



Interim Report 1 April–30 June 2017

Second quarter

- » Group net sales amounted to SEK 622,897
- » Loss before tax for the Group amounted to SEK -12,990,707
- » Episurf Medical announced that the 50th implantation in Germany of the Episealer® knee implant was performed
- » Episurf Medical obtained further granted patents in Australia, US and Europe
- » Episurf Medical strengthened the company's management group
- » Episurf Medical reached milestone of 200 implants
- » Episurf Medical continued its communication with the US Food and Drug Administration (FDA)
- » Episurf Medical's Board named Pål Ryfors new CEO and appointed Veronica Wallin as new CFO
- » Episurf Medical appointed Dr Michael Manley Special Advisor for the US strategy



The period in brief

Second quarter 2017, compared to 2016, Group

- » Group net sales increased by 33% to SEK 622,897 (469,380)
- » Other operating income including capitalized development expenditure amounted to SEK 607,140 (381,298)
- » Loss before tax amounted to SEK -12,990,707 (-16,473,988)
- » Earnings per share (weighted average) amounted to SEK -0.45 (-1.03)

Significant events during the second quarter

- » Episurf Medical announced that the 50th implantation in Germany of the Episealer® knee implant was performed
- » Episurf Medical obtained further granted patents in Australia, US and Europe
- » Episurf Medical strengthened the company's management group
- » Episurf Medical reached milestone of 200 implants
- » Episurf Medical continued its communication with the US Food and Drug Administration (FDA)
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- » Episurf Medical appointed Dr Michael Manley Special Advisor for the US strategy

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

- » Group net sales increased by 23% to SEK 1,085,876 (881,214)
- » Other operating income including capitalized development expenditure amounted to SEK 1,151,883 (946,584)
- » Loss before tax amounted to SEK -31,947,724 (-28,170,735)
- » Earnings per share (weighted average) amounted to SEK -1.12 (-1.00)
- » Equity per share amounted to SEK 3.99 (5.16)
- » Equity ratio amounted to 93.0% (94.1)

Significant events after the second quarter

- » Dennis D. Stripe re-assumed the position as non-executive chairman of the board
- » Case-report with clinical data of Episealer® patient was published
- » Another preclinical paper on the Episealer® Implant published
- » Episurf Medical became an approved supplier to Spire Healthcare, one of the UK's largest Independent hospital providers
- » Episurf Medical reported a brief clinical update
- » Management group changes in Episurf Medical were announced
- » Episurf Medical reached milestone of 250 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,
CEO

Message from the CEO

Significant improvement of the financial results

During the second quarter of 2017, we continued our important work of acquainting orthopaedic surgeons across Europe with the Episealer® technology. This work brings us closer to our goal of standardising patient-specific treatment alternatives for the treatment of focal cartilage and bone defects of the knee joint. During the quarter, we have continued to focus on our key markets in Germany, the UK, the Nordic region and Benelux. We have also continued our preparatory work for the US market. We are reporting on a significant improvement in the financial results, primarily driven by lower costs.

As I write this, we have just communicated that the 250th surgery with our Episealer® knee implant is scheduled for the coming weeks. More than 100 of our patients have now had their implants for over one year since surgery and almost 50 of those have had their implants for two years, 12 patients have had their implants more than three years and four patients have had their implants more

than three years since the Episealer® surgery, the patient continues to demonstrate significant improvements in pain and outcome scores that have also enabled a return to sporting activities. This patient has, after many years of severe pain and inability to work, returned to an active life. The patient's life quality increased significantly during the follow-up period and the good results did not deteriorate during these three years. In addition to the encouraging clinical results, we are also intrigued by the fact that this case report mentions the wider welfare savings that can potentially be offered by our technology, enabling patients to get back to work. Orthopaedic surgeons see this kind of patient daily, and when the Episealer® technology constitutes a natural part of the treatment algorithm, we will have achieved our goal.

Moreover, we recently communicated that we have been appointed as approved supplier to Spire Healthcare, one of the largest hospital groups in the UK. This is of great

“I can conclude that the result improved significantly compared to the previous quarter and compared to the corresponding quarter the previous year.”

than four years since surgery. These numbers will continue to increase rapidly, supported by very strong clinical data.

I would like to continue by briefly summarising a recently published case study with clinical data of an Episealer® patient. I choose to focus on this report as it in many ways is representative for situations we encounter daily. The peer-reviewed case study, written by the Danish orthopaedic surgeon Jens Ole Laursen, was recently published in the Journal of Exercise, Sports and Orthopedics. The patient in focus had sustained a sporting injury that severely damaged a zone of knee cartilage. The damage led to several failed surgeries and two years of unemployment. At the age of 31, the patient underwent an Episealer® surgery, recovered quickly from the procedure and returned to work as a carpenter within three months. Now, more

importance to us, not only because of future business volumes, but also because it is a recognition of the quality of our technology and a signal about the fact that there is a need for more efficient treatment methods for this previously difficult-to-treat patient group.

Recently, we communicated that we have hired Dr. Michael Manley to the company as special strategic advisor for our US strategy. Dr. Manley has held leading positions in the orthopaedic industry in research and development for more than 30 years. Since 1987, Dr. Manley has been with Stryker Orthopaedics, one of the leading companies of the orthopaedic industry. At Stryker, Dr. Manley was Chief Scientific Adviser up to December 2016. Dr. Manley will play an important role for us in our preparatory work for a launch in the US market.

I would like to continue by addressing the financial results for the second quarter, and I can conclude that the result improved significantly compared to the previous quarter and compared to the corresponding quarter the previous year. The result is approximately SEK 3.5 million better than during the second quarter 2016 and approximately SEK 6 million better than during the first quarter 2017. During Q1 2017, the result was negatively impacted by extraordinary expenses of some SEK 3 million related to the previous CEO, however, also adjusted for these expenses, there is an evident result improvement. The sales are increasing, however, as this development is yet to fully impact the financial statements, the improvements to date are primarily generated from lower expenses. We are continuously focusing on cost control and we are looking forward to seeing continued result improvements driven by future increases in sales, both on the short- as well as long-term. Our view is that the costs for the US efforts will increase from current levels although our ambition is that we will partly off-set this increase by increased efficiency in the European operations.

On a final note, I would like to highlight a couple of organisational changes that have taken place since our last report. In June, the Board appointed me as Chief Executive Officer of Episurf Medical, and I am both very

happy and proud of this expression of confidence. I am convinced about the potential that this company has and I am determined to contribute to ensuring that this company and its technology achieve their full potential and reach the position they deserve. Following my appointment as CEO, Veronica Wallin was appointed Chief Financial Officer of Episurf Medical. Previously, Wallin held the position as Head of Finance, but she now assumes the full responsibility for our financial operations. Just after the CEO appointment, Dennis Stripe re-assumed his position as Chairman of the Board, having held the position of Executive Chairman since January 5.

We have a full team in place, the clinical results are excellent, the financial results are clearly developing in the right direction, more and more patients become aware of the opportunity of a treatment with the Episealer® implant, and the acceptance of our technology is increasing rapidly. Our full team is very enthusiastic about the future for Episurf Medical.

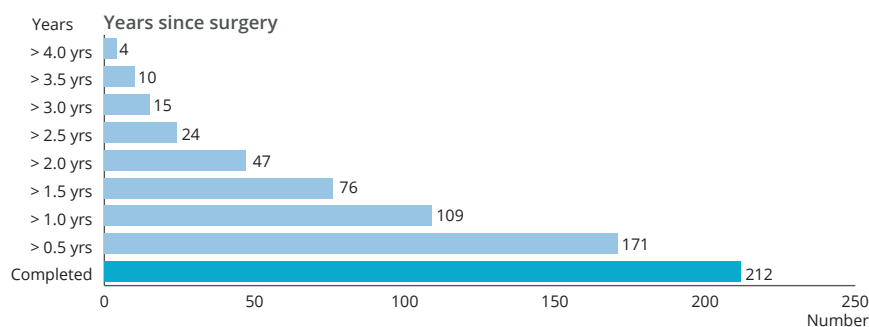
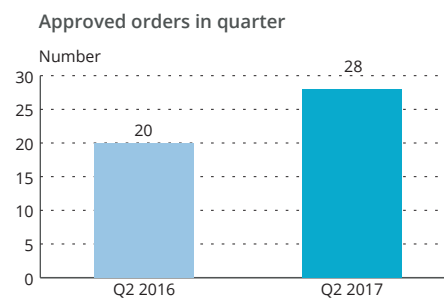
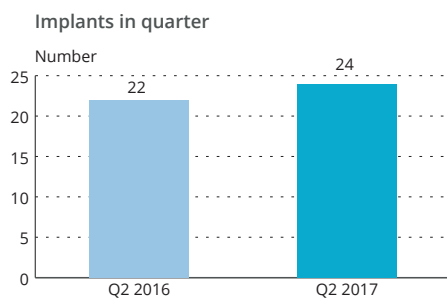
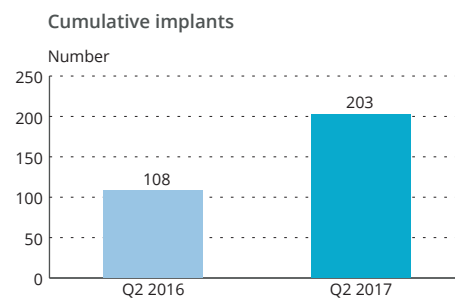
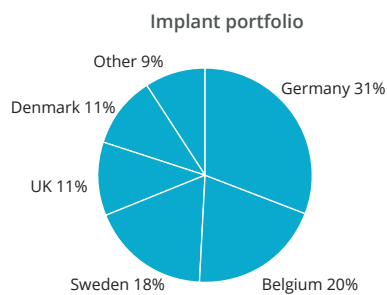
Stockholm, August 2017

Pål Ryfors
CEO

Business update and forward-looking statements

By the reporting date on August 18 2017, Episurf Medical's implants had been used in 212 surgeries. Episurf Medical has seen an increase in the business volumes in recent weeks, and another 38 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 212 implants, we now have 4 patients who have had their implants for more than 4 years and 47 patients have now had their implants for more than 2 years since the surgery date. During the

second quarter, 24 surgeries were performed with the Episealer® knee implant and we continued to make progress in all of our key markets. 28 orders were approved for surgery during the first quarter. We continue to note a demand for the Episealer® Femoral Twin implant as 67% of the surgeries performed in the second 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



Financial information

Group

Net sales and loss before tax

Group net sales amounted to SEK 622,897 (469,380) in the quarter and to SEK 1,085,876 (881,214) for the first six months as a result from increased sales activities in prioritized markets. Loss before tax amounted to SEK -12,990,707 (-16,473,988) for the quarter and SEK -32,027,576 (-28,170,735) for the first six months.

Financial position

Group cash and cash equivalents at end of period amounted to SEK 103,137,924 (71,586,135). The equity ratio was 93.0% (94.1). Group investments in intangible assets amounted to SEK 1,578,442 (738,983) for the quarter of which SEK 710,376 (343,756) are related to capitalized development costs and for the first six months investments in intangible assets amounted to SEK 3,954,336 (2,057,933) of which SEK 1,712,130 (897,056) are related to capitalized development costs, remaining investments relates to patents. Investments in tangible assets amounted to SEK 0 (45,574) for the quarter and SEK 32,690 (62,498) for the first half year.

Human resources

Number of employees in the Group at end of the period was 28 (29).

Parent Company

Net sales and profit before tax

Other operating income including capitalized development expenditure amounted to SEK 533,168 (327,485) for the quarter and for the first six months to SEK 1,005,995 (880,784). Loss before tax amounted to SEK -6,124,456 (-7,267,449) for the quarter and SEK -16,998,702 (-13,082,298) for the first six months.

Financial position

Cash and cash equivalents at the end of period for the Parent Company amounted to SEK 93,175,156 (67,977,072). The equity ratio was 98% (97.6). Investments in intangible assets, capitalized development costs, amounted to SEK 710,376 (343,758) for the quarter and SEK 1,712,130 (897,057) for the first six months. Investments in tangible assets amounted to SEK - (-) for the quarter and for the first six months.

Human resources

Number of employees in the Parent Company at end of the period was 13 (15).

Transactions with closely related parties

Shareholder and Board member Leif Ryd has received consulting fees during the first six months of SEK 330,000 (270,000). Serendipity Communications AB has received consulting fees of SEK 92,700 (175,000) 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 June 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 June 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	1,324,693	4.3	3.1
Försäkringsaktiebolaget, Avanza Pension	0	1,309,477	4.3	3.0
AMF Aktiefond småbolag	0	1,240,448	4.1	2.9
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	788,602	2.6	1.8
Person, Rutger	0	627,074	2.1	1.5
Lönn, Mikael	106,179	280,000	1.3	1.4
Total, 10 largest shareholders	6,143,316	9,076,878	49.8	63.5
Summary, other	243,152	15,086,149	50.2	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.

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, 17 August 2017

Dennis D. Stripe
Board chairman

Laura Shunk
Board member

Saeid Esmailzadeh
Board member

Wilder Fulford
Board member

Leif Ryd
Board member

Christian Krüeger
Board member

Pål Ryfors
CEO

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

Condensed consolidated income statement

SEK	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016	Jan-Dec 2016
Operating income					
Net sales	622,897	469,380	1,085,876	881,214	2,405,614
Capitalized development expenditure	533,180	381,298	1,006,021	946,584	1,605,049
Other operating income	73,960	-	145,862	-	254,927
Total income	1,230,037	850,678	2,237,759	1,827,798	4,265,590
Operation expenses					
Other expenses	-6,272,634	-9,678,272	-14,588,902	-14,774,676	-32,759,994
Personnel costs	-6,932,407	-6,766,926	-17,655,364	-13,532,019	-29,157,850
Depreciation	-1,021,083	-888,494	-2,030,410	-1,719,656	-4,056,494
Total operating expenses	-14,226,124	-17,333,692	-34,274,676	-30,026,351	-65,974,338
Operating loss	-12,996,087	-16,483,014	-32,036,917	-28,198,553	-61,708,748
Financial items					
Financial income, other	7,739	204,539	11,700	223,409	44,224
Financial expenses, other	-2,359	-195,513	-2,359	-195,591	-2,940
Results from financial items	5,380	9,026	9,341	27,818	41,284
Loss before tax	-12,990,707	-16,473,988	-32,027,576	-28,170,735	-61,667,464
Tax on income for the period	-	-	-	-	-
Loss for the period	-12,990,707	-16,473,988	-32,027,576	-28,170,735	-61,667,464
<i>Net loss attributable to:</i>					
Parent company shareholders	-12,990,430	-15,909,156	-31,947,724	-28,170,735	-61,254,504
Earnings per share before and after dilution are consistent with the rules in IAS 33	-0.45	-1.03	-1.12	-1.77	-3.87
Average number of shares	28,704,479	15,949,804	28,704,479	15,949,804	15,949,804

Condensed consolidated statement of comprehensive income

SEK	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016	Jan-Dec 2016
Net profit	-12,990,707	-16,473,988	-32,027,576	-28,170,735	-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	277	564,832	79,852	616,380	412,960
Total comprehensive income for the period	-12,990,430	-15,909,156	-31,947,724	-27,544,355	-61,254,504

Condensed consolidated balance sheet

SEK	30 Jun 2017	30 Jun 2016	31 Dec 2016
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Capitalized development costs	5,436,742	4,981,827	4,302,265
Patent	9,150,376	7,073,375	8,271,484
Total intangible assets	14,587,118	12,055,202	12,573,749
<i>Property, plant and equipment</i>			
Equipment	325,421	432,359	382,054
Total property, plant and equipment	325,421	432,359	382,054
Total non-current assets	14,912,539	12,487,561	12,955,803
Current assets			
Inventories, finished goods and goods for resale	1,136,261	1,190,558	1,106,057
Trade receivables	592,201	536,370	581,336
Other receivables	1,678,179	760,729	1,570,475
Prepaid expenses and accrued income	1,642,152	953,849	1,791,272
Cash and bank balances	103,137,924	71,586,135	42,300,018
Total current assets	108,186,717	75,027,641	47,349,158
TOTAL ASSETS	123,099,256	87,515,202	60,304,961
EQUITY AND LIABILITIES			
Equity	114,439,534	82,380,183	48,698,610
Liabilities			
<i>Non-current liabilities</i>			
Non-current liabilities	7,022	-	10,320
Total long-term liabilities	7,022	-	10,320
<i>Current liabilities</i>			
Trade payables	1,744,073	2,214,274	6,234,498
Other liabilities	2,121,534	1,034,947	1,584,129
Accrued liabilities and deferred income	4,787,093	1,885,798	3,777,404
Total current liabilities	8,652,700	5,135,019	11,596,031
Total liabilities	8,659,722	5,135,019	11,606,351
TOTAL EQUITY AND LIABILITIES	123,099,256	87,515,202	60,304,961
Equity ratio	93.0%	94.1%	80.8%
Equity per share, SEK	3.99	5.16	4.88

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	-193,739,759	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			79,852	-32,027,575	-31,947,723
Total comprehensive income			79,852	-32,027,575	-31,947,723
Transactions with shareholders					
New share issue, net after issue expenses*	4,383,615	93,344,336			97,727,951
Options issued to staff	-	-	-	-20,729	-20,729
Total transactions with shareholders	4,383,615	93,344,336	-	-20,729	-20,729
Closing equity 30 June 2017	9,172,606	330,388,950	666,041	-225,788,063	114,439,534

* Issue expenses amounts to SEK 11,775,738 according to IAS 32.39.

Condensed cash flow statement

SEK	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016	Jan-Dec 2016
Operating activities					
Operating loss	-12,996,087	-16,483,014	-32,036,917	-28,198,553	-61,708,748
<i>Adjustments for items not included in cash flow</i>					
Depreciation	1,021,083	888,494	2,030,410	1,719,656	4,056,494
Employee stock option expenses	8,437	204,539	20,729	223,409	18,575
Interest received	7,739	-195,513	11,700	-195,591	43,438
Interest paid	-2,359	-	-2,359	-	-2,940
Cash flow from operating activities before change in working capital	-11,961,187	-15,585,494	-29,976,437	-26,451,079	-57,593,181
Change in working capital					
Decrease/increase in inventory	92,426	23,149	-30,204	-35,980	48,520
Decrease/increase in trade receivables	-224,622	283,165	-10,865	-26,671	-381,472
Decrease/increase in current receivables	75,697	-96,839	41,416	-609,823	-1,946,942
Decrease/increase in current liabilities	-9,771,679	-1,043,776	-2,926,929	-3,130,667	3,777,031
Change in working capital	-9,828,178	-834,301	-2,926,582	-3,803,141	1,497,137
Cash flow from operating activities	-21,789,365	-16,419,795	-32,903,019	-30,254,220	-56,096,044
Investing activities					
Purchase of intangible fixed assets	-1,578,442	-738,983	-3,954,336	-2,057,933	-5,405,142
Purchase of property, plant and equipment	-	-45,574	-32,690	-62,498	-159,572
Cash flow from investing activities	-1,578,442	-784,557	-3,987,026	-2,120,431	-5,564,714
Financing activities					
New share issue	-815,505	-	97,727,951	-	-
Cash flow from financing activities	-815,505	-	97,727,951	-	-
Cash flow for the period	-24,183,312	-17,204,352	60,837,906	-32,374,651	-61,660,758
Cash and cash equivalents at beginning of period	127,321,236	88,790,487	42,300,018	103,960,776	103,960,776
Cash and cash equivalents at end of period	103,137,924	71,586,135	103,137,924	71,586,125	42,300,018

Income statement, Parent Company

SEK	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016	Jan-Dec 2016
Operating income					
Net sales	-	-	-	-	-
Capitalized development expenditure	533,180	327,485	1,006,021	880,784	1,605,049
Other operating income	-12	-	-26	-	-30
Total income	533,168	327,485	1,005,995	880,784	1,605,019
Operating expenses					
Other expenses	-3,024,295	-4,765,469	-10,695,981	-7,214,302	-21,327,889
Personnel costs	-3,319,333	-2,782,551	-6,683,046	-6,597,962	-13,596,551
Depreciation	-320,709	-321,426	-636,119	-637,050	-1,697,907
Total operating expenses	-6,664,337	-7,869,446	-18,015,146	-14,449,314	-36,622,347
Operating loss	-6,131,169	-7,541,961	-17,009,151	-13,568,530	-35,017,328
Financial items					
Financial income, other	7,740	276,464	11,476	488,262	891,836
Financial expenses, other	-1,027	-1,952	-1,027	-2,030	-2,030
Loss from net financial items	6,713	274,512	10,449	486,232	889,806
Loss before tax	-6,124,456	-7,267,449	-16,998,702	-13,082,298	-34,127,522
Tax on income for the period	-	-	-	-	-
Loss for the period	-6,124,456	-7,267,449	-16,998,702	-13,082,298	-34,127,522

Parent Company statement of comprehensive income

SEK	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016	Jan-Dec 2016
Net profit	-6,124,456	-7,267,449	-16,998,702	-13,082,298	-34,127,522
Other comprehensive income for the period:					
Other comprehensive income for the period, net of tax	-	-	-	-	-
Total comprehensive income for the period	-6,124,456	-7,267,449	-16,998,702	-13,082,298	-34,127,522

Balance sheet, Parent Company

SEK	30 Jun 2017	30 Jun 2016	31 Dec 2016
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Capitalized development costs	5,827,355	4,981,827	4,692,878
Patent	-	-	-
Total intangible assets	5,827,355	4,981,827	4,692,878
<i>Tangible fixed assets</i>			
Machinery and equipment	160,480	282,862	218,946
Total tangible fixed assets	160,480	282,862	218,946
<i>Financial assets</i>			
Shares in group companies	61,083,375	19,753,375	46,183,375
Long-term receivables from group companies	19,400,722	27,238,238	15,142,260
Total financial assets	80,484,097	46,991,613	61,325,635
Total fixed assets	86,471,932	52,256,302	66,237,459
Current assets			
Short term receivables			
Other receivables	1,074,009	349,059	603,742
Prepaid expenses and accrued income	838,578	560,422	797,070
Total short term receivables	1,912,587	909,481	1,400,812
Cash and bank balances	93,175,156	67,977,072	40,109,215
Total current assets	95,087,743	68,886,553	41,510,027
TOTAL ASSETS	181,559,675	121,142,855	107,747,486
EQUITY AND LIABILITIES			
Equity	177,924,836	118,240,811	97,195,587
Liabilities			
<i>Long-term liabilities</i>			
	3,079	-	4,795
Total long-term liabilities	3,079	-	4,795
<i>Current liabilities</i>			
Trade payables	563,544	1,264,185	4,154,482
Non-current liabilities to group companies	-	-	2,914,675
Other liabilities	1,220,992	650,214	530,461
Accrued liabilities and deferred income	1,847,224	987,645	2,947,486
Total current liabilities	3,631,760	2,902,044	10,547,104
TOTAL EQUITY AND LIABILITIES	181,559,675	121,142,855	107,747,486

Statement of changes in equity, Parent Company

SEK	Share capital	Development fund	Other contributed 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		-
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					-16,998,702	-16,998,702
Disposition according to AGM						
Loss brought forward				-34,127,522	34,127,522	-
Development fund		1,647,159		-1,647,159		-
Other						
Total comprehensive loss for the period		2,704,934		-146,142,952	-16,998,702	80,196,885
Transactions with shareholders						
New share issue net after issue expenses*	4,383,615		93,344,336			97,727,951
Total transactions with shareholders	4,383,615		93,344,336			97,727,951
Closing equity 30 Jun 2017	9,172,606	2,704,934	329,188,950	-146,142,952	-16,998,702	177,924,836

* Issue expenses amounts to SEK 11,775,738 according to IAS 32.39.

Condensed cash flow statement, Parent Company

SEK	Apr-Jun 2017	Apr-Jun 2016	Jan-Jun 2017	Jan-Jun 2016	Jan-Dec 2016
Operating activities					
Operating loss	-6,131,169	-7,541,961	-17,009,151	-13,568,530	-35,017,328
<i>Adjustments for items not included in cash flow</i>					
Depreciation	320,709	321,426	636,119	637,050	1,697,907
Interest received	7,740	276,464	11,476	488,262	891,837
Interest paid	-1,027	-1,952	-1,027	-2,030	-2,030
Change in non-current liabilities	2,645	-	-1,716	-	4,795
Cash flow from operating activities before change in working capital	-5,801,102	-6,946,023	-16,364,299	-12,445,248	-32,424,819
Change in working capital					
Decrease/increase in current receivables	-121,692	-65,270	-511,775	-275,628	-766,960
Decrease/increase in current liabilities	-8,541,100	-596,902	-6,915,344	-1,213,757	6,461,563
Change in working capital	-8,662,792	-662,172	-7,427,119	-1,489,385	5,694,603
Cash flow from operating activities	-14,463,894	-7,608,195	-23,791,418	-13,934,633	-26,730,216
Investing activities					
Acquisition of intangible assets	-710,376	-343,758	-1,712,130	-897,057	-1,605,049
Acquisition of property, plant and equipment	-	-62,499	-	-62,499	-62,499
Changes in financial assets	-15,656,260	-9,742,307	-19,158,462	-19,092,469	-33,456,751
Cash flow from investing activities	-16,366,636	-10,148,564	-20,870,592	-20,052,025	-35,124,299
Financing activities					
New share issue	-815,505	-	97,727,951	-	-
Cash flow from financing activities	-815,505	-	97,727,951	-	-
Cash flow for the period	-31,646,035	-17,756,759	53,065,941	-33,986,658	-61,854,515
Cash and cash equivalents at beginning of period	124,821,191	85,733,831	40,109,215	101,963,730	101,963,730
Cash and cash equivalents at end of period	93,175,156	67,977,072	93,175,156	67,977,072	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 therefore activated.

Note 2 Transactions with closely related parties

Shareholder and Board member Leif Ryd has received consulting fees of SEK 330,000 (270,000).

Serendipity Communications AB has received consulting fees of SEK 92,700 SEK (175,000) and Serendipity Legal AB of SEK 11,250 SEK (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.

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 μ Fidelity[®] 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.

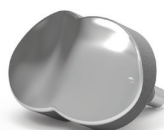
- » Episealer[®] Condyle Solo for the treatment of localised cartilage and underlying bone defects on the femoral condyles of the knee joint.
- » Episealer[®] Trochlea Solo for the treatment of localised cartilage and underlying bone defects in the area behind the patella (the trochlea area).
- » Episealer[®]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

IR contact

Interim report July–September 2017	10 November 2017
Year-End Report 2017	23 February 2018

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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 18 August 2017 at 08.30 (CET).

The following analysts follow Episurf Medical's development:

Erik Penser Bank

Analyst: *Johan Lochen*

Jarl Securities

Analyst: *Markus Augustsson*



On Monday May 22nd 2017, the 2017 Annual General Meeting of Episurf Medical was held in Stockholm. Approximately 100 guests including shareholders and employees of Episurf Medical had gathered for this year's Annual General Meeting.

During the evening, presentations were given for example by Professor Leif Ryd who presented his view on Episurf's development from a 10-years perspective and Chairman Dennis Stripe spoke about the historical development of the orthopaedic industry and why Episurf Medical's technology is a logical continuation of this historical development.



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