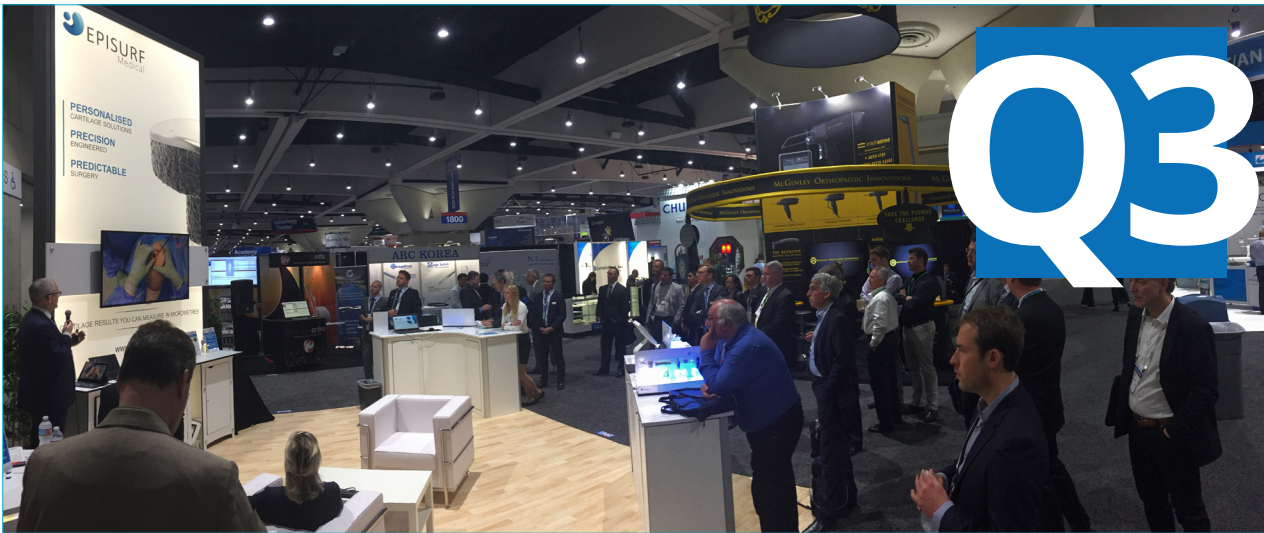




Interim Report, 1 July–30 September 2017

Third quarter 2017 compared to 2016, Group

- » 50% growth in orders for Episealer® knee implants during the quarter with 42 (28) approved orders. Invoicing taking place at delivery during both Q3 and Q4 2017
- » Group net sales increased by 1% to SEK 520,284 (516,641)
- » Other operating income amounted to SEK 97,716 (–)
- » Loss before tax amounted to SEK –13,518,593 (–15,042,517)
- » Earnings per share (weighted average) amounted to SEK –0.45 (–0.79)

First nine months 2017, compared to first nine months 2016, Group

- » 29% growth in orders for Episealer® knee implants during the period with 99 approved orders (77)
- » Group net sales increased by 15% to SEK 1,606,160 (1,397,855)
- » Other operating income amounted to SEK 243,578 (–)
- » Loss before tax amounted to SEK –45,546,169 (–43,213,253)
- » Earnings per share (weighted average) amounted to SEK –1.68 (–2.27)
- » Equity per share amounted to SEK 3.31 (4.22)
- » Equity ratio amounted to 93.6% (92.1)

Significant events during the third quarter

- » 100 patient multi-center study of the Episealer® knee implant fully recruited
- » Episurf Medical's 100th Episealer® Femoral Twin implant demonstrates rapid clinical adoption
- » Episurf Medical's 50th Episealer® implant in Belgium
- » Episurf Medical reached milestone of 250 implants sold
- » Episurf Medical reported a brief clinical update
- » Management group changes in Episurf Medical were announced
- » Episurf Medical became an approved supplier to Spire Healthcare, one of the UK's largest Independent hospital providers
- » Case-report with clinical data of Episealer® patient was published
- » Another preclinical paper on the Episealer® Implant published
- » Dennis D. Stripe re-assumed the position as non-executive chairman of the board

Significant events after the third quarter

- » Episurf Medical obtained another new patent in China
- » Fredrik Zetterberg appointed Head of Marketing for Episurf Medical



Pål Ryfors,
CEO

Message from the CEO

Dear shareholders,

During the third quarter, we saw a 50% increase in the number of approved Episealer® orders (42) compared to previous quarter (28) and compared to the corresponding quarter 2016 (28). We are continuing to decrease our expenses, and expenses were SEK 1.6m (10%) lower in Q3 2017 compared to Q3 2016. Billing takes place upon delivery why revenues are recognized with some delay to order approval. During the quarter, we had a number of new surgeons starting to use our technology in locations such as Berlin, Nuremberg, Hochheim and Bad Frankenhausen. Early Q4, we started up new users in locations such as Suhl, Munich, Warwick, Bern, Sint- Niklaas, Aalst, Southampton and Essen. We can conclude that the Episealer® technology is gaining attention and acceptance in Europe.

Our priorities

If we look at the priorities for Episurf Medicals today, I would say that these are two-folded and closely related to

Clinical development

To start off with, a large European multicenter study involving 100 Episealer® patients is ongoing. The patients in the study are followed-up at 3, 6, 12, 24 and 60 months post-operatively with clinical scores focusing on pain relief and knee function. The patients have been enrolled since 2014 and the last surgery was recently performed. The surgeons involved in the clinical study are eleven leading European orthopaedic surgeons. Dr. med. Johannes Holz from Park-Klinik Manhagen, Hamburg, Germany, has been appointed principal investigator for the study. The study is expected to yield publications on both interim results and final results. A abstract has recently been submitted to a leading congress in early 2018.

Moreover, we are in the final stages of completing a comparative cost utility study together with the Linköping University, Sweden, showing the economic scenario over 40 years, comparing Episealer® to microfracture which

“We are confident that this scientific-based strategy is the correct one, and the recent weeks and months have clearly demonstrated a break-through on this strategy.”

each other. We are focusing on increased revenues and our 50% increase of approved orders in the third quarter represented a strong development in this context. The second priority is the generation of clinical evidence which is the basis for successful commercialisation. Our concept represents a new technology, in a previously difficult to treat patient group. Commercialising such a technology must be backed-up by robust scientific documentation. On this topic, we have some intriguing updates to share.

is a widely used biological procedure. An abstract for this health economic study has also been submitted to a leading congress 2018. More on this topic. A Swedish multicenter study with 24 months' data following 10 patients is in the final stages before scientific publication. Dr Anders Stålmán from the Capio Arthro Clinic in Stockholm is the principal investigator for this study and interim results were presented at two congresses in 2016. Further, Södersjukhuset in Stockholm (Stockholm South General

“If we look at the priorities for Episurf Medical today, I would say that these are two-folded and closely related to each other. We are focusing on increased revenues and our 50% increase of approved orders in the third quarter was a good development in this context. Billing takes place upon delivery why revenues are recognized with some delay to order approval.”

► Hospital), Sweden, recently received approval to go ahead with a clinical study following 30 Episealer® patients over 60 months. A number of patients have been identified and the study will be initiated shortly. In addition, in the near future, another Swedish clinic is expecting ethical approval for a clinical study involving 20 Episealer® patients to be followed during 12 months. Furthermore, we are awaiting the scientific publication of another pre-clinical Episealer® article, with Dr. med. vet. Hanna Schell from the prestigious Charité University Hospital in Berlin, Germany, as the first author.

I think it is fair to say that our clinical pipeline is filled with highly relevant and very interesting publications, and there is more to come. We are in negotiations with a number of other institutions for both single- as well as multicenter studies on an international basis. We are definitely experiencing a growing scientific interest for the Episealer® technology. Looking at our proprietary data collection, we now have more than 280 Episealers® sold of which 244 surgeries have taken place, with the others being planned for the coming weeks. We now have 63 patients who have passed 2 years since surgery, and 7 patients have passed 4 years since surgery. On this theme, I would like to highlight something that we are particularly happy about: Our very first patient, a then 56 years-old physical education teacher from Stockholm, Sweden, has now had his implant for just about 5 years. This patient is currently in an intense training session for Vasaloppet, a 90-kilometer cross-country ski race, in March 2018. Today, we are posting an informational video of this patient, showing his way back to living life. In the movie which I encourage you to view at our website, I especially appreciate the session where Dr Nicolas Martinez-Carranza from the Karolinska Institute in Stockholm informs the patient about the fact that the patient will be the first in the world to receive this implant.

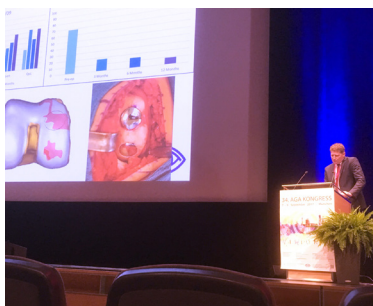
Without hesitation, the patient accepts being treated with an Episealer® given the problems he was experiencing and the lack of treatment alternatives that were available to him. I think that this is a good illustration of the type of problems we are trying to solve for our patients.

Results presentations

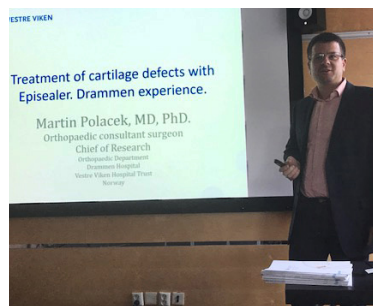
In addition to publishing clinical results, it is of great importance that clinical results are presented by prominent surgeons at relevant and leading congresses and meetings. Recent examples of this includes the presentation from [Dr Clemens Kösters](#) from the University of Münster at the important AGA congress (Society for Arthroscopy and Joint Surgery) in Germany. Dr Kösters talked about his experiences using the Episealer® device and presented results from his patient cases.

In Norway, [Dr Martin Polacek](#) from Drammen sykehus and [Prof. Lars Engebretsen](#) from Oslo universitetssjukhus, Ullevål, both held presentations about the Episealer® technology at the Norwegian orthopaedic society's autumn meeting. Prof. Engebretsen's presentation focused on a patient who rapidly got pain-free after receiving an Episealer®, following several years of failed knee treatments. Dr Polacek's presentation focused on the Episealer® as a good alternative for patients with cartilage injuries, offering excellent preoperative mapping and planning capabilities and a straight forward surgical technique. Dr Polacek also highlighted the few complications and the good clinical results.

At the annual “uni-knee meeting” (Combined Bristol & Oxford Unicompartmental Knee Arthritis Symposium) held in Oxford, England in October, the so called “small implants” were yet again on the agenda. [Dr Jon Waite](#) from Warwick Hospital held a presentation on that theme and Episealer® was highlighted as one of the key alternatives



Dr Clemens Kösters



Dr Martin Polacek



Dr Jon Waite



Prof. Pieter Emans



Dr. Johannes Holz



Prof. Tim Spalding and Ass. Prof. Karl Eriksson

► for treating this difficult to treat patient group. I was in the audience myself and it was encouraging to listen to the panel discussion where surgeons testified to the fact that they need treatment alternatives for patients who say "I want my life now". Today, patients are simply not accepting the alternative of waiting for years with severe pain until a knee replacement is the only alternative left.

We also just concluded our first ever Masterclass in Stockholm, where about 40 European surgeons participated. During this two-day educational event, a faculty consisting of **Prof. Pieter Emans** from University Hospital Maastricht, Netherlands, **Ass. Prof. Karl Eriksson**, Söder-sjukhuset, Sweden, **Dr. med. Johannes Holz**, Park-Klinik Manhagen, Hamburg, Germany, Dr. Nicolas Martinez-Carranza, Karolinska Institute, Stockholm, Sweden and **Ass. Prof. Tim Spalding**, University Hospitals Coventry and Warwickshire, UK, led the discussions on the use of the Episcaler® technology, covering topics such as clinical results, indications, practical use and case studies. Prof. Leif Ryd from Episurf Medical also participated by delivering a presentation of the background and scientific starting point of the Episcaler® technology. When we combine the production of relevant clinical data with presentations from Key Opinion Leaders (KOLs), we are effectively reaching out to a significant number of orthopaedic surgeons in our prioritised markets. We are confident that this scientific-based strategy is the correct one, and the recent weeks and months have clearly demonstrated a break-through on this strategy. Our continuous progress will take us closer to the significant volume opportunity that exists for us in the treatment gap of focal cartilage and bone lesions in the knee joint.

Concluding remarks

The type of progress we currently are experiencing is precisely the type of development we would like to see. That said, we are continuing to focus on increasing sales, but we must simultaneously ensure that we are strengthening our scientific base. And we are rapidly improving our position by doing precisely this.

Ending with a couple of personnel changes. As of today, Fredrik Zetterberg is appointed Head of Marketing of Episurf Medical. Fredrik is a highly skilled leader who has worked at Episurf Medical since early 2016 as Head of Sales Nordic and Benelux. For now, Fredrik will combine his two roles and we are grateful for Fredrik's contribution to our company. On a final note, I would like to thank Professor Seppo Koskinen for his contribution to Episurf Medical. As a member of our Clinical Advisory Board, Prof. Koskinen played an important role within the fields of radiology and imaging techniques. Prof. Koskinen left our advisory board during Q3 2017.

At Episurf Medical, we have a tremendous amount of work ahead of us, however, current developments are really inspiring and indicates a bright future for this company.

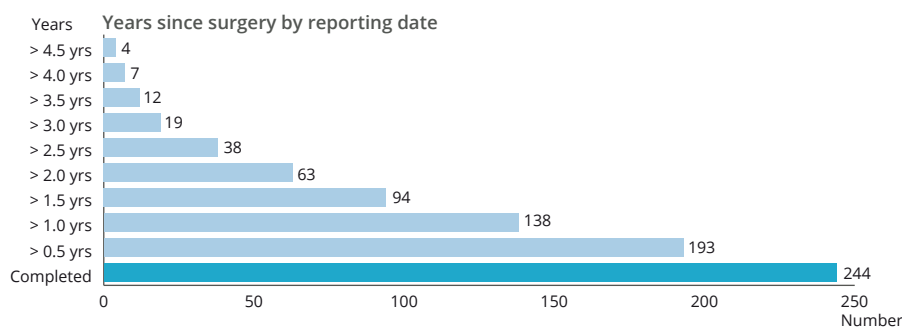
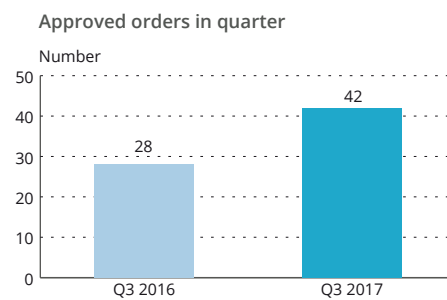
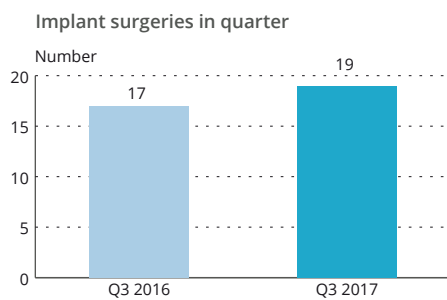
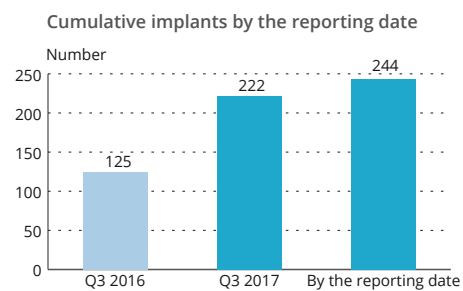
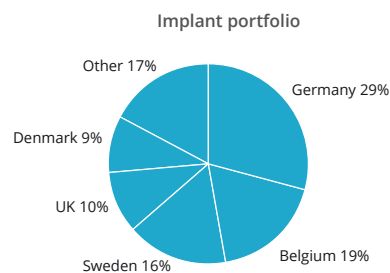
Pål Ryfors, CEO

Stockholm, November 2017

Business update and forward-looking statements

By the reporting date on November 10 2017, Episurf Medical's implants had been used in 244 surgeries. Episurf Medical has seen an increase in the business volumes in recent weeks, and another 36 orders are approved for surgery in the coming 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 244 implants, we now have 4 patients who have had their implants for more than 4.5 years and 63 patients have now had their implants for more than 2 years since the surgery date. During the third

quarter, 19 surgeries were performed with the Episealer® knee implant and we continued to make progress in all of our key markets. 42 orders were approved for surgery during the third quarter. We continue to note a demand for the Episealer® Femoral Twin implant as 53% of the surgeries performed in the third quarter were of this product. This clearly shows that there is a demand for treating the more elongated lesions and the Episurf Medical's technology and the Episealer® Femoral Twin implant meets this demand in a very good way.



Financial information

Group

Net sales and operating profit/loss

Group net sales amounted to SEK 520,284 (516,641) in the quarter and to SEK 1,606,160 (1,397,855) for the first nine months. Loss before tax amounted to SEK -13,518,593 (-15,042,517) for the quarter and SEK -45,546,169 (-43,213,253) for the first nine months.

Financial position

Group cash and cash equivalents at end of period amounted to SEK 87,540,911 (56,133,926). The equity ratio was 93,6% (92.1). Group investments in intangible assets amounted to SEK 1,275,409 (1,040,983) for the quarter of which SEK 644,636 (162,938) are related to capitalized development costs and for the first nine months investments in intangible assets amounted to SEK 5,229,745 (3,686,867) of which SEK 2,356,766 (1,059,996) are related to capitalized development costs, remaining investments relates to patents. Investments in tangible assets amounted to SEK 0 (10,498) for the quarter and SEK 32,690 (106,530) for the first nine months.

Human resources

Number of employees in the Group at end of the period was 27 (28).

Parent Company

Loss before tax

Loss before tax amounted to SEK -5,741,028 (-7,078,621) for the quarter and SEK -22,739,730 (-20,160,920) for the first nine months.

Financial position

Cash and cash equivalents at the end of period for the Parent Company amounted to SEK 78,866,626 (54,109,197). The equity ratio was 98.0% (98.2). Investments in intangible assets, capitalized development costs, amounted to SEK 644,636 (162,938) for the quarter and SEK 2,356,766 (1,059,996) for the first nine months. Investments in tangible assets amounted to SEK 0 (0) for the quarter and for the first nine months. During the first nine months, the parent company provided a capital infusion of SEK 30,100,000 (19,455 000) to the company's subsidiaries.

Right issue

Episurf Medical has during the first quarter 2017 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 91.5 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 (11,769,732).

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.

Warrants

During the period a number of warrants was issued to employees within the group.

Human resources

Number of employees in the Parent Company at end of the period was 13 (14).

Transactions with closely related parties

Shareholder and Board member Leif Ryd has received consulting fees during the period of SEK 495,000 (405,000). Serendipity Communications AB has received consulting fees of SEK 92,700 (617,409) and Serendipity Legal AB of SEK 11,250 (50,000).



► 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.

30 September 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 30 September 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 Bank, Luxembourg	112,066	2,163,630	7.5	5.8
SEB London- Luxembourg, (SICAV Fond)	0	1,328,963	4.4	3.1
Försäkringsaktiebolaget, Avanza Pension	0	1,311,922	4.3	3.0
AMF Aktiefond småbolag	0	1,164,448	3.8	2.7
LMK Forward AB	0	1,152,000	3.8	2.7
Gile Medicinkonsult AB	279,945	142,954	1.4	2.3
Swedbank Försäkring	0	799,502	2.6	1.9
Person, Rutger	0	612,502	2.0	1.4
Lönn, Mikael	106,179	280,000	1.3	1.4
Total, 10 largest shareholders	6,143,316	8,955,921	49.4	63.2
Summary, other	243,152	15,207,106	50.6	36.8
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.

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



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, 9 November 2017

Dennis D. Stripe
Board chairman

Laura Shunk
Board member

Saeid Esmaeilzadeh
Board member

Wilder Fulford
Board member

Leif Ryd
Board member

Christian Krüeger
Board member

Pål Ryfors
CEO

Review report

To the Board of Directors of Episurf Medical AB (publ)
Corp. id. 556767-0541

Introduction

We have reviewed the summary interim financial information (interim report) of Episurf Medical AB (publ) as of 30 September 2017 and the nine-month period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and

other generally accepted auditing practices and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

Stockholm, 9 November 2017
KPMG AB

Duane Swanson
Authorized Public Accountant

Condensed consolidated income statement

SEK	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Operating income					
Net sales	520,284	516,641	1,606,160	1,397,855	2,405,614
Other operating income	97,716	–	243,578	–	254,927
Total income	618,000	516,641	1,849,738	1,397,855	2,660,541
Operation expenses					
Other expenses	–6,276,512	–7,512,043	–20,865,414	–21,893,435	–31,972,268
Personnel costs	–6,822,694	–6,860,869	–23,472,037	–19,839,589	–28,340,527
Depreciation	–1,047,711	–1,368,522	–3,078,121	–3,088,178	–4,056,494
Total operating expenses	–14,146,917	–15,741,434	–47,415,572	–44,821,202	–64,369,289
Operating loss	–13,528,917	–15,224,793	–45,565,834	–43,423,347	–61,708,748
Financial items					
Financial income, other	10,490	–10,395	22,190	213,014	44,224
Financial expenses, other	–166	192,671	–2,525	–2,920	–2,940
Results from financial items	10,324	182,276	19,665	210,094	41,284
Loss before tax	–13,518,593	–15,042,517	–45,546,169	–43,213,253	–61,667,464
Tax on income for the period	–93,167	–	–93,167	–	–
Loss for the period	–13,611,760	–15,042,517	–45,639,336	–43,213,253	–61,667,464
<i>Net loss attributable to:</i>					
Parent company shareholders	–13,611,760	–15,042,517	–45,639,336	–43,213,253	–61,667,464
Earnings per share before and after dilution are consistent with the rules in IAS 33	–0.45	–0.79	–1.68	–2.27	–3.24
Average number of shares	30,549,495	19,003,941	27,123,891	19,003,941	19,003,941

Condensed consolidated statement of comprehensive income

SEK	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Net profit	–13,611,760	–15,042,517	–45,639,336	–43,213,253	–61,667,464
<i>Other comprehensive income for the period:</i>					
Other comprehensive income that may be reclassified subsequently to profit or loss for the period, net of tax	–24,086	–32,481	55,766	583,899	412,960
Total comprehensive income for the period	–13,635,846	–15,074,998	–45,583,570	–42,629,354	–61,254,504

Condensed consolidated balance sheet

SEK	30 Sep 2017	30 Sep 2016	31 Dec 2016
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Capitalized development costs	5,769,063	4,028,522	4,302,265
Patent	9,090,932	7,744,889	8,271,484
Total intangible assets	14,859,995	11,773,411	12,573,749
<i>Property, plant and equipment</i>			
Equipment	279,411	403,619	382,054
Total property, plant and equipment	279,411	403,619	382,054
Total non-current assets	15,139,406	12,177,030	12,955,803
Current assets			
Inventories, finished goods and goods for resale	1,443,305	1,079,415	1,106,057
Trade receivables	722,289	859,041	581,336
Other receivables	943,626	1,479,175	1,570,475
Prepaid expenses and accrued income	2,115,186	1,323,537	1,791,272
Cash and bank balances	87,540,911	56,133,926	42,300,018
Total current assets	92,765,317	60,875,094	47,349,158
TOTAL ASSETS	107,904,723	73,052,124	60,304,961
EQUITY AND LIABILITIES			
Equity	101,045,054	67,314,224	48,698,610
Liabilities			
<i>Non-current liabilities</i>			
Non-current liabilities	25,424	3,254	10,320
Total long-term liabilities	25,424	3,254	10,320
<i>Current liabilities</i>			
Trade payables	2,748,314	2,182,686	6,234,498
Other liabilities	1,228,877	2,090,626	1,584,129
Accrued liabilities and deferred income	2,857,054	1,461,334	3,777,404
Total current liabilities	6,834,245	5,734,646	11,596,031
Total liabilities	6,859,669	5,737,900	11,606,351
TOTAL EQUITY AND LIABILITIES	107,904,723	73,052,124	60,304,961
Equity ratio, %	93.6	92.1	80.8
Equity per share, SEK	3.31	4.22	3.05

Condensed consolidated statement of changes in equity

SEK	Attributable to equity holders of the parent				Total equity
	Share capital	Other contributed capital	Reserves	Accumulated deficit incl. loss for the year	
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 year			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	-193,721,184	48,698,610
Opening equity 1 Jan 2017	4,788,991	237,044,614	586,189	-193,721,184	48,698,610
Total comprehensive income					
Loss for the period			55,766	-45,639,336	-45,583,570
Total comprehensive income			55,766	-45,639,336	-45,583,570
Transactions with shareholders					
New share issue, net after issue expenses*	4,383,615	93,344,336			97,727,951
Options issued to staff				202,063	202,063
Total transactions with shareholders	4,383,615	93,344,336		202,063	97,930,014
Closing equity 30 September 2017	9,172,606	330,388,950	641,955	-239,158,457	101,045,054

* Issue expenses amounts to SEK 11,769,732 according to IAS 32.39.

Condensed cash flow statement

SEK	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Operating activities					
Operating loss	-13,528,916	-15,224,794	-45,565,833	-43,423,347	-61,708,748
<i>Adjustments for items not included in cash flow</i>					
Depreciation	1,047,711	1,368,522	3,078,121	3,088,178	4,056,494
Employee stock option expenses	85,164	9,039	105,893	9,039	18,575
Interest received	10,489	-185,736	22,189	37,673	43,438
Interest paid	-166	192,671	-2,525	-2,920	-2,940
Cash flow from operating activities before change in working capital	-12,385,718	-13,840,298	-42,362,155	-40,291,377	-57,593,181
Change in working capital					
Decrease/increase in inventory	-307,044	111,143	-337,248	75,163	48,520
Decrease/increase in trade receivables	-130,088	-632,506	-140,953	-659,177	-381,472
Decrease/increase in current receivables	261,518	-778,084	302,934	-1,387,907	-1,946,942
Decrease/increase in current liabilities	-1,871,551	1,384,353	-4,798,480	-1,746,304	3,777,031
Change in working capital	-2,047,165	84,906	-4,973,747	-3,718,225	1,497,137
Cash flow from operating activities	-14,432,883	-13,755,392	-47,335,902	-44,009,602	-56,096,044
Investing activities					
Investments of intangible fixed assets	-1,275,409	-1,628,934	-5,229,745	-3,686,867	-5,405,142
Investments of property, plant and equipment	-	-67,883	-32,690	-130,381	-159,572
Cash flow from investing activities	-1,275,409	-1,696,817	-5,262,435	-3,817,248	-5,564,714
Financing activities					
Warrants	111,279	-	111,279	-	-
New share issue	-	-	97,727,951	-	-
Cash flow from financing activities	111,279	-	97,839,230	-	-
Cash flow for the period	-15,597,013	-15,452,209	45,240,893	-47,826,850	-61,660,758
Cash and cash equivalents at beginning of period	103,137,924	71,586,135	42,300,018	103,960,776	103,960,776
Cash and cash equivalents at end of period	87,540,911	56,133,926	87,540,911	56,133,926	42,300,018

Income statement, Parent Company

SEK	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Operating income					
Net sales	-	-	-	-	-
Total income	-	-	-	-	-
Operating expenses					
Other expenses	-2,890,583	-4,695,168	-13,586,590	-11,581,986	-20,540,193
Personnel costs	-2,519,531	-2,026,118	-8,196,556	-8,070,781	-12,779,228
Depreciation	-341,322	-759,861	-977,441	-1,396,911	-1,697,907
Total operating expenses	-5,751,436	-7,481,147	-22,760,587	-21,049,678	-35,017,328
Operating loss	-5,751,436	-7,481,147	-22,760,587	-21,049,678	-35,017,328
Financial items					
Financial income, other	10,489	402,526	21,965	890,788	891,836
Financial expenses, other	-81	-	-1,108	-2,030	-2,030
Loss from net financial items	10,408	402,526	20,857	888,758	889,806
Loss before tax	-5,741,028	-7,078,621	-22,739,730	-20,160,920	-34,127,522
Tax on income for the period	-	-	-	-	-
Loss for the period	-5,741,028	-7,078,621	-22,739,730	-20,160,920	-34,127,522

Parent Company statement of comprehensive income

SEK	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Net profit	-5,741,028	-7,078,621	-22,739,730	-20,160,920	-34,127,522
Other comprehensive income for the period:					
Other comprehensive income for the period, net of tax	-	-	-	-	-
Total comprehensive income for the period	-5,741,028	-7,078,621	-22,739,730	-20,160,920	-34,127,522

Balance sheet, Parent Company

SEK	30 Sep 2017	30 Sep 2016	31 Dec 2016
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Capitalized development costs	6,159,676	4,419,135	4,692,878
Total intangible assets	6,159,676	4,419,135	4,692,878
<i>Tangible fixed assets</i>			
Machinery and equipment	131,474	248,632	218,946
Total tangible fixed assets	131,474	248,632	218,946
<i>Financial assets</i>			
Shares in group companies	76,283,375	35,583,375	46,183,375
Long-term receivables from group companies	12,983,740	17,416,582	15,142,260
Total financial assets	89,267,115	52,999,957	61,325,635
Total fixed assets	95,558,265	57,667,724	66,237,459
Current assets			
Short term receivables			
Other receivables	427,418	596,950	603,742
Prepaid expenses and accrued income	944,703	772,222	797,070
Total short term receivables	1,372,121	1,369,172	1,400,812
Cash and bank balances	78,866,626	54,109,197	40,109,215
Total current assets	80,238,747	55,478,369	41,510,027
TOTAL ASSETS	175,797,012	113,146,093	107,747,486
EQUITY AND LIABILITIES			
Equity	172,295,087	111,162,189	97,195,587
Liabilities			
<i>Long-term liabilities</i>			
	3,620	1,260	4,795
Total long-term liabilities	3,620	1,260	4,795
<i>Current liabilities</i>			
Trade payables	1,293,688	786,411	4,154,482
Non-current liabilities to group companies	–	–	2,914,675
Other liabilities	557,270	541,906	530,461
Accrued liabilities and deferred income	1,647,347	654,327	2,947,486
Total current liabilities	3,498,305	1,982,644	10,547,104
Total liabilities	3,501,925	1,983,904	10,551,899
TOTAL EQUITY AND LIABILITIES	175,797,012	113,146,093	107,747,486

Statement of changes in equity, Parent Company

SEK	Share capital	Develop- ment fund	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 year					-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		-
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						
Comprehensive loss for the period						
Loss for the period					-22,739,730	-22,739,730
Disposition according to AGM						
Loss brought forward				-34,127,522	34,127,522	-
Development fund		2,235,819		-2,235,819		-
Total comprehensive loss for the period		3,293,594		-146,731,612	-22,739,730	74,455,857
Transactions with shareholders						
New share issue net after issue expenses*	4,383,615		93,344,336			97,727,951
Warrants				111,279		111,279
Total transactions with shareholders	4,383,615		93,344,336	111,279		97,839,230
Closing equity 30 Sep 2017	9,172,606	3,293,594	329,188,950	-146,620,333	-22,739,730	172,295,087

* Issue expenses amounts to SEK 11,769,732 according to IAS 32.39.

Condensed cash flow statement, Parent Company

SEK	Jul-Sep 2017	Jul-Sep 2016	Jan-Sep 2017	Jan-Sep 2016	Jan-Dec 2016
Operating activities					
Operating loss	-5,751,436	-7,481,148	-22,760,587	-21,049,678	-35,017,328
<i>Adjustments for items not included in cash flow</i>					
Depreciation	341,322	759,861	977,441	1,396,911	1,697,907
Interest received	10,490	402,526	21,966	890,788	891,837
Interest paid	-81	-	-1,108	-2,030	-2,030
Change in non-current liabilities	541	1,260	-1,175	1,260	4,795
Cash flow from operating activities before change in working capital	-5,399,164	-6,317,501	-21,763,463	-18,762,749	-32,424,819
Change in working capital					
Decrease/increase in current receivables	540,465	-459,692	28,690	-735,320	-766,960
Decrease/increase in current liabilities	-133,456	-889,140	-7,048,800	-2,102,897	6,461,563
Change in working capital	407,009	-1,348,832	-7,020,110	-2,838,217	5,694,603
Cash flow from operating activities	-4,992,155	-7,666,333	-28,783,573	-21,600,966	-26,730,216
Investing activities					
Acquisition of intangible assets	-644,636	-162,938	-2,356,766	-1,059,995	-1,605,049
Acquisition of property, plant and equipment	-	-	-	-62,499	-62,499
Changes in financial assets	-8,783,018	-6,038,604	-27,941,480	-25,131,073	-33,456,751
Cash flow from investing activities	-9,427,654	-6,201,542	-30,298,246	-26,253,567	-35,124,299
Financing activities					
Warrants	111,279	-	111,279	-	-
New share issue	-	-	97,727,951	-	-
Cash flow from financing activities	111,279	-	97,839,230	-	-
Cash flow for the period	-14,308,530	-13,867,875	38,757,411	-47,854,533	-61,854,515
Cash and cash equivalents at beginning of period	93,175,156	67,977,072	40,109,215	101,963,730	101,963,730
Cash and cash equivalents at end of period	78,866,626	54,109,197	78,866,626	54,109,197	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.

Episurf Medical has previously reported capitalized development costs as operating income. These are now reported net against the development costs, which in practice means a reduction of other external costs and personnel costs compared with previous ways of presenting, which the management and the Board consider better to reflect the current operations. Prior periods have been restated. This does not change the accounting for capitalization of development costs and thus has no effect on either net losses, equity or assets.

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 495,000 (405,000).

Serendipity Communications AB has received consulting fees of SEK 92,700 (617,409) and Serendipity Legal AB of SEK 11,250 (50,000)

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.

Indication: In medicine, an indication is a valid reason to use a certain test, medication, procedure, or surgery.

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.

Principal investigator (PI): The person who is responsible for the scientific and technical direction of the entire clinical study (for example, for all sites of a multisite study).

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.



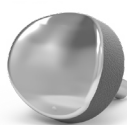
Three different knee implants with a focus on early stages of arthritis

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

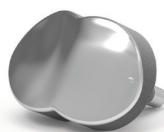
- » **Episealer® Condyle Solo** for the treatment of localised cartilage and underlying bone defects on the femoral condyles of the knee joint.
- » **Episealer® Trochlea Solo** for the treatment of localised cartilage and underlying bone defects in the area behind the patella (the trochlea area).
- » **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

Year-End Report 2017	23 February 2018
AGM	9 April 2018
Interim report January–March 2018	27 April 2018
Interim report April–June 2018	20 July 2018
Interim report July–September 2018	26 October 2018
Year-End Report 2018	8 February 2019

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 10 November 2017 at 08.30 (CET).

The following analysts follow Episurf Medical's development:

Erik Penser Bank
Analyst: Johan Lochen

Jarl Securities
Analyst: Markus Augustsson

IR contact

Pål Ryfors

CEO

Phone: +46 709 62 36 69

e-mail: pal.ryfors@episurf.com



Episurf Medical AB (publ) Corp. ID no. 556767-0541
Karlavägen 60, 114 49 Stockholm, Sweden
www.episurf.com