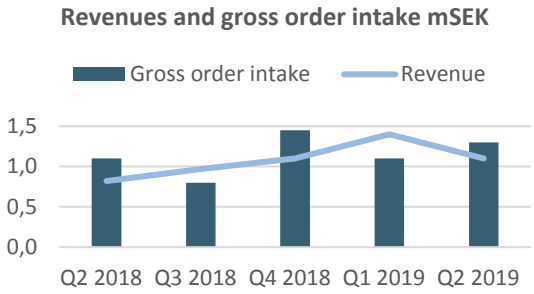
Q2 2019

Interim Report 1 April – 30 June 2019

Second quarter 2019 compared to 2018, Group

- Gross order intake amounted to SEK 1.3m (1.1) an increase of 21.0%
- Order backlog amounted to SEK 0.7m (1.1)
- 14,0% increase in orders for Episealer® knee implants during the quarter with 49 (43) approved orders
- Group net sales Increased by 35.5% to SEK 1.1m (0.8)
- Loss before tax amounted to SEK -18.9m (-16.2)
- Earnings per share (weighted average) amounted to SEK -0.42 (-0.45)



Significant events during the second quarter

- Episurf Medical announced and conducted a rights issue and raised approximately SEK 75.2m prior to transaction costs
- Episurf Medical announced that the EPIC-Knee study now is available at ClinicalTrials.gov and that the patient recruitment in the US was ready to start
- Prof. Niek van Dijk joined Episurf Medical's Clinical Advisory Board
- The Episealer® implant was highlighted in three scientific publications
- Clinical data for Episealer ® was accepted for presentation at a global scientific congress
- US, Japanese and European patent approvals for Episurf Medical
- Professor Mats Brittberg, Göteborg's University, presented the Episealer ® at the ICRS Focus Meeting "One Step Cartilage Repair" in Rome, 5-7 June
- The Company's COO Jeanette Spångberg left the company on June 1 and the Company's Chief Regulatory Officer – Regulatory Affairs, Quality and IP, Katarina Flodström, was appointed as new COO. In conjunction to these changes, Michael Näsström was appointed Acting Quality Manager
- Episurf Medical announced that the Company will terminate the financing agreement with European Select Growth Opportunities Fund

Significant events after the second quarter

- Canadian patent approval for Episurf Medical
- Episurf Medical enters into its first strategic partnership regarding its AI-based imaging technology

Message from the CEO

Dear shareholders,

Like any other life science company, we must achieve our milestones one by one, and we are following a well-defined strategy to do exactly that. I am pleased to report that we have continued to deliver on our commitments, and that we are now seeing three different revenue streams from our technology in three distinct market segments in which we are now well-positioned to capture a leading position.

We have created ground-breaking products for the treatment of lesions in the knee and lesions in the ankle. We have developed an imaging platform that now has generated its first strategic partnership with a US firm. The clinical results to date are excellent, and although we wished we had more published results available, the clinical pipeline is highly exciting. In addition to the published results available, we are counting to 15 conference abstracts (see figure following this CEO statement), with the absolute majority in the last 12 months, indicating a rapidly growing interest in our technology.

The Episealer® knee

The US FDA clinical trial for the Episealer® knee implant technology - the EPIC-knee study - is the most important project that we have undertaken, but also the largest and most expensive project. As we have communicated previously, we are entering the first phase of the study. In this phase, we are training surgeons and recruiting patients, and surgeries will begin. Late in Q2, we communicated that we were ready to recruit patients in the clinical trial, and we are sticking to our timetable.

Our European business continued to grow, at the same time as we made progress in the US. To date, well over 500 surgeries have taken place in Europe and about 50 patients have now passed the 4-year mark, to mention a few notable figures. Germany continues to be our most important market, and new clinics have started to perform Episealer® surgeries there and elsewhere. Daily we see evidence of growing confidence in the Episurf technology.

The ongoing clinical studies in Europe kept their momentum during the quarter. Data from the large European study was accepted as a poster presentation at the ICRS World Congress in Vancouver later this year. At the ICRS focus meeting in Rome in June, the increasing use of mini-implants was an important topic on the agenda, and Professor Mats Brittberg gave a presentation of the Episelaer® technology. During the quarter, we also announced that the Episealer® had been highlighted in three recent scientific publications. These publications all dealt with the need for improved treatment alternatives for our targeted patient group. In the last year, we have observed a rapidly growing interest for mini-implants, both scientifically and in the industry. We believe that the Episealer® knee could be the preferred option in this market segment.

The Episealer® Talus

The CE-mark for our ankle implant, the Talus implant, was not issued during the quarter as we had hoped. However, we have had a very productive dialogue with the Notified Body in charge of the CE-marking process, and we believe further progress will be made soon. Three years have now passed since the first, and to date only, patient was operated. Let me tell you about the results: The patient reports nothing but outstanding results at the three-year follow-up, and, he is playing soccer. From a scientific and academical standpoint, this is of course, anecdotal. However, it makes us extremely excited about bringing this technology out to a larger group of surgeons and patients. The underlying technology is the same as for our knee implants, the surgical

technique is very similar, and the pre-operative planning process is the same. We know that the prerequisites are in place for additional successful clinical outcomes, and we are eager to get started. On April 1st, we announced that a world-leading foot and ankle surgeon, Prof. Niek van Dijk, is joining our Clinical Advisory Board. The addition of such a prominent surgeon to our advisory Board is a validation of our technology, and will bring us new insights and access.

Epioscopy®

In late 2018, we CE-marked our proprietary developed imaging platform, Epioscopy®. Epioscopy® is a joint visualization tool, based on artificial intelligence (AI), that provides an overview of a knee joint's clinical condition. We developed Epioscopy for the sake of optimizing the process of designing and manufacturing our individualized knee implants. However, we soon realized that the tool has other areas of application outside of our implant business, but we have been cautious in providing financial guidance for this product. This week we announced that we had signed our first Letter of Intent regarding commercialization of Epioscopy on a stand-alone basis. This was done together with a US based market leader in a specific orthopaedic niche, and we look forward to communicating more shortly. This was a great milestone for Episurf, and highlights the versatility and uniqueness of the Epioscopy® technology, and its potential commercial value.

Expenses related to clinical development and marketing

In line with our communication and expectation, the financial result in the quarter was negatively affected by increasing costs for the clinical trial in the US. We continued to see growth in our European business, and we expect to reach significantly faster growth once additional clinical evidence is available. The second quarter is usually more costly than other quarters since most of the annual marketing spend takes place in this quarter. In June, we arranged our third ever masterclass in Stockholm, and about 55 surgeons from 10 countries attended the two-day event. It was a huge success and please find more information about the event and coming events on our website.

Looking forward

We have significant commercial opportunities ahead, but we need to follow the development curve. We still must reach a few important milestones on the way to a commercial breakthrough. In the short-term, we are looking forward to an important and comprehensive expansion of the portfolio of clinical evidence. First and foremost, through clinical results from the large European study that is ongoing, the first comparative study that is ongoing at the Charité in Berlin, as well as the first five-year data. We are also expecting progress on our CE-marking process for our ankle implant, as well as significant progress on our US clinical trial. We will continue to explore commercialization opportunities for our imaging technology, and we took a first, and very important, step very recently though our first strategic partnership. The orthopaedic industry is dominated by a small number of large, global players. As we have previously communicated, at the right time the company is open to seeking a partnership for some or all of its products in key markets.

Concluding remarks

During the quarter, we also executed our latest founding round through a rights issue. On behalf of the entire Episurf team, I would like to extend our gratitude for the trust our shareholders have shown. Development of orthopaedic implants is, just as drug development, a lengthy and evidence-based process. However, when done right, it could be highly attractive from a financial standpoint. It is that financial return we are here to deliver.

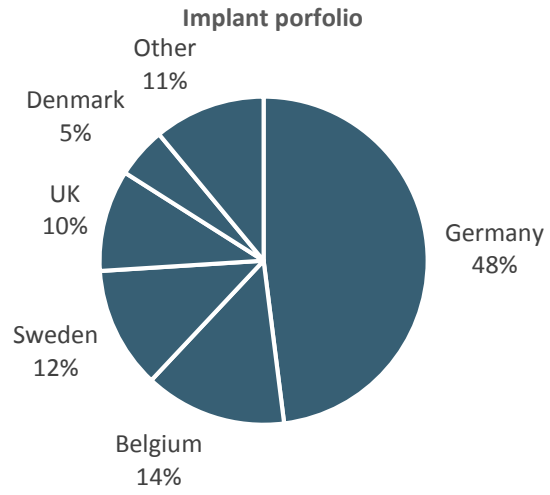
Stockholm, July 2019

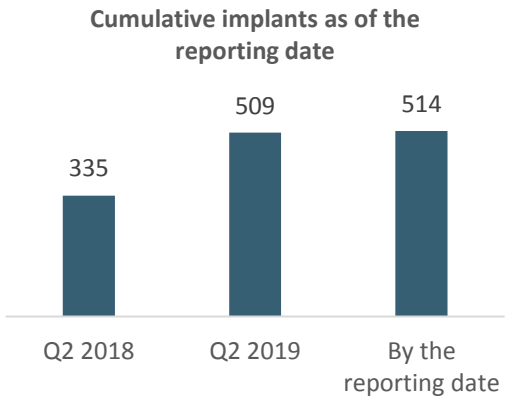
Pål Ryfors, CEO

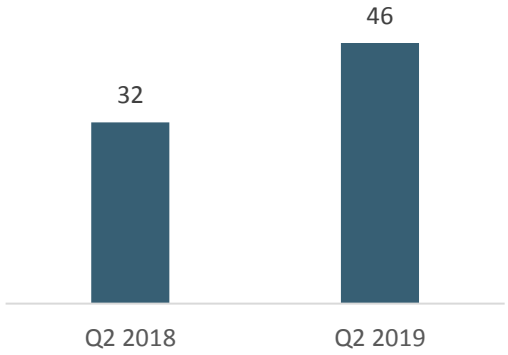
Summary of clinical milestones

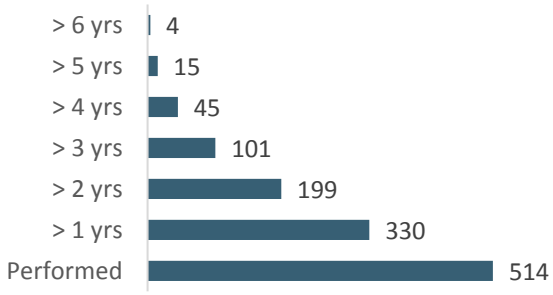
Business update and forward-looking statements

By the reporting date on July 19, 2019, Episurf Medical's implants had been used in 514 surgeries. Another 44 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 514 implants, we now have 45 patients who have had their implants for more than 4 years and 199 patients have now had their implants for more than 2 years since the surgery date. During the second quarter, 46 surgeries were performed with the Episealer® knee implant and we continued to make progress in all of our key markets. 49 orders were approved for surgery during the second quarter. 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.









As of the reporting day, 514 surgeries have been performed with the Episealer® implant and 101 patients have had their implant for more than 3 years and 199 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 1.1m (0.8) in the quarter and to SEK 2.5m (1.9) for the first six months. Loss before tax amounted to SEK -18.9m (-16.2) for the quarter and SEK -33.5m (-29.6) for the first six months. During the first six months the Group has taken a cost of SEK 0.7m, which relates to the termination of the financing agreement with European Select Growth Opportunities Fund, that the company has announced that it intends to terminate. Initial costs for entering the US market amounts to SEK 4.8m SEK (1.6) during the quarter.

Financial position
Group cash and cash equivalents at end of period amounted to SEK 59.0m (44.9). The Board of Directors is continuously reviewing the company's financial need and financial position, as well as the optimal capital structure for the company.

The company completed a new share issue during the second quarter and in total, SEK 75.2m before transaction cost was contributed to the company.

During the fourth quarter 2018, the company carried out a directed share issue to a number of selected investors, including Niles Noblitt (one of the founders of Biomet) and the existing shareholder Rhenman Healthcare Equity L/S. In total, SEK 13.2m before transaction costs was contributed to Episurf which was registered on January 9, 2019.

The equity ratio was 83.1% (81.4). Group investments in intangible assets amounted to SEK 1.4m (2.5) for the quarter of which SEK 0.4m (1.0) are related to capitalised development costs and for the first six months investments in intangible assets amounted to SEK 3.2m (5.4) of which SEK 1.1m (2.9) are related to capitalized development costs, remaining investments relates to patents. Investments in tangible assets amounted to SEK -m (-) for the quarter and the first six months.

Human resources
Number of employees in the Group at end of the period was 26 (25).

Parent Company

Net sales and operating profit/loss
Net sales amounted to SEK 0.1m (0.1) in the quarter and for the first six months to SEK 0.3m (0.2). Loss before tax amounted to SEK -10.5m (-8.4) for the quarter and SEK -19.1m (-14.9) for the first six months. During the first six months the Parent Company has taken a cost of SEK 0.7m, which relates to the termination of the financing agreement with European Select Growth Opportunities Fund, that the company has announced that it intends to terminate.

Financial position
Cash and cash equivalents at the end of period for the Parent Company amounted to SEK 49.5m (35.0). The equity ratio was 97.1% (94.7). Investments in intangible assets, capitalised development costs, amounted to SEK 0.4m (1.0) for the quarter and SEK 1.1m (2.9) for the first six months. Investments in tangible assets amounted to SEK -m (-) for the quarter for the first six months.

Human resources
Number of employees in the Parent Company at end of the period was 13 (12).

Rights issue
Episurf Medical has during the second quarter 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 4.00 SEK per share and the subscription period took place from and including 15 May until and including 29 May 2019. The final

outcome shows that 37,976,547 shares, corresponding to approx. 54.1 percent of the rights issue, were subscribed for with subscription rights (including subscription commitments). Additionally, 993,602 shares, corresponding to approx.1.4 percent of the rights issue, were subscribed for without subscription right. Consequently, 14,759,694 shares, corresponding to 21.0 percent of the rights issue, have been allotted to underwriters in accordance with the underwriting commitments entered into beforehand. Through the rights issue, Episurf Medical will receive proceeds of approximately SEK 75.2m before deduction of transaction related costs.

Through the rights issue, Episurf Medical's share capital will increase with SEK 16,132,677.74 to SEK 27,302,316.80 and the number of shares will increase with 478,147 shares of series A and 53,251,966 shares of series B to a total of 90,930,755 shares and 92,872,803 votes.

Directed share issue

Episurf Medical has during the fourth quarter 2018 completed a directed share issue to a number of selected investors, including Niles Noblitt, one of the founders of Biomet, and the current shareholder Rhenman Healthcare Equity L/S. The shares of series B were issued at the subscription price of SEK 4.00 per share. In total, 3,290,210 shares of series B and all 2,252,210 warrants were subscribed for. The share issue was consequently not fully subscribed. In total, SEK 13.2 m before transaction costs was contributed to Episurf. Through the share issue, Episurfs share capital was increased by SEK 1.0m. The total number of shares thus increased by 3,290,210 B-shares and the same number of votes. The change in shares was registered on January 9, 2019.

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 0.3m (0.3).

As a technical measure in order to meet the Investor's demand for immediate access to its shares, certain shareholders, during a transitional period, lend shares to the issuing agent engaged for this agreement. These shares were returned during the second quarter.

Rounding

Due to rounding, the sum of numbers may differ.

Financing Agreement

To assure financing of continued operations, a financing agreement with European Select Growth Opportunities Fund ("ESGOF") was entered into in February 2018 and decided on the Annual General Meeting in April 2018. The agreement provides the company with access to SEK 70m over a 36month period in form of convertible debt securities divided into a number of tranches. In connection with each tranche of convertibles, warrants are also issued to ESGOF. When convertibles and warrants are issued to ESGOF, warrants are also issued free of charge to existing shareholders. Full utilization of these warrants would entail an additional SEK 70 million being added to the company. The Company announced in April 2019 that they intend to terminate the agreement.

Key terms of the financing agreement

» 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.
» Upon such conversion request, Episurf Medical has the option to remit, at its discretion, cash, shares in Episurf Medical or a combination of both. This characteristic will enable Episurf Medical to manage the potential dilution resulting from the notes.
» Episurf Medical pay to the investor a commitment fee equal to 4% of the aggregate principal amount of the notes issued under the requested tranche.
» In case of an event of default, each outstanding note will accrue interest at a rate of 15%.

Main characteristics of the warrants issued to ESGOF
» ESGOF receives warrants without further remuneration in connection with the issuance of a tranche of convertibles. The number is determined based on the current stock price in connection with the execution of the tranche.
» 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 Medical at a fixed strike price representing a 120 % premium to the reference price on the date of the request from Episurf Medical to issue a new tranche.

Key terms of warrants issued to existing shareholders
» In connection with the issue of convertible bonds and warrants to ESGOF, warrants are also issued free of charge to existing shareholders, the number is determined on the basis of the current share price in connection with the completion of the tranche.
» The shareholder options have the same characteristics as the warrants and are admitted to public trading.

Use of convertibles and warrants
» The first tranche was conducted in the second quarter of 2018 as a targeted issue of SEK 7m through the issuance of 140 convertibles of 1,147,540 associated warrants to ESGOF. In connection with this, 1,131,462 warrants were also issued to the shareholders. All warrants have a redeeming price of SEK 6.10. See table below for follow-up of number of outstanding and utilised convertibles and warrants.

Follow-up table, financing agreement

Financing, mSEK	Total	Used	Remaining
European Select Growth Opportunities Fund	70.0	7.0	63.0

Convertibles

Tranches	Amount before costs	Date	Number of notes	Number utilised	Number of outstanding notes
KV1	SEK 7m	2018-05-23	140	140	-

Summary of transactions, mSEK	
Received cash from issue of convertible debentures	7,0
Transaction costs	(0,3)
Net proceeds	**6,7**
Amount classified as equity	(1,2)
Converted debentures	(6,3)
Accrued interest	0,7
Reported value of debt as June 30, 2019	**--**

Warrants

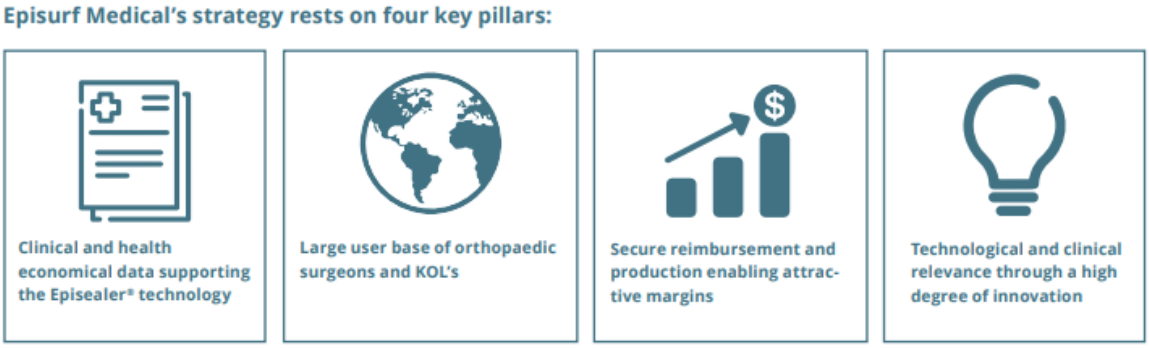
Tranche	Registration date	Term to maturity	Strike price	Number of warrants outstanding	Number of utilised	Number outstanding
KV1/TO4B	2018-05-23	5 year	1,40*	2,279,002	--	2,279,002

***** Has been adjusted based on calculation in the terms and conditions of the warrants in connection with the rights issue during the second quarter.

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

30 June 2019	
A-shares	971,024
B-shares	89,959,731
Total number of shares	**90,930,755**
Total number of votes	**92,872,803**

The company had chosen not to include the graph of the ten largest voting shareholders in Episurf Medical as of June 30, 2019, in this interim report, since the company is of the opinion that it would not provide a fair and accurate picture as the rights issue was not completed with Euroclear at this date.



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, 18 July 2019

Dennis Stripe Board chairman	Wilder Fulford Board member
Christian Krüeger Board member	Leif Ryd Board member

Laura Shunk
Board member

Pål Ryfors
CEO

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

Consolidated income statement

mSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018	Jan-Dec 2018
Operating income					
Net sales	1.1	0.8	2.5	1.9	4.0
Other operating income	0.1	0.1	0.2	0.2	0.3
Total income	**1.2**	**0.9**	**2.7**	**2.1**	**4.3**
Operation expenses					
Merchandise	-1.3	-0.8	-2.5	-1.6	-3.3
Other expenses	-11.2	-10.0	-19.0	-18.6	-36.1
Personnel costs	-7.1	-7.5	-13.8	-15.0	-27.3
Capitalised development expenditure	1.4	2.5	3.2	5.4	9.7
Depreciation of equipment and non-current assets	-1.7	-1.3	-3.5	-2.1	-4.8
Total operating expenses	**-20.0**	**-17.0**	**-35.5**	**-31.9**	**-61.8**
Operating loss	**-18.8**	**-16.0**	**-32.8**	**-29.8**	**-57.5**
Financial items					
Financial income, other	0.1	0.1	0.4	0.5	0.3
Financial expenses, other*	-0.3	-0.3	-1.1	-0.3	-0.7
Results from net financial items	**-0.2**	**-0.2**	**-0.7**	**0.2**	**-0.3**
Loss before tax	**-18.9**	**-16.2**	**-33.5**	**-29.6**	**-57.8**
Tax on income for the period	-0.0	0.0	-0.0	0.0	-
Loss for the period	**-18.9**	**-16.3**	**-33.5**	**-29.6**	**-57.8**
Net loss attributable to:					
Parent company shareholders	-18.9	-16.3	-33.5	-29.6	-57.8
Earnings per share before and after dilution	-0.42	-0.45	-0.77	-0.81	-1.71
Average number of shares	45 178 294	36 266 521	43 658 107	36 366 101	33 741 280

* During the first six months the Group has taken a cost of SEK 0.7m, which relates to the termination of the financing agreement with European Select Growth Opportunities Fund, that the company has announced that it intends to terminate.

Consolidated statement of comprehensive income

mSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018	Jan-Dec 2018
Net profit	**-18.9**	**-16.3**	**-33.5**	**-29.6**	**-57.8**
Other comprehensive income for the period:					
Other comprehensive income that may be reclassified subsequently to profit or loss for the period, net of tax	-0.1	0.0	-0.1	0.0	-0.1
Total comprehensive income for the period	**-19.0**	**-16.3**	**-33.6**	**-29.6**	**-57.9**

Consolidated balance sheet

mSEK	30 Jun 2019	30 Jun 2018	31 Dec 2018
ASSETS			
Non-current assets			
Intangible fixed assets			
Capitalised development costs	9.1	9.1	9.5
Patents	12.7	10.3	11.6
Total intangible fixed assets	**21.8**	**19.4**	**21.1**
Equipment and right-of use asset			
Rights-of-use asset	7.0	-	-
Equipment	0.1	0.2	0.1
Total equipment and right-of use asset	**7.1**	**0.2**	**0.1**
Total non-current assets	**28.9**	**19.6**	**21.2**
Current assets			
Inventories	1.4	1.9	1.5
Trade receivables	0.9	0.9	0.8
Other receivables	1.9	1.3	1.7
Deferred expenses and accrued income	1.6	1.8	1.3
Cash and bank balances	59.0	44.9	28.3
Total current assets	**64.7**	**50.8**	**33.6**
TOTAL ASSETS	**93.6**	**70.4**	**54.8**
EQUITY AND LIABILITIES			
Equity	77.8	57.3	44.8
Liabilities			
Non-current liabilities			
Non-current liabilities	0.0	0.1	0.0
Non-current lease liability	4.6	-	-
Total long-term liabilities	**4.6**	**0.1**	**0.0**
Current liabilities			
Trade payables	3.2	3.0	1.6
Current interest-bearing liabilities	0.0	-	2.8
Current lease liability	2.3	-	-
Other liabilities	1.9	6.2	1.6
Accrued liabilities and deferred income	3.8	3.8	4.0
Total current liabilities	**11.2**	**13.0**	**9.9**
Total liabilities	**15.8**	**13.1**	**10.0**
TOTAL EQUITY AND LIABILITIES	**93.6**	**70.4**	**54.8**
Equity ratio	83,1%	81,4%	81,8%
Equity per share, SEK	2.53	1.88	1.42

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, 2018	**9.2**	**330.4**	**0.6**	**-254.6**	**85.6**
Total					
Total comprehensive income for the period			-0.1	-57.8	-57.9
Total comprehensive income			**-0.1**	**-57.8**	**-57.9**
Transactions with shareholders					
Directed share issue, net after issue expenses*	1.0	11.3			12.3
Warrant issued		0.5			0.5
Issue in-kind, for conversion of debt**	0.3	3.8			4.1
Options issued to staff				0.3	0.3
Total transactions with shareholders	**1.3**	**15.6**		**0.3**	**17.2**
Closing equity December 31 2018	**10.5**	**346.0**	**0.5**	**-312.1**	**44.8**
Opening equity January 1, 2019	**10.5**	**346.0**	**0.5**	**-312.1**	**44.8**
Total					
Total comprehensive income for the period			-0.1	-33.5	-33.6
Total comprehensive income			**-0.1**	**-33.5**	**-33.6**
Transactions with shareholders					
Issue in-kind, for conversion of debt**	0.7	2.2			2.9
New share issue, net after issue expenses***	16.1	47.6			63.7
Options issued to staff				0.0	0.0
Total transactions with shareholders	**16.8**	**49.8**		**0.0**	**66.6**
Closing equity June 30, 2019	**27.3**	**395.7**	**0.4**	**-345.6**	**77.8**

* Issue expenses amounts to SEK 0.9m.
** See more information about the financing agreement under financial information on page 7-8.
*** Issue expenses amounts to SEK 11.5m.

Cash flow statement

mSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018	Jan-Dec 2018
Operating activities					
Operating loss	-18.8	-16.0	-32.8	-29.8	-57.5
Adjustments for items not included in cash flow					
Depreciation	1.8	1.3	3.5	2.1	4.8
Employee stock option expenses	0.0	0.0	-0.0	0.1	0.2
Interest received	0.0	0.1	0.0	0.5	0.3
Interest paid	-0.0	-0.3	-0.0	-0.3	-0.0
Cash flow from current operations before change in working capital	**-17.0**	**-15.0**	**-29.3**	**-27.3**	**-52.2**
Change in working capital					
Decrease/increase in inventory	0.1	-0.3	0.1	-0.3	0.2
Decrease/increase in trade receivables	-0.0	-0.2	-0.0	0.1	0.2
Decrease/increase in current receivables	-0.4	0.6	-1.5	-0.0	0.8
Decrease/increase in current liabilities	0.3	5.4	0.8	6.5	-1.3
Change in working capital	**-0.0**	**5.5**	**-0.7**	**6.3**	**-0.1**
Cash flow from operating activities	**-17.0**	**-9.5**	**-30.0**	**-21.0**	**-52.3**
Investing activities					
Acquisition subsidiary	-0.1	-	-0.1	-	-
Investments of intangible fixed assets	-1.2	-2.5	-3.0	-5.4	-9.7
Cash flow from investing activities	**-1.3**	**-2.5**	**-3.1**	**-5.4**	**-9.7**
Financing activities					
Investment in warrants	-	0.1	-	0.1	0.1
New share issue	63.8	-	63.8	0.0	12.3
Issue of convertibles*	-	-	-	-	6.7
Cash flow from financing activities	**63.8**	**0.1**	**63.8**	**0.1**	**19.1**
Cash flow for the period	**45.5**	**-11.9**	**30.7**	**-26.4**	**-43.0**
Cash and cash equivalents at beginning of period	13.5	56.8	28.3	71.3	71.3
Cash and cash equivalents at end of period	**59.0**	**44.9**	**59.0**	**44.9**	**28.3**

*Refers to the utilised part of the financing agreement net for transaction costs.

Income statement, Parent Company

mSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018	Jan-Dec 2018
Operating income					
Net sales	0.1	0.1	0.3	0.2	0.4
Total income	**0.1**	**0.1**	**0.3**	**0.2**	**0.4**
Operating costs					
Other external expenses	-7.6	-5.0	-12.4	-9.5	-19.0
Personnel costs	-2.7	-3.7	-6.0	-7.2	-12.6
Capitalised development expenditure	0.4	1.0	1.1	2.9	4.3
Amortisation of intangible assets and depreciation of property, plant and equipment	-0.6	-0.5	-1.2	-1.0	-2.1
Total operating costs	**-10.5**	**-8.2**	**-18.6**	**-14.8**	**-29.4**
Operating loss	**-10.4**	**-8.1**	**-18.3**	**-14.6**	**-29.0**
Financial items					
Financial income, other	0.0	0.0	0.0	0.0	0.0
Financial expenses, other*	-0.1	-0.3	-0.8	-0.3	-0.7
Results from net financial items	**-0.1**	**-0.3**	**-0.8**	**-0.3**	**-0.7**
Loss before tax	**-10.5**	**-8.4**	**-19.1**	**-14.9**	**-29.7**
Tax on income for the period	-	-	-	-	-
Loss at end of the period	**-10.5**	**-8.4**	**-19.1**	**-14.9**	**-29.7**

* During the first six months the Group has taken a cost of SEK 0.7m, which relates to the termination of the financing agreement with European Select Growth Opportunities Fund, that the company has announced that it intends to terminate.

Parent Company statement of comprehensive income

mSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018	Jan-Dec 2018
Net profit	**-10.5**	**-8.4**	**-19.1**	**-14.9**	**-29.7**
Other comprehensive income for the period:					
Other comprehensive income for the period , net of tax	-	-	-	-	-
Total comprehensive income for the period	**-10.5**	**-8.4**	**-19.1**	**-14.9**	**-29.7**

Balance sheet, Parent Company

mSEK	30 Jun 2019	30 Jun 2018	31 Dec 2018
ASSETS			
Fixed assets			
Intangible fixed assets			
Capitalised development costs	9.1	9.1	9.5
Total intangible fixed assets	**9.1**	**9.1**	**9.5**
Tangible fixed assets			
Equipment	0.0	0.1	0.0
Total tangible fixed assets	**0.0**	**0.1**	**0.0**
Financial assets			
Shares in group companies	121.9	91.3	106.8
Long-term receivables from group companies	23.5	23.4	24.0
Total financial assets	**145.5**	**114.7**	**130.8**
Total fixed assets	**154.6**	**123.8**	**140.3**
Current assets			
Short term receivables			
Other receivables	1.1	0.6	1.3
Prepaid expenses and accrued income	0.8	1.0	0.6
Total short term receivables	**2.0**	**1.6**	**1.9**
Cash and cash equivalents	49.5	35.0	17.6
Total current assets	**51.4**	**36.6**	**19.5**
TOTAL ASSETS	**206.0**	**160.4**	**159.7**
EQUITY AND LIABILITIES			
Equity	**200.1**	**151.9**	**152.6**
Liabilities			
Long-term liabilities			
Long-term liabilities	-	0.0	-
Total long-term liabilities	**-**	**0.0**	**-**
Current liabilities			
Trade payables	2.0	0.5	0.4
Current interest-bearing liabilities	0.0	-	2.8
Other liabilities	1.0	5.5	0.7
Accrued liabilities and deferred income	2.9	2.5	3.3
Total current liabilities	**5.9**	**8.5**	**7.1**
Total liabilities	**5.9**	**8.5**	**7.1**
TOTAL EQUITY AND LIABILITIES	**206.0**	**160.4**	**159.7**

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, 2018	**9.2**	**4.5**	**329.3**	**-148.0**	**-29.7**	**165.3**
Comprehensive loss for the period						
Loss for the period					-29.7	-29.7
Disposition according to AGM						
Loss brought forward				-29.7	29.7	**0.0**
Development fund		3.3		-3.3		**0.0**
Total comprehensive loss for the period	**9.2**	**7.9**	**329.3**	**-181.0**	**-29.7**	**135.7**
Transactions with shareholders						
Directed share issue, net after issue expenses*	1.0		11.3			12.3
Warrant issued			0.5			0.5
Issue in-kind, for conversion of debt**	0.3		3.8			4.1
Options issued to staff				0.1		0.1
Total transactions with shareholders	**1.3**		**15.6**	**0.1**		**16.9**
Closing equity December 31 2018	**10.5**	**7.9**	**344.9**	**-180.9**	**-29.7**	**152.6**
Opening equity January 1, 2019	**10.5**	**7.9**	**344.9**	**-180.9**	**-29.7**	**152.6**
Comprehensive loss for the period						
Loss for the period					-19.1	-19.1
Disposition according to AGM						
Loss brought forward				-29.7	29.7	-
Development fund		0.2		-0.2		-
Total comprehensive loss for the period	**10.5**	**8.0**	**344.9**	**-210.8**	**-19.1**	**133.5**
Transactions with shareholders						
Issue in-kind, for conversion of debt**	0.7		2.2			2.9
New share issue, net after issue expenses***	16.1		47.6			63.7
Total transactions with shareholders	**16.8**		**49.8**			**66.6**
Closing equity June 30, 2019	**27.3**	**8.0**	**394.7**	**-210.8**	**-19.1**	**200.1**

* Issue expenses amounts to SEK 0.9m.
** See more information about the financing agreement under financial information on page 7-8.
*** Issue expenses amounts to SEK 11.5m.

Cash flow statement, Parent Company

mSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018	Jan-Dec 2018
Current operations					
Operating loss	-10.4	-8.1	-18.3	-14.6	-29.0
Adjustments for items not included in cash flow					
Depreciation	0.6	0.5	1.2	1.0	2.1
Interest received	0.0	0.0	0.0	0.0	0.0
Interest paid	-0.0	-0.3	-0.0	-0.3	-0.0
Change in non-current liabilities	-	-0.0	-	-0.0	-0.0
Cash flow from current activities before changes in working capital	**-9.8**	**-7.9**	**-17.1**	**-13.9**	**-26.9**
Changes in working capital					
Decrease/increase in current receivables	-0.4	0.9	-0.8	-0.3	0.1
Decrease/increase in current liabilities	0.8	4.8	1.6	5.9	-0.4
Total changes in working capital	**0.4**	**5.6**	**0.9**	**5.7**	**-0.2**
Cash flow from operating activities	**-9.3**	**-2.2**	**-16.2**	**-8.2**	**-27.2**
Cash flow from investing activities					
Acquisition subsidiary	-0.1	-	-0.1	-	-
Acquisition of intangible assets	-0.2	-1.0	-0.9	-2.9	-4.3
Changes in financial assets	-8.0	-9.1	-14.7	-16.4	-32.5
Cash flow from investing activities	**-8.3**	**-10.1**	**-15.7**	**-19.3**	**-36.8**
Cash flow from financing activities					
Investment in warrants	-	0.1	-	0.1	0.1
New share issue	63.8	-	63.8	-	12.3
Issue of convertibles*	-	-	-	-	6.7
Cash flow from financing activities	**63.8**	**0.1**	**63.8**	**0.1**	**19.1**
Cash flow for the period	**46.2**	**-12.2**	**31.9**	**-27.5**	**-44.9**
Cash and cash equivalents at beginning of period	3.3	47.2	17.6	62.5	62.5
Cash and cash equivalents at end of period	**49.5**	**35.0**	**49.5**	**35.0**	**17.6**

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 except from that the company has chosen to clarify costs for capitalised development expenditure and commercial goods and has therefore changed comparison figures in the income statement both for the group and the parent company.

Changes in significant accounting policies

As of 1 January 2019, Episurf Medical applies IFRS 16 Leasing, which replaces IAS 17 Leases. The standard requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

Following the implementation of the new standard, Episurf Medical has used the modified retroactive transition method, which means that the comparative figures have not been recalculated.

Long-term operational leases are reported as right-of-use asset under fixed assets and as Non-current and Current lease liability in the Group's balance sheet. Instead of operating leasing costs, Episurf Medical reports depreciation and interest expenses in the consolidated income statement. Lease liabilities that have previously been classified as operational leases according to IAS 17 is now valued at the present value of the remaining lease payments. Episurf Medical report a right of use to an amount corresponding to the lease liability. The main impact relates to lease contracts for premises, machines and vehicles.

The majority of Episurf Medical's leases include options to either extend or terminate the agreement. When the term of the lease is being established, Episurf Medical takes into consideration all facts and circumstances that provide a financial incentive to utilise an extension option or not to utilise an option to terminate an agreement. Examples of factors that are considered include strategic plans, restructuring programmes, the importance of the underlying asset to Episurf Medical's activities and/or costs attributable to not extending or terminating leases.

As regards other accounting principles that are applied, these correspond with the accounting principles that were used in the preparation of the most recent Annual Report.

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 capitalised 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 there for activated.

Note 2 Transactions with related parties

Shareholder and Board member Leif Ryd has received consulting fees for ongoing work as well as work for the Clinical Advisory Board of SEK 0.3m (0.3). As a technical measure in order to meet the Investor's demand for immediate access to its shares, certain shareholders, during a transitional period, lend shares to the issuing agent engaged for this agreement. These shares were returned during the second quarter.

Note 3 Breakdown of net sales by country is as follows

mSEK	Apr-Jun 2019	Apr-Jun 2018	Jan-Jun 2019	Jan-Jun 2018	Jan-Dec 2018
Germany	0.8	0.5	1.9	0.9	2.0
Sweden	0.0	0.1	0.1	0.3	0.3
Other countries in Europe	0.3	0.2	0.5	0.8	1.6
Other countries outside of Europe	--	--	--	--	--
Total net sales	**1.1**	**0.8**	**2.5**	**1.9**	**4.0**

Note 4 Financial assets and financial liabilities

Current interest-bearing liabilities

Summary of transactions, mSEK	Jan-Jun 2019	Jan-Jun 2018	Jan-Dec 2018
Opening net proceeds	6.7	-	-
Received cash from issue of convertible debentures	-	7.0	7.0
Transaction costs	-	-0.3	-0.3
Net proceeds	**6.7**	**6.7**	**6.7**
Opening other transactions	-4.0	-	-
Amount classified as equity	-0.7	-0.1	-0.5
Converted debentures	-2.2	-2.0	-4.1
Accrued interest	0.1	0.2	0.6
Total other transactions	**-6.7**	**-1.9**	**-4.0**
Reported value of debt as June 30, 2019	**-**	**4.9**	**2.8**

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.

Definitions

General:	All amounts in the tables are presented in SEK millions 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.
Mosaicplasty:	A biological 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.
OA:	See osteoarthritis.
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:	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.

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.

Individualised 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 140 patents and patent applications worldwide, distributed over 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

Interim report January–September 2019	25 October 2019
Year-end report for 2019	7 February 2020

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 19 July 2019 at 08.30 (CEST).

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