

Episurf Medical AB (publ) secures external financing of up to SEK 70 million and will issue free warrants to its existing shareholders

Episurf Medical AB (publ) ("Episurf") has signed an agreement relating to a financing of up to SEK 70 million. The capital will be used for execution of the company's growth strategy. The transaction is carried out through the issuance of convertible notes (the "Notes") with warrants attached (the "Warrants") in several tranches spread over 36 months (each a "Tranche"). Episurf will receive SEK 7 million through the first Tranche. Existing shareholders will receive free warrants to protect them against dilution. The financing is conditioned upon the shareholders' meeting resolving on a new authorization for issuance and the board of directors will propose to the annual shareholders' meeting, which is to be held on 9 April 2018, to resolve such new authorization.

"We are happy to conclude this financing agreement as it puts Episurf Medical in a great position to execute on its strategy. We are continuing to report strong clinical results and as the Episealer® technology is gaining traction in Europe, we are just about to launch additional growth initiatives in US, Asia and in the Middle East." comments Pål Ryfors, CEO, Episurf Medical.

The Tranches will be subscribed by European Select Growth Opportunities Fund (the "Investor") which is a fund focusing on smallcap companies in the technology and healthcare sectors presenting a strong growth potential.

The financing relates to an issuance agreement entered into by Episurf with the Investor signed on the evening of 22 February 2018 (the "Agreement"). The first Tranche in the amount of SEK 7 million will be the first transaction pursuant to the Agreement.

In connection with the issue of the first Tranche of Notes and Warrants being carried out, which will occur subsequent to the annual general meeting 2018, Episurf will also issue free warrants to existing shareholders to protect them against dilution (the "Shareholders Warrants"). The Shareholders Warrants will be issued to Episurf's subsidiary and thereafter be transferred to Episurf's shareholders. The record date and the allocation proportion for the Shareholders Warrants will be announced at a later stage. The Shareholders Warrants will have the same characteristics as those of the Investor.

Highlights about the transaction:

- The first Tranche will be carried out as a directed issue of SEK 7 million through the issuance of Notes with Warrants attached to the Investor.
 - Upon the full exercise of the Warrants and the Shareholders Warrants of the first Tranche Episurf will receive an additional SEK 7 million.
 - Maximum additional potential financing of up to SEK 63 million (plus approximately SEK 63 million upon exercise of all the Warrants and the Shareholders Warrants) through similar directed issues in subsequent Tranches over the next 36 months, subject to fulfilment of certain conditions.
 - As a technical measure in order to meet the Investor's demand for immediate access to its shares, certain shareholders will, during a transitional period, lend shares to the issuing agent engaged for this Agreement.
 - Episurf's board of directors will propose to the annual shareholders' meeting 2018 to resolve a new authorization for the board of directors so that the board of directors may be able to issue convertible notes and warrants. Provided that the shareholders' meeting resolves on a new authorization, the board of directors will decide the issuance of the first Tranche under the Agreement as it is within the limitations of the company's articles of association.

Main characteristics of the Notes, the Warrants and the Shareholders Warrants:

- The Notes have a principal amount of SEK 50,000 each. They bear no interest and have a maturity of 12 months from the date of the registration of their issuance with the Swedish Companies Registration Office. During their term, the Investor may request to convert some or all of the Notes at a variable conversion price representing an 8% discount to the lowest daily volume weighted average price over the last 15 trading days during which the Investor has not sold any share on the market prior to the conversion date (the "Reference Price").
- Upon such conversion request, Episurf has the option to remit, at its discretion, cash, shares in Episurf or a combination of both. This characteristic will enable Episurf to manage the potential dilution resulting from the Notes.
- The Warrants have a term of five (5) years from the date of the registration of their issuance with the Swedish Companies Registration Office and will immediately be detached from the Notes. Each Warrant gives right to subscribe for one (1) new share (subject to standard adjustments in accordance with the terms and conditions of the Warrants) in Episurf at a fixed strike price representing a 120 % premium to the Reference Price on the date of the request from Episurf to issue a new Tranche.
- The strike price for Warrants under the first Tranche will be set at 120% of the lowest Reference Price on the following two dates: (i) the day of issuance of the first Tranche by the board of directors and (ii) 8 January 2018, the date of signature of the term sheet between Episurf and the Investor (being SEK 5.1132). Episurf will publicly announce the strike price of the Warrants in connection with the issuance of the first Tranche.
- The Shareholders Warrants will have the same characteristics as the Warrants and will be admitted to public trading.

Issuance of the subsequent Tranches

- Each subsequent Tranche will amount to SEK 7 million each (such amount may be increased upon mutual consent of the Investor and Episurf). Episurf will also issue Shareholders Warrants upon each subsequent Tranche.
- Episurf can require the Investor to subscribe a subsequent Tranche subject to the fulfilment of the following conditions on the date of the request and the date of funding of the requested Tranche:
 - all outstanding Notes have been completely converted or redeemed;
 - no material adverse change having occurred;
 - no event of default is in existence;
 - conversion of the Notes has not been prevented over the 90 preceding calendar days;
 - no suspension of trading of the shares having occurred over the 90 preceding calendar days;
 - The board of directors of Episurf is authorized to issue a sufficient number of shares for conversion of the Notes into shares and exercise of the Warrants;
 - the closing price and the daily volume weighted average price of the shares on each of the 10 preceding trading days is at least equal to SEK 4.00;

- the average daily value traded of the shares over the 10 preceding trading days is at least equal to SEK 200,000;
- post subscription of the requested Tranche, the Investor does not hold more than 7.5% of the then resulting outstanding number of shares of Episurf neither directly nor indirectly through the ownership of both shares and Notes.

The full terms and conditions of the Notes and the Warrants will be published on Episurf's website, together with a follow-up table setting out information about the number of outstanding Notes, Warrants and Shares issued upon conversion of the Notes or exercise of the Warrants.

Example based on one Tranche:

- Issuance of Tranche:
 - Tranche amount: SEK 7,000,000
 - Tranche issuance Reference Price: SEK 5.70
 - Strike price of Warrants: $\text{SEK } 5.70 * 120\% \approx \text{SEK } 6.84$
 - Number of Notes: $7,000,000/50,000 = 140$ Notes
 - Number of Warrants: $7,000,000 * 50\% / 6.84 = 511,696$
 - Number of additional Shareholders' Warrants: 511,696 (100 % of number of Warrants to the Investor)
 - Conversion of Notes:
 - Conversion Price: $\text{SEK } 5.70 * 92\% \approx \text{SEK } 5.24$
 - Number of shares: $\text{SEK } 7,000,000 / \text{SEK } 5.24 = 1,335,877$ shares
 - Full exercise of warrants:
 - Investment from Investor's Warrants at exercise: $\text{SEK } 6.84 * 511,696 \approx \text{SEK } 3,500,000$
 - Investment from Shareholders' Warrants at exercise: $\text{SEK } 6.84 * 511,696 \approx \text{SEK } 3,500,000$
 - Total number of shares from warrants: 1,023,392
 - Total additional investment from warrants: SEK 7,000,000
 - Dilution of shareholders per current number of shares from Notes and at full exercise of all warrants (the Investor's and the shareholders'): ~7.17%

For more information, please contact:

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About Episurf Medical

Episurf Medical is endeavoring to bring people with painful joint injuries a more active, healthier life through the availability of minimally invasive and personalized treatment alternatives. Episurf Medical's Episealer® personalized implants and Epiguide® surgical drill guides are developed for treating localized cartilage injury in joints. Episurf Medical's µiFidelity® system enables implants to be cost-efficiently tailored to each individual's unique injury for the optimal fit and minimal intervention. Episurf Medical's head office is in Stockholm, Sweden. Its share (EPIS B) is listed on Nasdaq Stockholm. For more information, go to the company's website: www.episurf.com.

This information is information that Episurf Medical AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication, through the agency of the contact person set out above, at 08.20 CET on 23 February 2018.