden. Notice to the AGM is available on Episurf Medical's website, www.episurf.com.

The Board of Directors and the CEO hereby give their assurance that the Interim Report gives a true and fair view of the business activities, financial position and results of operations for the Group and Parent Company, and describes significant risks and uncertainty factors to which the Parent Company and the companies included in the Group are exposed.

Stockholm, 14 May 2017

Dennis D. Stripe
Board chairman

Wil Boren
Board member

Saeid Esmaeilzadeh
Board member

Wilder Fulford
Board member

Leif Ryd
Board member

Christian Krüeger
Board member

Pål Ryfors
Acting CEO and CFO

The information in this interim report has not been reviewed by the company's auditors.

Condensed consolidated income statement

SEK	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016
Operating income			
Net sales	462,979	411,834	2,405,614
Capitalised development expenditure	472,841	565,286	1,605,049
Other operating income	71,902	–	254,927
Total income	**1,007,722**	**977,120**	**4,265,590**
Operation expenses			
Other expenses	–8,316,268	–5,096,404	–32,759,994
Personnel costs	–10,722,957	–6,765,093	–29,157,850
Depreciation	–1,009,327	–831,162	–4,056,494
Total operating expenses	**–20,048,552**	**–12,692,659**	**–65,974,338**
Operating loss	**–19,040,830**	**–11,715,539**	**–61,708,748**
Financial items			
Financial income, other	3,961	18,870	44,224
Financial expenses, other	–	–78	–2,940
Results from financial items	**3,961**	**18,792**	**41,284**
Loss before tax	**–19,036,869**	**–11,696,747**	**–61,667,464**
Tax on income for the period	–	–	–
Loss for the period	**–19,036,869**	**–11,696,747**	**–61,667,464**
Net loss attributable to:			
Parent company shareholders	–19,036,869	–11,696,747	–61,667,464
Earnings per share before and after dilution are consistent with the rules in IAS 33	–0.66	–0.73	–3.87
Average number of shares	28,704,479	15,949,804	15,949,804

Condensed consolidated statement of comprehensive income

SEK	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016
Net profit	**–19,036,869**	**–11,696,747**	**–61,667,464**
Other comprehensive income for the period:			
Other comprehensive income that may be reclassified subsequently to profit or loss for the period, net of tax	79,575	51,548	412,960
Total comprehensive income for the period	**–18,957,294**	**–11,645,199**	**–61,254,504**

Condensed consolidated balance sheet

SEK	31 Mar 2017	31 Mar 2016	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets			
Capitalized development costs	5,018,068	4,928,383	4,302,265
Patent	8,967,391	6,646,141	8,271,484
Total intangible assets	**13,985,459**	**11,574,524**	**12,573,749**
Property, plant and equipment			
Equipment	369,313	404,846	382,054
Total property, plant and equipment	**369,313**	**404,846**	**382,054**
Total non-current assets	**14,354,772**	**11,979,370**	**12,955,803**
Current assets			
Inventories, finished goods and goods for resale	1,228,687	1,213,707	1,106,057
Trade receivables	367,579	509,700	581,336
Other receivables	1,479,040	1,038,073	1,570,475
Prepaid expenses and accrued income	1,916,988	885,250	1,791,272
Cash and bank balances	127,321,236	88,790,487	42,300,018
Total current assets	**132,313,530**	**92,437,217**	**47,349,158**
TOTAL ASSETS	**146,668,302**	**104,416,587**	**60,304,961**
EQUITY AND LIABILITIES			
Equity	**128,253,328**	**98,289,340**	**48,698,610**
Liabilities			
Non-current liabilities			
Non-current liabilities	934	–	10,320
Total long-term liabilities	**934**	**–**	**10,320**
Current liabilities			
Trade payables	8,960,004	2,720,941	6,234,498
Other liabilities	2,304,087	1,028,923	1,584,129
Accrued liabilities and deferred income	7,149,949	2,377,383	3,777,404
Total current liabilities	**18,414,040**	**6,127,247**	**11,596,031**
Total liabilities	**18,414,974**	**6,127,247**	**11,606,351**
TOTAL EQUITY AND LIABILITIES	**146,668,302**	**104,416,587**	**60,304,961**
Equity ratio	87.4%	94.1%	80.8%
Equity per share, SEK	4.20	6.16	4.88

Condensed consolidated statement of changes in equity

SEK	Share capital	Other contributed capital	Reserves	Accumulated deficit incl. loss for the year	Total equity
	Attributable to equity holders of the parent				
Opening equity 1 Jan 2016	**4,788,991**	**237,044,614**	**173,229**	**–132,072,295**	**109,934,539**
Total comprehensive income					
Loss for the period			412,960	–61,667,464	–61,254,504
Total comprehensive income			**412,960**	**–61,667,464**	**–61,254,504**
Transactions with shareholders					
Options issued to staff				–18,575	–18,575
Total transactions with shareholders				**–18,575**	**–18,575**
Closing equity 31 Dec 2016	**4,788,991**	**237,044,614**	**586,189**	**–193,739,759**	**48,698,610**
Opening equity 1 Jan 2017	**4,788,991**	**237,044,614**	**586,189**	**–193,739,759**	**48,698,610**
Total comprehensive income					
Loss for the period			79,575	–19,036,869	–18,957,294
Total comprehensive income			**79,575**	**–19,036,869**	**–18,957,294**
Transactions with shareholders					
New share issue, net after issue expenses*	4,383,615	94,159,841			98,543,456
Options issued to staff	–	–	–	–12,869	–12,869
Total transactions with shareholders	**4,383,615**	**94,159,841**	**–**	**–12,869**	**98,530,587**
Closing equity 31 March 2017	**9,172,606**	**331,204,455**	**665,764**	**–212,789,497**	**128,253,328**

* Issue expenses amounts to SEK 10,960,233 according to IAS 32.39.

Condensed cash flow statement

SEK	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016
Operating activities			
Operating loss	–19,040,830	–11,715,539	–61,708,748
Adjustments for items not included in cash flow			
Depreciation	1,009,327	831,162	4,056,494
Employee stock option expenses	12,292	–	18,575
Interest received	3,961	18,870	43,438
Interest paid	–	–78	–2,940
Cash flow from operating activities before change in working capital	**–18,015,250**	**–10,865,585**	**–57,593,181**
Change in working capital			
Decrease/increase in inventory	–122,630	–59,129	48,520
Decrease/increase in trade receivables	213,757	–309,836	–381,472
Decrease/increase in current receivables	–34,281	–512,984	–1,946,942
Decrease/increase in current liabilities	6,844,750	–2,086,881	3,777,031
Change in working capital	**6,901,596**	**–2,968,830**	**1,497,137**
Cash flow from operating activities	**–11,113,654**	**–13,834,415**	**–56,096,044**
Investing activities			
Purchase of intangible fixed assets	–2,375,894	–1,318,950	–5,405,142
Purchase of property, plant and equipment	–32,690	–16,924	–159,572
Cash flow from investing activities	**–2,408,584**	**–1,335,874**	**–5,564,714**
Financing activities			
New share issue	98,543,456	–	–
Cash flow from financing activities	**98,543,456**	**–**	**–**
Cash flow for the period	**85,021,218**	**–15,170,289**	**–61,660,758**
Cash and cash equivalents at beginning of period	42,300,018	103,960,776	103,960,776
Cash and cash equivalents at end of period	**127,321,236**	**88,790,487**	**42,300,018**

Income statement, Parent Company

SEK	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016
Operating income			
Net sales	–	–	–
Capitalised development expenditure	472,841	553,299	1,605,049
Other operating income	–14	–	–30
Total income	**472,827**	**553,299**	**1,605,019**
Operating expenses			
Other expenses	–7,671,686	–2,448,833	–21,327,889
Personnel costs	–3,363,713	–3,815,411	–13,596,551
Depreciation	–315,410	–315,624	–1,697,907
Total operating expenses	**–11,350,809**	**–6,579,868**	**–36,622,347**
Operating loss	**–10,877,982**	**–6,026,569**	**–35,017,328**
Financial items			
Financial income, other	3,736	211,798	891,836
Financial expenses, other	–	–78	–2,030
Loss from net financial items	**3,736**	**211,720**	**889,806**
Loss before contribution and tax	**–10,874,246**	**–5,814,849**	**–34,127,522**
Contribution			
Group contributions	–	–	–
Loss before tax	**–10,874,246**	**–5,814,849**	**–34,127,522**
Tax on income for the period	–	–	–
Loss for the period	**–10,874,246**	**–5,814,849**	**–34,127,522**

Parent Company statement of comprehensive income

SEK	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016
Net profit	**–10,874,246**	**–5,814,849**	**–34,127,522**
Other comprehensive income for the period:			
Other comprehensive income for the period, net of tax	–	–	–
Total comprehensive income for the period	–10,874,246	**–5,814,849**	**–34,127,522**

Balance sheet, Parent Company

SEK	31 Mar 2017	31 Mar 2016	31 Dec 2016
ASSETS			
Non-current assets			
Intangible assets			
Capitalized development costs	5,408,681	4,928,383	4,692,878
Total intangible assets	**5,408,681**	**4,928,383**	**4,692,878**
Tangible fixed assets			
Machinery and equipment	189,487	251,475	218,946
Total tangible fixed assets	189,487	251,475	218,946
Financial assets			
Shares in group companies	55,283,375	19,753,375	46,183,375
Long-term receivables from group companies	9,544,462	17,495,931	15,142,260
Total financial assets	**64,827,837**	**37,249,306**	**61,325,635**
Total fixed assets	**70,426,005**	**42,429,164**	**66,237,459**
Current assets			
Short term receivables			
Other receivables	847,686	307,050	603,742
Prepaid expenses and accrued income	943,208	537,161	797,070
Total short term receivables	**1,790,894**	**844,211**	**1,400,812**
Cash and bank balances	124,821,191	85,733,831	40,109,215
Total current assets	**126,612,085**	**86,578,042**	**41,510,027**
TOTAL ASSETS	197,038,090	129,007,206	107,747,486
EQUITY AND LIABILITIES			
Equity	**184,864,797**	**125,508,260**	**97,195,587**
Liabilities			
Long-term liabilities	434	–	4,795
Total long-term liabilities	**434**	**–**	**4,795**
Current liabilities			
Trade payables	7,816,693	1,096,114	4,154,482
Non-current liabilities to group companies	–	–	2,914,675
Other liabilities	1,400,488	554,906	530,461
Accrued liabilities and deferred income	2,955,679	1,847,926	2,947,486
Total current liabilities	**12,172,860**	**3,498,946**	**10,547,104**
TOTAL EQUITY AND LIABILITIES	197,038,091	129,007,206	107,747,486

Statement of changes in equity, Parent Company

SEK	Share capital		Other contribut-ed capital	Loss brought forward	Loss for the period	Total equity
Opening equity 1 Jan 2016	**4,788,991**	**–**	**235,844,614**	**–80,546,687**	**–28,763,809**	**131,323,109**
Comprehensive loss for the period			–			
Loss for the period					–34,127,522	–34,127,522
Disposition according to AGM						
Loss brought forward				–28,763,809	28,763,809	–
Development fund		1,057,775		–1,057,775		–
Other		**–**		**–**	**–**	**–**
Total comprehensive loss for the period		**1,057,775**		**–110,368,271**	**–34,127,522**	**97,195,587**
Transactions with shareholders						
Total transactions with shareholders	**–**	**–**	**–**	**–**	**–**	**–**
Closing equity 31 Dec 2016	**4,788,991**	**1,057,775**	**235,844,614**	**–110,368,271**	**–34,127,522**	**97,195,587**
Opening equity 1 Jan 2017	**4,788,991**	**1,057,775**	**235,844,614**	**–110,368,271**	**–34,127,522**	**97,195,587**
Comprehensive loss for the period						
Loss for the period					–10,874,246	–10,874,246
Disposition according to AGM						
Loss brought forward				–34,127,522	34,127,522	–
Development fund		972,144		–972,144		0
Other		**–**		**–**	**–**	**–**
Total comprehensive loss for the period		**2,029,919**		**–145,467,937**	**–10,874,246**	**86,321,341**
Transactions with shareholders						
New share issue, net after issue expenses*	4,383,615		94,159,841			98,543,456
Total transactions with shareholders	**4,383,615**		**94,159,841**			**98,543,456**
Closing equity 1 Mar 2017	**9,172,606**	**2,029,919**	**330,004,455**	**–145,467,937**	**–10,874,246**	**184,864,797**

* Issue expenses amounts to SEK 10,960,233 according to IAS 32.39.

Condensed cash flow statement, Parent Company

SEK	Jan–Mar 2017	Jan–Mar 2016	Jan–Dec 2016
Operating activities			
Operating loss	–10,877,982	–6,026,569	–35,017,328
Adjustments for items not included in cash flow			
Depreciation	315,410	315,624	1,697,907
Interest received	3,736	211,798	891,837
Interest paid	–	–78	–2,030
Change in non-current liabilities	–4,361	–	4,795
Cash flow from operating activities before change in working capital	**–10,563,197**	**–5,499,225**	**–32,424,819**
Change in working capital			
Decrease/increase in current receivables	–390,083	–210,358	–766,960
Decrease/increase in current liabilities	1,625,756	–616,855	6,461,563
Change in working capital	**1,235,673**	**–827,213**	**5,694,603**
Cash flow from operating activities	**–9,327,524**	**–6,326,438**	**–26,730,216**
Investing activities			
Acquisition of intangible assets	–1,001,754	–553,299	–1,605,049
Acquisition of property, plant and equipment	–	–	–62,499
Changes in financial assets	–3,502,202	–9,350,162	–33,456,751
Cash flow from investing activities	**–4,503,956**	**–9,903,461**	**–35,124,299**
Financing activities			
New share issue	98,543,456	–	–
Cash flow from financing activities	**98,543,456**	**–**	**–**
Cash flow for the period	84,711,976	–16,229,899	–61,854,515
Cash and cash equivalents at beginning of period	40,109,215	101,963,730	101,963,730
Cash and cash equivalents at end of period	**124,821,191**	**85,733,831**	**40,109,215**

Notes

Note 1 *Accounting policies*

The interim report for the Group has been prepared in accordance with *IAS 34 Interim Reports* and the Annual Accounts Act. The interim report for the Parent Company has been prepared in accordance with the Annual Accounts Act.

The Group's accounting policies are unchanged from the previous year.

Capitalized expenditures for development of products

Expenditure for development, where research results or other knowledge are applied to achieve new or improved products or processes, is recognized as an asset in the Statement of Financial Position only if the following conditions are satisfied:

1) It is technically possible to complete the intangible asset and use or sell it,
2) The Company intends to complete the intangible asset and use or sell it,
3) The conditions to use or sell the intangible asset are in place,
4) The Company demonstrates how the intangible asset will generate likely future economic benefits,
5) There are adequate technological, economic and other resources to complete development and to use or sell the intangible asset, and
6) The expenditure relating to the intangible asset during its development can be measured reliably

Directly related expenditure that is capitalized mainly consists of expenditure from subcontractors and expenses for employees.

Other development expenditure that does not satisfy these criteria is expensed when it arises. Development expenditure previously expensed is not recognized as an asset in subsequent periods. The group has assessed all the above criteria to be fulfilled during the period, the costs for development that has been incurred is therefor activated.

Note 2 *Transactions with closely related parties*

Shareholder and Board member Leif Ryd has received consulting fees of SEK 165,000 (135,000).

Serendipity Communications AB has received consulting fees of SEK 92,700 (–) and Serendipity Legal AB of SEK 11,250 (–)

Glossary

Approved orders: Orders which have been approved for surgery, are in production and will be invoiced.

Arthritis: see Osteoarthritis.

Arthroscopy: Inspection of the inside of a joint with the help of an arthroscope. An instrument is introduced through a small cut to investigate the inside of the joint and possibly correct any problems (a type of keyhole surgery).

Cartilage: The smooth, rubbery layer of shiny, white connective tissue that covers the end of bones at the joints. This tissue allows movement with low friction.

Cartilage defect of grade III (ICRS scale): Lesion through the cartilage, exposing the bone.

Cartilage defect of grade IV (ICRS scale): Lesion through the cartilage and in the underlying bone.

CE marking: CE marking is a manufacturer's or importer's declaration that a product meets the EU's fundamental health, environmental and safety requirements. The product in question undergoes a conformity assessment by a Notified Body, which decides whether the product fulfils the applicable product requirements in the EU. A CE mark means that the manufacturer or importer has the formal approvals necessary to market and sell the product in the European Economic Area.

Cobalt: A chemical element commonly occurring in metal alloys used in knee prostheses.

Cobalt chrome: A metal alloy mainly consisting of cobalt and chromium, commonly occurring in metal alloys used in knee prostheses.

CT scan: X-ray computed tomography scan, a medical imaging technique where a series of x-ray images allows the user to get three-dimensional image data of the patient.

Debridement: Removal of damaged tissue.

Degenerative origin: Conditions in which the cells, tissues or organs deteriorate and lose function. In degenerative joint disease, the deterioration is due to wear, tear or breakdown of cartilage.

FDA: US Food and Drug Administration.

Focal cartilage defect: A cartilage defect in a well defined area.

Hyaline cartilage: Natural articular cartilage.

Hydroxyapatite: A mineral that is the major component of human bone tissue and the main mineral of dental enamel and dentin.

Invasive treatment alternative: Treatments that require a surgical procedure.

KOL: Key Opinion Leader, prominent and opinion-leading surgeon.

KOOS: Knee injury and Osteoarthritis Outcome Score, a questionnaire used to assess the patient's opinion about their knee and associated problems.

Microfracture: A surgical technique that can be used in treatment of focal cartilage defects (not extensive osteoarthritis) in an attempt to stimulate the growth of new cartilage.

Mosaicplasty: A surgical technique for treatment of cartilage and underlying bone defects where cylindrical bone and cartilage plugs are harvested from less weight-bearing surfaces of the knee joint and inserted into the damaged area.

MRI: Magnetic resonance imaging, a medical imaging technique where images acquired using a strong magnetic field allows the user to get three-dimensional image data of the patient.

Orthopaedics: The medical specialty that focuses on injuries and diseases of the body's musculoskeletal system. This complex system includes bones, joints, ligaments, tendons, muscles and nerves.

Osteoarthritis: Osteoarthritis is type of joint disease that is characterised by loss of joint function with varying destruction of joint cartilage and the underlying bone.

Osteochondral autograft procedure: See Mosaicplasty.

Osteochondral defect: Cartilage and underlying bone defect.

Prosthesis: An artificial device that replaces a missing or injured body part, such as artificial arm or leg. The term prosthesis is also used for certain of the implants that are used to repair joints, such as hip and knee prostheses.

Traumatic damage: Damage caused by an outside force, such as fall injuries.

VAS: Visual Analogue Scale, a psychometric response scale which is used as a pain scale in questionnaires.

Episurf Medical

– a unique solution for every patient

EPISURF MEDICAL WAS FOUNDED IN 2009 on a commitment to offering people with painful joint injuries a more active and healthy life through customised treatment alternatives. We put the patient in the centre of the design of implants and surgical instruments. By combining advanced 3D imaging technology with the latest manufacturing technologies, we are able to adapt not only each implant to the patient's injury and anatomy, but also the surgical instruments used. In this way, we can ensure that each patient receives treatment that is perfectly suited to his or her anatomy and, thus, ensure a faster, more secure, and better patient-specific treatment for a more active and healthy life.

A proprietary web-based IT platform for patient-specific design and surgical pre-planning

Episurf Medical's scalable μiFidelity® system has been developed for damage assessment, surgical pre-planning and cost-effective patient customisation of implants and associated surgical instruments. In a first step, the company's main focus is on early stage arthritic changes in the knee joint.

Three different knee implants with a focus on early stages of arthritis

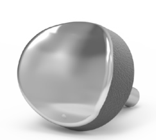
Episurf Medical currently has three types of patient-specific implants on the market.

» Episealer® Condyle Solo for the treatment of localised cartilage and underlying bone defects on the femoral condyles of the knee joint.

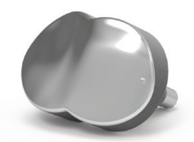
» Episealer® Trochlea Solo for the treatment of localised cartilage and underlying bone defects in the area behind the patella (the trochlea area).

» Episealer® Femoral Twin for the treatment of elongated localised cartilage and underlying bone defects both on the femoral condyles and in the trochlea area of the knee joint.

Episealer®
Condyle Solo



Episealer®
Trochlea Solo



Episealer®
Femoral Twin

Patient-specific surgical instruments

Every product is delivered with our surgical drill guide Epiguide®. We also offer a surgical drill guide, Epiguide® MOS, that is designed for use in mosaicplasty surgery for treatment of cartilage and deep underlying bone defects in the knee joint.

Patents and patent applications

The generation of new intellectual property and the ongoing maintenance of current IP is of paramount importance for Episurf Medical to ensure that Episurf Medical's proprietary, existing technologies and future innovations are well protected. In total Episurf Medical has approximately 100 patents and patent applications worldwide, distributed over more than 20 patent families.

» Episurf Medical's head office is located in Stockholm and the company has an in-house sales organisation in Europe.

» The share (EPIS B) has been listed on Nasdaq Stockholm since June 2014

Financial calendar

AGM	22 May 2017
Interim report April–June 2017	18 August 2017
Interim report July–September 2017	10 November 2017
Year-End Report 2017	23 February 2018

This is a translation of the original Swedish interim report. In the event of a discrepancy between this translation and the Swedish original, the Swedish interim report takes precedence.

This information is information that Episurf Medical AB (publ) is obliged to make public, pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out below, on 15 May 2017 at 08.30 (CET).

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