Interim Report 1 July – 30 September 2021

- **Strategy updated to include two products targeting 510(k)-approval**
- **Published data from first comparative study and first study with 5-year follow-up from Episealer®**
- **Directed share issue executed, raising SEK 159 million – funding until 2025 secured**

"We are currently seeing high activity across the business with several initiatives ongoing within our commercialisation, clinical activities and product development. As already communicated, we experienced certain COVID-19 related effects during the quarter that we cannot disregard, but all in all we are taking important steps in the right direction, as we continuously are adding new customers, geographies, products and data, and we have secured funding until mid-2025", says Pål Ryfors, CEO Episurf Medical.

	H2 2021	2022	2023	2024	2025	Market Opportunity
Episealer® Knee Europe & RoW	Increased commercial focus based on available data →					~USD 0.4bn
Episealer® Knee US	Patient recruitment →		Patient follow-up →	PMA process		~USD 0.6bn
Episealer® Talus Europe & RoW	Product launch and initial Episealer® Talus studies →					
	Commercialisation →					
Episealer® Patellofemoral System US	510(k)-filing	510(k)-approval followed by product launch →				
Episealer® MTP System US	Concept developmt.	510(k) filing late 2022-23	Product launch →			~USD 0.4bn

Third quarter 2021 compared to 2020, Group

» Gross order intake amounted to SEK 1.6m (1.8).
» Order book amounted to SEK 1.4m (1.6)
» Group net sales SEK 1.5m (1.5)
» Loss for the period amounted to SEK -15.9m (-15.4)
» Earnings per share amounted to SEK -0.07 (-0.08)

First nine months 2021 compared to 2020, Group

» Gross order intake amounted to SEK 5.2m (4.3) an increase of 21%
» Group net sales increased by 46% to SEK 5.1m (3.5)
» Loss for the period amounted to SEK -50.4m (-47.7)
» Earnings per share amounted to SEK -0.23 (-0.32)

Significant events during the third quarter

» Results from prospective multicentre study with 5-7 years' follow-up of the first Swedish Episealer® Knee patients accepted for publication
» Results from first comparative study with the Episealer® Knee implant were accepted for publication
» Episurf Medical investigates the opportunities for launching an implant for the MTP joint in the US market
» Episurf Medical announced additions to the European sales force and Patrick Jamnik to head US business
» Episurf Medical provided an update on the project Episealer® Patellofemoral System for the US market
» Episealer® Talus: Case report with 5-years' follow-up data were accepted for publication
» European multicentre study were initiated for 5 years' follow-up of Episealer® Talus patients

Significant events after the third quarter

» Episurf Medical carries out a directed share issue of SEK 159m. Ilija Batljan enters as new large shareholder

Dear shareholders,

We are concluding yet another eventful quarter for Episurf Medical, and I would like to highlight the key events of the quarter, as well as provide you with a summary of the key milestones ahead of us. We are currently seeing high activity across various parts of our business, and I will focus on three specific areas; commercialisation, clinical development and product development. These are all of course closely related within a small organisation such as Episurf, but we are taking important steps within all these areas, and investors should look for important milestones within all of the three.

1. Commercialisation

We have intensified our efforts to create a solid regulatory foundation to operate from. We have only been scratching the surface of the commercial opportunity in our target markets, however, we are now able to take the next steps and ensure increased market penetration in several markets. We have sold implants in 15 countries during 2021, and we are aiming at increasing volumes with each customer, as well as towards adding new customers in all our markets. This is a priority. During the first nine months of the year, our revenues are up by 46%, and we are aiming higher going forward.

During the quarter we experienced certain COVID-19 related effects that we cannot disregard. This was communicated to the market in a specific press release on October 14, 2021, and details are provided under the section Financial information in this report. We have seen an improving trend at the start of the fourth quarter, but I expected that we might have a bit more volatility ahead of us in the next weeks and months. However, overall, we are clearly taking steps in the right direction, and we are focusing on growth.

2. Clinical

During the last years, we have consistently and patiently worked with a comprehensive clinical pipeline. Delivering on this pipeline has been a prerequisite for taking the next commercial step. What we have seen during the last, I would like to say 12 months, is that we have delivered according to our plan. During the third quarter, we achieved several important milestones, and the two most important ones included the publication of results from a study with 5-year follow-up data, as well as publication of results from the first comparative study on Episealer® patients.

The Episealer® technology represents a revolutionary treatment alternative. When we now summarise all the data that recently has been presented and published, we can conclude that we are moving from an experimental phase, to an evidence-based phase. We are now in a completely different position in our discussion with potential customers, patients, regulators, payors, and other counterparties, which significantly improves our position for the next steps of on our commercialisation strategy.

3. Product development

We have always looked for additional opportunities that could be developed based on our platform. Among the key criteria when reviewing such opportunities, is a relatively quick regulatory pathway to market. I am now pleased that we have broadened our strategy to include two products for which we are targeting 510(k)-processes for the US market: the Episealer® Patellofemoral System and the Episealer® MTP-system. Regarding the latter, this was communicated during the quarter, and this is highly exciting, and represents a significant commercial opportunity. This market is a market with significant unmet medical needs, and we have begun the product development phase for this product. We have set the target for filing a 510(k)-application to the US FDA for the Episealer® MTP system in late 2022 or the first half of 2023.

By developing 510(k)-products, we are entering established markets with existing customers, payment structures and where the basic technologies are well proven. We believe our individualised implant system will represent highly attractive alternatives for patients in those market segments.

4. Concluding remarks

The developments mentioned above, all lead to several key strategic actions:

- For the Episealer® Knee technology in Europe and certain other markets, we are now focusing on growth. If we can reach satisfactory market penetration in our current market, driven by strong data, successful reimbursement work and a compelling customer offering, we should target profitability in this part of the business.
- The EPIC-Knee study, our study aimed at supporting our future PMA application to the US FDA is ongoing. Now, we must ensure that patient recruitment gets started. We have changed the clinical protocol together with the FDA, we have recruited senior sales capabilities in the US, and we should see improvements in patient recruitment from an overall improved COVID-19 situation.

- The Episealer® Talus is being launched in Europe and certain other markets. We have capabilities to grow this product as we have experienced a great interest from surgeons, and we are also supporting several clinical trials that are ongoing in Europe for this product.
- The development project for the Episealer® Patellofemoral System runs with a targeted 510(k)-filing during Q4 2021, and we are also targeting a market launch in the US market mid-2022. The preparations for such a launch are ongoing.
- The development project for the Episealer® MTP-system has started, and we are currently reviewing design alternatives and confirming a target project timetable. Our ambition of submitting a 510(k)-application late 2022 – mid 2023 remains, and we look forward to providing investors with more details shortly.

Lastly, I would like to address the latest funding round that was executed at the beginning of October. We are very grateful for the support from our existing shareholders, and we are happy to welcome Ilija Batljan as a new shareholder of Episurf. Ilija is now our largest shareholder, holding about 13% of the share capital following a directed issue. In total, we raised SEK 159 million, of which Ilija accounted for the majority. We are committed to continue to create shareholder value, and our position was significantly strengthened by this share issue.

Stockholm, October 2021

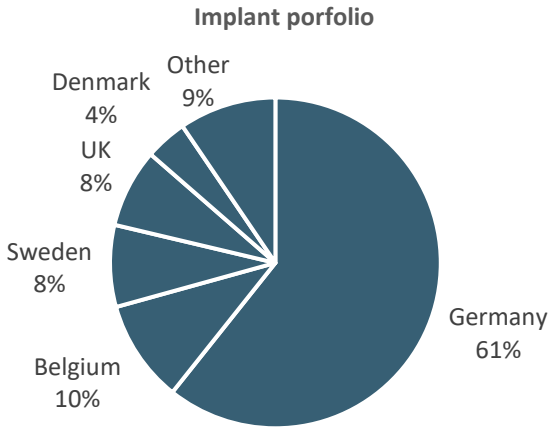
Pål Ryfors
CEO

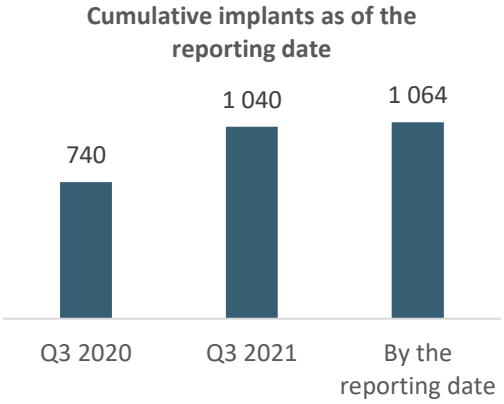
Key milestones during Q3 2021	
Commercialisation	• Appointment of JAMO Orthopaedics as distributor in the UK, and Hogan Healthcare as distributor in Ireland. • Re-hired sales representation in Benelux. • Hiring of Patrick Jamnik as President Episurf Medical Inc. Patrick has extensive experience from commercial and clinical activities with a background from first and foremost Zimmer, Stryker and Stanmore Implants. Patrick will play a key role in Episurf in the coming years, as the US market is growing in importance to us. • First surgeries in Spain and Estonia planned.
Clinical development	• The publication of results from a prospective multicentre study with 5-7 years' follow-up of the first Swedish Episealer® Knee patients. • The publication of a manuscript with results from the first comparative study with patients who have received Episealer® implants. • Abstract with results from a Swedish multicentre clinical study with 5 years' follow-up of Episealer® patients accepted for presentation at the ISAKOS 2021 Global Congress. • A case report with 5-years' follow-up data of the very first Episealer® Talus patient accepted for publication. • The initiation of a prospective investigator-initiated European multicentre study with 5 years' follow-up of 25 Episealer® Talus patients. • Abstract with results from follow-up of Episealer® patients with multiple implants presented at the 38th annual AGA Congress in Innsbruck, Austria.
Prod	• Episealer® Patellofemoral System: A two-component implant system for patients presenting cartilage and bone lesions in the trochlea groove and on the patella. About 18% of all patients having osteoarthritis in the knee joint have osteoarthritis in the Patellofemoral compartment[1]. • Episealer® System for the 1st MTP-joint: An implant system for the 1st MTP-joint (Greater Toe). Up to 2,5% of all individuals above 50 years of age suffer from osteoarthritis in the 1st MTP-joint[2].

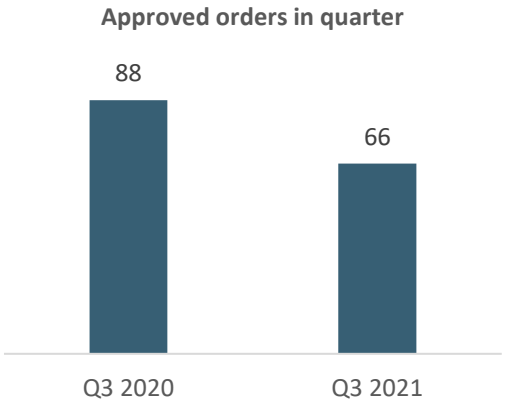
[1] Stoddart et. al., The compartmental distribution of knee osteoarthritis – a systematic review and meta-analysis. Osteoarthritis Research Society International Journal. 2020, Vol. 29(4), pp. 445-455.
[2] Arthrodesis versus Arthroplasty of the First Metatarsophalangeal Joint in the Treatment of Hallux Rigidus – A Comparative Study of Appropriately Selected Patients (nih.gov)

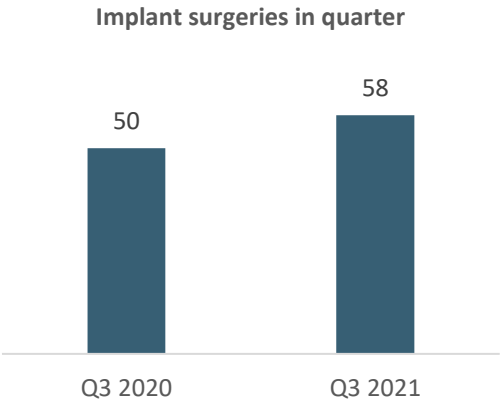
Business update and forward-looking statements

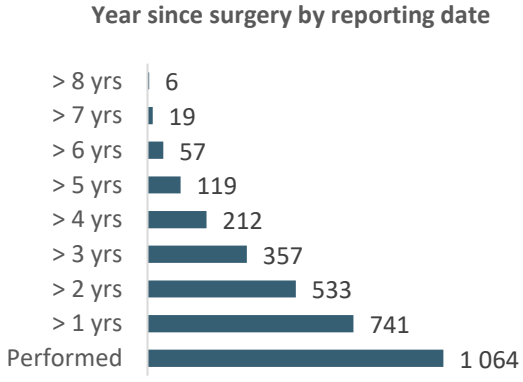
By the reporting date on October 29, 2021, Episurf Medical's implants had been used in 1,064 surgeries. Another approx. 80 orders are approved for surgery. Episurf Medical's patients are experiencing significant improvements in pain and mobility. Furthermore, they are also experiencing a short recovery time. Out of the total implant portfolio of 1,064 implants, we now have 212 patients who have had their implants for more than 4 years and 533 patients have now had their implants for more than 2 years since the surgery date. During the third quarter, 58 surgeries were performed with the Episealer® knee implant. 66 orders were approved for surgery during the third quarter.











As of the reporting date, 1,064 surgeries have been performed with the Episealer® implant and 357 patients have had their implant for more than 3 years and 533 patients have had the implant for more than 2 years since surgery.

Financial information

Group

Net sales and operating profit/loss
Group net sales amounted to SEK 1.5m (1.5) in the quarter and SEK 5.1m (3.5) for the first nine months. Loss before tax amounted to SEK -15.9m (-15.4) for the quarter and SEK -50.4m (-47.7) for the first nine months. Other expenses, which for example includes expenses for clinical trials, marketing and product development, amounted to SEK -8.0m (-7.4) in the quarter and SEK -26.1m (-24.6) for the first nine months. The increased costs during the quarter are primarily due to an increased focus on activities that have not been prioritised for a long time with COVID-19. It primarily means increased activities in marketing and sales and that the company, in comparison with last year, has not had any government support in major parts of the group. The cost for the EPIC-Knee study in US amounts to SEK 2.7m (3.0) during the quarter.

Financial position
Group cash and cash equivalents at end of period amounted to SEK 103.8m (106.6).
The equity ratio was 89,5% (89.8). Group investments in intangible assets amounted to SEK 1.9m (1.4) for the quarter of which SEK 1.1m (0.6) are related to capitalised development costs, and for the first nine months investments in intangible assets amounted to SEK 4.0m (3.5), of which SEK 2.2m (0.9) are related to capitalised development costs, remaining investments relates to patents. No significant investments have been made in tangible assets during the quarter or first nine months of 2021 or 2020.

Human resources
Number of employees in the Group at end of the period was 29 (25).

Effects of the COVID-19 pandemic
The outbreak of COVID-19 has affected people and companies all over the world, and Episurf closely monitors the development and effects of the pandemic as well as following the guidelines put forth by local authorities. The following paragraphs provide more detailed information on how the Group is affected by COVID-19.

Episealer® orders and revenue
Healthcare has focused on covid-19 instead of elective surgery, which has affected both net sales and the company's ability to grow during the quarter. However, the company's assessment is that recovery will take place during the fourth quarter. This year, it was evident to us that potential patients and surgeons used the summer months for vacation and traveling, as those activities had been put on hold for a long time. People were also uncertain about COVID-19 related restrictions for the remainder of 2021, why people made sure to go on vacation during the summer of 2021. This had a negative impact on surgical activity, especially during August 2021. During 2020, the second quarter was the weakest quarter following the outbreak of COVID-19. As restrictions eased up during Q3, Q3 was our strongest quarter 2020. For 2021, Q3 is likely to be the weakest quarter, given the effects described above. In summary, this creates a situation with challenging comparable figures between Q3 2021 and Q3 2020 (net sales +/- 0%, while the figures for the first nine months are in line with expectations with net sales +46% compared to the corresponding period 2020).

Government support/Organisation
The subsidiary Episurf UK Ltd received SEK 0.1m in government support during the first nine months. No other support has been received.

Production
Episurf Medical has maintained an ongoing dialogue with our suppliers to avoid delays in deliveries, and up until this point in time, we haven’t experienced any noticeable effects on our production process. Our assessment is that there will not be a significant impact during the fourth quarter 2021 either.

Clinical studies
Episurf Medical published several studies in 2020 but estimates that patient recruitment in ongoing studies was negatively affected during the third quarter.

Geographic expansion
Episurf Medical's largest market continues to be Germany; however, during the quarter, the company carried out and planned operations in several countries. The company assesses that expansion towards new countries may be somewhat delayed, but the company still has a good pace ahead.

Digitalisation
Episurf Medical continuously works to improve the digital environment, both internally and externally with our counterparts. Our assessment is that the COVID-19 pandemic has affected digitalisation in a positive direction and that this will have beneficial outcomes going forward.

Transactions with closely related parties
Shareholder and Board member Leif Ryd has received consulting fees for ongoing work as well as work for the Clinical Advisory Board during the period of SEK 0.4m (0.5).

Rounding
Due to rounding, the sum of numbers may differ.

Warrants and staff option programs
In connection with a financing solution that Episurf had in 2018, 1,705,232 warrants were issued to shareholders. For a number of periods until 23 November 2023, shareholders have the opportunity to convert these warrants for an exercise price of SEK 1.40. As of this quarterly report, the company has 1,416,386 warrants outstanding. See more information on the company's website.

For more information about warrants and staff option programs, see Episurfs Annual Report 2020.

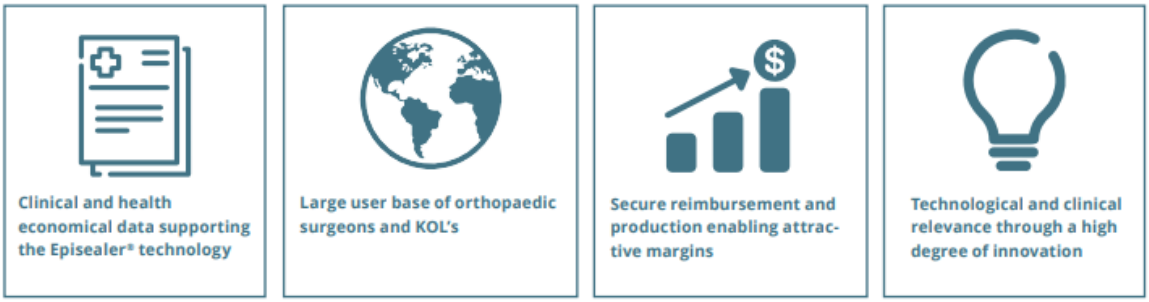
Share information
There are two types of shares in the Company. Each Class A-share carries three votes and entitles the holder to three votes at the General Meeting, and each class B-share carries one vote and entitles the holder to one vote at the General Meeting. Class B shares have traded on Nasdaq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

30 September, 2021	
A-shares	951,020
B-shares	221,178,613
Total number of shares	**222,129,633**
Total number of votes	**224,031,673**

The following table notes the ten largest shareholders based on information available as of September 30, 2021 but adjusted to reflect the new shares which will be issued in connection with the ongoing directed share issue. The actual ownership percentages may vary upon completion of the directed share issue

Name	No. Of A-shares	No. Of B-shares	Share capital in %	Voting rights, %
Health Runner AB (Ilija Batljan)	-	34,771,101	13.0	13.0
Rhenman Partners	-	12,677,034	4.8	4.7
Fjärde AP-Fonden	-	12,537,181	4.7	4.7
Sebastian Jahreskog	-	10,558,776	4.0	3.9
Tredje AP-Fonden	-	9,480,000	3.6	3.5
Unionen	-	6,480,000	2.4	2.4
LMK Forward AB	-	6,000,000	2.3	2.2
Andra AP-Fonden	-	5,400,000	2.0	2.0
Strand Småbolagsfond	-	5,100,000	1.9	1.9
Niles Noblitt (co-founder Biomet)	-	5,080,627	1.9	1.9
Total, 10 largest shareholders	**-**	**108,084,719**	**40.6**	**40.3**
Summary, other	**951,020**	**157,502,002**	**59.4**	**59.7**
Total	**951,020**	**265,586,721**	**100.0**	**100.0**

Episurf Medical's strategy rests on four key pillars:



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, the possibility to obtain the correct reimbursement for the Group's products 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, 28 October 2021

Dennis Stripe
Board chairman

Annette Brodin Rampe
Board member

Christian Krüeger
Board member

Leif Ryd
Board member

Laura Shunk
Board member

Ulf Grunander
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 condensed interim financial information (interim report) of Episurf Medical AB (publ.) as of 30 September 2021 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 28 October 2021

KPMG AB

Duane Swanson
Authorised Public Accountant

Consolidated income statement

mSEK	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Jan-Dec 2020
Operating income					
Net sales	1.5	1.5	5.1	3.5	5.0
Other operating income	0.1	0.2	0.3	0.4	2.0
Total income	**1.6**	**1.6**	**5.4**	**3.9**	**7.0**
Operating expenses					
Merchandise	-1.2	-1.4	-4.0	-3.6	-5.1
Other expenses	-8.2	-7.4	-26.3	-24.6	-33.5
Personnel costs	-8.1	-7.4	-23.9	-20.3	-28.3
Capitalised development expenditure	1.9	1.2	4.0	3.1	4.1
Depreciation of equipment and non-current assets	-1.9	-2.0	-5.5	-5.8	-7.6
Total operating expenses	**-17.5**	**-17.1**	**-55.8**	**-51.3**	**-70.4**
Operating loss	**-15.9**	**-15.4**	**-50.4**	**-47.4**	**-63.4**
Financial items					
Financial income, other	0.0	0.1	0.2	0.1	0.1
Financial expenses, other	-0.1	-0.0	-0.2	-0.4	-0.7
Results from net financial items	**-0.0**	**0.0**	**0.1**	**-0.3**	**-0.5**
Loss before tax	**-15.9**	**-15.4**	**-50.4**	**-47.7**	**-63.9**
Tax on income for the period	-0.0	-0.0	-0.0	-0.0	-
Loss for the period	**-15.9**	**-15.4**	**-50.4**	**-47.7**	**-63.9**
Net loss attributable to:					
Parent company shareholders	-15.9	-15.4	-50.4	-47.7	-63.9
Earnings per share before and after dilution, SEK	-0.07	-0.08	-0.23	-0.32	-0.39
Average number of shares	222,129,633	185,029,787	222,079,235	150,463,645	162,078,945

Consolidated statement of comprehensive income

mSEK	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Jan-Dec 2020
Net profit (loss)	**-15.9**	**-15.4**	**-50.4**	**-47.7**	**-63.9**
Other comprehensive income for the period:					
Other comprehensive income that may be reclassified subsequently to profit or loss for the period, net of tax	0.0	0.0	-0.1	-0.1	0.1
Total comprehensive income (loss) for the period	**-15.9**	**-15.4**	**-50.4**	**-47.8**	**-63.8**
The period's loss and comprehensive income attributable to					
Owners of the parent	**-15.9**	**-15.4**	**-50.4**	**-47.8**	**-63.8**

Condensed consolidated balance sheet

mSEK	30 Sep 2021	30 Sep 2020	31 Dec 2020
ASSETS			
Non-current assets			
Intangible fixed assets			
Capitalised development costs	7.3	7.1	6.7
Patents	14.1	13.9	14.1
Total intangible fixed assets	**21.4**	**21.0**	**20.8**
Equipment and right-of use asset			
Right-of-use asset	3.1	4.4	3.8
Equipment	0.0	0.0	0.0
Total equipment and right-of-use asset	**3.1**	**4.4**	**3.8**
Non-current financial assets			
Other non-current financial assets	0.5	-	0.5
Total non-current financial assets	**0.5**	**0.0**	**0.5**
Total non-current assets	**25.0**	**25.5**	**25.1**
Current assets			
Inventories	2.0	1.7	2.0
Trade receivables	1.5	1.2	0.6
Other receivables	0.9	0.8	0.9
Deferred expenses and accrued income	1.4	1.4	1.9
Cash	103.8	106.6	155.0
Total current assets	**109.6**	**111.7**	**160.3**
TOTAL ASSETS	**134.6**	**137.2**	**185.4**
EQUITY AND LIABILITIES			
Equity	**120.8**	**123.2**	**169.5**
Liabilities			
Non-current liabilities			
Non-current liabilities	1.6	0.3	0.6
Non-current lease liability	0.5	2.1	1.5
Total long-term liabilities	**2.1**	**2.4**	**2.1**
Current liabilities			
Trade payables	3.7	3.7	5.4
Current lease liability	2.3	2.4	2.4
Other liabilities	1.1	1.4	2.3
Accrued liabilities and deferred income	4.6	4.2	3.8
Total current liabilities	**12.0**	**11.7**	**13.9**
Total liabilities	**13.8**	**14.0**	**16.0**
TOTAL EQUITY AND LIABILITIES	**134.6**	**137.2**	**185.4**
Equity ratio	89.5%	89.8%	91.4%
Equity per share, SEK	0.54	0.67	0.76

Consolidated statement of changes in equity

	Attributable to equity holders of the parent				
mSEK	**Share capital**	**Other contributed capital**	**Reserves**	**Accumulated deficit incl. loss for the year**	**Total equity**
Opening equity January 1, 2020	**27.3**	**394.6**	**-0.4**	**-380.1**	**41.4**
Total comprehensive income for the period				-63.9	-63.9
Other comprehensive income			0.1		0.1
Reclassification reserves*			0.0	-0.0	0.0
Total comprehensive income			**0.1**	**-63.9**	**-63.8**
Transactions with shareholders					
New share issue, net after issue expenses**	28.3	100.5			128.8
Directed share issue, net after issue expenses***	11.1	50.9			61.9
Conversion warrants, net after issue expenses****	0.1	0.2			0.2
Warrants issued to staff		0.1		0.8	0.9
Total transactions with shareholders	**39.4**	**151.6**		**0.8**	**191.8**
Closing equity December 31, 2020	**66.7**	**546.2**	**-0.2**	**-443.2**	**169.5**
Opening equity January 1, 2021	**66.7**	**546.2**	**-0.2**	**-443.2**	**169.5**
Total comprehensive income for the period				-50.4	-50.4
Other comprehensive income			-0.1		-0.1
Total comprehensive income			**-0.1**	**-50.4**	**-50.4**
Transactions with shareholders					
New share issue, net after issue expenses, 2020***		-0.1			-0.1
Conversion warrants, net after issue expenses*****	0.0	0.1			0.1
Warrants issued to staff				1.8	1.8
Total transactions with shareholders	**0.0**	**-0.0**		**1.8**	**1.8**
Closing equity September 30, 2021	**66.7**	**546.2**	**-0.3**	**-491.8**	**120.8**

* Correction of previous classification.
** Issue expenses amounts to SEK 12.4m.
***Issue expenses amounts to SEK 4.4m.
**** Expenses amounts to SEK 0.0m.
***** Expenses amounts to SEK 0.0m.

Consolidated cash flow statement

mSEK	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Jan-Dec 2020
Operating activities					
Operating loss	-15.9	-15.4	-50.4	-47.4	-63.4
Adjustments for items not included in cash flow					
Depreciation	1.9	2.0	5.5	5.8	7.6
Employee stock option expenses	1.0	0.5	1.9	0.8	1.4
Interest received	-	-	-	-	0.0
Interest paid	-0.1	-	-0.1	-	0.0
Cash flow from current operations before change in working capital	**-13.2**	**-12.9**	**-43.1**	**-40.8**	**-54.3**
Change in working capital					
Decrease/increase in inventory	-0.2	0.2	-0.0	0.1	-0.2
Decrease/increase in trade receivables	0.2	-0.5	-0.9	-0.4	0.2
Decrease/increase in current receivables	0.9	-0.3	0.0	-0.2	-0.8
Decrease/increase in current liabilities	-2.0	0.8	-2.1	-1.0	1.0
Change in working capital	**-1.1**	**0.2**	**-3.0**	**-1.5**	**0.2**
Cash flow from operating activities	**-14.3**	**-12.7**	**-46.2**	**-42.3**	**-54.1**
Investing activities					
Investments of intangible fixed assets	-1.9	-1.4	-4.0	-3.5	-4.6
Decrease/increase in non-current financial assets	-0.0	-	-0.0	-	-0.5
Cash flow from investing activities	**-1.9**	**-1.4**	**-4.1**	**-3.5**	**-5.1**
Financing activities					
Issuance of share options	-	-	0.9	0.1	0.1
Amortisation of lease debt	-0.7	-0.5	-1.8	-1.6	-2.2
Conversion warrants	-0.0	-	0.1	-	-
New share issue	-	-0.0	-0.1	128.8	190.9
Cash flow from financing activities	**-0.7**	**-0.6**	**-0.9**	**127.2**	**188.8**
Cash flow for the period	**-16.8**	**-14.6**	**-51.1**	**81.3**	**129.7**
Cash and cash equivalents at beginning of period	120.7	121.2	155.0	25.3	25.3
Cash and cash equivalents at end of period	**103.8**	**106.6**	**103.8**	**106.6**	**155.0**

Income statement, Parent Company

mSEK	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Jan-Dec 2020
Operating income					
Net sales	0.2	0.1	0.6	0.3	0.5
Other operating income	0.0	0.1	0.0	0.1	1.5
Total income	**0.2**	**0.2**	**0.6**	**0.4**	**2.0**
Operating costs					
Other external expenses	-6.4	-5.6	-18.9	-17.5	-23.8
Personnel costs	-3.7	-3.9	-11.9	-9.7	-13.7
Capitalised development expenditure	1.1	0.6	2.2	0.9	1.1
Amortisation of intangible assets and depreciation of property, plant and equipment	-0.5	-0.7	-1.6	-1.8	-2.5
Total operating costs	**-9.5**	**-9.6**	**-30.2**	**-28.0**	**-38.9**
Operating loss	**-9.4**	**-9.3**	**-29.6**	**-27.6**	**-36.9**
Financial items					
Financial income, other	0.0	0.1	0.0	0.0	0.0
Financial expenses, other	-	-	-0.0	-0.0	-0.0
Results from net financial items	**0.0**	**0.1**	**0.0**	**0.0**	**0.0**
Loss before tax	**-9.4**	**-9.3**	**-29.6**	**-27.6**	**-36.8**
Tax on income for the period	-	-	-	-	-
Loss at end of the period	**-9.4**	**-9.3**	**-29.6**	**-27.6**	**-36.8**

Parent Company statement of comprehensive income

mSEK	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Jan-Dec 2020
Net profit	**-9.4**	**-9.3**	**-29.6**	**-27.6**	**-36.8**
Other comprehensive income for the period:					
Other comprehensive income for the period, net of tax	-	-	-	-	-
Total comprehensive income for the period	**-9.4**	**-9.3**	**-29.6**	**-27.6**	**-36.8**

Condensed balance sheet, Parent Company

mSEK	30 Sep 2021	30 Sep 2020	31 Dec 2020
ASSETS			
Fixed assets			
Intangible fixed assets			
Capitalised development costs	7.3	7.1	6.7
Total intangible fixed assets	**7.3**	**7.1**	**6.7**
Tangible fixed assets			
Equipment	-	0.0	0.0
Total tangible fixed assets	**-**	**0.0**	**0.0**
Financial assets			
Shares in group companies	188.9	157.4	162.9
Long-term receivables from group companies	22.6	28.7	33.2
Other non-current financial receivables	0.5	-	0.5
Total financial assets	**212.0**	**186.1**	**196.6**
Total fixed assets	**219.3**	**193.3**	**203.2**
Current assets			
Short term receivables			
Trade receivables	0.0	-	-
Other receivables	0.4	0.4	0.6
Prepaid expenses and accrued income	1.4	0.8	1.7
Total short term receivables	**1.8**	**1.1**	**2.3**
Cash	87.7	91.0	134.8
Total current assets	**89.5**	**92.1**	**137.1**
TOTAL ASSETS	**308.8**	**285.4**	**340.3**
EQUITY AND LIABILITIES			
Equity	**302.8**	**279.4**	**332.4**
Liabilities			
Current liabilities			
Trade payables	1.8	2.0	3.5
Other liabilities	0.5	0.4	1.4
Accrued liabilities and deferred income	3.6	3.6	3.1
Total current liabilities	**6.0**	**6.0**	**7.9**
Total liabilities	**6.0**	**6.0**	**7.9**
TOTAL EQUITY AND LIABILITIES	**308.8**	**285.4**	**340.3**

Statement of changes in equity, Parent Company

mSEK	Share capital	Development fund	Share premium reserve	Loss brought forward	Loss for the period	Total equity
Opening equity January 1, 2020	**27.3**	**7.4**	**394.6**	**-210.2**	**-40.9**	**178.2**
Loss for the period					-36.8	-36.8
Disposition according to AGM						
Loss brought forward				-40.9	40.9	-
Deposition/resolution development fund		-0.8		0.8		-
Total comprehensive loss for the period		**-0.8**		**-40.1**	**4.1**	**-36.8**
Transactions with shareholders						
New share issue, net after issue expenses*	28.3		100.5			128.8
Directed share issue, net after issue expenses**	11.1		50.9			61.9
Conversion warrants, net after issue expenses***	0.1		0.2			0.2
Warrants issued to staff			0.1			0.1
Total transactions with shareholders	**39.4**		**151.6**			**191.0**
Closing equity December 31, 2020	**66.7**	**6.7**	**546.2**	**-250.4**	**-36.8**	**332.4**
Opening equity January 1, 2020	**66.7**	**6.7**	**546.2**	**-250.4**	**-36.8**	**332.4**
Loss for the period					-29.6	-29.6
Disposition according to AGM						
Loss brought forward				-36.8	36.8	-
Development fund		0.6		-0.6		-
Total comprehensive loss for the period		**0.6**		**-37.4**	**7.2**	**-29.6**
Transactions with shareholders						
Costs directed share issue 2020			-0.1			-0.1
Conversion warrants, net after issue expenses****	0.0		0.1			0.1
Total transactions with shareholders	**0.0**		**-0.0**			**-0.0**
Closing equity September 30, 2021	**66.7**	**7.3**	**546.2**	**-287.8**	**-29.6**	**302.8**

* Issue expenses amount to SEK 12.4m.
**Issue expenses amounts to SEK 4.4m.
*** Expenses amounts to SEK 0.0m.
**** Expenses amounts to SEK 0.0m.

Cash flow statement, Parent Company

mSEK	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Jan-Dec 2020
Current operations					
Operating loss	-9.4	-9.4	-29.6	-27.6	-36.9
Adjustments for items not included in cash flow					
Depreciation	0.5	0.7	1.6	1.8	2.5
Interest received	0.0	-	0.0	-	0.0
Interest paid	-	-	-0.0	-	-0.0
Cash flow from current activities before changes in working capital	**-8.8**	**-8.7**	**-27.9**	**-25.8**	**-34.4**
Changes in working capital					
Decrease/increase in current receivables	0.6	-0.1	0.6	0.5	-0.7
Decrease/increase in current liabilities	-1.2	0.7	-2.0	-1.0	1.0
Total changes in working capital	**-0.6**	**0.6**	**-1.4**	**-0.5**	**0.3**
Cash flow from operating activities	**-9.4**	**-8.1**	**-29.4**	**-26.3**	**-34.1**
Cash flow from investing activities					
Acquisition of intangible assets	-1.1	-0.6	-2.2	-0.9	-1.1
Shareholder contribution	-11.0	-4.0	-26.0	-20.0	-25.5
Repaid group companies	11.9	4.6	37.1	29.9	36.1
Loan group companies	-2.8	-11.3	-26.6	-38.6	-49.2
Decrease/increase in other non-current receivables	-0.0	-	-0.0	-	-0.5
Cash flow from investing activities	**-3.1**	**-11.3**	**-17.7**	**-29.7**	**-40.3**
Cash flow from financing activities					
Issuance of share options	-	-	-	0.1	0.1
Conversion warrants	-0.0	-	0.1	-	-
New share issue	-	-0.0	-0.1	128.8	190.9
Cash flow from financing activities	**-0.0**	**-0.0**	**-0.0**	**128.8**	**191.0**
Cash flow for the period	**-12.5**	**-19.5**	**-47.1**	**72.8**	**116.6**
Cash and cash equivalents at beginning of period	100.2	110.4	134.8	18.1	18.1
Cash and cash equivalents at end of period	**87.7**	**91.0**	**87.7**	**91.0**	**134.8**

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 previous year and these correspond with the accounting principles that were used in the preparation of the most recent Annual Report with the exception of the additional applications principles for accounting for license revenues described below. Information according to IAS 34.16A is included in these financial statements and related notes as well in other parts of this interim report.

License revenue refers to the out-licensing of the parent company's patented software platform µiFidelity®. When licensing the Group's intellectual property (IP) to a customer, a distinction is made between two types of licensing with associated distinct performance obligation that affect whether revenue is to be reported at a certain time or accrued over time:

a) Right to access IP – the agreement requires, or the customer can reasonably expect, that the Group will take measures that significantly affect the rights the customer is entitled to, that these measures directly affect the customer and that the measures do not involve the transfer of goods/services to the customer when the measures are carried out. The performance obligation and thus the income is reported over time, usually linearly.
b) Right to use IP – the customer only has the right to use the IP in its existing state at the time when the right was granted to the customer. The performance obligation is fulfilled initially, at that time.

In accordance with the terms of the license agreement, it has been determined to be a right to use IP and recognised at the effective date of the contract.

Capitalised 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 recognised 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 recognised 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 recognised 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.

Financial assets and liabilities
Other financial assets and liabilities in the balance sheet are reported as acquisition value, which is judged to be a good approximation to the fair value of the items.

Note 2 Breakdown of net sales by country is as follows

mSEK	Jul-Sep 2021	Jul-Sep 2020	Jan-Sep 2021	Jan-Sep 2020	Jan-Dec 2020
Germany	0.9	1.0	3.3	2.8	3.9
Sweden	0.1	-	0.2	0.0	0.1
Other countries in Europe	0.5	0.4	1.4	0.7	1.0
Other countries outside of Europe	0.0	-	0.1	-	0.0
Total net sales	**1.5**	**1.5**	**5.1**	**3.5**	**5.0**

Definitions

General:	All amounts in the tables are presented in mSEK unless otherwise stated. All amounts in brackets () represent comparative figures for the same period of the prior year, unless otherwise stated.
Net debt/equity ratio:	Net debt at the end of the period divided by equity at the end of the period.

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:	Shock absorbing and friction reducing tissue. This tissue that covers the end of bones and 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):	Defect extending down to >50% of the cartilage depth.
CE marking:	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.
Clinical results:	Outcome from clinical treatment of humans, where parameters such as efficacy and safety are evaluated.
Cobalt chrome:	A metal alloy mainly consisting of cobalt and chromium, commonly occurring in metal alloys used in knee prostheses.
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.
Femoral condyles:	Two bony protuberances on the thighbone side of the knee joint that articulate with the shinbone. The name originates from the anatomical terms femur (thighbone) and condyle (articular head).
Gross order intake:	Gross order intake represents the aggregated value of Episealer® orders received and approved by responsible surgeon during the relevant period.
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.
Micro fracturing:	A biological 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.
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.
OA:	See osteoarthritis.

Order book:	Order book represents all orders that have been booked but where no revenue has been recognised.
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:	A type of joint disease that is characterised by loss of joint function with varying destruction of joint cartilage and the underlying bone.
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,
Reimbursement:	Reimbursement is a word that is used generally in the healthcare industry to describe the payment systems that apply to healthcare costs in various countries.
TKA:	Total knee arthroplasty, total knee joint replacement, which is a surgical procedure primarily used to relieve arthritis in which the knee joint is replaced with artificial parts (prostheses).
Traumatic damage:	Damage caused by an outside force, such as fall injuries.
UKA:	Unicompartmental knee arthroplasty, partial knee joint replacement which is a surgical procedure primarily used to relieve arthritis in one of the knee compartments. Parts of the knee joint are replaced with artificial parts (prostheses).

This is Episurf Medical

– a unique solution for every patient

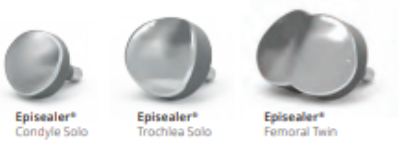
EPISURF WAS FOUNDED IN 2009 on a commitment to offer people with painful joint injuries a more active and healthy life through customised treatment alternatives. We put the patient in the centre of the design of implants and surgical instruments. By combining advanced 3D imaging technology with the latest 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 individualised 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 has been on early stage arthritic changes in the knee joint. This is now followed by lesions in the second joint, the ankle.

Individualised implants with a focus on early stages of arthritis

Episurf Medical has three types of knee 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.

Episurf Medical has one implant for the ankle on the market

» Episealer Talus® intended for osteochondral lesions of the talar dome of the ankle joint

Patient-specific surgical instruments

Every product is delivered with our individualised surgical drill guide Epiguide® and a set of associated surgical instrument. 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. Further, for the ankle Episurf Medical offers an individualised sawguide, Talus Osteotomy Guide. It is intended to help the surgeon to find the correct position and depth when performing an osteotomy of the medial malleolus for access to the talar dome of the ankle 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 180 patents and patent applications worldwide, distributed over 20 patent families.

» The first Episealer® surgery in a human was performed in December 2012. At the end of 2020, a total of 825 surgeries had been performed.
» 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

Q3 report presentation	10:00 (CEST), 29 October 2021
Year-End Report 2021	11 February 2022
AGM	4 April 2022
Interim Report January-March 2022	29 April 2022
Interim Report April-June 2022	15 July 2022
Interim Report July-September 2022	28 October 2022
Year-End Report 2022	10 February 2023

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 29 October 2021 at 08.30 (CEST).

Episurf Medical invites analysts, investors and media to a webcasted presentation in connection with the publishing of the Q3 report.

Date: October 29th 2021
Start time: 10:00 (CEST)
Location: https://www.finwire.tv/webcast/episurf/q3-2021/

The presentation will be held in English by CEO Pål Ryfors, and afterwards questions are invited. An on-demand version of the webcast will be available at Episurf Medical's website after closing of the presentation.

The following analysts follow Episurf Medical's development:

DNB Analyst: Patrik Ling
Redeye Analyst: Oscar Bergman

IR-contact

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