Year–end report, 1 October–31 December 2017

Fourth quarter 2017 compared to 2016, Group

- Gross order intake amounted to SEK 885,088 (626,306) an increase of 41.3%
- Order backlog amounted to SEK 893,014 (325,434) an increase of 174.4%
- 38% growth in orders for Episealer® knee implants during the quarter with 36 (26) approved orders
- Group net sales amounted to SEK 884,088 (1,007,759)
- Loss before tax amounted to SEK –15,547,283 (–18,454,211)
- Loss per share (weighted average) amounted to SEK –0.51 (–0.97)

Significant events during the fourth quarter

- Episealer® 24 months' clinical study results accepted for publication in peer-reviewed scientific journal
- 5 years' follow-up of the first Episealer® patient
- Episurf Medical reached milestone of 300 implants
- Episurf Medical obtained another new patent in China and Australia
- Fredrik Zetterberg appointed Head of Marketing for Episurf Medical
- Episurf Medical's CEO Pål Ryfors acquired shares corresponding to 3.2% of capital and 6.8% of votes from main shareholder Serendipity Ixora
- Episurf Medical's 100th Episealer® implant in Germany

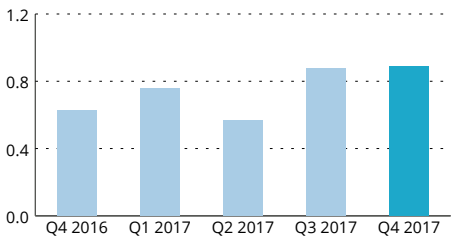
Significant events after the fourth quarter

- Episurf Medical signed financing agreement of up to SEK 70m subject to approval at the general meeting
- Episurf Medical announced that the company is in the final stages of the development of an ankle implant
- Episurf Medical received market approval in Israel and signed distribution agreement for the Israeli market

Twelve months 2017, compared to 2016, Group

- Gross order intake amounted to SEK 3,103,930 (2,662,125)
- Group net sales increased by 4% to SEK 2,490,248 (2,405,614)
- Loss before tax amounted to SEK –61,093,452 (–61,667,464)
- Loss per share (weighted average) amounted to SEK –2.18 (–3.24)
- Equity per share amounted to SEK 2.80 (3.05)
- Equity ratio amounted to 91.7 % (80.8)

Gross order intake



"We concluded the year with a highly satisfactory trend, given the 41.3 percentage growth of gross order intake, a financial result which was SEK 2.9m better than the same quarter previous year, and we also saw a stable increase in the number of Episealer® orders."

Pål Ryfors,
CEO

Message from the CEO

Dear shareholders,

2017 was a successful year for Episurf Medical in which we reached a number of important milestones and overcame some important challenges. We concluded the year with a highly satisfactory trend, given the 41.3 percentage growth of gross order intake, a financial result which was SEK 2.9m better than the same quarter previous year, and we also saw a stable increase in the number of Episealer® orders.

In the orthopaedic industry new products and procedures are not usually accepted overnight: orthopaedic surgeons want to bring their patients back to motion, but first they want to see evidence of long-term efficacy. Once innovations gain acceptance, however, treatment algorithms and the market landscape can change quickly. Episurf Medical has a clear and ambitious strategy to address this challenge and in 2017 we made significant progress with this strategy. Our strategy has four key components and summarising these will be the main theme of this annual review.

1. Produce clinical and health economic data supporting the Episealer® technology

Close to 300 patients in Europe have now been treated with the Episealer device and we have had our first patient passing the 5-year follow-up with excellent results. We had our first peer-reviewed multicenter study results published in late 2017, showing good to excellent results. Further, we have a fully recruited multicenter study involving more than 100 patients, where interim results are expected shortly. During the year, the Episealer® was presented at a number of podium presentations at clinical congresses, where prominent surgeons talked about their experience of using the Episealer® technology. It is fair to say that the Episealer® technology gained significant attention during 2017 and encouragement to produce further clinical evidence remains a top priority for the company. I am particularly happy with the continuous interest from clinics across the globe to participate in clinical studies of the Episealer® technology, and investors should expect additional news and progress on this front.

2. Establish the Episealer® technology with a large user base of orthopaedic surgeons and Key Opinion Leaders globally

We now have a solid and growing user base in Europe. The sales cycle in these early days is quite lengthy, although it is steadily being shortened as we develop our processes and as our technology gains acceptance. Germany, UK, the Benelux and the Nordic region remain our core markets, and these markets will be instrumental in driving revenues for the coming years. In line with our international growth strategy, we started to execute on our expansion plan for new markets in late 2017. There are additional countries in Europe which are of great interest to us, such as Spain where we are close to finalizing product registration. Our network in Europe is strong and we will continue to target Key Opinion Leaders in new European markets. These new markets are likely to constitute a mix between direct sales markets and distribution markets.

We are also working on the Middle East (ME) region. We have recently received regulatory approval in Israel and we have appointed a distributor. One Israeli patient has been treated with an Episealer® and there are additional patients in the pipeline. We have engaged in distributor discussions in several other ME countries and we have started the processes of achieving regulatory approval. The regulatory timelines in the ME region are generally shorter than in many other regions, and we will market in the ME through distributors.

As we speak, we are further engaging in distributor and surgeon discussions in a number of Asian countries. An initial regulatory review in these countries has been performed. We are looking at these markets with great interest and we look forward to taking the next steps in 2018.

Next up, there are certain carefully selected markets where we are looking at potential distributor opportunities. They constitute important markets in our long-term planning, but we do need to analyse them further before taking the next steps. In this group we are primarily referring to Australia, South Africa and Canada.

Moving on to the US – by far the largest orthopaedic market in the world – I would like to start by saying the we have come far in our preparations. The US Food and Drug Administration is, after long discussions, classifying our Episealer® knee technology as a Class III device requiring a Premarket Approval (PMA) application. Such an application generally follows on a clinical study performed under an Investigational Device Exemption (IDE). We have spent a good part of 2017 investigating and reviewing our regulatory pathway options and, ultimately, the IDE study design. We are now in a position where we have a study design completed, we are in discussions with a potential principal investigator site and we have other sites ready to sign up for the study. The study will be performed both at sites in the US and in Europe. We see a great interest in the Episealer® technology and our ambition is that the first surgeries in the US shall take place during late 2018. The clinical trial is also designed to meet requirements on health economic considerations and this study will be of tremendous value to Episurf Medical. We are really starting to execute on our strategy for obtaining FDA approval for the US market.

From a commercial perspective we continue to assess the execution of our US strategy. As we have communicated, execution of our strategy might best be pursued together with a partner, and Episurf Medical is currently in early collaborative discussions. In the past, when Episurf Medical has discussed future opportunities with US market participants, it has been very clear that two prerequisites must be met before such discussions can advance. First, there must be clarity regarding the regulatory pathway for the Episealer® device into the US market. Second, there must be clinical evidence in place. We are very happy to conclude that the first criterion is now met, and the second is partly met and there is a clear route forward to meet it completely. Episurf Medical has put itself in a much stronger position with respect to the US market.

3. Secure production and reimbursement enabling high margins

We are consciously deferring for now any capital expenditures in the actual Episealer® production chain. Our strategy is to make these investments once demand drives production requirements to higher volumes. For now, capital expenditures are directed mainly towards the software side of our business and our IT platform, as we are improving efficiency in the web-based order and production flow.

Naturally, we are getting quite a lot of questions from investors on our reimbursement situation, and I would like to say the following. Our list prices are in the region of EUR 3,000, which we work hard to defend, notwithstanding challenges typical for novel products entering the market. When you bring a totally new technology to the market, it is quite normal to use a slightly softer approach to price discussions for the first cases. Moreover, many of our surgeries take place within clinical studies, a situation where medical technology companies often provide the goods without charge. In Belgium, which is important to us for clinical reasons, we have a very low reimbursement amount which was fixed and determined by authorities many years ago. Despite all of this, and even though we up to November 2017 operated without any published study results published, I am pleased to report we have been able to charge very close to our list prices. Why is this? Simply because we have a superior product.

4. Ensure technological relevance and a high degree of innovation

At Episurf Medical, we take pride in being at the forefront technologically. A constant discussion has been whether our technology can be applied to other joints, and in 2017, our product development efforts were primarily focused on the development of an ankle implant. We updated the market on this in February 2018, and we look forward to communicating more on this very interesting product soon. The development of our imaging technology further continues within this very interesting field.

The treatment of smaller joints and the development of imaging technologies constitute fast growing key segments for the orthopaedic industry, and Episurf Medical's solutions are at the forefront of this development.

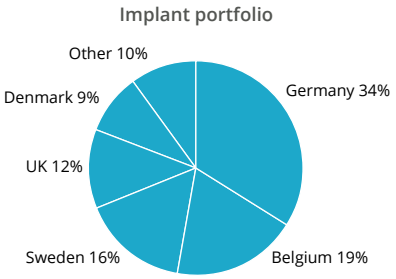
Concluding remarks

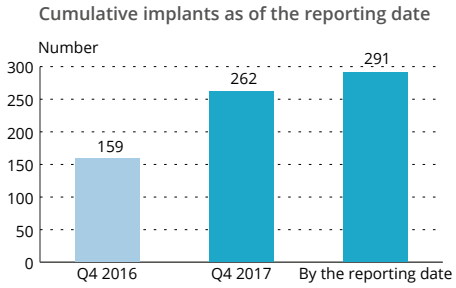
IIn 2017, we continued to deliver on our strategy and we did this with a smaller organisation than in 2016. We worked very hard to optimize our allocation of resources and to ensure strong cost discipline and efficiency in everything we do. This will contribute to continued improvement of the profitability and we are convinced that this development will continue to create shareholder value. The strength of our organisation was evident during 2017 and we are prepared for another year of challenges overcome and goals achieved. Today, we have also announced that we are strengthening our finances by a credit facility. This credit facility works perfectly for us as it provides financial flexibility and allows existing shareholders to participate in our growth journey through a warrant structure. 2018 promises to be a very exciting year for Episurf Medical.

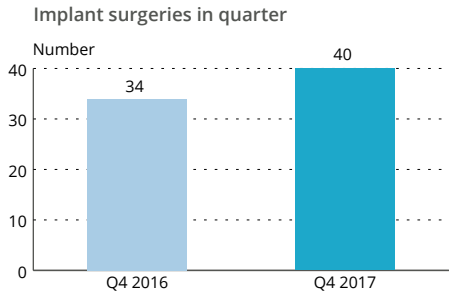
Pål Ryfors, CEO
Stockholm, February 2018

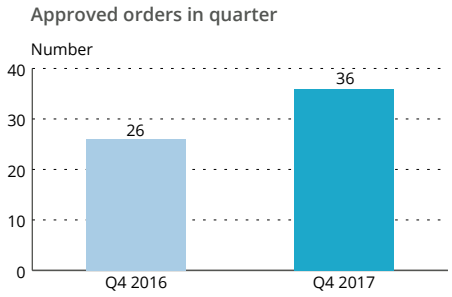
Business update and forward–looking statements

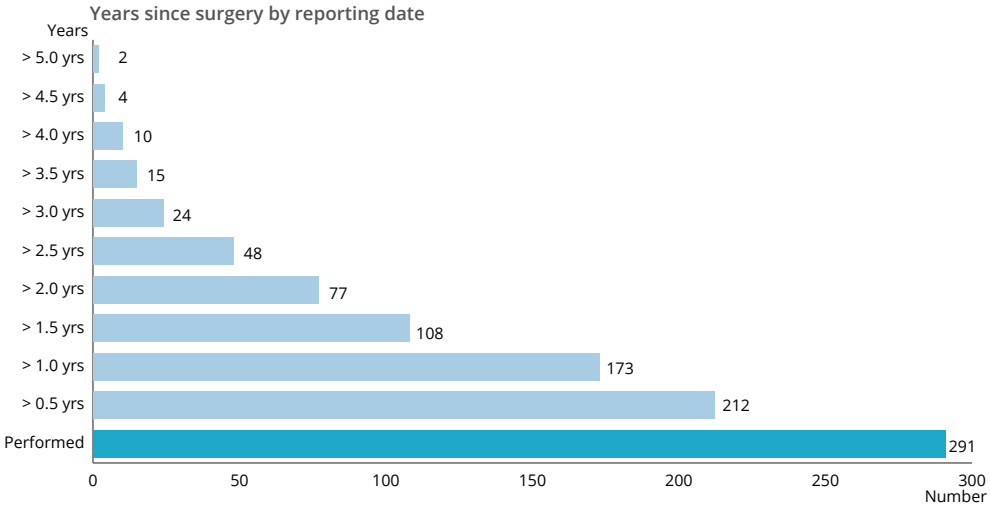
By the reporting date on February 23 2018, Episurf Medical's implants had been used in 291 surgeries. Episurf Medical has seen an increase in the business volumes in recent weeks, and another 43 orders are approved for surgery in the coming weeks. Episurf Medical's patients are experiencing significant improvements in pain and mobility. Furthermore, they are also experiencing a short recovery time. Out of the total implant portfolio of 291 implants, we now have 10 patients who have had their implants for more than 4 years and 77 patients have now had their implants for more than 2 years since the surgery date. During the fourth quarter, 40 surgeries were performed with the Episealer® knee implant and we continued to make progress in all of our key markets. 36 orders were approved for surgery during the fourth quarter. We continue to note a demand for the Episealer® Femoral Twin implant as 63% of the surgeries performed in the fourth 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 operating profit/loss

Group net sales amounted to SEK 884,088 (1,007,759) in the quarter and to SEK 2,490,248 (2,405,614) for the financial year. Loss before tax amounted to SEK –15,547,283 (–18,454,211) for the quarter and SEK –61,093,452 (–61,667,464) for the financial year.

Financial position

Group cash and cash equivalents at end of period amounted to SEK 71,279,319 (42,300,018). The equity ratio was 91.7 % (80.8). Group investments in intangible assets amounted to SEK 2,216,144 (1,718,275) for the quarter of which SEK 1,352,411 (545,053) are related to capitalized development costs and for the financial year investments in intangible assets amounted to SEK 7,445,889 (5,405,142) of which SEK 3,709,178 (1,605,049) are related to capitalized development costs, remaining investments relates to patents. Investments in tangible assets amounted to SEK – (29,191) for the quarter and SEK 32,690 (135,721) for the financial year.

Human resources

Number of employees in the Group at end of the period was 26 (27).

Parent Company

Net sales and operating profit/loss

Net sales amounted to SEK 243,913 (–) in the quarter and to SEK 243,913 (–) for the financial year. Loss before tax amounted to SEK –6,945,552 (–13,966,603) for the quarter and SEK –29,685,282 (–34,127,522) for the financial year.

Financial position

Cash and cash equivalents at the end of period for the Parent Company amounted to SEK 62,467,679 (40,109,215). The equity ratio was 97.7 % (90.2). Investments in intangible assets, capitalized development costs, amounted to SEK 1,352,411 (545,053) for the quarter and SEK 3,709,178 (1,605,049) for the financial year. Investments in tangible assets amounted to SEK – (62,499) for the quarter and for the financial year.

Human resources

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

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.

Transactions with closely related parties

Shareholder and Board member Leif Ryd has received consulting fees during the period of SEK 660,000 (540,000). In addition to the board fee the Board Chairman, Dennis D. Stripe has received SEK 282,000 (–) as compensation for the work during the year as working Chairman. Serendipity Communications AB has received consulting fees of SEK 139,900 (850,073), Serendipity Legal AB of SEK 22,500 (50,000) and Sprof AB has received consulting fees of SEK 0 (21,375), Serendipity Communications AB, Serendipity Legal AB and Sprof AB are related parties to Episurf Medicals largest shareholder Serendipity Ixora AB. The Chairman and Members of the boards fees were agreed by the AGM and is shown below. The Chairman receive SEK 400,000. Wilder Fulford and Laura Shunk receive remuneration of SEK 200,000. Saeid Esmaeilzadeh, Leif Ryd and Christian Krüeger receive remuneration of SEK 100,000 respectively. In total, the board fees amount to SEK 1,100,000 (1,100,000).

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. As of December 31, 2017 there was a difference in the number of A and B shares registered at with the Swedish Companies Register (Bolagsverket) and those noted by Euroclear due on ongoing conversion of A share being converted to B share. The shares presented in the following table are those which are registered with Euroclear as of December 31, 2017.

31 December 2017	
A-shares	6,363,577
B-shares	24,185,918
Total number of shares	**30,549,495**
Total number of votes	**43,276,649**

The ten largest shareholders in Episurf Medical at 31 December 2017

	No. of A-shares	No. of B-shares	Share capital in %	Voting rights, %
Serendipity Ixora AB	4,661,519	0	15.3	32.3
Pål Ryfors	983,607	32,786	3.3	6.9
JP Morgan Bank, Luxemburg	112,066	2,162,916	7.5	5.8
Försäkringsaktiebolaget, Avanza Pension	0	1,491,362	4.9	3.5
SEB London-Luxemburg, (SICAV Fond)	0	1,228,963	4.0	2.8
AMF Aktiefond småbolag	0	1,164,448	3.8	2.7
Gile Medicinkonsult AB	279,945	142,954	1.4	2.3
LMK Forward AB	0	938,000	3.1	2.2
Swedbank Försäkring	0	811,090	2.7	1.9
Nordnet Pensionsförsäkring AB	0	603,962	2.0	1.4
Total, 10 largets shareholders	**6,037,137**	**8,576,481**	**48.0**	**61.7**
Summary, other	**326,440**	**15,609,437**	**52.0**	**38.3**
Total	**6,363,577**	**24,185,918**	**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, 22 February 2018

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

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

Condensed consolidated income statement

SEK	Oct–Dec 2017	Oct–Dec 2016	Jan–Dec 2017	Jan–Dec 2016
Operating income				
Net sales	884,088	1,007,759	2,490,248	2,405,614
Other operating income	359,585	254,927	603,163	254,927
Total income	**1,243,673**	**1,262,686**	**3,093,411**	**2,660,541**
Operation expenses				
Other expenses	–7,933,463	–10,078,833	–28,798,877	–31,972,268
Personnel costs	–7,788,590	–8,500,938	–31,260,627	–28,340,527
Depreciation	–1,107,600	–968,316	–4,185,721	–4,056,494
Total operating expenses	**–16,829,653**	**–19,548,087**	**–64,245,225**	**–64,369,289**
Operating loss	**–15,585,980**	**–18,285,401**	**–61,151,814**	**–61,708,748**
Financial items				
Financial income, other	39,054	–168,790	61,244	44,224
Financial expenses, other	–437	–20	–2,962	–2,940
Results from financial items	**38,617**	**–168,810**	**58,282**	**41,284**
Loss before tax	**–15,547,363**	**–18,454,211**	**–61,093,532**	**–61,667,464**
Tax on income for the period	93,167	–	80	–
Loss for the period	**–15,454,196**	**–18,454,211**	**–61,093,452**	**–61,667,464**
Net loss attributable to:				
Parent company shareholders	–15,454,196	–18,454,211	–61,093,452	–61,667,464
Earnings per share before and after dilution are consistent with the rules in IAS 33	–0.51	–0.97	–2.18	–3.24
Average number of shares	30,549,495	19,003,941	27,987,331	19,003,941

Condensed consolidated statement of comprehensive income

SEK	Oct–Dec 2017	Oct–Dec 2016	Jan–Dec 2017	Jan–Dec 2016
Net profit	**–15,454,196**	**–18,454,211**	**–61,093,452**	**–61,667,464**
Other comprehensive income for the period:				
Other comprehensive income that may be reclassified subsequently to profit or loss for the period, net of tax	–75,103	–170,939	–19,337	412,960
Total comprehensive income for the period	**–15,529,299**	**–18,625,150**	**–61,112,789**	**–61,254,504**

Condensed consolidated balance sheet

SEK	31 Dec 2017	31 Dec 2016
ASSETS		
Non-current assets		
Intangible assets		
Capitalized development costs	6,755,500	4,302,265
Patent	9,256,394	8,271,484
Total intangible assets	**16,011,894**	**12,573,749**
Property, plant and equipment		
Equipment	245,836	382,054
Total property, plant and equipment	**245,836**	**382,054**
Total non–current assets	**16,257,730**	**12,955,803**
Current assets		
Inventories, finished goods and goods for resale	1,681,945	1,106,057
Trade receivables	1,007,596	581,336
Other receivables	1,238,244	1,570,475
Prepaid expenses and accrued income	1,820,707	1,791,272
Cash and bank balances	71,279,319	42,300,018
Total current assets	**77,027,811**	**47,349,158**
TOTAL ASSETS	**93,285,541**	**60,304,961**
EQUITY AND LIABILITIES		
Equity	**85,571,050**	**48,698,610**
Liabilities		
Non-current liabilities		
Non-current liabilities	20,334	10,320
Total long–term liabilities	**20,334**	**10,320**
Current liabilities		
Trade payables	2,460,687	6,234,498
Other liabilities	1,404,044	1,584,129
Accrued liabilities and deferred income	3,829,426	3,777,404
Total current liabilities	**7,694,157**	**11,596,031**
Total liabilities	**7,714,491**	**11,606,351**
TOTAL EQUITY AND LIABILITIES	**93,285,541**	**60,304,961**
Equity ratio, %	91.7	80.8
Equity per share, SEK	2.80	3.05

Condensed consolidated statement of changes in equity

	Attributable to equity holders of the parent				
SEK	Share capital	Other contributed capital	Reserves	Accumulated deficit incl. loss for the year	Total equity
Opening equity 1 January 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 December 2016	**4,788,991**	**237,044,614**	**586,189**	**–193,721,184**	**48,698,610**
Opening equity 1 January 2017	**4,788,991**	**237,044,614**	**586,189**	**–193,721,184**	**48,698,610**
Total comprehensive income					
Loss for the period			–19,337	–61,093,452	–61,112,789
Total comprehensive income			**–19,337**	**–61,093,452**	**–61,112,789**
Transactions with shareholders					
New share issue, net after issue expenses*	4,383,615	93,344,336			97,727,951
Options issued to staff				257,278	257,278
Total transactions with shareholders	**4,383,615**	**93,344,336**		**257,278**	**97,985,229**
Closing equity 31 December 2017	**9,172,606**	**330,388,950**	**566,852**	**–254,557,358**	**85,571,050**

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

Condensed cash flow statement

SEK	Oct–Dec 2017	Oct–Dec 2016	Jan–Dec 2017	Jan–Dec 2016
Operating activities				
Operating loss	–15,585,980	–18,285,401	–61,151,814	–61,708,748
Adjustments for items not included in cash flow				
Depreciation	1,107,600	968,316	4,185,721	4,056,494
Employee stock option expenses	44,083	9,536	149,976	18,575
Interest received	39,054	5,765	61,244	43,438
Interest paid	–437	–20	–2,962	–2,940
Cash flow from operating activities before change in working capital	**–14,395,680**	**–17,301,804**	**–56,757,835**	**–57,593,181**
Change in working capital				
Decrease/increase in inventory	–238,641	–26,643	–575,889	48,520
Decrease/increase in trade receivables	–285,308	277,705	–426,260	–381,472
Decrease/increase in current receivables	–137	–559,035	302,798	–1,946,942
Decrease/increase in current liabilities	874,068	5,523,335	–3,924,413	3,777,031
Change in working capital	**349,982**	**5,215,362**	**–4,623,764**	**1,497,137**
Cash flow from operating activities	**–14,045,698**	**–12,086,442**	**–61,381,599**	**–56,096,044**
Investing activities				
Investments of intangible fixed assets	–2,216,144	–1,718,275	–7,445,891	–5,405,142
Investments of property, plant and equipment	0	–29,191	–32,690	–159,572
Cash flow from investing activities	**–2,216,144**	**–1,747,466**	**–7,478,581**	**–5,564,714**
Financing activities				
Warrants	250	–	111,530	–
New share issue	–	–	97,727,951	–
Cash flow from financing activities	**250**	**–**	**97,839,481**	**–**
Cash flow for the period	**–16,261,592**	**–13,833,908**	**28,979,301**	**–61,660,758**
Cash and cash equivalents at beginning of period	87,540,911	56,133,926	42,300,018	103,960,776
Cash and cash equivalents at end of period	**71,279,319**	**42,300,018**	**71,279,319**	**42,300,018**

Income statement, Parent Company

SEK	Oct–Dec 2017	Oct–Dec 2016	Jan–Dec 2017	Jan–Dec 2016
Operating income				
Net sales	243,913	–	243,913	–
Other operating income	–	–	–	–
Total income	**243,913**	**–**	**243,913**	**–**
Operating expenses				
Other expenses	–3,935,859	–8,958,207	–17,522,449	–20,540,193
Personnel costs	–2,899,350	–4,708,447	–11,095,906	–12,779,228
Depreciation	–392,949	–300,996	–1,370,390	–1,697,907
Total operating expenses	**–7,228,158**	**–13,967,650**	**–29,988,745**	**–35,017,328**
Operating loss	**–6 984 245**	**–13,967,650**	**–29,744,832**	**–35,017,328**
Financial items				
Financial income, other	39,050	1,047	61,015	891,836
Financial expenses, other	–357	–	–1,465	–2,030
Loss from net financial items	**38,693**	**1,047**	**59,550**	**889,806**
Loss before tax	**6,945,552**	**–13,966,603**	**–29,685,282**	**–34,127,522**
Tax on income for the period	–	–	–	–
Loss for the period	**–6,945,552**	**–13,966,603**	**–29,685,282**	**–34,127,522**

Parent Company statement of comprehensive income

SEK	Oct–Dec 2017	Oct–Dec 2016	Jan–Dec 2017	Jan–Dec 2016
Net profit	**6,945,552**	**–13,966,603**	**–29,685,282**	**–34,127,522**
Other comprehensive income for the period:				
Other comprehensive income for the period, net of tax	–	–	–	–
Total comprehensive income for the period	**6,945,552**	**–13,966,603**	**–29,685,282**	**–34,127,522**

Balance sheet, Parent Company

SEK	31 Dec 2017	31 Dec 2016
ASSETS		
Non–current assets		
Intangible assets		
Capitalized development costs	7,146,113	4,692,878
Total intangible assets	**7,146,113**	**4,692,878**
Tangible fixed assets		
Machinery and equipment	104,499	218,946
Total tangible fixed assets	**104,499**	**218,946**
Financial assets		
Shares in group companies	78,283,375	46,183,375
Long-term receivables from group companies	19,965,809	15,142,260
Total financial assets	**98,249,184**	**61,325,635**
Total fixed assets	**105,499,796**	**66,237,459**
Current assets		
Short term receivables		
Other receivables	540,676	603,742
Prepaid expenses and accrued income	800,285	797,070
Total short term receivables	**1,340,961**	**1,400,812**
Cash and bank balances	62,467,679	40,109,215
Total current assets	**63,826,839**	**41,510,027**
TOTAL ASSETS	**169,308,436**	**107,747,486**
EQUITY AND LIABILITIES		
Equity	**165,349,786**	**97,195,587**
Liabilities		
Long-term liabilities	2,128	4,795
Total long–term liabilities	**2,128**	**4,795**
Current liabilities		
Trade payables	872,198	4,154,482
Non-current liabilities to group companies	–	2,914,675
Other liabilities	578,060	530,461
Accrued liabilities and deferred income	2,506,264	2,947,486
Total current liabilities	**3,956,522**	**10,547,104**
Total liabilities	**3,958,650**	**10,551,899**
TOTAL EQUITY AND LIABILITIES	**169,308,436**	**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 January 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**
Closing equity 31 December 2016	**4,788,991**	**1,057,775**	**235,844,614**	**–110,368,271**	**–34,127,522**	**97,195,587**
Opening equity 1 January 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					–29,685,282	–29,685,282
Disposition according to AGM						
Loss brought forward				–34,127,522	34,127,522	–
Development fund		3,456,846		–3,456,846		–
Total comprehensive loss for the period		**4,514,621**		**–147,952,639**	**–29,685,282**	**67,510,305**
Transactions with shareholders						
New share issue net after issue expenses*	4,383,615		93,344,336			97,727,951
Warrants			111,530			111,530
Total transactions with shareholders	**4,383,615**		**93,455,866**			**97,839,481**
Closing equity 31 December 2017	**9,172,606**	**4,514,621**	**329,300,480**	**–147,952,639**	**–29,685,282**	**165,349,786**

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

Condensed cash flow statement, Parent Company

SEK	Oct–Dec 2017	Oct–Dec 2016	Jan–Dec 2017	Jan–Dec 2016
Operating activities				
Operating loss	–6,984,245	–13,967,650	–29,744,832	–35,017,328
Adjustments for items not included in cash flow				
Depreciation	392,949	300,996	1,370,390	1,697,907
Interest received	39,050	1,047	61,015	891,837
Interest paid	–357	–	–1,465	–2,030
Change in non-current liabilities	–1,492	3,536	–2,667	4,795
Cash flow from operating activities before change in working capital	**–6,554,095**	**–13,662,071**	**–28,317,559**	**–32,424,819**
Change in working capital				
Decrease/increase in current receivables	31,160	–31,640	59,850	–766,960
Decrease/increase in current liabilities	458,218	8,564,460	–6,590,581	6,461,563
Change in working capital	**489,378**	**8,532,820**	**–6,530,731**	**5,694,603**
Cash flow from operating activities	**–6,064,717**	**–5,129,251**	**–34,848,290**	**–26,730,216**
Investing activities				
Acquisition of intangible assets	–1,352,411	–545,053	–3,709,177	–1,605,049
Acquisition of property, plant and equipment	–	–	–	–62,499
Changes in financial assets	–8,982,070	–8,325,678	–36,923,550	–33,456,751
Cash flow from investing activities	**–10,334,481**	**–8,870,731**	**–40,632,727**	**–35,124,299**
Financing activities				
Warrants	251	–	111,530	–
New share issue	–	–	97,727,951	–
Cash flow from financing activities	**251**	**–**	**97,839,481**	**–**
Cash flow for the period	–16,398,947	–13,999,982	22,358,464	–61,854,515
Cash and cash equivalents at beginning of period	78,866,626	54,109,197	40,109,215	101,963,730
Cash and cash equivalents at end of period	**62,467,679**	**40,109,215**	**62,467,679**	**40,109,215**

Notes

Note 1 *Accounting policies*

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

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

Capitalized expenditures for development of products

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

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

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

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

Note 2 *Transactions with related parties, 2017*

Shareholder and Board member Leif Ryd has received consulting fees of SEK 660,000 (540,000). In addition to the board fee the Board Chairman, Dennis D. Stripe has received SEK 282,000 (–) as compensation for the work during the year as working Chairman.

Serendipity Communications AB has received consulting fees of SEK 139,900 (850,073), Serendipity Legal AB of SEK 22,500 (50,000) and Sprof AB has received consulting fees of SEK 0 (21,375).

Board	2017	2016
Dennis Stripe, Chairman of the Board	400,000	400,000
Wilder Fulford, Member	200,000	200,000
Laura Shunk, Member	200,000	–
Christian Krüeger, Member	100,000	100,000
Saied Esmaeilzadeh, Member	100,000	100,000
Leif Ryd, Member	100,000	100,000
Wil Boren, Member	–	83,500

Note 3 *Intangible assets*

Patent, group	okt–dec 2017	okt–dec 2016
Opening cost	21,624,564	16,725,678
Purchases during the year	3,736,711	3,800,093
Capitalized development costs		
Capitalisation during the year	3,709,178	1,605,049
Impairment development costs	–	–506,256
Closing accumulated costs	**29,070,453**	**21,624,564**
Opening depreciation	–9,050,815	–5,679,324
Depreciation for the year	–2,751,801	–2,304,939
Capitalized development costs		
Depreciation for the year	–1,255,943	–1,066,552
Closing accumulated depreciation	**–13,058,559**	**–9,050,815**
Total intangible fixed assets	**16,011,894**	**12,573,749**

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.

Gross order intake: Gross order intake represents the aggregated value of Episealer orders recevied and approved by responsible surgeon during the relevant period.

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.

Investigational Device Exemption (IDE): An exemption that allows the investigational device to be used in a clinical study in order to collect safety and effectiveness data.

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.

Order backlog: Order backlog represents all orders that have been booked but where no revenue has been recognized.

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.

Premarket Approval (PMA) application: FDA's process of scientific and regulatory review to evaluate the safety and effectiveness of Class III medical devices. A successful PMA submission results in US market approval of the device.

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

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

Episurf Medical will presents its 2017 results, a business update and global opportunities on February 23. The presentation starts at 09:00 and will be available via webcast at https://www.redeye.se/live/episurf-q4-2017.

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 23 February 2018 at 08.30 (CET).

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