Annual Report 2023

# EPISURF MEDICAL

EPISURF

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# 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. The company's first product line treats early stage arthritic changes in the knee joint. This has since been followed by both a similar product for the ankle joint and now most recently a product for developed osteoarthritis in the patellofemoral part of the knee joint.


**Episurf Medical has two implant systems for the knee**

» Episealer® Knee (including Episealer® Condyle Solo, Episealer® Trochlea Solo and Episealer® Femoral Twin) for the treatment of localised cartilage and underlying bone defects on the femoral part of the knee joint
» Episealer® Patellofemoral System for the treatment of osteoarthritis limited to the patellofemoral part of the knee joint

**Episurf Medical has one implant for the ankle**

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

**Product development**

» Episurf Medical has, in addition to continuous improvements of existing products, one product in the product development phase; an implant for the MTP-joint in the big toe.

**Patient-specific surgical instruments**

Every implant is delivered with our individualised surgical drill guide Epiguide® and a set of associated surgical instruments. Further, for the ankle Episurf Medical offers an individualised saw guide, Talus Osteotomy Guide. It is intended to help the surgeon to find the correct position and depth when performing an osteotomy of the medial malleolus for access to the talar dome of the ankle joint.

**Patents and patent applications**

The generation of new intellectual property and the ongoing maintenance of current IP is of paramount importance for Episurf Medical to ensure that the company's proprietary, existing technologies, and future innovations are well protected. In total Episurf Medical has over 200 patents and patent applications worldwide, distributed over 35 patent families.

» The first Episealer® surgery in a human was performed in December 2012. At the end of 2023, a total of 1,768 surgeries had been performed.
» Episurf Medical's head office is located in Stockholm, Sweden and the company has sales representation in several countries in Europe, Asia, Australia and North America.
» The share (EPIS B) has been listed on Nasdaq Stockholm since June 2014.

# HIGHLIGHTS OF 2023


» Episealer® health economy publication was accepted for publication in Journal of ISAKOS
» The first Episealer® Knee surgery in Malaysia was planned
» The first Episealer® Talus Surgery in India was scheduled


» Episurf Medical provided an update on the establishment of a US commercial organisation
» Episealer® Patellofemoral System is now available in the United Arab Emirates
» Episurf Medical's first surgery in the EPIC-Knee study in Canada was scheduled


» Episurf Medical's received its first US VAC approval
» Prospective Episealer® Talus clinical study was fully recruited
» Early results from Episealer® Talus study were presented at a scientific congress
» Results from the use of Episealer® were accepted for publication in scientific journal
» Scientific article on Episealer® Talus surgical technique was published in Foot & Ankle Clinics


» Episurf Medical has filed 510(k) submission for big toe implant
» First commercial case in the US was performed

**Significant events after the end of the financial year**
» Results from up to 10 years follow-up of Episealer ®patients were accepted for presentation

# STATEMENT FROM THE CEO

**Dear Shareholder,**

We hereby summarise 2023, which was another eventful year for Episurf Medical. We made great progress in all areas of our business, and the first surgeries with the Episealer® Patellofemoral System in the US were of course one of the highlights of the year. We entered 2023 with a recently obtained 510(k)-clearance for this product. In the first half of the year, we focused on completing all the documentation and all practical aspects before starting to commercialise the product. At the same time, we built a distributor network in the US. After the summer, we started seriously talking to orthopaedic surgeons and the first surgery was booked late in August and took place a couple of weeks thereafter. The initial feedback from surgeons in the US is very satisfactory and we look forward to continuing the path taken.
During the year, we also submitted a 510(k) application for our second US product. This is an implant system for osteoarthritis in the big toe, the so-called 1st MTP joint. This is a market of significant size, and most patients undergo fusion surgery, and our view is that existing implant solutions provide far from satisfactory results. We hope to obtain 510(k)-clearance followed by commercialisation of this product in the US market in 2024.

In our markets outside the US, we implemented several changes in the commercial organisation during the year. We terminated several employments within the sales organisation to instead increase our focus on distributor sales. In 2023, surgeries were performed in 20 countries, and we believe that a broad geographic strategy, executed in a cost-efficient manner, is the right way forward for us. Germany continues to be our most important market, but we made great progress in several other countries during the year, and I particularly want to highlight the UK, India, and Poland as very interesting markets where we made great progress during the year.

Going forward, it is important to continue this path. We need to ensure progress in our commercial efforts while moving forward in our regulatory and clinical work. We have come incredibly far and have now begun to establish our technology in earnest. We are increasingly generating interest from orthopaedic surgeons worldwide, and with a broadened product portfolio, available in several countries, we are very enthusiastic about our future opportunities.

Stockholm, March 2024

Pål Ryfors, CEO

# HISTORY

**2008**
- The first patent application was filed.

**2009**
- Pre-clinical pilot studies were carried out on sheep with the aim of evaluating the functionality and stability of the implant.

**2010**
- An initial pre-clinical validation study (1-year study) on sheep was undertaken.

**2011**
- Positive results, that strengthened and confirmed earlier indications were presented from the completed pre-clinical 1-year study.
- Episurf Medical AB was listed on Nasdaq Stockholm First North.

**2012**
- The company's first clinical trial was initiated with the aim of evaluating safety and performance of the personalised implant Episealer® Condyle Solo for treatment of cartilage lesions in the knee joint.
- The first surgery in a human was conducted within the scope of the clinical trial.

**2013**
- Episurf Medical's first commercial product, Episealer® Condyle Solo, was approved for CE marking and the company's first controlled product launch (CPL) could be started together with selected surgeons from clinics in Northern Europe.

**2014**
- CE mark approval was obtained for the company's second commercial product, Episealer® Trochlea Solo.
- Episurf Medical was listed on Nasdaq Stockholm's main market.

**2015**
- CE mark was obtained for the company's third implant, Episealer® Femoral Twin and Epiguide® MOS.
- A Clinical Advisory Board, consisting of European Key Opinion Leaders was appointed.

**2016**
- CE mark approval was obtained for the company's fifth product, Epioscopy® Damage Assessment Tool.
- Clinical results based on 1 and 2 years' follow up data were presented for the first time with excellent results where the patients show significant improvements regarding pain and mobility.

**2017**
- Multi-centre study published with 2 years' follow up of the 10 first patients.
- 5 years' follow up of the first Episealer® patient.

**2018**
- IDE-application filed to the US FDA and was approved in December.
- Announced that the company deveoped an ankle implant.

**2019**
- Process for Episurf Medical in initiation of Episealer® Knee IDE-study and Dr. Kevin D. Plancher was appointed Lead Investigator.

**2020**
- CE mark approval obtained for Episealer® Talus implant.
- Publication of 3 peer reviewed scientific papers.
- Distribution agreement signed for 3 new markets.
- Episealer® surgeries performed in 12 countries.

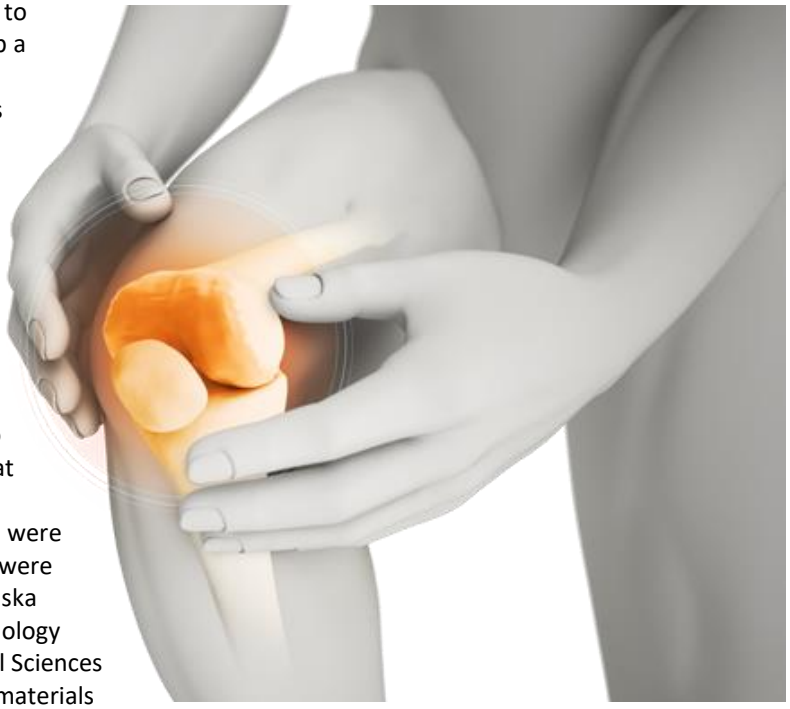
**2021**
- 510(k) application for Episealer® Patellofemoral System was filed.
- Episealer® implants sold in 15 countries worldwide.

**2022**
- Episurf Medical received FDA 510(k) clearance for Episealer® Patellofemoral System.

**2023**
- 510(k) application for big toe implant was filed.

# A MUCH NEEDED METHOD

Episurf Medical was founded on a commitment to answering the question: is it possible to develop a new solution for treating pre-arthritic cartilage damage in a way that relieves pain and restores function?



**THE GOAL WAS TO FIND A SOLUTION** that was suitable for the younger, more active generation and would not limit the options for further treatments later in life. Against this background, Episurf Medical began its journey in 2008 as an internal project within Diamorph AB. The so-called “implant project” started with a focus on developing a solution to treat painful cartilage damage in human joints at an early stage, with the shortest possible rehab time. A number of patient-critical requirements were identified during the first pre-clinical trials that were carried out together with researchers at Karolinska University Hospital, the Royal Institute of Technology (KTH) and the Swedish University of Agricultural Sciences (SLU). Here, different implant designs, implant materials and surgical techniques were tested.

It soon became clear that to succeed in using implants with the aim of recreating a perfect, weight-bearing joint surface that is restored to its original function, a patient-specific design and rigorous surgical precision was required. New design criteria were formulated in which the focus was shifted from developing new implant materials to cost-effectively designing and manufacturing customised implants and precision surgical instruments to achieve long implant longevity, ensure replacement of only the damaged cartilage surface and preserve the healthy joint tissue.

Since 2010 Episurf Medical has developed and provided an IT platform called µiFidelity®. The platform supports the design and manufacture of implants that are uniquely tailored to each individual patient, which represents a new era in the field of orthopaedics where “one size fits all” implants is the general rule today. Concepts and knowledge have been gathered among other things from the dental industry, where customised dental crowns have been the industry standard for several years. Episurf Medical aims to revolutionise orthopaedics by offering patient-specific implants and surgical instruments for treatment of painful joint damage.

Episurf Medical’s first implant products, Episealer® Condyle Solo, Episealer® Trochlea Solo and Episealer® Femoral Twin received CE mark approval in 2013, 2014 and 2015, respectively. These Episealer® Knee implants are the world’s first patient-specific resurfacing implants for treatment of cartilage damage in the knee joint. This is just the beginning of what Episurf Medical can do with its technology. After that, the company has received CE-mark approval for Epioscopy® Damage Assessment Tool, Episealer® Talus and Talus Osteotomy Guide. Episurf Medical’s CE-marked devices are available in Europe as well as in selected additional countries (not available for sale in the US). In December 2022, the company received its first market clearance for the US market through the FDA (U.S. Food and Drug Administration) clearance of Episealer® Patellofemoral System. The system is based on the technology of Episealer® Trochlea Solo and Episealer® Femoral Twin, with the addition of a second implant component for treatment of damage on the back of the kneecap (patella). This system constitutes not only the company’s first product on the US market but is also a new product developed for a broader clinical indication, as it is Episurf Medical’s first product for treatment of osteoarthritis.

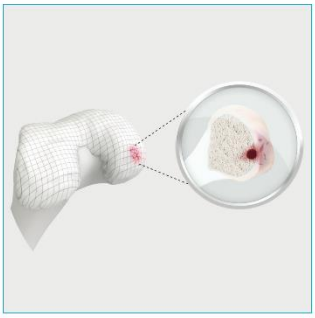
# EPISURF MEDICAL'S TECHNOLOGY

*From medical imaging to customised implant and surgical tools*

**The µiFidelity® system**
Episurf Medical's µiFidelity® system is a proprietary web platform for order management, communication, personalised design and surgical pre-planning. µiFidelity® is, as far as the company is aware, first in the world to deliver 3D visualisation support for patient-specific assessment of cartilage damage in joints and precision engineered production of patient-specific resurfacing implants and surgical instruments.

**The figures below show the flow of Episealer® Knee, but the same technology is used for Episealer® Talus and Episealer® Patellofemoral System**

❶ The treating physician uploads MRI data to the µiFidelity® system.
❷ The joint damage is localised and visualised with the help of the software.
❸ Episurf Medical's medical experts assess the treatment alternatives for the patient.
❹ The treating physician decides on the best treatment method.



❺ A plan for optimal positioning of the implant is created in 2D and 3D at the same time that clinical considerations are taken into account.
❻ An implant is designed to specifically match the position of the damage and the patient's unique anatomy.

❼ Patient-specific surgical instruments are designed.
❽ The patient-specific drawings of the implant and surgical instruments are transferred digitally to Episurf Medical's suppliers for immediate manufacture. Since all manufacturing is done on demand, it is possible to eliminate the need for inventory.

❾ During the surgery, the guide instruments help the surgeon to find the correct orientation and placement of the implant. They provide support for simple and precise insertion of the implant at the correct angle and depth.

# BUSINESS IDEA, GOALS AND STRATEGY

Episurf Medical addresses significant medical needs not currently met by the orthopaedic industry, and the company's vision is to bring more people back to fully living life. The business implementation of this vision is to provide orthopaedic surgeons with clinically superior patient-specific treatments using Episurf Medical's proprietary image analysis, implant design and manufacture technologies. The Episealer® technology, now rapidly gaining traction internationally on the strength of very promising study results, represents a unique treatment method for orthopaedic problems of significant size globally.

**VISION** Restore people to fully living life.

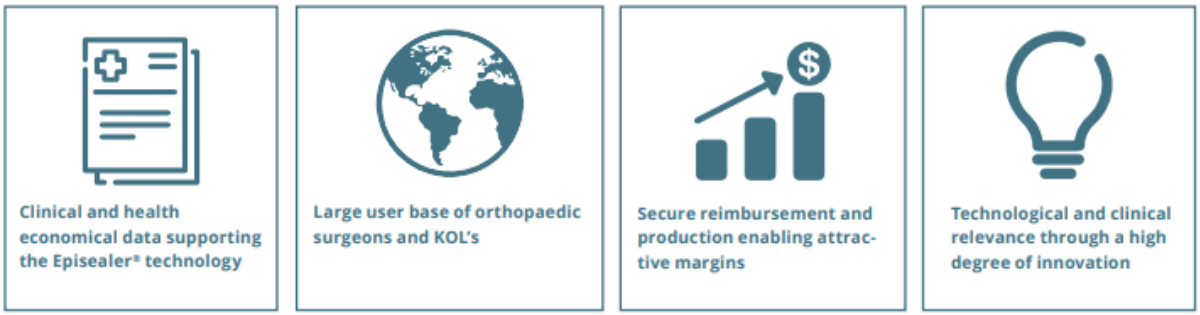
**BUSINESS IDEA** Provide orthopaedic surgeons with clinically superior patient-specific treatments.

**GOAL** The Board of Episurf Medical has resolved on financial and operational goals for the business, summarised below.

Episurf Medical's current focus is to establish its products on its available markets, and to continue to generate revenues and reach a commercial break-through. Episurf Medical estimates the total addressable market to be worth approximately USD 2 billion annually for all of the company's products, including products under development. There is a strong underlying growth in the market due to demographic factors and technological advancements. The company targets substantial revenue growth on an annual basis, and the company also expects to meet several important clinical and operational milestones, as Episurf Medical expects to get more and more traction in the current markets, due to the presentation of clinical data, both long- and short-term, that is continuously generated.

Episurf Medical has commercial activities in several countries worldwide. To date, the company has reached limited market shares, however, the company is making progress with Key Opinion Leaders in its target markets in line with the strategy. In Germany, the company has been able to expand beyond the first group of users, and Germany is currently the most successful market for the company. Further market penetration and increased market share will be achieved as the company expands its user base in each country. The company operates with both direct sales representatives and distribution partners, and the company expects a mixed distribution structure also in the future.

**For the purpose of achieving its goal and take steps towards fulfilling its vision, Episurf Medical has designed its strategy. The strategy rests on four key pillars:**



# STRATEGY

**Produce clinical and health economic data supporting the Episealer® technology**
Clinical evidence is of highest importance in order to get clinical acceptance and market access. Hence, follow-up of Episealer® patients has been highly prioritised since the very first Episealer® surgery was performed. The first peer-reviewed results from a study with follow up of Episealer® Knee patients were published 2017. The publication presented positive results from a follow up of the 10 first Swedish patients[1]. Additional peer-reviewed publications have since then been published, and the publication with the longest follow-up shows that pain relief and improved knee function remain at a mean follow up period of 75 months[2]. Several studies with Episealer® Knee and Episealer® Talus have been initiated, and the highest prioritised initiative is the ongoing IDE (Investigational Device Exemption) clinical trial in US and European centres. The IDE study will form an important part of Episurf Medical's PMA (Premarket Approval) application to the FDA for US market approval for Episealer® Knee.

**Establish the Episealer® technology with a large user base of orthopaedic surgeons and Key Opinion Leaders globally**
The company is already present in several markets globally, and has its plans for bringing the Episealer® technology to additional international markets, representing a mix of direct markets and distribution markets.

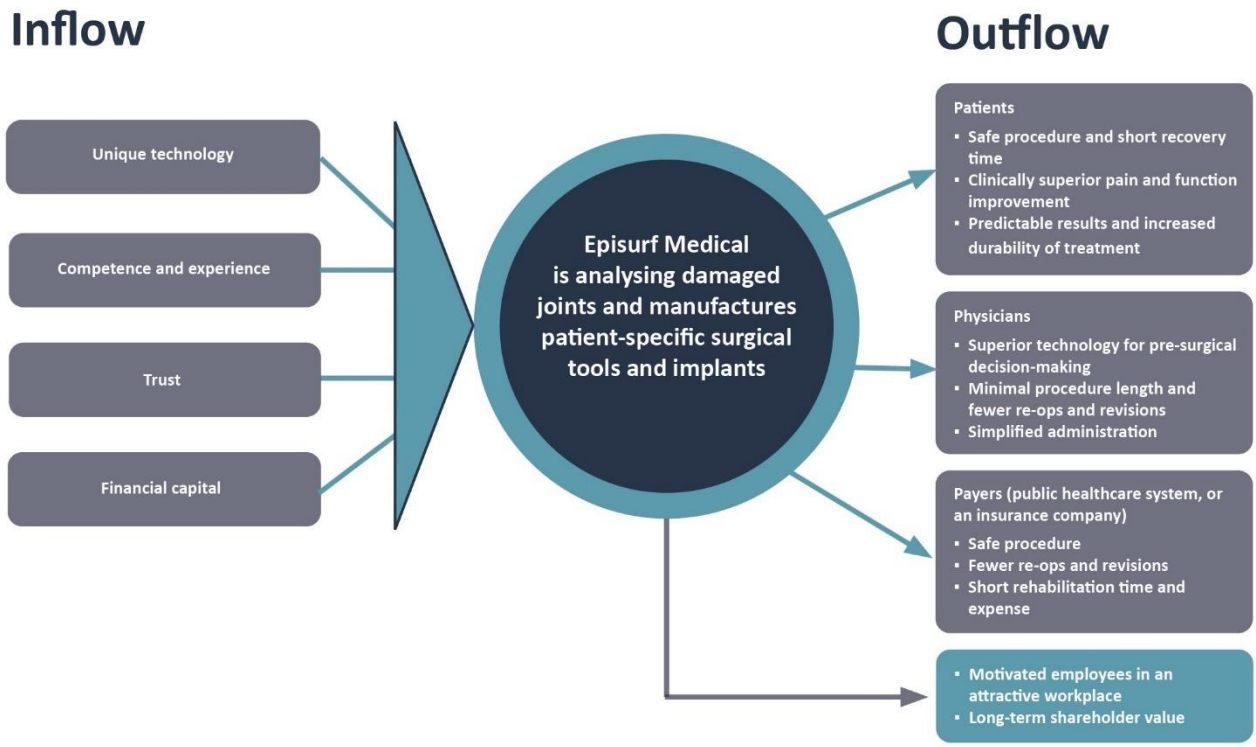
**Secure production and reimbursement enabling high margins**
Securing reimbursement in relevant markets is a key success factor for the company and Episurf Medical will continue its work in selected markets. The company also continue its work towards improving gross margin. In the near term, investments are primarily directed towards software development and development of the company's IT platform. The company will invest in production capabilities when demand drives higher volumes.

**Ensure technological relevance and a high degree of innovation**
» Episurf Medical has decided to introduce a new joint implant to the market (Episealer® Patellofemoral System), and the company is currently developing an implant system for osteoarthritis in the big toe. Further, the company is continuously reviewing new product development opportunities.

[1] Stålman, A., et al., No implant migration and good subjective outcome of a novel customised femoral resurfacing metal implant for focal chondral lesions. Knee Surgery, Sports Traumatology, Arthroscopy, 2017

[2] Al-Bayati, M, et al., Good subjective outcome and low risk of revision surgery with a novel customised metal implant for focal femoral chondral lesions at a follow-up after a minimum of 5 years. Arch Orthop Trauma Surg. 2022

# BUSINESS MODEL



# CLINICAL ADVISORS

Episurf Medical has appointed and works closely with several clinical advisors, who constitute an important core group for the company´s continuous efforts to pioneer the field of patient specific treatments. All are key opinion leaders in the fields of cartilage repair and medical radiology.

**Episurf Medical's goals in working closely with the advisors are fourfold:**
» to gain a better understanding of the trends, drivers and priorities shaping clinical practice and the management of cartilage damage;
» to validate Episurf Medical's value proposition and strategic direction thereby ensuring that the company's business is in sync with customer needs and expectations;
» to review, assess and brainstorm product direction, improvement and development; and lastly,
» to build robust and clinically evidenced patient outcome data.

**Ass. Prof. Tim Spalding**
**United Kingdom**
Specialist Knee Surgeon, Cleveland Clinic, London, and Honorary Associate Professor, Warwick Medical School, University of Warwick.

**Dr. Johannes Holz**
**Germany**
Specialist in orthopaedics and trauma surgery, Ortho Centrum Hamburg, Parkklinic Manhagen.

**Professor Mats Brittberg**
**Sweden**
Professor, Cartilage Research Unit, Gothenburg University, senior consultant orthopaedic surgeon, Department of orthopaedics, Kungsbacka Hospital, Kungsbacka.

**Professor Leif Ryd**
**Sweden**
Orthopaedic surgeon with a long career in clinical research on osteoarthritis. Former Professor at Karolinska Institute, Stockholm.

**Dr. Adam Mitchell**
**United Kingdom**
Consultant radiologist at Fortius Clinic, London. Specialised in musculoskeletal imaging, with particular expertise in sports injuries.

**Professor Karl Eriksson**
**Sweden**
Senior consultant orthopaedic surgeon, Stockholm South Hospital, Professor, Karolinska Institute, Stockholm, orthopaedic surgeon, Stockholm Knee Academy, Sophiahemmet Hospital, Stockholm.

**Professor Niek Van Dijk**
**Spain / Netherlands**
Leading authority for arthroscopic surgery of the ankle. He is working in the FIFA Medical Centers of Excellence in Madrid, Clinic Ripol & DePrado & VanDijk and Clinica De Dragão in Porto, Portugal.

**Professor Doctor João Espregueira-Mendes**
**Portugal**
Prof. João Espregueira-Mendes has extensive experience from the global orthopaedic markets and is currently the Clinical Director of Clínica do Dragão - Espregueira-Mendes Sports Center, FIFA Medical Center of Excellence in Porto.

# MARKET OVERVIEW

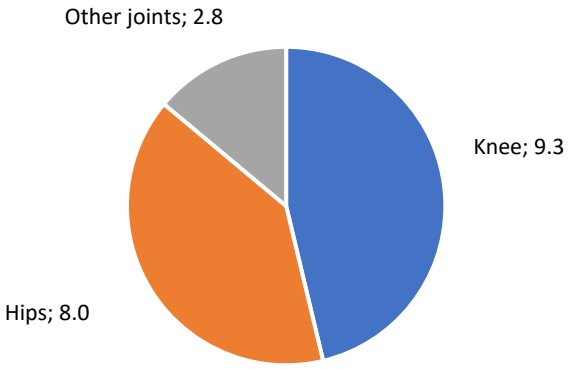
*The product portfolio is focused on treatment of cartilage damage in knee and ankle joints, and addresses a potential market worth many billions of US dollars.*

**About osteoarthritis**

Osteoarthritis (OA) is the most common joint-related disorder and is characterised by the breakdown of cartilage in the joints. It is becoming increasingly widespread at the global level in pace with an aging population and a rising average body weight. Episurf Medical's existing products are primarily intended for patients in the age range of 30–65 years suffering from cartilage and underlying bone lesions in the knee joint (chondral and osteochondral lesions), who need to quickly return to an active life. There is a significant patient group with focal cartilage lesions of traumatic or degenerative origin (pre-OA) that today lacks adequate treatment alternatives and is in urgent need of effective new treatment methods. Left untreated, these lesions often develop into severe OA.

It has been reported that 12 percent of the population has osteoarthritis of the knee joint, while the corresponding figure for the ankle joint is 3.4 percent.[3]

Figure 1. The global joint reconstruction market. Total 20.0bn US dollars




*Source: The Orthopaedic Industry Annual Report 2022*

**Market drivers**

The market for treatment of cartilage and bone damages in joints is driven primarily by an aging population, a rising average body weight, technological advances in the design and manufacture of implant components that offer wider treatment options as well as technological advances in medical imaging leading to facilitated diagnosis. Since 1990 the human life expectancy on a global basis has risen by 6 years, from 62 to 68. Studies also show that the risk of developing osteoarthritis is doubled already at an excess weight of 7 kilos.[4] The World Health Organisation (WHO) estimates that 1.9 billion people over the age of 18 were overweight in 2016, of which more than 275 million men and 375 million women were obese.[5]

Customisation is a clear trend in the industry that is gaining an increasingly strong foothold in orthopaedics, just as in pharmaceuticals and healthcare. There are several explanations for this. New technology is opening whole new opportunities to combine industrial production with customised orthopaedic surgery. Many factors, such as patient demand, are driving changes among orthopaedic surgeons, in the healthcare sector as a whole and not least among insurance companies. The need for customisation is found throughout the chain from diagnostics to choice of treatment and design of implants. Improved preliminary diagnostics are needed to select the right type of treatment and more effective treatment solutions that are adapted to the patient. This offers potentially large savings for the healthcare sector and insurers.

**Existing treatment gap**

The treatment of focal (isolated) chondral (cartilage) and osteochondral (comprising both cartilage and the underlying bone) defects of the knee joint can be challenging, especially in the middle-aged patient. There is a range of different treatments methods available, where factors such as the nature of the damage, severity of the symptoms, previous treatment history and patient age influence the decision of what is the proper treatment for the specific patient.

Biological treatments (such as microfracturing or autologous chondrocyte implantation, ACI) for chondral and osteochondral lesions of the articulating surfaces of the femoral knee joint typically give good results in younger patients but tend to perform less consistently and be less effective for osteochondral lesions and patients over 30–35 years of age. The most invasive procedure, used when no other treatment has succeeded, is partial or total knee joint replacement (unicompartmental knee arthroplasty, UKA/ total knee arthroplasty, TKA).

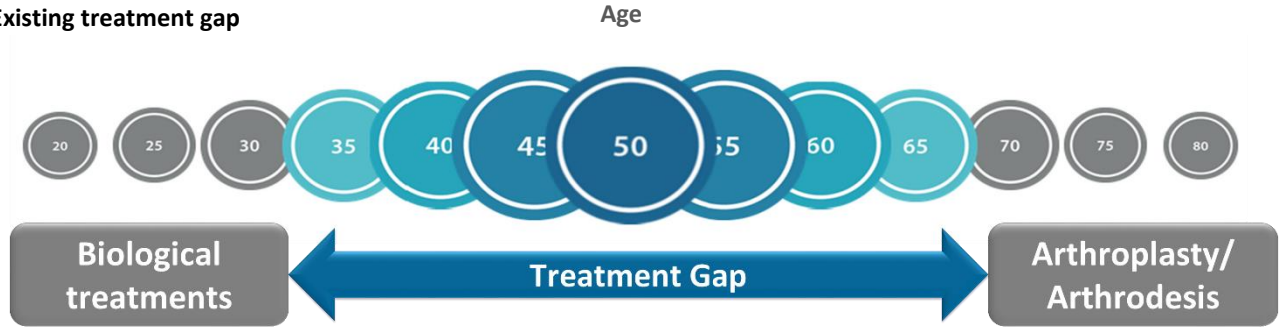
[3] Murray, C., et al., Population prevalence and distribution of ankle pain and symptomatic radiographic ankle osteoarthritis in community dwelling older adults: A systematic review and cross-sectional study. PloS one, 2018. 13(4): s. e0193662-e0193662.

[4] http://www.vetenskaphalsa.se/okad-risk-for-artros-aven-vid-latt-overvikt/q

[5] https://www.who.int/news-room/fact-sheets/detail/obesity-and-overweight

Due to the high number of uncertain outcomes and high failure rates for knee cartilage pathologies for patients over 30-35 years of age, a treatment gap arises for a large group of patients; those who do not respond to biological interventions but who are still too young for partial or total knee arthroplasty (UKA/TKA).[6] Episurf Medical addresses this treatment gap with its unique damage marking report and patient-specific Episealer® product range.

**Existing treatment gap**



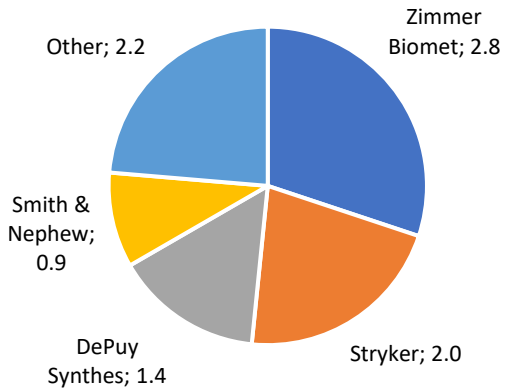

**Knee joint**

**Global market for knee osteoarthritis**

The global market for joint reconstruction, which includes revenue from several different joints such as the hips, knees, shoulders, elbows and ankles, amounted to around USD 20.0 billion in 2020.

As a segment of this wider market, the market for knee products is the single largest and is worth approximately USD 9.3 billion per year. Within this market, knee implants (prostheses) are the largest product category in absolute terms. Episurf Medical has established itself in this market with a primary focus on treatment of cartilage and joint damage of traumatic or degenerative origin from early cartilage lesions to initial OA, which in untreated condition often leads to full-scale OA.

Figure 2. Market share in the global knee market. Total USD 9.3 bn




*Source: The Orthopaedic Industry Annual Report 2022*

At present, the largest market for treatment of joint problems is that for late-stage OA. This is because the condition at that stage is so serious it must be treated, while the available treatment methods are relatively extensive and therefore costly. With modern MRI technologies diagnosis, and thus also treatment, can be made at an earlier stage.

Ten percent of the US population over the age of 25 has signs of OA in their joints, and half of that group is estimated to have knee OA.[7] According to studies reported, 5 percent of the US population over the age of 50 has a prosthetic knee joint.[8]

Over the past decade, the number of knee replacement procedures on patients under the age of 65 years has increased dramatically.[9] The ten largest markets for knee replacement surgery are the US, France, Germany, Italy, Spain, the UK, Japan, Brazil, China and India. About 1.5 million surgeries are performed every year in these markets.[10] In 2016 some 1.2 million knee replacement surgeries were carried out in the US alone, which is more than a doubling in only 10 years.[11]

[6] Knutsen, G., et al., A Randomised Multicenter Trial Comparing Autologous Chondrocyte Implantation with Microfracture: Long-Term Follow-up at 14 to 15 Years. Journal of Bone & Joint Surgery, 2016. 98(16): p. 1332-1339. Weber, A.E., et al., Clinical Outcomes After Microfracture of the Knee: Midterm Follow-up. Orthopaedic Journal of Sports Medicine, 2018. 6(2): p. 2325967117753572. Kreuz, P.C., et al., Results after microfracture of full-thickness chondral defects in different compartments in the knee. Osteoarthritis and Cartilage, 2006. 14(11): p. 1119-1125

[7] Lawrence, R.C., et al., Estimates of the Prevalence of Arthritis and Other Rheumatic Conditions in the United States, Part II. Arthritis and Rheumatism, 2008. 58(1): p. 26-35

[8] https://www.newswise.com/articles/knee-osteoarthritis-to-increase-in-younger-age-groups-in-next-ten-years

[9] https://www.newswise.com/articles/knee-osteoarthritis-to-increase-in-younger-age-groups-in-next-ten-years

[10] http://newsroom.aaos.org/media-resources/Press-releases/knee-replacements-linked-to-obesity.htm

[11] Global Data, Orthopedics Devices Market, Global

The prostheses used in knee replacement surgery today have an expected longevity of 15–20 years and in light of this, most orthopaedic surgeons recommend that patients wait until they have reached the age of 65 before undergoing this surgery. Furthermore, at present a small share is treated with partial knee replacement, in which half of the knee is replaced with a prosthetic joint. Partial knee replacement is not recommended for active patients at the ages of 40–60 years, since it wears out quickly. The number of partial knee replacements carried out per year in the US is around 115,000, which is around 10 percent of all knee replacements, and the number in Europe is around 80,000 per year.[12] There is an increasing trend of knee replacements on a global basis, with 2.6 million knee replacements performed in 2016, compared to 1.4 million in 2006.[13]

**Episurf Medical's primary market potential – cartilage damage in the knee joint**

Knee arthroscopy implies that an instrument is introduced through a small cut to investigate the inside of the joint and possibly correct any problems. Every year, around 6.5 million knee arthroscopies are performed worldwide and this number is expected to grow by an average of 7 percent annually over the next five years.[14] In the US alone, some 3.7 million knee arthroscopies are performed every year.[15] The corresponding figure for Europe is 1.1 million per year.[16] Research shows that of these knee arthroscopies, between 7–13 percent show traumatic or degenerative cartilage defects of ICRS grade III and IV[17], implying that the cartilage defect extends down to >50 percent of the cartilage depth. Today it is assessed that around two-thirds of these are treatable with Episurf Medical's CE-approved knee implants Episealer® Condyle Solo, Episealer® Trochlea Solo and Episealer® Femoral Twin, depending on the location of the injury in the knee joint and the extent of the injury. Based on this, the company estimates the market potential for Episurf Medical's existing product portfolio to amount to approximately USD 3.5 billion over the coming years.

Episurf Medical's products are often used for treatment of patients in which arthroscopic treatment such as microfracturing or debridement has failed. This means, according to the company, further important market potential, based on the company's estimate that about 30 percent of the surgeries are regarded as failures within two years after surgery.

Episurf Medical's implants are designed to treat the patient's entire injury, both the cartilage and underlying bone defects, making it possible to address the underlying cause of the patient's pain more effectively than is currently possible using most of the alternative methods. It is the company's opinion that this indicates an increased probability that the company's implants will be increasingly accepted as the first line method for treatment of cartilage defects of ICRS grade III–IV, which in turn means that the market potential for Episurf Medical's products is growing.

**The market for Episealer® Patellefemoral System**

Numerous clinical publications indicate that amongst all patients with knee arthritis, between 10-20%[18] of these patients have arthritis confined to the patellofemoral joint of the knee. However, the share of patients receiving a prosthesis solely for the treatment of this disease is significantly lower. Episurf Medical is of the opinion that there is a significant market opportunity within this segment.

**<u>The ankle</u>**

**The global market for ankle OA**

[12] Global Data, Orthopedics Devices Market, Global

[13] Global Data, Orthopedics Devices Market, Global

[14] Transparency Market Research 2016, Arthroscopy Procedures and Products Market – Global Industry Analysis, Size, Share, Growth, Trends and Forecast, 2015-2023

[15] Transparency Market Research 2016, Arthroscopy Procedures and Products Market – Global Industry Analysis, Size, Share, Growth, Trends and Forecast, 2015-2023

[16] Transparency Market Research 2016, Arthroscopy Procedures and Products Market – Global Industry Analysis, Size, Share, Growth, Trends and Forecast, 2015-2023

[17] Hjelle, K., et al., *Articular cartilage defects in 1,000 knee arthroscopies.* Arthroscopy: The Journal of Arthroscopic & Related Surgery, 2002. **18**(7): p. 730-734. Widuchowski, W., J. Widuchowski, and T. Trzaska, *Articular cartilage defects: Study of 25,124 knee arthroscopies.* The Knee, 2007. **14**(3): p. 177-182. Curl, W.W., et al., *Cartilage Injuries: A Review of 31, 516 Knee Arthroscopies.* Arthroscopy: The Journal of Arthroscopic & Related Surgery, 1997. **13**(4): p. 456-460. Årøen, A., et al., *Articular Cartilage Lesions in 993 Consecutive Knee Arthroscopies.* The American Journal of Sports Medicine, 2004. **32**(1): p. 211-215

[18] Stoddart et. al. *The compartmental distribution of knee osteoarthritis – a systematic review and meta-analysis.* Osteoarthritis and Cartilage, 29 (2021), 445-455

About 10 percent of the OA cases apply to the ankle and the trend for OA of the ankle is increasing[19]. OA of the ankle is often a secondary process that typically originates from an osteochondral injury to the articular surface of the talus bone in the ankle, as a result of severe trauma or repeated microtrauma. Patients are often slightly younger than those with knee joint OA, which implies that patients may have several decades ahead of them with ache and pain. Osteochondral ankle injuries occur most frequently at the age of 20-30 and are somewhat more common in men than in women[20]. Advances in medical imaging, an increase in the number of arthroscopies performed and increased participation in sports activities at higher ages entail that more and more of these injuries are being identified[21].

**Episurf Medical's market potential - osteochondral injuries in the ankle**
The company's ankle implant Episealer® Talus with its associated instrument set Episealer® Talus Toolkit and Talus Osteotomy Guide, which has been CE-marked separately as a product to facilitate osteotomy for access to and treatment of the medial talus, aim to treat osteochondral lesions in the talus bone in the ankle. These injuries often represent an early stage of OA. An American study shows an incidence of osteochondral lesions at the talus of 27 cases per 100,000 people[22]. This study has been conducted in the US military, so it can be assumed that the individuals in the study are highly active and the company therefore considers that the incidence in this study is greater than for the population in general.

**Reimbursement**
The decision on which treatment or product to use for a patient is taken by the surgeon within the regulations that apply. These regulations vary from market to market but usually include both regulatory permissions to perform the treatment in the specific market as well as approval to receive financial reimbursement for the treatment.

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. Most often, there are four parties involved; the patient, the responsible doctor, the hospital and the payer. The patient can also be the payer, although, it is quite rare for the patient to pay for the procedure out of pocket. Instead, there is normally a third party that reimburses the hospital and the doctor on behalf of the patient. This can be the government in the public healthcare system, or an insurance company if the patient has private health insurance.

**When it comes to reimbursement, there are usually two different ways to introduce a new product in a market:**

- as a novel product; or
- as a product closely related to an existing product.

Which of these options that applies is generally decided by the responsible national authority with help from clinical and financial advisory groups. The decisions are based on the information and the clinical evidence of the product presented by the company. The next step to get reimbursement for a product is that it is assigned a code. If it is concluded to be regarded as a novel product, a process that often takes 1-4 years is initiated, meanwhile temporary codes can be used with varying levels of compensation. If it is concluded to be closely related to an existing product, the same reimbursement level will apply as for the existing product.

[19] https://www.vetenskaphalsa.se/viktigt-att-valja-ratt-operation-vid-artros-i-fotleden/.
[20] Tol, J.L., et al., Treatment Strategies in Osteochondral Defects of the Talar Dome: a Systematic Review. Foot & Ankle International, 2000. 21(2): s. 119-126.
[21] O'Loughlin, P.F., B.E. Heyworth, J.G. Kennedy, Current Concepts in the Diagnosis and Treatment of Osteochondral Lesions of the Ankle. The American Journal of Sports Medicine, 2010. 38(2): s. 392-404.
[22] Orr J.D. et al. Incidence of osteochondral lesions of the talus in the United States military. Foot & ankle international 2011;32(10):948-54.

# OUR PRODUCT PORTFOLIO

*As a pioneer in patient-specific technology for the treatment of painful joint injuries, Episurf Medical does something that no other resurfacing implant manufacturer has done. We put the patient in the centre of the design of implants and surgical instruments.*

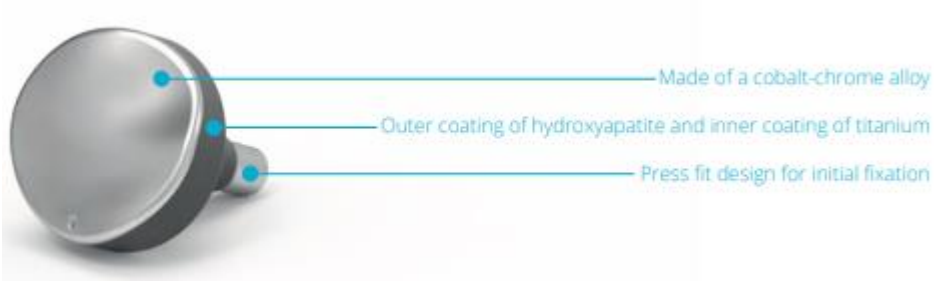
Episurf Medical's implant portfolio includes products that can be used to treat patients with knee or ankle joint injuries, from initial cartilage damage to OA.

By combining advanced 3D imaging technology with the latest manufacturing technologies, not only each implant is adapted to the patient's unique injury and anatomy, but also the surgical instruments used. In this way, it can be ensured that every patient receives treatment that is perfectly suited to his or her anatomy and thus ensuring a faster, more secure and better patient-specific treatment for a more active and healthy life.

**Episealer® implant**

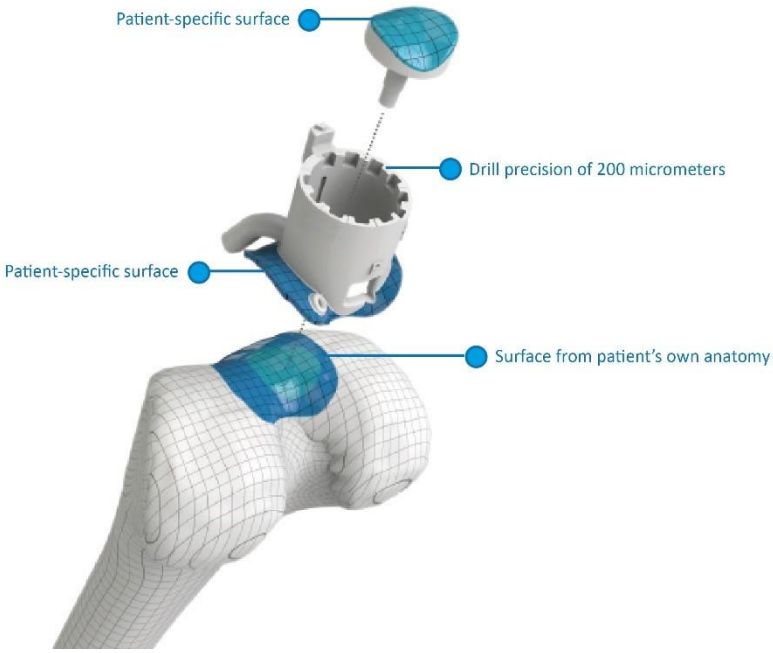
The patient's MRI or CT images are used to create a detailed virtual model, forming the base of Episurf Medical's so called Damage Marking Report (DMR). The report enables 3D visualisation of damage in the joint surface and underlaying bone defects, as well as other findings relevant when selecting the right treatment for the patient. Based on the 3D model and damage assessment, each Episealer® implant is designed to fit the patient's unique anatomy and size of the lesion, ensuring a perfect fit for optimal clinical result and to avoid damaging of the opposing joint surface. The implants are available in certain set diameters and in circular or elongated shapes, but each implant has a truly personalised articulating surface geometry and implant thickness.

Competitive, standardised, off-the-shelf products might not always, according to the company, fit precisely as the surgeon selects the shape/size that fits best based on intra-operative measurements of the lesion size and joint anatomy. This will not ensure a perfect fit which may compromise the clinical outcome of the surgery. Further, more lesions/implant positions in the joint can be addressed with the truly patient-specific Episealer®, providing unlimited choices of implant surface curvatures.




As far as the company is aware, competitive resurfacing devices primarily address cartilage lesions, whereas Episealer® addresses both the cartilage lesion and underlying bone defects. Since cartilage does not have any nerve fibres, pain signals do not originate from the cartilage but in most cases from a lesion in the bone underneath. If one fails to treat the underlying bone defect adequately, the pain may persist. Conversely, treating patients without a bone lesion may not result in relief of pain, which, in those cases, may originate from somewhere else in the joint.

One of the most important risk mitigations for Episealer® compared to all other resurfacing implants, is that the clinical situation in the knee is reviewed in advance by an Episurf Medical radiologist and compiled into a damage marking report, which is communicated directly with the surgeon. The probability for inappropriate cases (i.e., usage outside the intended use), is thus improbable.



**Episealer® Toolkit**

Correct positioning of the implant is obtained by means of a corresponding, personalised set of instruments, to assist the surgeon during surgery. The proprietary Episealer® toolkit is an inherent part of the Episealer® procedure.

To ensure easy and fast surgery and optimal positioning of the implant, Episurf Medical delivers a customised drill guide for each procedure, the Epiguide®. It is designed according to patient-specific data in the same way as the Episealer®. The guides are designed to deliver a custom fit and can thus be easily placed in the joint over the damaged area. They are essentially a mirror image of the patient's joint surface around the damaged site. The guide is designed so that the drilling angle and depth are predetermined, these are thus not a matter of judgement for the surgeon. Epiguide® guides the surgeon through the entire procedure, simplifies execution and increases precision.

**Damage Marking report**

Customisation of the Episealer® with respect to implant size (diameter and thickness) and articular surface curvature is supported by the creation of a damage marking report. This report is generated using medical images and a virtual 3D model of the patient's knee or ankle which enables pre-operative planning and individual customisation of implant and surgical tools. The report allows for establishment of indications and contraindications, to ensure that only patients suited for the procedure are operated.

To make this possible, an MRI (for knee/ankle) or CT (for ankle) scan of the patient's knee or ankle is performed, anonymised and sent digitally to Episurf Medical through the order management system µiFidelity®. The quality of the images is checked. Based on the medical image data, the geometry of the joint as well as the extent of the damage are assessed and visualised together with an Episurf Medical radiologist

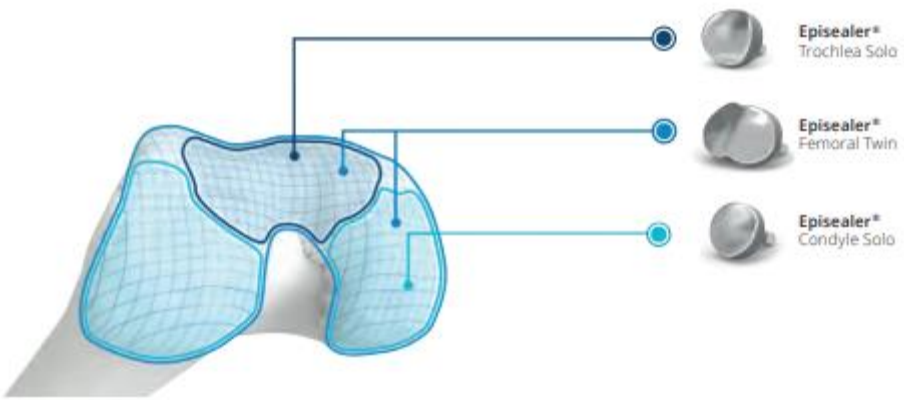
A virtual 3D model of the affected joint, including possible damage, is created. The report is subsequently compiled and delivered to the treating surgeon through µiFidelity®. The report is used by the treating surgeon as an assessment support tool and for planning of the appropriate surgery.

Upon implant size and position confirmation from the treating surgeon and approval of the case, implants and corresponding tools are designed and manufactured. In case the report concludes that the patient is regarded not suitable to receive an Episealer®, the surgeon will be notified and given an explanation.

**Possible future areas of use**

Episurf Medical is working actively to develop and widen the product portfolio into new application areas where there may be opportunities to apply the company's technology and expertise within individualised treatment. The company's technology can be applied to joints other than the knees and ankles such as toes (implant currently under development), shoulders, and even hips, and can thus give rise to additional product portfolios for specific areas of use.

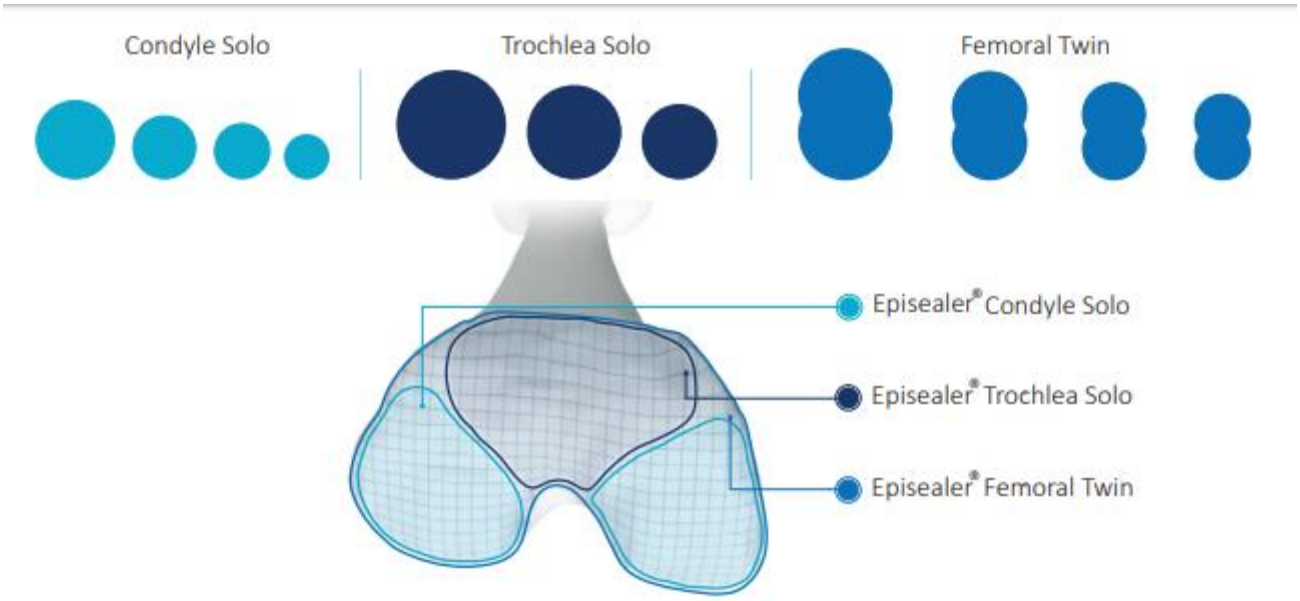
## Product for the knee




**Episealer® knee**
Episurf Medical's Episealer® Knee implants make it possible to repair focal cartilage and bone defects to reduce pain and increase mobility in the patient's knee joint. Episealer® implants can be easily inserted, cause minimal trauma to the surrounding tissue and require less complicated rehabilitation than other treatment alternatives. Furthermore, since healthy cartilage and bone are preserved and the implant has a neat design, the patient's options for future interventions, such as for example knee replacement surgery, are not limited.

Episealer® Knee is an uncemented CoCr metal alloy implant for the femoral side of the knee joint, fixated to the bone thanks to the double coating system of titanium and hydroxyapatite.

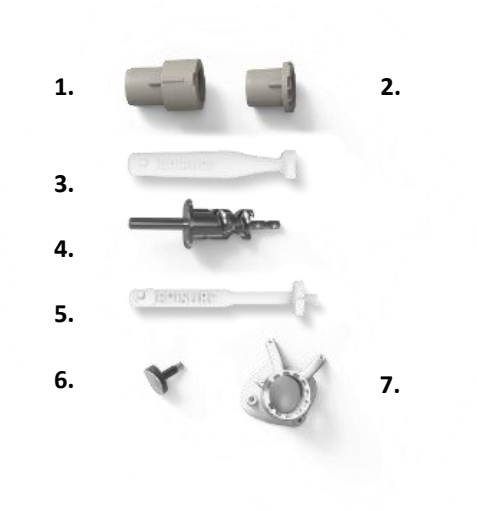
**The Episealer® knee implants constitute a family of individually customised, patient-specific, resurfacing implants including the following:**
» Episealer® Condyle Solo (CE-marked year 2013)
» Episealer® Trochlea Solo (CE-marked year 2014)
» Episealer® Femoral Twin (CE-marked year 2015).



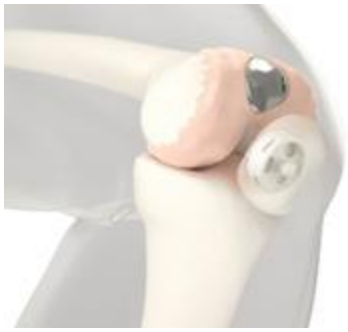
**Episealer® Knee toolkit**

**The single use toolkits for the implants consist of the following parts:**

1) Drilling socket – insert to be used with the Epiguide® to guide the Epidrill for initial drill depth
2) Adjustment socket – insert to be used with the Epiguide® to guide the Epidrill for exact depth adjustment
3) Epimandrel – tool to assist insertion of the implant
4) Epidrill – drill
5) Epidummy – replica of the Episealer® for depth control
6) Episealer®
7) Epiguide® – drill guide, aids the surgeon to obtain the exact drilling access and depth, to ensure the correct placement of the implant. For Episealer® Femoral Twin there is one additional part included, the Epiguide® insert




**Episealer® Patellofemoral System**



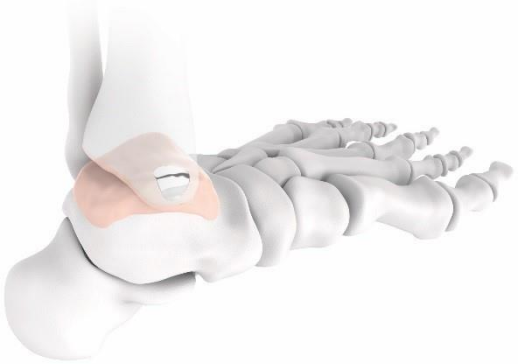
Using the experience from Episealer® Knee, Episurf Medical developed a system to treat osteoarthritis limited to the patellofemoral part of the knee joint. The system consists of two implant components (the "Femoral Component" and the "Patellar Component") as well as their corresponding instruments. The implants are intended to articulate against each other in opposing positions behind the knee cap. The Femoral Component is a CoCr alloy implant while the Patellar Component is a UHMWPE polymeric implant.

Using the same technology as used for design of the Episealer® Knee implants, each component in the Episealer® Patellofemoral System is designed to fit each patients' unique anatomy and size of the damage. To ensure optimal position of each implant, the Episealer® Patellofemoral System is delivered with similar instruments as Episealer® Knee, including the personalised Epiguide®.

## Products for the ankle

**Episealer® Talus**

Based on the technical, pre-clinical and clinical experiences from the Episealer® Knee implants, Episurf Medical devolved the technology further and launched a solution for treatment of bone and cartilage defects in the talus bone of the ankle joint.



The ankle joint is a place where three bones meet; tibia (shin bone), fibula (calf bone) and talus (ankle bone). Like in the knee, the cartilage in the ankle joint is susceptible to wear and tear. Cartilage and bone defects on talus have been a challenge to orthopaedic surgeons due to lack of reliable treatment alternatives. Total joint replacement with an ankle prothesis does not provide the same range of motion as the original joint and this is followed by an increased risk of arthrosis in the forefoot. And as for the knee, the ankle joint prostheses have a limited lifetime. Ankle arthrodesis (ankle fusion) is an alternative treatment, but implies risks of adverse effects such as non-union and arthrosis in other joints. These factors indicate that it is highly motivated to restore the original joint.

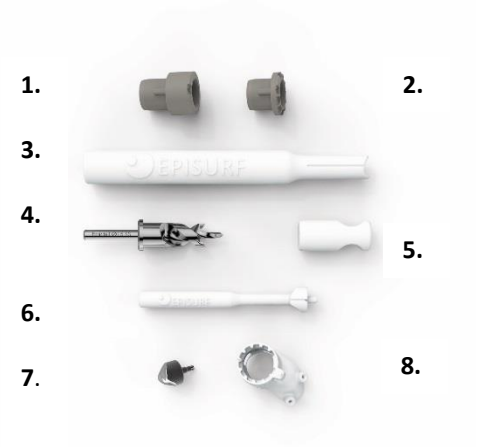
Episurf Medical's engineers have, together with some of the most experienced foot and ankle specialists in Europe, developed an Episealer® system for the ankle joint. The Episealer® implant is the same as for the knee joint, only adapted for the curvature of the talar dome. Episealer® Talus received its CE approval in 2020.

As for the Episealer® Knee, Episurf Medical's proprietary set of surgical instruments is provided together with the implant to give the surgeon support with the critical moments, to ensure a desired implant placement and restoration of the anatomy.

**Episealer® toolkit for the ankle**

*The single use toolkits for the Episealer® Talus implants consist of the following parts*:

1) Drilling socket – insert to be used with the Epiguide® to guide the Epidrill for initial drill depth
2) Adjustment socket – insert to be used with the Epiguide® to guide the Epidrill for exact depth adjustment
3) Epimandrel – tool to assist insertion of the implant
4) Epidrill – drill
5) Pin socket – Insert used with Epiguide® to control drilling of a guide hole for Epidrill
6) Epidummy – replica of the Episealer® for depth control
7) Episealer®
8) Epiguide® – drill guide, aids the surgeon to obtain the exact drilling access and depth, to ensure the correct placement of the implant




**Talus Osteotomy Guide**

To facilitate access to the medial side of the talus, Episurf Medical has developed an individualised osteotomy guide. Using CT and/or MRI images, the Talus Osteotomy Guide (TOG) is designed to uniquely fit on the patient's distal tibia.
Thanks to its individualised design, it is intended to aid to detach the medial malleolus and reduce the risk of damaging surrounding tissues and talar cartilage. Two drill holes will the surgeon in creating the fixation holes to re-attach the medial malleolus after the talar bone treatment.
The Talus Osteotomy Guide can be used as a stand-alone product or in combination with the Episealer® Talus implant for medial positions.

**Statement by Professor Leif Ryd**

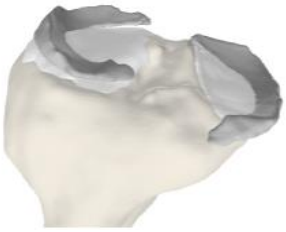
*"There is a great demand for this implant, as there are few alternatives for lesions in the ankle. In many cases, patients with these injuries are forced to undergo joint fusion. It feels fantastic to finally be able to offer our solution. This is an example that Episurf's technology in principle can be applied to all joints".*

## Epioscopy®

Since the earliest conception of Episealer®, Episurf has understood the necessity of surgical pre-planning to ensure a perfect fit and function of the Episealer® implant. This pre-planning material has come to be known as our "Damage Marking Report". Using the patient's MR images, we create a virtual 3D model of the patient's femoral knee or foot, visualising both cartilage lesions and bone damages underneath the cartilage. Throughout the years, we have continuously refined this report to the current digital platform we see today. The Damage Marking Report, or DMR as we call it, has always been a very appreciated tool by

our customers as it enables them to clearly see the condition of the knee cartilage and the extent and exact position of lesions without having to resort to surgery. Some of our customers asked if we could refine it further to also include other structures in the knee or the foot which are otherwise generally surveyed during an arthroscopy.

**Driven by demand, engineered by science - our journey continues**

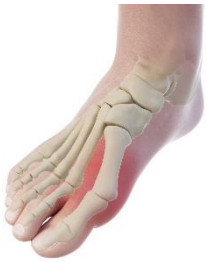


Episurf took on the challenge and developed Epioscopy®. By combining the latest artificial intelligence (AI) technology with the experience we have of segmentation of MR images for device design and for visualisations in the Episealer® Damage Marking Reports, Epioscopy® can identify and visualise not only femoral knee joint cartilage and bone lesions but also such lesions in tibia well as defects on the cruciate ligaments and menisci. Epioscopy® is presented as an interactive online platform with a virtual 3D model of the knee, correlating on-screen with the patient's MR images.

*"Clever tuning of medical imaging sequences in combination with automation processes based on artificial intelligence has resulted in stunning anatomical and pathological visualisation. There are no limits within this field and Episurf is definitely a player here",* says Dr Adam Mitchell, Consultant Radiologist and Medical Advisor to Episurf Medical.

## Our pipeline of new products

**Episealer® MTP implant**



Episurf Medical is currently developing an implant for the MTP joint of the big toe in the foot. The idea is to develop an implant based on Episurf's individualised implant technology, addressing osteoarthritis (hallux rigidus) in the big toe. The company believes that an individualised implant technology, which enables full consideration of all important anatomical aspects, could constitute a successful alternative for a large patient population.

The implant is initially intended to address the US market, where Episurf has initiated the dialogue with the FDA and submitted a 510(k) application. Episurf has identified this market as a one with significant unmet medical needs within this segment.

# BACK TO SPORT AND AN ACTIVE LIFE!

***"I wasn't even able to play with my children."***

In September 2022, Erik received an Episealer® Knee implant as treatment for his cartilage defect in his knee. Soon after the surgery, he reached out to us just to share with us how successful the treatment was and how it allowed him to get back to the active life he enjoys living. Erik has during the first year after his surgery updated us on his progress with the rehabilitation. In September 2023, one year after the surgery, we had the opportunity to meet Erik and he shared with us how happy he was, and how the surgery had helped him.

*"I used to exercise a lot, mostly running, when my knee problems started in 2021. I tried more various training to hopefully get rid of the knee pain, but the pain kept growing more and more for every week, and every month.*

*The knee pain impacted my life, not only that I wasn't able to run. Also, my mental health was affected as I was in consistent pain. The worst was probably that it impacted me as a father, I couldn't continue as my children's coach in soccer, and I wasn't even able to play with my children at home.*

*My surgeon told me that I had a cartilage defect, and he gave me three alternatives. The first option was to do nothing, but realising that the pain would increase. The second alternative was mosaicplasty, but due to my age, 42 at that time, that method would probably not be successful. The third alternative was a new technology that they implemented at the clinic some years ago, Episealer®, which appeared promising and suitable for my age as well as for my wish to continue an active and sporty lifestyle.*

*After the surgery, I was of course in pain, but I realised that the grinding pain I used to have for a long time was gone, and I was able to start working already three days after the surgery.*

*I was informed about the importance of following the rehabilitation program and I was already from day one practicing range of motion. After one month, I was practicing on my trainer and about three months after the surgery, I was able to run shorter distances.*

*Now, one year after the surgery, my knee doesn't limit me anymore, I do whatever I want.*
*I can run on daily basis, I go skiing, and most fantastic of all is that I can play with my children and be a soccer coach again – I'm very happy and my next goal is to run a half-marathon!".*

In January 2024, Erik sent us a New Year's greeting and told us that during training, he successfully tested that he can now handle a half marathon distance. During the autumn, he also ran a trial competition where he came on an honourable third place! His knee, he describes, works great and it allows him to exercise and live the active life he loves!

***"My next goal is to run a half-marathon!"***

# CLINICAL EVIDENCE

**Episealer® Knee**

Since the first day of development of the Episealer® Knee implant, research has had our highest priority. As part of the development, five preclinical studies were conducted to ensure that Episurf's concept was viable and ready for clinical use. Subsequently, several clinical studies and a survivorship analysis based on the results of over 600 implantations were performed. These results have now been published in several, well renowned scientific journals and the Episealer® Knee implant is considered well proven with good evidence for the technology.

The first preclinical studies were performed by Dr (MD PhD) N. Martinez Carranza at Karolinska University Hospital in Stockholm. The studies highlight the importance of exact placement of the implant, the value of the implant being adapted to the patient's unique anatomy, and how the bone grows firmly onto the implant thanks to the surface treatment of titanium and hydroxyapatite.

The very first patient to receive an Episealer® knee implant underwent surgery in December 2012. He was one of 10 patients included in Episurf's first clinical study, which resulted in the publication "*No implant migration and good subjective outcome of a novel customised femoral resurfacing metal implant for focal chondral lesions*" by Dr (MD, PhD) A. Stålman at Capio Artro Clinic, Stockholm, et al. published in the prestigious scientific journal Knee Surgery, Sports Traumatology, Arthroscopy (KSSTA) online in November 2017. The study is summarised with "Good implant safety and satisfied patients, significantly improved knee function and reduced pain".

In October 2020, the article entitled "*Patient specific metal implants for focal chondral and osteochondral lesions in the knee - Excellent clinical results at 2 years*" was published in Knee Surgery, Sports Traumatology, Arthroscopy (KSSTA). The study reports on the clinical results for 80 patients from nine clinics in six European countries, who have undergone treatment with the individualised knee implant Episealer® for limited cartilage and bone injuries in the knee joint. The authors, led by Dr. Med. Johannes Holz, Park-Klinik Manhagen, OrthoCentrum, Hamburg, Germany, are some of the most experienced Episealer® users and the most knowledgeable European knee specialists. The authors have evaluated the clinical outcomes for the patient group and conclude that the Episealer® implant provides significant clinical and functional improvements. They also found that the study indicates that there is a definite place for Episealer® in the treatment algorithm of cartilage defects in the knee joint.

The publication above was later that month followed by another Episealer® publication, namely "*Successful Treatment of Femoral Chondral Lesions with a Novel Customised Metal Implant at Midterm Follow-Up*" which was published in the focused scientific journal Cartilage. The study was led by chief investigator A. Stålman with N. Martinez Carranza as first author, and reports on the results from a follow-up of 30 of the first Episealer® patients from nine Swedish clinics. The patient-reported follow-up results EQ5D VAS (EuroQoL Visual Analogue Scale), VAS-pain (Visual Analogue Scale) and KOOS (Knee Injury Osteoarthritis Outcome Score) all show significant improvements.

In December 2020, an article based on post-market surveillance data of the Episealer® knee implant was published in the scientific journal Surgical Technology International. The publication with the title "*Patient-specific implants for focal cartilage lesions in the knee: implant survivorship analysis up to seven years post-implantation*" by Prof. L. Ryd, et al. is based on the result from more than 650 Episealer® procedures and shows a cumulative survival rate of > 96% over seven years.

In September 2021, the first mid to long term results from follow-up of Episealer® Knee patients were presented in the publication "*Good subjective outcome and low risk of revision surgery with a novel customised metal implant for focal femoral chondral lesions at a follow-up after a minimum of 5 years*" by Dr M. Al-Bayati et al.
The publication was based on a continuation of the study with follow-up of the 10 first Swedish patients, from which the 2 years' results were previously published by A. Stålman et al. The publication shows that the good improvements in subjective outcome measurements shown at 24 months' follow-up, also remain at a minimum of 5 years (mean 75 months). The authors conclude that the customised prosthesis system with patient-specific implants and surgical guide instruments improves the potential for adequate implant positioning, which may explain why the study reports a good result.

In October 2021, results from the first comparative study with follow up of patients who received an Episealer® Knee implant was presented in the publication "*Patient-specific resurfacing implant knee surgery in subjects with early osteoarthritis results in medial pivot and lateral femoral rollback during flexion: a retrospective pilot study*" by Dr-Ing. P. Moewis et al. The study was performed at Charité University Hospital, Berlin, Germany, in collaboration with OrthoCentrum Hamburg and Zuse Institute Berlin. The study concludes that the knee functionality for patients treated with an Episealer® implant is essentially in line with untreated, healthy knees and significantly better than for patients treated with total knee replacements.

In June 2023, an article with results from a cost utility study, focusing on the health economic aspects of the treatment with the Episealer® Knee implant, was published in the Journal of ISAKOS. The publication, with the title "*Individualised metal implants for focal cartilage lesions in the knee can be cost effective: A simulation on 47-year-olds in a*

*Swedish setting*" by L. Bernfort et al. concludes that the Episealer® implant may be a cost-effective treatment alternative for patients in their 40s, when compared to microfracture.

Some of our most experienced users use multiple implants as an alternative to a total knee replacement. In September 2023, the results from a follow-up of patients who received 2 Episealer® implants in the same knee were published in an article entitled "2-year results of middle-aged patients with two-compartment cartilage lesions in one knee treated with two patient specific metal implants" by D.A. den Toom et al. The authors find that the use of multiple Episealer® implants in the same knee can delay the need for a total knee replacement and thus reduce the risk of having to revise to a revision prosthesis, which entails a complex and extensive surgery.

There is a number of additional study initiatives in the pipeline and one of the most prioritised initiatives is the Company's EPIC-Knee IDE study, a study initiated to support Episurf Medical's strategic goal to receive FDA (Food and Drug Administration) approval and launch the Episealer® Knee implants in the US market, which is the world's largest orthopaedic market.

**Episealer® Talus**

In 2020, the Company's ankle implant Episealer® Talus was launched to the European market. Prof. Niek van Dijk, active at FIFA Medical Centers of Excellence in Madrid, Spain, has initiated a prospective multicentre study with five years' follow-up of 25 Episealer® Talus patients.

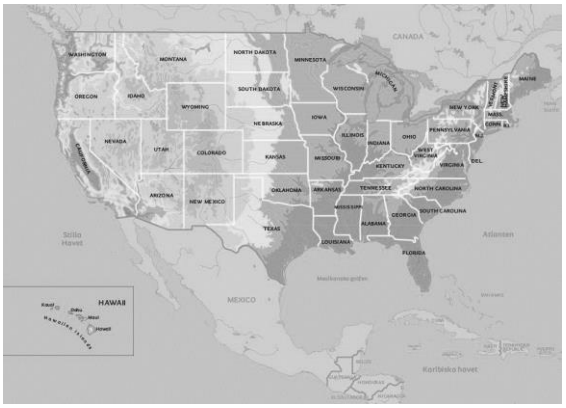
In May 2016, Dr. Med. J. Holz at Park-Klinik Manhagen, OrthoCentrum, Hamburg, Germany, performed the very first surgery with an Episealer® Talus implant (custom made, prior to market launch). In August 2021, 5 years' results from follow-up of this patient were presented in a case report with the title "*Treatment of an Osteochondral Lesions of the Talus with a novel Patient-specific Metallic Implant: A Case Report with 5-year Follow-up and Review of the Literature*" published in FASTRAC, Foot & Ankle Surgery: Techniques, Reports & Cases. The publication shows that the result of the surgery was very successful and the patient, a 33 years' old car mechanic, was able to get back to his work and also start playing soccer again.

At the Rizzoli Orthopedic Institute, Bologna, Italy, an independent study is being conducted with follow-up of 20 patients who received an Episealer® Talus implant. The study, which was fully recruited in the second half of 2023, is carried out under the guidance of Prof. S. Zaffagnini. Positive preliminary results have been presented in 2023 and a summary of preliminary results has been accepted for presentation at the AAOS, the annual meeting of the American Academy of Orthopedics.

Together with the published evidence and the comprehensive research performed in the development phase of the Episealer® technology, we are confident that our clinical program will provide the evidence required in order to continue the market expansion.

# FOCUS ON THE US

**Preparations for entrance into the US market**




Episurf Medical has a strategic goal to receive FDA (Food and Drug Administration) approval and launch the Episealer® Knee in the US market, which is the world's largest orthopaedic market. The dialogue with the FDA was initiated already back in 2016-2017, resulting in the information that market approval for the Episealer® Knee implants will be through a so-called PMA (Premarket Approval) process. A PMA process is based on the product demonstrating its safety and effectiveness through an adequate and closely monitored clinical trial. The PMA process is the most stringent regulatory route and is required for products classified as Class III.

The first step in a PMA process is to seek IDE (Investigational Device Exemption) approval from the FDA in order to receive permission to start a clinical trial. An IDE submission undergoes a regulatory review process where the clinical protocol along with the proposed study design constitutes a part of a larger material sent to the FDA for examination. The Company performed an IDE submission and in December 2018 the Company received approval to initiate the clinical trial. The letter from the FDA granted conditional approval which implies that Episurf Medical's IDE study can commence, and enrolment of patients could begin as soon as all preparations are in place including ethics approvals. Additional minor questions still need to be resolved before full approval was received. In March 2020 the full IDE approval from the FDA was received.

The IDE clinical trial is now ongoing and conducted in the US, Canada and Europe. The study is a randomised, controlled study with the biological treatment method microfracturing as the control group. Patients will be followed over two years and the study involves 180 patients. A clinical study conducted in the United States is of utmost importance for the company, both as part of the FDA approval process, but also to prepare for future reimbursement in the United States and to strengthen the clinical evidence for sales purposes and reimbursement in other markets. The company has appointed a lead investigator for the entire IDE study in Dr Kevin Plancher in New York. The company works with the CRO companies MCRA and ICON to conduct the study. This clinical trial is referred to as the "EPIC-Knee study" and the first surgery was performed in September 2020. The patient recruitment has initially been heavily influenced by the COVID-19 pandemic but a number of sites are now actively performing study surgeries, and the company is hoping to have great progress in patient recruitment during 2024.

In addition to the work with getting regulatory approval for the Episealer® Knee implants, Episurf Medical worked on a parallel plan for market clearance of the newly developed implant system for the knee joint, the Episealer® Patellofemoral System. For that implant system, the company received clearance by the FDA through a so called 510(k) submission. This is a process that is much faster than a PMA, and safety and efficacy is here demonstrated through equivalence to devices already cleared for the US market. The company submitted the 510(k) application in 2022 and received the clearance just before the end of that year. This product is now launched on the US market and Episurf's first commercial cases in the US were performed during the autumn of 2023.

Episealer® Knee and Episealer® Patellofemoral System are complementary technologies and the Company is looking forward to in the future having both devices in the US product portfolio.

Episurf's big toe implant for treatment of osteoarthritis of the 1st MTP joint is expected to be the company's next product on the US market. The Company filed a 510(k) submission during 2023 which is currently and the review process and interactions with FDA are ongoing.

**Strategic advisor US**

**NILES NOBLITT**

Niles Noblitt is a Senior Advisor to the company and one of the founders of Biomet, a part of the global orthopaedic market leader Zimmer Biomet. For about 30 years, Niles Noblitt was also the Chairman of Biomet. As a Senior Advisor to Episurf Medical, Niles Noblitt assists the company on matters relating to the global strategy, partnerships, and operational development.

# INTERVIEW WITH PATRICK JAMNIK, PRESIDENT, EPISURF MEDICAL INC

**Patrick, what initially drew you to join Episurf?**

Throughout my career, I've been fortunate to be involved with some of the biggest companies in orthopaedics such as Stryker and Zimmer Biomet, but also with young European companies heavily reliant on commercialising new technologies. When evaluating those younger companies, it's important to not only look at the fanciest parts of the technology, but also the underlying ways in which the company was built since its inception. Episurf clearly put a lot of painstaking work into the foundational aspects of the company, such as an early emphasis on clinical data. This is not always the case. All in all, I thought that Episurf had tremendous opportunities and that the company was built on a very strong foundation.

**You are introducing not only a new product in the Episealer® Patellofemoral System, but also the company to US surgeons. What have their thoughts been thus far?**

Instinctively, surgeons understand the struggles inherent with managing the care of gap patients. Not a single surgeon we've met with yet has pushed back on the idea that middle-aged patients need better options available to treat their pain. They are overwhelmingly positive in their reception of Episurf onto the US market. Oftentimes when introducing a new implant system to surgeons, it will take a number of consecutive meetings to further expand upon the system's benefits. However, with the Episealer® Patellofemoral System, we've held a surprising number of surgeon meetings where within one meeting we have been able to secure a commitment from the surgeon to use the system. The product's attributes and Episurf's way of addressing problems instinctively make sense to surgeons.

**And what about the distributors needed to actually sell the products – how are they perceiving Episurf?**

Distributors love the "Episurf way" of doing things. It's common to hear frustrations from them about all the logistical work required for other product lines they carry. With Episurf, the end product and all accompanying instruments arrive sterile at the hospital ahead of time, eliminating a trip to the hospital a day in advance of the surgery. After Episurf procedures, all instruments are discarded, saving distributors another trip to the hospital to pick up equipment. Episurf is helping distributors stand out in their local market and present themselves as the go-to source of innovative technology for their surgeon customers.

**What are you most looking forward to as the company continues to progress?**

Often, one of the more difficult parts of my job is harnessing surgeons' overall excitement about the company's potential into their usage of what is available today. There is tremendous excitement to expand Episurf's platform technology into additional clinical applications. Furthermore, we've got the opportunity to not only take share in existing markets, but also simultaneously play a major role in the overall expansion. Our technology allows more people to receive a treatment commensurate with their specific clinical situation, and therefore be more eager to seek treatment when they want to, postponing end-stage procedures such as arthroplasties and fusions. Taking share can be fun, but expanding markets is both fun and rewarding.

*Patrick Jamnik, Episurf, and Dr. Paul Codjoe, surgeon from Mercer-Bucks Orthopedics, at the Mercer County Surgery Center in Lewrenceville, New Jersey, US.*

# SUSTAINABILITY

*Episurf Medical's strongest contribution to society is to offer people with painful joint injuries a longer, more active and healthier life by providing effective, minimally invasive, patient-specific treatment alternatives.*

Episurf Medical is actively committed to corporate responsibility and sustainability and it is a natural part of our operations. Episurf Medical works in an industry where ethical and regulatory aspects are of major importance in shaping the company's operations. As a result, we continuously focus on these issues with the aim of consistently meeting the established requirements by a wide margin.

Episurf Medical has worked more structured with sustainability during the year by involving and including the entire company and its board in work going forward. We work on clarifying the sustainability work with directives, policies, and transparent governance that involves all company levels. For the company, it is essential that all employees understand the importance of the work the company does. Therefore, the company also has sustainability as one of the company's annual goals.

**The UN's global goals for sustainable development**
As part of the company's work, we contribute to the UN's global goals for sustainable development. The sustainability goals that we believe we have the greatest opportunity to influence are goals 3, 5, 8, and 13.


***3. Good health and well-being***
Improving people's health is at the core of our business and where we focus most.


***5. Gender equality***
Episurf Medical's goal is to create a versatile and inclusive workplace that takes advantage of the employees' different abilities. We value our employees and work to include, be fair, and equal and not discriminate against anyone.


***8. Decent work and economic growth***
Fair working conditions and a healthy balance between work life and leisure are essential to Episurf. We believe that the interaction between our employees' health, safety, and development will benefit the company's financial growth.


***13. Climate action***

The company works to set goals based on the Paris Agreement and get the company's stakeholders for example suppliers and other partners to do so as well.

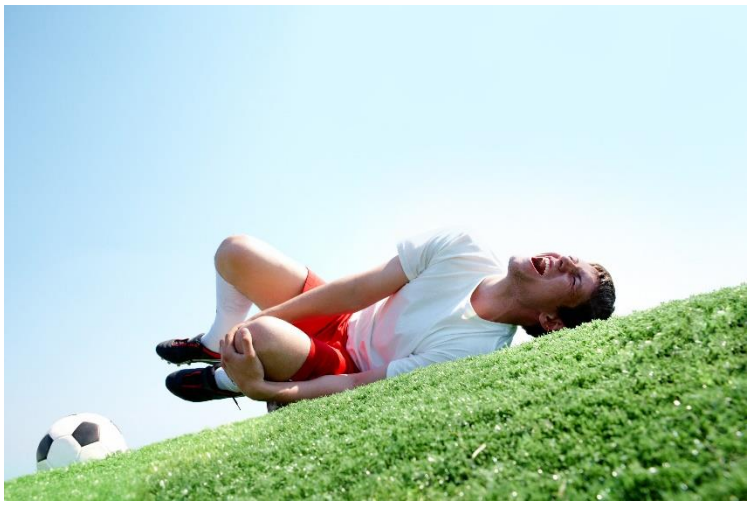
**Stakeholders**

Our business is primarily aimed at healthcare providers and their patients and being able to offer them patient-specific treatment alternatives. Other stakeholders interested in the company's work are distributors, suppliers, employees, investors, and the public sector.

Being open and providing the shareholders and stakeholders with full transparency of the company are top priorities for Episurf Medical. Accordingly, updated and relevant information will always be available on the company's website under the tab "Investors". Here, stakeholders and shareholders can find clear, complete and reliable information to meet all of their needs, regardless of their level of expertise. Communication with the shareholders and stakeholders takes place via the website, newsletters and press releases. Through structured Board of Directors work, Episurf Medical ensures that corporate responsibility issues are addressed and included on the management's agenda.

**Longer and more active life**

Our strongest contribution is offering people with painful joint injuries a longer, more active and healthier life by providing effective, minimally invasive, patient-specific treatment alternatives. Episurf Medical has implemented a quality management system, ISO 13485, a standard for medical devices that specifies how these are to be developed and manufactured, for use in the healthcare sector.



**Environment**

The company's environmental policy is included as a natural component of the company's operations, but the company began the work to achieve ISO 14001 certification during the year further increasing the company's awareness and sustainable development. ISO 14001 provides a clear framework for reducing the company's environmental impact and ensures that Episurf Medical works systematically to plan, implement and manage an environmental management system.

Episurf Medical has no in-house production, which means that its operations have a very limited direct impact on the environment and local community. Regarding production of Episurf Medical's products, the company's main suppliers have production facilities certified and meeting ethical, environmental and health and safety criteria.

**Target 2023**

Structure the sustainability work further and ensure that the company's employees and board are part of the work.

- During 2023, the company has taken further steps towards a more sustainable company by seeing the work as part of the company's operations and working to get the company's stakeholders towards the same goal.

**Target 2024**

The company will report according to the CSRD (Corporate Sustainability Reporting Directive) for the financial year 2026. The company will, therefore, focus during the year on getting most parts in place, which means that the company needs to ensure that the company can report the effect of the company's social and environmental activities.

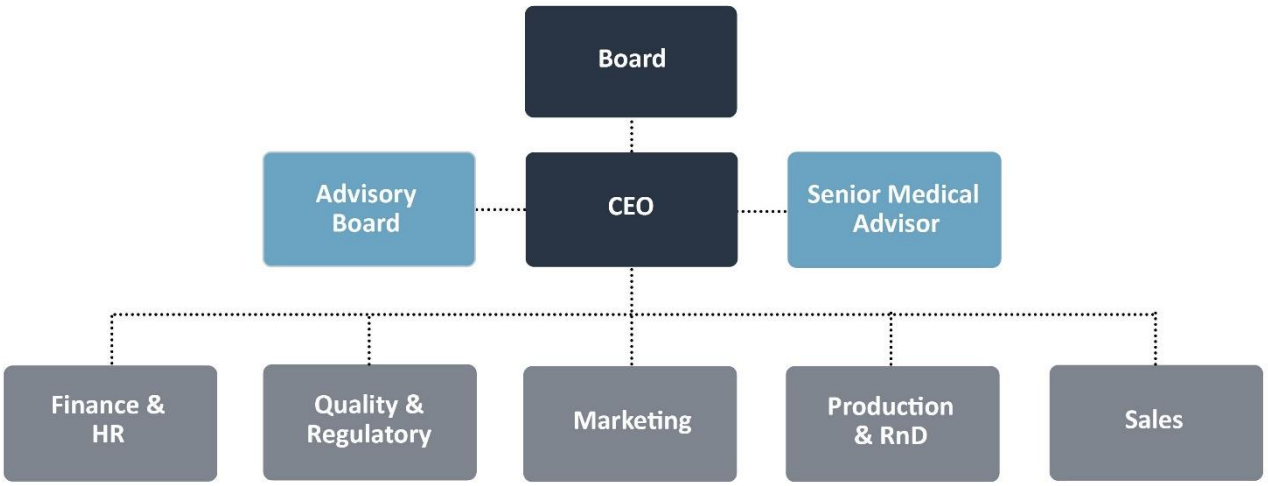
# ORGANISATION AND EMPLOYEES

The Group consists of Episurf Medical AB (publ), which is the parent company of the Group, and the wholly-owned subsidiaries Episurf IP-Management AB, Episurf Operations AB, Episurf Europe AB, Episurf DE GmbH, Episurf Medical Inc, Episurf India Limited, Episurf Australia PTY Ltd, and Episurf Europe AB's wholly-owned subsidiary Episurf UK Ltd.

**THE AVERAGE NUMBER OF EMPLOYEES** in the Group during 2023 was 34, of whom 11 were women and 23 men. The number of employees in the Group at the end of 2023 was 28, which is six less than the previous year. The difference is primarily due to the strategy update that the company communicated on July 14, 2023, which means, among other things, that the company must significantly improve the company's financial position and running costs, as well as increase the focus on distributor sales and collaborations.

Despite its limited size in terms of the number of employees, Episurf Medical's organisation possesses considerable expertise in most areas of relevance to the company. Extensive experience is found in areas like clinical research, international sales of orthopaedic implants and design and development of customised implants. As a means for gaining access to additional expert know-how and to minimise costs while maintaining desired flexibility, Episurf Medical uses external consultants for certain purposes. Furthermore, the company collaborates with various experts in different fields.

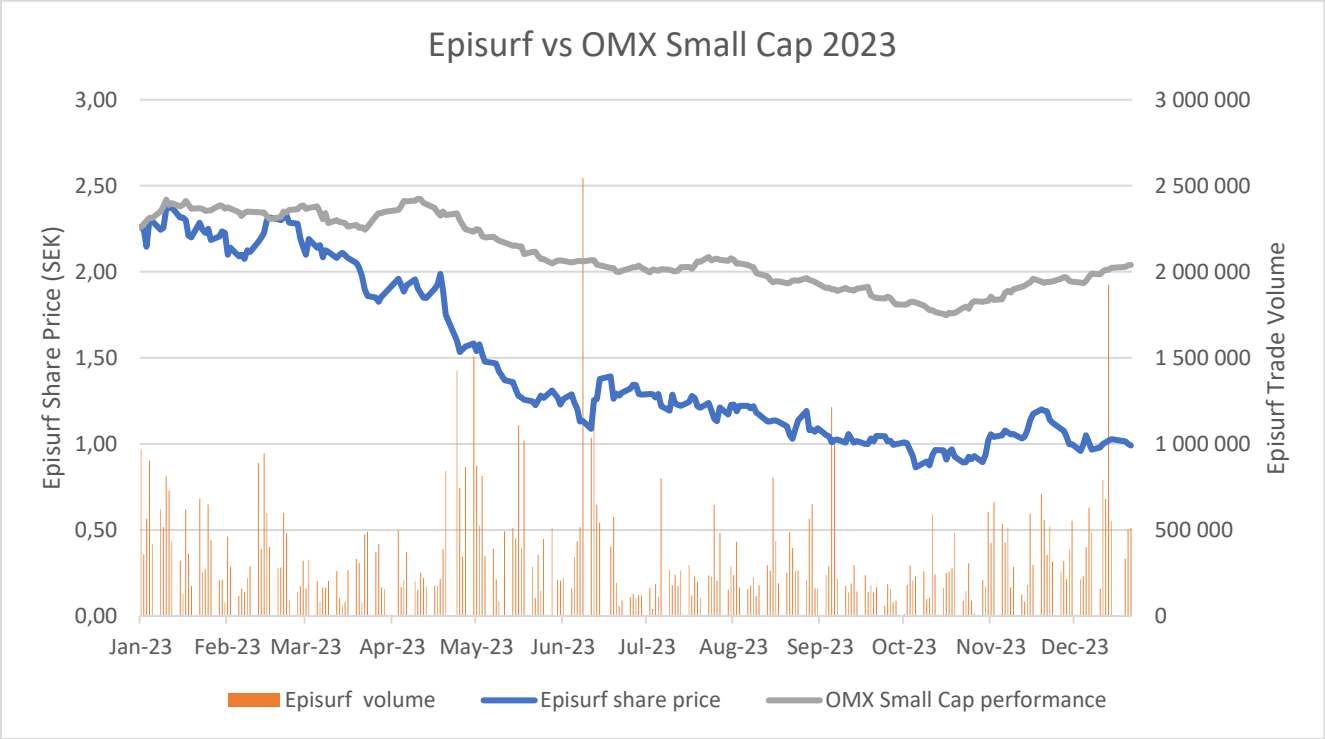
This structure enables the company to allocate resources according to need and to bring in the right expertise at the right time. As more products enter the launch phase, the company adds more functions to the in-house organisation.



# SHARE CAPITAL AND OWNERSHIP STRUCTURE

Episurf Medical's share is listed on Nasdaq Stockholm, Small Cap, since 2014.

**Share price performance during 2023**




**General information**

The company's shares are issued in two classes. As of December 31, 2023, the company's registered share capital amounts to SEK 80,187,450.80 distributed among 473,357 A-shares (ISIN: SE0003523869) and 266,592,090 B-shares (ISIN: SE0003491562), corresponding to a total of 267,065,447 shares. The quota value of each share is SEK 0.3. According to Episurf Medical's current articles of association 31 December 2023, the share capital may not be less than SEK 27,302,316.80 and not more than SEK 109,209,267.20 represented by no less than 90,930,755 shares and no more 363,723,020 shares.

During the year, the company carried out conversions of warrants. See more information under "Share issues and share conversions" below.

The company's B share is traded on Nasdaq Stockholm since 11 June 2014 under the ticker symbol "EPIS B". The shares in the company have been issued according to Swedish law and are denominated in SEK. The company's shares are registered in a CSD register in accordance with the Swedish Act on Central Securities Depositories and the Accounting of Financial Instruments (Sw. lagen (1998:1479) om värdepapperscentraler och kontoföring av finansiella instrument). This register is managed by Euroclear Sweden AB. No share certificates have been issued for the company's shares.

| | |
|---|---|
| **Ticker symbol:** | EPIS B |
| **ISIN code AK A:** | SE0003523869 |
| **ISIN code AK B:** | SE0003491562 |
| **Order book ID:** | 78,419 |
| **No. Of shares outstanding:** | 267,065,447 |
| **Quota value:** | 0.3 |
| **Round lot:** | 1 share |
| **Share capital:** | 80,187,450.80 |

**The following table notes the ten largest shareholders based on information available as of December 31, 2023**

| Name | No. Of A-shares | No. Of B-shares | Share capital in % | Voting rights, % |
|---|---|---|---|---|
| Health Runner AB (Ilija Batljan) | -- | 34,771,101 | 13.0 | 13.0 |
| Rhenman Partners | -- | 12,666,824 | 4.8 | 4.7 |
| Fjärde AP-Fonden | -- | 12,537,181 | 4.7 | 4.7 |
| Sebastian Jahreskog | -- | 12,252,878 | 4.6 | 4.6 |
| Tredje AP-Fonden | -- | 9,980,000 | 3.7 | 3.7 |
| LMK Forward AB | -- | 6,000,000 | 2.3 | 2.2 |
| Strand Småbolagsfond | -- | 5,100,000 | 1.9 | 2.9 |
| Niles Noblitt | -- | 5,080,627 | 1.9 | 1.9 |
| Venture Holdings Sarl | -- | 4,427,043 | 1.7 | 1.7 |
| Pål Ryfors | -- | 3,000,000 | 1.1 | 1.1 |
| **Total, 10 largest shareholders** | **--** | **105,815,654** | **39.7** | **39.5** |
| **Summary, other** | **473,357** | **160,776,436** | **60.3** | **60.5** |
| **Total** | **473,357** | **266,592,090** | **100.0** | **100.0** |

**Warrants and Stock options and share conversions**

**Warrants**
In connection with a financing solution that Episurf had in 2018, 1,705,232 warrants were issued to shareholders. For a number of periods until 23 May 2023, shareholders had the opportunity to convert these warrants for an exercise price of SEK 1.40. During May 2023, 153,527 warrants were exercised and 888,680 warrants expired. As of this Annual Report, the company has no warrants outstanding.

**Employee stock option and warrant program 2023**
At the annual general meeting on May 4, 2023, it was resolved to adopt a stock option and warrant program. A total of 3,813,109 employee stock options were allowed to be issued, of which the CEO was allotted 1,042,277, and other management team members were allotted a total of 1,941,181. As of this annual report, the company has 2,479,537 outstanding employee stock options. The employee stock options that have expired are due to terminated employments. The subscription price is 2.04, and the fair value per option is 1.05 per this interim report. The company uses the Black-Scholes calculation model.

**Share price performance and trading**
Episurf Medical's share price at year-end was SEK 0.99 (2.35), which is equal to a market capitalisation, calculated on the total number of class A and B shares, of SEK 264.4 m (627.2). During the financial year, the share price changed by -57.9 percent (-48.4). The highest price paid during the year was SEK 2.62 (4.75) and the lowest was SEK 0.80 (1.63). During the year, 92,861,795 (108,183,494) class B shares were traded on Nasdaq Stockholm for a total value of SEK 138.0m (292.6).

**Ownership structure**
The number of shareholders at year-end was 9,737 (10,820). The ten largest shareholders in Episurf Medical in terms of voting power held shares corresponding to 39.7 percent (40.4) of the share capital and 39.5 percent (40.3) of the votes. The largest shareholder, Health Runner AB (Ilija Batljan), held shares corresponding to 13.0 percent (13.0) of the share capital and 13.0 percent (13.0) of the votes.

**Ownership structure by size of holding at 31 December 2023**

| Holding | No. Of shareholders | Class A shares | Class B shares | % of capital | % of votes | Market value (SEK 000s) |
|---|---|---|---|---|---|---|
| 1-500 | 3,506 | 2,283 | 561,340 | 0.21% | 0.21% | 556 |
| 501-1.000 | 1,089 | 2,058 | 883,983 | 0.33% | 0.33% | 875 |
| 1.001-5.000 | 2,494 | 14,078 | 6,539,891 | 2.45% | 2.46% | 6,474 |
| 5.001-10.000 | 879 | 23,192 | 6,699,803 | 2.52% | 2.53% | 6,633 |
| 10.001-15.000 | 386 | 1,002 | 4,778,901 | 1.79% | 1.78% | 4,731 |
| 15.001-20.000 | 256 | -- | 4,602,297 | 1.72% | 1.72% | 4,556 |
| 20.001 - | 1,130 | 430,744 | 242,525,875 | 90.97% | 90.97% | 240,101 |
| **Total** | **9,740** | **473,357** | **266,592,090** | **100.00%** | **100.00%** | **263,926** |

* The value of the A shares is not included in this calculation.

**Development of the share**

| Year | Event | Quota value | Increase in the no. Of shares | Increase in the share capital | Total no. Of shares | Total share capital |
|---|---|---|---|---|---|---|
| 2008 | Company formed | 0.01 | 10,000,000 | 100,000 | 10,000,000 | 100,000 |
| 2010 | New share issue | 0.01 | 800,000 | 8,000 | 10,800,000 | 108,000 |
| 2010 | Bonus issue | 0.05 | - | 432,000 | 10,800,000 | 540,000 |
| 2010 | New share issue | 0.05 | 2,000,000 | 100,000 | 12,800,000 | 640,000 |
| 2011 | New share issue | 0.05 | 25,600,000 | 1,280,000 | 38,400,000 | 1,920,000 |
| 2011 | Merge | 0.30 | 1:6 | - | 6,400,000 | 1,920,000 |
| 2013 | New share issue | 0.30 | 1,553,986 | 446,196 | 7,953,986 | 2,386,196 |
| 2014 | New share issue | 0.30 | 2,593 | 778 | 7,956,579 | 2,386,974 |
| 2015 | New share issue | 0.30 | 8,006,726 | 2,402,017 | 15,963,305 | 4,788,991 |
| 2016 | Reduction by cancellation of shares | 0.30 | 13,501 | - | 15,949,804 | 4,784,941 |
| 2016 | Bonus issue | 0.30 | - | 4,050 | 15,949,804 | 4,788,992 |
| 2017 | New share issue | 0.30 | 14,599,691 | 4,383,614 | 30,549,495 | 9,172,606 |
| 2018 | Conversion convertibles | 0.30 | 1,081,674 | 324,777 | 31,631,169 | 9,497,383 |
| 2018 | New share issue* | 0.30 | 3,290,210 | 987,898 | 34,921,379 | 10,485,281 |
| 2019 | Conversion convertibles | 0.30 | 4,339,166 | 684,358 | 37,200,642 | 11,169,639 |
| 2019 | New share issue | 0.30 | 53,730,113 | 16,132,678 | 90,930,755 | 27,302,317 |
| 2020 | Directed share issue | 0.30 | 59,999,999 | 18,015,236 | 150,930,754 | 45,317,552 |
| 2020 | Rights issue | 0.30 | 34,099,033 | 10,238,369 | 185,029,787 | 55,555,921 |
| 2020 | Directed share issue | 0.30 | 36,811,000 | 11,052,648 | 221,840,787 | 66,608,569 |
| 2020 | Conversion warrants | 0.30 | 199,756 | 59,978 | 222,040,543 | 66,668,546 |
| 2021 | Conversion warrants | 0.30 | 89,090 | 26,750 | 222,129,633 | 66,695,296 |
| 2021 | Directed share issue | 0.30 | 44,408,108 | 13,333,709 | 266,537,741 | 80,029,005 |
| 2021 | Conversion warrants | 0.30 | 2,245 | 674 | 266,539,986 | 80,029,679 |
| 2022 | Conversion warrants | 0.30 | 115,057 | 34,546 | 266,655,043 | 80,064,225 |
| 2022 | Conversion warrants | 0.30 | 256,877 | 77,128 | 266,911,920 | 80,141,354 |
| 2023 | Conversion warrants | 0.30 | 153,527 | 46,097 | 267,065,447 | 80,187,451 |

*The Swedish Companies Registration Office registered the share issue January 9, 2019

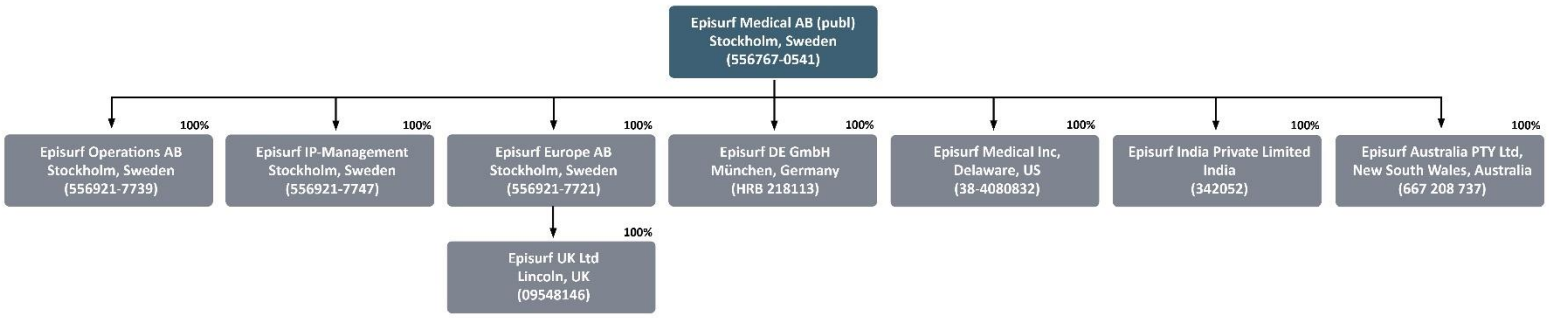
# ADMINISTRATION REPORT

The Board of Directors and the CEO of Episurf Medical AB (publ), corporate identification number 556767-0541, hereby present the annual accounts and consolidated accounts for the financial year from 1 January 2023 to 31 December 2023.

**Group structure**
The structure of the Group is described in the figure below, setting forth the ownership of the subsidiaries, including information on the Group Companies' name, corporate identification number and registered office.

**General information about operations**
Episurf Medical, is a medical technology company that develops and commercialises patient-specific products for the treatment of painful joint injuries. By combining expertise in implant development with patented technology for customised design and production, Episurf Medical can manufacture perfectly adapted implants based on each individual patient's unique anatomy and injury and thereby give people with painful joint injuries a more active and healthy life. Episurf Medical is headquartered in Stockholm, Sweden and has an in-house sales organisation in Europe.

**Group structure**




**Product portfolio**
Episurf Medical has developed a platform for the design and manufacture of patient-specific implants (Episealer®) and surgical instruments (including the patient-specific drill guide Epiguide®) for the treatment of painful joints. The scalable µiFidelity® is a proprietary, web-based order handling system developed for surgical pre-planning and cost-effective patient customisation. The system is the first in the world to enable large-scale precision-engineered production of patient-specific joint resurfacing implants and surgical tools.

Episurf Medical's first implant products, Episealer® Condyle Solo, Episealer® Trochlea Solo and Episealer® Femoral Twin received CE mark approval in 2013, 2014 and 2015, respectively. These, jointly referred to as the Episealer® Knee implants, are the world's first patient-specific resurfacing implants for treatment of cartilage damage in the knee joint. After that, the company has received CE-mark approval for Epioscopy® Damage Assessment Tool, Episealer® Talus and Talus Osteotomy Guide. Episurf Medical's CE-marked devices are available in Europe as well as in selected additional countries (not available for sale in the US). In December 2022, the company received its first market clearance for the US market through the FDA (U.S. Food and Drug Administration) clearance of Episealer® Patellofemoral System. The system is based on the technology of Episealer® Trochlea Solo and Episealer® Femoral Twin, with the addition of a second implant component for treatment of damage on the back of the kneecap (patella). This system constitutes not only the company's first product on the US market, but is also a new product developed for a broader indication, as it is Episurf Medical's first product for treatment of osteoarthritis.
Episurf's CE-marked devices are currently CE-marked according to the EU Medical Device Directive 93/42/EEC (MDD). During the coming years Episurf's devices need to undergo the transition to be CE-marked based on the new EU Medical Device Regulation 2017/745 (MDR). Episurf has during 2023 worked on the MDR dossier for initially the Episealer® Knee devices, which was submitted to Episurf's notified body in Novembers 2023 and is currently undergoing a review.

**Research and development**
Costs for development have during the year been capitalised with SEK 8.3 m (9.3). During the last years, Episurf Medical has focused more on research and development, with a clear goal to enter the US market while also developing new medical devices based on the company's technology for individualised orthopaedic solutions. The company's Episealer® Patellofemoral System was during 2023 finalised as a development project when it was launched to the US marked. Meanwhile, the company has continued the development of an individualised implant and an associated set of surgical

instruments for treatment of osteoarthritis of the big toe (the so called 1st MTP joint). This is a novel implant that is based on Episurf's proprietary implant technology. The company filed a 510(k) to the US FDA during the autumn of 2023, and is currently in a dialogue with the FDA, with the goal to receive clearance during 2024.

Episurf Medical's product development is conducted according to a proven model that has been well-tried at the company since the first commercial product, the Episealer® Condyle Solo. Leading orthopaedic surgeons and researchers are engaged at an early stage of the development to identify clinical needs and patient benefits. Throughout the development process, the company maintains a close dialogue with involved clinics and orthopaedic surgeons, which facilitates rapid feedback and product adaptation. Furthermore, Episurf Medical has chosen to use well-proven materials and synergies with existing products when deemed valuable in its products, which significantly reduces the development risks and development times. Episurf Medical is certified according to ISO13485:2016 with a medical device quality management system. All research and development activities are performed in alignment with that standard.

**Production**
Episurf Medical's current strategy is to use contract manufacturers for all production. External contract manufacturers provide scalability and full control over the manufacturing process while at the same time reducing the risk that growth opportunities will be limited by insufficient production capacity. However, all patient-specific design is carried out in-house. The development of an efficient and cost-effective manufacturing process is an important and time-consuming process, which is being carried out in parallel to the product development and prior to the initial market launch of a product.

**Market introduction**
When Episurf Medical's products were granted European market approval in the form of a CE mark, they were, as a first step, introduced to selected leading clinics and surgeons primarily in Northern and Central Europe, in which treated patients were followed up clinically. This so-called prelaunch is ongoing during a certain time, which can vary from country to country. The products will then be introduced to clinics and surgeons throughout Europe and in certain other geographies through a gradually expanding market launch.

Episurf Medical intends to drive sales in its markets under its own management or through a distributor network. The company will prioritise several markets globally in 2024, including countries in Europe, Asia, Middle East and in North America.

**Significant events during the financial year**
» Episealer® health economy publication was accepted for publication in Journal of ISAKOS
» The first Episealer® Knee surgery in Malaysia was planned
» The first Episealer® Talus Surgery in India was scheduled

» Episurf Medical provided an update on the establishment of a US commercial organisation
» Episealer® Patellofemoral System is now available in the United Arab Emirates
» Episurf Medical's first surgery in the EPIC-Knee study in Canada was scheduled

» Episurf Medical's received its first US VAC approval
» Prospective Episealer® Talus clinical study was fully recruited
» Early results from Episealer® Talus study were presented at a scientific congress
» Results from the use of Episealer® were accepted for publication in scientific journal
» Scientific article on Episealer® Talus surgical technique was published in Foot & Ankle Clinics

» First commercial case in the US was performed
» Episurf Medical has filed 510(k) submission for big toe implant

**Significant events after the end of the financial year**
» Results from up to 10 years follow-up of Episealer ®patients were accepted for presentation

**Employees**
At 31 December 2023, the Group had 28 employees (33), of whom employees in the parent company Episurf Medical AB totaled to 18 (18). Personnel costs amounted to SEK 46.6m (40.3) in the Group and SEK 22.0m (20.0) in the parent company. For additional information about the average number of employees, salaries, other remuneration and social security expenses, see Note 9.

**Investments in the Group**
Group investments in intangible assets amounted to SEK 9.5m (11.3) for the financial year of which SEK 8.3m (9.3) are related to capitalised development costs, remaining investments relate to patents.

**Investments in the parent company**
Investments in intangible assets, capitalised development costs, amounted to SEK 8.3m (9.3) for the financial year.

**Consolidated income and expenses**
**Net sales and other operating income**
Consolidated net sales for the financial year from 1 January 2023 to 31 December 2023 amounted to SEK 10.3 m (6.6).

**Expenses**
The Group's expenses for the financial year from 1 January 2023 to 31 December 2023 amounted to SEK 116.9 m (95.2). The increased costs during the year are due to the company's focus on product development and clinical studies as well as developing the sales and marketing organisation.

**Profit**
The consolidated operating loss for the financial year from 1 January 2023 to 31 December 2023 was SEK -96.7 m (-77.0). The loss after financial items was SEK -94.6 m (-77.2). See more information under expenses above.

**Financial position and liquidity**
Consolidated cash and cash equivalents at year-end 2023 amounted to SEK 57.9 m (155.3). Cash flow from operating activities before changes in working capital was SEK -85.6 m (-70.4). Consolidated equity at year-end amounted to SEK 84.5 m (177.7) and the equity ratio was 81.0 percent (90.1).

**Parent company – Episurf Medical AB (publ)**
The parent company Episurf Medical AB (publ) conducts research, development and commercialisation of products for medical purposes. Net sales in the parent company for the financial year from 1 January 2023 to 31 December 2023 reached SEK 1.1 m (0.7) and refers to intra-group revenues. Operating expenses amounted to SEK 62.3 m (51.9). The increased costs during the year are due to the company's focus on product development and clinical studies as well as developing the sales and marketing organisation. The operating loss was SEK -52.9m (-42.0) and the loss after financial items was SEK 131.8 m (-42.0). The parent company's cash and cash equivalents at year end amounted to SEK 42.3 m (142.2). Shares in Group companies amounted to SEK 202.0 m (256.2), the decrease is primarily due to the company making a write-down during the year. Long-term receivables from group companies amounted to SEK 22.7 m (22.6) due to a loan increase to group companies during the year.

**Effects of the COVID-19 pandemic**
During the first six months 2022, the company's revenues and gross order intake were affected by Omicron. The company currently does not foresee any effects on our operations. It can't be ruled out that new variants of COVID-19 may delay the company's development or affect delivery disruptions in the future.

**Changes related to general economic and political conditions**
The situation in Ukraine erupted during the first quarter 2022 and entails risks of further impact on the world economy with increasing cost inflation and disruptions in supply chains. Episurf has no direct exposure to Ukraine or Russia and has assessed that the company is currently not affected. Due to the escalating violence in Israel and Gaza in October 2023, the company is also monitoring developments in the Middle East. Episurf has a presence in several countries in the Middle East with limited sales so far and has assessed that there is no material financial impact on the company.

**Cyber security**
Cyber security has become a significant threat in society and for Episurf, which is dependent on IT. The company has ongoing work to ensure that the company is well prepared to counter cyber-attacks and other types of intrusion.

## Five-year overview – Group

| mSEK | Jan-Dec 2023 | Jan-Dec 2022 | Jan-Dec 2021 | Jan-Dec 2020 | Jan-Dec 2019 |
|---|---|---|---|---|---|
| **INCOME STATEMENT** | | | | | |
| Operating income | 20.1 | 18.2 | 13.8 | 11.1 | 10.5 |
| Operating expenses | -116.9 | -95.2 | -83.2 | -74.5 | -79.3 |
| **Operating loss** | **-96.7** | **-77.0** | **-69.4** | **-63.4** | **-68.9** |
| | | | | | |
| Net interest income | 2.2 | -0.2 | 0.2 | -0.5 | -0.9 |
| **Loss before tax** | **-94.6** | **-77.2** | **-69.2** | **-63.9** | **-69.8** |
| | | | | | |
| Income tax expense | -0.3 | -0.1 | 0.0 | 0.0 | 0.0 |
| **Loss for the year** | **-94.8** | **-77.3** | **-69.3** | **-63.9** | **-69.8** |
| | | | | | |
| **ASSETS** | | | | | |
| Intangible assets including | 33.7 | 29.5 | 23.0 | 20.8 | 21.5 |
| Equipment including rights-of-use assets | 5.6 | 6.7 | 3.2 | 3.8 | 6.0 |
| Non-current financial assets | - | - | - | 0.5 | - |
| Other current assets | 7.1 | 5.7 | 6.4 | 5.3 | 4.9 |
| Cash and cash equivalents | 57.9 | 155.3 | 237.9 | 155.0 | 25.3 |
| **Total assets** | **104.3** | **197.2** | **270.6** | **185.4** | **57.6** |
| | | | | | |
| **EQUITY AND LIABILITIES** | | | | | |
| Equity | 84.5 | 177.7 | 252.8 | 169.5 | 41.4 |
| Non-current liabilities | 2.4 | 4.8 | 3.5 | 2.1 | 3.5 |
| Current liabilities | 17.4 | 14.7 | 14.2 | 13.9 | 12.7 |
| **Total equity and liabilities** | **104.3** | **197.2** | **270.6** | **185.4** | **57.6** |

| mSEK | Jan-Dec 2023 | Jan-Dec 2022 | Jan-Dec 2021 | Jan-Dec 2020 | Jan-Dec 2019 |
|---|---|---|---|---|---|
| **CASH FLOW STATEMENT** | | | | | |
| Cash flow from operating activities | -84.8 | -69.5 | -59.7 | -54.1 | -59.2 |
| Cash flow from investing activities | -9.5 | -11.2 | -6.5 | -5.1 | -5.5 |
| Cash flow from financing activities | -3.0 | -1.9 | 149.2 | 188.8 | 61.6 |
| **Cash flow for the year** | **-97.4** | **-82.6** | **83.0** | **129.7** | **-3.0** |
| | | | | | |
| **KEY RATIOS** | | | | | |
| Share price at year-end | 1.0 | 2.4 | 4.6 | 3.0 | 1.2 |
| Earnings per share (weighted average) | -0.4 | -0.3 | -0.3 | -0.4 | -1.0 |
| Equity per share | 0.3 | 0.7 | 1.0 | 0.8 | 0.5 |
| Number of shares at end of year | 267,065,447 | 266,911,920 | 266,539,986 | 222,040,543 | 90,930,755 |
| Average number of shares during the year | 266,974,343 | 266,627,443 | 226,593,598 | 162,078,945 | 67,343,023 |
| Equity ratio, % | 81% | 90% | 93% | 91% | 71.9% |
| Number of employees at the end of the year | 28.0 | 33.0 | 29.0 | 25.0 | 25.0 |
| Cash and cash equivalents at the end of year | 57.9 | 155.3 | 237.9 | 155.0 | 25.3 |
| Cash flow for the year | -97.4 | -82.6 | 83.0 | 129.7 | -3.0 |
| Investments in intangible assets | 9.5 | 11.3 | 6.9 | 4.6 | 5.5 |
| Investments in property, plant and equipment | 0.0 | 0.0 | 0.1 | - | - |

**Proposed appropriation of earnings**
The Board of Directors proposes that the following earnings be at the disposal of the Annual General Meeting:

| **SEK** | |
|---|---|
| Share premium reserve | 684,053,959 |
| Accumulated deficit | -382,655,388 |
| **Loss for the year** | **-131,769,330** |
| **Total** | **169,629,241** |

The Board proposes that the earnings be appropriated so that SEK 169,629,241 is carried forward to new account, of which SEK 684,053,959 to the share premium reserve and SEK -382,655,388 to balanced earnings. Further information about the results of operations and financial positions of the Group and the parent company can be found in the following income statements, balance sheets, cash flow statements and additional note disclosures.

**Dividend**
The Board of Directors and the CEO propose that no dividend be paid for the financial year from 1 January 2023 to 31 December 2023.

**The Group's future development and going concern**
The introduction in all markets is planned to continue during 2024. The goals for 2024 are, among other things, continued commercialisation of the knee implants, continued development of clinical evidence during this commercialisation as well as additional surgeries with Episealer® Talus. Another high priority is the US strategy, where the patient recruitment to the FDA-approved IDE-study is a priority. The company will also launch its second product on the US market, a toe implant for the 1st MTP joint, during 2024. The company works with continued product development with a focus on Episurf Medical's unique digital 3D-based damage assessment tool (Epioscopy®) and other development projects to meet customer demands. Additional strengthening within the fields of health economic studies, regulatory affairs and reimbursement are also prioritised areas.

All together, the board's opinion is to expect that it could boost profitability in a longer perspective and lead to increased sales revenues for the company in 2024. It will also mean that the activities surrounding the IDE-study will increase and thus also the company's costs. The timing of costs will depend in large part, on the rate of recruitment for patients.

As of December 31, 2023, the group had SEK 57.9 m in cash and cash equivalents. In 2024, the company estimates that the costs for the US investment will increase simultaneously as costs in the European operations decrease as the company's strategic focus changes during 2023. The management has assessed that the company has liquidity to ensure operations during the calendar year 2024. The board works continuously to evaluate various financing alternatives to ensure the continued operation of the business. The board assesses that the company has good conditions to secure future financing through, for example, a new issue of shares. The company also has the opportunity to adapt the overhead level to existing cash if required.

**Financing Agreement**
In connection with a financing solution that Episurf had in 2018, 1,705,232 warrants were issued to shareholders. For a number of periods until 23 May 2023, shareholders had the opportunity to convert these warrants for an exercise price of SEK 1.40. During May 2023, 153,527 warrants were exercised and 888,680 warrants expired. As of this Annual Report, the company has no warrants outstanding.

**Guidelines for remuneration to senior executives**
**Remuneration**
The annual general meeting held on 4 May 2023 resolved on the following guidelines for remuneration to the executives of Episurf Medical for the period until the annual general meeting of 2024.

Compensation and conditions of employment for the senior executive, by which is meant the CEO, and other members of the senior management of the company is designed to ensure the company's access to executives with the right set of skills.

The remuneration shall be on market terms, be competitive and may consist of the following components: fixed base salary, variable remuneration, pension benefits and other benefits such as a company car. Additionally, the general meeting may resolve upon, inter alia, share-based remuneration.

The Board of Directors may temporarily resolve to derogate from these guidelines, in whole or in part, if in a specific case there is special cause for such derogation and a derogation is necessary to serve the company's long-

term interests, including sustainability, or to ensure the company's financial viability. As indicated above, the tasks of the Remuneration Committee include the preparation of decisions of the Board of Directors on remuneration-related issues, which includes decisions on deviations from the guidelines.

The proposed guidelines for remuneration to group management team in 2023 that will be presented by the Board to the AGM on 9 April 2024 for approval are identical to the current guidelines. During the financial year 2023, the company's CEO Pål Ryfors has received a total amount of SEK 4.5m (4.5) in remuneration.

**Current employment agreements for the CEO and senior executives**
**Remuneration and pension terms**
Remuneration and benefits for the senior executives are prepared by the remuneration committee and decided by the Board of Directors.

**Termination of employment and severance pay**
A mutual notice period of six months applies for the termination of employment of CEO, Pål Ryfors, and a mutual notice period of three months applies for the termination of employment of the CFO, Veronica Wallin, the COO, Katarina Flodström, the Marketing Director, Fredrik Zetterberg and the President, Episurf Medical Inc, Patrick Jamnik. The CEO, Pål Ryfors is entitled to six months' severance pay. No others are not entitled to any severance pay.

**Incentive programs**
See more information about Episurf Medicals incentive programs in note 9.

**Related party transactions**
Shareholder and Board member Leif Ryd has received consulting fees for ongoing work as well as work for the Clinical Advisory Board during the financial year of SEK 0.6m (0.6).

The Chairman of the Board, Ulf Grunander receive SEK 0.4m, Laura Shunk, Christian Krüeger, Annette Brodin Rampe and Leif Ryd receive remuneration of SEK 0.2m. In addition, the chairman of the audit committee, Ulf Grunander, has received a fee of SEK 0.0m for 2023. In total, the board fees amount to SEK 1.2m (1.4) in 2023.

**Significant risks and uncertainties**
*The risk factors and critical circumstances that are considered significant for Episurf Medical and its Group's operations and future development are described below.*

**Covid-19 pandemic/pandemics**
Pandemics could affect Episurf and its sales in the future if healthcare pauses elective surgery. It is difficult for Episurf to assess and predict the company's impact, but future pandemics could significantly negatively impact the Group's operations, earnings, and financial position.

**Clinical trials**
Episurf Medical's products are used for ongoing clinical trials in humans and further clinical trials are planned. Clinical studies are of great importance in the area of repair of cartilage damages in joints. The collaboration with different surgeons and clinics is very important for Episurf Medical's operations. The results from clinical trials are, for example, the basis of regulatory approvals for the company's products in various markets. Additionally, the results are essential in the company's work of introducing products for surgeons, which in turn is important in order to receive market acceptance for Episurf Medical's products. Negative, unclear or insufficient results of a clinical trial may increase the risk of the company not being able to obtain necessary regulatory approvals and it may also make it difficult for the company to market the products. It is therefore difficult to evaluate and predict the time and cost aspects as well as the sales potential of the company's products. If a clinical trial performed by the company would result in unexpected or negative results, it may have a materially negative impact on the Group's operations, earnings, and financial position.

**Dependence on reimbursement systems**
The company and its business partners' ability to successfully commercialise products and the prospect of potential future sales is dependent on, among other things, the level of reimbursement which the hospitals may receive for the company's products from insurance companies, public authorities and other buyers of medical products and services. These reimbursement systems are complicated and changing and it is, as a general rule, the purchasers' ambition to regulate the price of the company's products. In addition, the way in which a product is classified internally at a purchaser is often decisive for the level of reimbursement given for a product. There is a risk that the company's methods and products will not achieve or maintain the requirements of national reimbursement systems in different markets in which the company operates. Further, there is a risk that sufficiently favorable reimbursement from national reimbursement systems is not obtained and that national reimbursement systems will not pay any such compensation within a certain

time period. There is also a risk that the company's products and methods do not get clinical acceptance or are not introduced in accordance with national clinical guidelines. If the company's products do not receive compensation in some markets from the national insurance systems and no clinical acceptance of the methods is received, it may have a materially adverse effect on future sales growth and thereby also on the Group's operations, earnings, and financial position.

**Regulatory approval**
In order to market and sell medical devices, permits and approvals from, and registration with, relevant public authorities are required on each respective market. There is risk that Episurf Medical will not be able to obtain such permissions and approvals to the extent required to achieve a profitable business or achieve other future objectives. There is also a risk that the company will get permissions and approvals, but that it will take much longer time than expected to achieve that. Changes or amendments in the current regulations or classifications, political decisions or changed practices amongst the public authorities, insurance companies and other decision makers may lead to that Episurf Medical's current and future products will not be approved for specific markets, which may have a materially adverse effect on the Group's operations, earnings and financial position.

**Risks related to possible future revenue**
Episurf Medical's earnings are, among other things, dependent on Episurf Medical's ability to enter into further agreements for the distribution of the company's products. The opportunities to enter into such agreements are, among other things, dependent on Episurf Medical's credibility as a potential business partner and the quality of the company's products. There is a risk that such agreements cannot be entered into, or only entered into on terms which are considered to be unfavorable for the company. In order to enter into such agreements, potential distributors on different markets as well as other business partners may, especially if regarding research and development, require that additional studies are conducted on Episurf Medical's products, which could result in delays and increased costs for the company. If Episurf Medical is unable to enter into such agreements on terms favorable for the company, if such contracts lead to delays or increased costs, or if payments under such agreements are delayed or defaulted, it may have a materially adverse effect on the Group's operations, earnings, and financial position. Episurf Medical's earnings are furthermore dependent on the company being successful in establishing its distribution networks. Should Episurf Medical not successfully succeed to establish distribution networks or maintain or develop its current sales organisation and its relationship with customers, the company may not make any sales revenues which may have a materially negative impact on the Group's operations, earnings, and financial position. There is also a risk that the processes for maintenance and development of the sales organisation becomes more time consuming and costly than Episurf Medical has estimated, which may have a material adverse effect on the Group's operations, earnings, and financial position.

**Market acceptance**
Episurf Medical operates in a competitive industry and many other companies are conducting research and development of medical devices, including research and development of such products that may, or in the future may, compete with the company's products or product candidates. Furthermore, research and development of products that do not directly compete with the company's products may replace parts of or the entire company's product portfolio on the market, which consequently may result in a decrease in demand for Episurf Medical's products.

Furthermore, Episurf Medical operates on a market in which its competitors have substantially greater financial resources than the company. If other competitive businesses develop products that directly or indirectly compete with the company's current and future products or develops products that wholly or partly may replace the company's product portfolio, or if the company otherwise fails to address the current and future competition on the market, it may have a materially negative impact on the Group's operations, earnings, and financial position.

Furthermore, the company's products comprise new technology that has not previously been used for the intended uses. The company's products must also compete with more established treatments that currently are accepted as established practice. Thus, the ability of the company's products to compete is dependent on changes in established practice in the medical profession. Episurf Medical's ability to gain acceptance for its products in the medical profession and on the market is, among other things, dependent on the outcome of the currently on-going product launches. Furthermore, negative events during the controlled launches or elsewhere may occur because of Episurf Medical's products or an improper handling of Episurf Medical's products, which may affect the market acceptance in a negative way. If the company does not obtain a sufficient level of market acceptance and therefore cannot compete on the market effectively, it may have a materially adverse effect on the Group's operations, earnings, and financial position.

**Patient damages**
Patients taking part in the clinical trials and the controlled product launches conducted by the company may be negatively affected by the company's products or negatively affected due to an improper use of the company's products. If such negative effects would occur, the market access of the company's products and future product development may be

delayed or stopped. Such negative effects may also lead to the company being liable for damages or subject to other claims, which may have a materially adverse effect on the Group's operations, earnings, and financial position.

**Complex and changing requirements**

Episurf's activities are regulated by laws and regulations, as well as by internal and external regulations, including regulations issued by the US FDA (Food and Drug Administration), ISO13485: 2016 certification and European Parliament and Council Regulation (EU) 2017/745 on Medical Devices ("MDR"). On 5 April 2017, the MDR was adopted to replace Council Directive 93/42 / EEC on medical devices ("MDD"). MDR is directly applicable without any implementation measures in the EU member states and replaces MDD after, as initially stated, a three-year transitional period. According to Article 123 of the MDR, the regulation applies from 26 May 2020. However, due to the COVID-19 pandemic in 2020, the transition period was prolonged to 26 May 2021. In general, the MDR means that the current system is being modernised through several initiatives, including strengthening the criteria for the appearance and processes of review of accredited notified bodies, increased transparency through the establishment of a comprehensive EU database for medical devices and a system for product traceability, as well as reinforcement and monitoring of products placed on the market for manufacturers. The company evaluates MDR's potential impact. There is a risk that the implementation of MDR may result in increased costs, time and requirements that the company must meet in order to retain or introduce new products in the European market.

In order to market and sell medical devices, Episurf Medical, its business partners and subcontractors may be required to have or obtain relevant permissions from regulatory authorities for various markets. For example, this may be CE marking in Europe or FDA-approval for the American market. The regulations regarding, for instance, pre-clinical and clinical trials and marketing of Episurf Medical's product portfolio are complex and change over time. The company has occasionally been awarded development grants, and the receipt of further grants can be conditioned with certain requirements. In addition, the company is subject to extensive legislation and administrative practices and can also in the future be subject to further legislation and administrative practices, including legislation and administrative practices regarding public procurement. Changes in relevant legislation, other regulations or administrative practices may lead to increased costs or otherwise hamper Episurf Medical's product development. In addition, the company can also be subject to sanctions if the company does not comply with the aforementioned rules and regulations. If any of these risks would materialise, it could have a material adverse effect on the company's business, financial position and results of operations.

The complex and changing laws and regulations governing Episurf's operations mean that the company must have effective internal control. Such internal controls include, for example, managing and monitoring day-to-day operations so that they are conducted in accordance with applicable legislation and regulations, and to check the company's financial reporting to comply with applicable principles and provisions of applicable accounting legislation, verify that the company has appropriate accounting systems for its administration and other activities, and make sure that the company uses external expertise to support these measures. Errors, failures or inefficiencies in Episurf's internal control may result in the company's operations not being conducted in accordance with applicable laws and regulations, the company's accounting system failing to function properly or the company's operations cannot be adequately controlled. If any of the aforementioned risks were to be realised, it could have a material adverse effect on the group's operations, earnings, and financial **position**.

**IPR – Intellectual Property Protection**

Episurf Medical's future success will to a large extent be dependent on its ability to obtain and retain intellectual property protection, primarily patent protection, in the US, the EU, Asia and other areas and countries for the intellectual property rights that are attributable to the current and future products that are included in the company's portfolio. The scope for obtaining patent protection for innovations in the area of medical devices is generally difficult to assess and includes issues of a complex legal and scientific nature. The company may not obtain patents for some of its products or its technology, and the patents also have a limited lifespan. Thus, there is a risk that Episurf Medical will not obtain patent protection for all its developed products or technologies, which can have a materially adverse effect on the Group's business, earnings and financial position. In addition, there is a risk that the company's current and future patent portfolio and other intellectual property rights will not provide adequate commercial protection. The technology Episurf Medical is using during its research or in the medical devices Episurf Medical is developing and commercialising or intends to develop and commercialise may further be infringing on patents that are owned or controlled by others. In addition, a third party may have a pending patent application that covers the same technology or products that the company is currently using or developing. There is a risk that the measures the company is taking, to protect such intellectual property rights, are not sufficient. In addition, there is always a risk that competitors and other parties, intentionally or unintentionally, infringe the company's intellectual property rights. Consequently, there is a risk that Episurf Medical may be viewed as an infringer of a third party's intellectual property right, and that third parties may infringe Episurf Medical's

intellectual property rights, which may have a materially adverse effect on the Group's business, earnings and financial position. Should Episurf Medical need to initiate legal proceedings in order to determine who holds the commercial rights for such innovations the cost for such proceeding may be substantial. The company may lose such proceedings, which could lead to Episurf Medical losing the protection of, or the right to sell any or all of the company's products. Episurf Medical may also have to pay substantial damages should Episurf Medical loose such legal proceedings. Furthermore, there is a risk that the Group may become involved in disputes in court or with authorities in the context of Episurf Medical's business. Episurf Medical may for example be subject to claims relating to intellectual property rights, patient injuries or misleading and unfair marketing. Such processes may be time consuming, involve large amounts of money and may, regardless of the outcome, cause significant costs to the company, which may have a materially adverse effect on the Group's business, earnings and financial position.

**Collaboration partners**

Episurf Medical is a small organisation and therefore collaborate with a number of different business partners in order to maintain a high level of flexibility as well as access to the needed expertise and competencies. Episurf Medical is dependent on a continued close collaboration with existing and future business partners such as researchers, technical consultants, distributors, leaders of clinical trials and subcontractors as regards production. There is a risk that existing and future business partners will not fulfil their obligations or that business partners with the right expertise and competencies will not be available, which may result in delays or hamper the development of the products. The company's products are personalised and made-to-order for each specific surgery. In the case that the company fails to deliver the products in time, the surgeries may need to be rescheduled or cancelled, which may, among other things, damage the company's reputation and lead to claims for damages. Repeated failure to deliver products in time, irrespective if this is due to the company, its business partners or subcontractors, may have a materially adverse effect on the Group's operations, earnings and financial position.

Episurf Medical's business is dependent on that continuous research is performed in order to develop new products and improve the company's already existing products. There is a risk that the current business partners will decide to suspend cooperation with the company which may delay or hinder the development of the company's products. If delays occur of the company's research and development work it may in turn lead to delays in the launch of the company's future products, which may have a materially adverse effect on the Group's business, earnings, and financial position.

**Key employees**

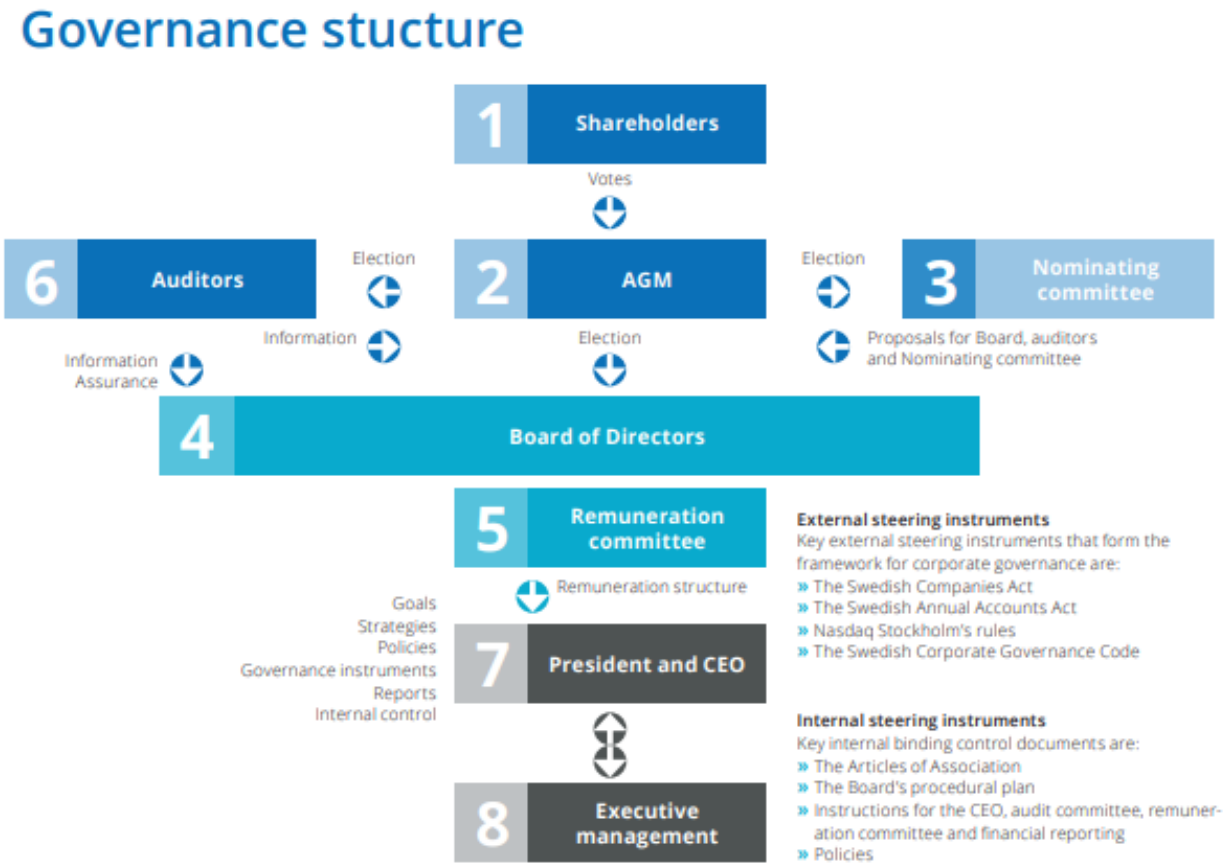
Episurf Medical's operations are highly dependent on a number of key employees, as these individuals together have industry-specific knowledge that is important to Episurf Medical. If any of these key employees would leave the company, it may delay or hamper the company's continued research, development, and operations. The company is also dependent on being able to recruit and maintain qualified employees. There is strong competition for experienced personnel in the company's area of business and many of Episurf Medical's competitors have substantially greater financial resources than the company, which may lead to that the required personnel cannot be recruited or only recruited on terms unfavorable for the company, If the company does not succeed in recruiting or maintaining key personnel or other qualified personnel to the extent and under the conditions that are needed, it may have a materially adverse effect on the Group's operations, earnings and financial position. In addition, there is a risk that the Board of Directors, the senior executives or any key personnel may adversely affect the company by making erroneous decisions, which may have a materially adverse effect on the Group's business, earnings, and financial position.

**Financial risks**

Episurf Medical is exposed to different types of financial risks such as market, liquidity, currency, and credit risks. The market risks mainly comprise of interest rate risk and currency risk. The Group is exposed to foreign exchange risk arising from exposures to different currencies, primarily relating to transactions in the EU. The Board of Directors establishes the framework for exposure, management and monitoring of the financial risks and this framework is evaluated and revised yearly. The Board of Directors is authorised to decide on temporary deviations from the established framework. Episurf Medical is a development company and the board works continuously to evaluate various financing alternatives to ensure the continued operation of the business. The board assesses that the company has good conditions to secure future financing through, for example, a new issue of shares. The company also has the opportunity to adapt the overhead level to existing cash if required. For further information, see Note 3 and 4.

# CORPORATE GOVERNANCE REPORT

Episurf Medical AB is a Swedish public limited company that is domiciled in Stockholm, Sweden. The share has been traded on Nasdaq Stockholm since 11 June 2014. In a limited company like Episurf Medical, governance, management and control are divided between the shareholders, the Board of Directors, the CEO and the executive management in accordance with the applicable laws, rules and instructions.




**THE COMPANY'S CORPORATE GOVERNANCE** is regulated by the Articles of Association, the Swedish Companies Act, Nasdaq Stockholm's Rules for Issuers, which include the Swedish Corporate Governance Code (the Code), and other applicable laws and rules.

Episurf Medical's Articles of Association can be downloaded from the company's website. Episurf Medical complies with the Code with effect from its listing on Nasdaq Stockholm's main market. The Code is based on the "comply or explain" principle. This means that a company that applies the Code may deviate from individual rules in the Code but must explain the reasons for doing so. The Code must be applied in full in connection with the first annual general meeting after the year after listing.

Episurf Medical complies with the Code with a deviation for the Nomination Committee. This deviation is explained in detail below. Since the time of listing, the Company has not committed any violations of Nasdaq Stockholm's Rules for Issuers or generally accepted practice in the stock market.

## 1 Share and shareholders

Episurf Medical's shares are issued in two classes, class A and class B. The class B shares are traded on Nasdaq Stockholm with the ticker symbol EPIS B. Prior to this, the company's shares began trading on Nasdaq Stockholm First North on 15 August 2011. Each class A share carries the right to three votes at a general meeting and each share of class B carries the right to one vote at a general meeting. Shares of class A can be freely converted to class B. The total number of shares at year-end 2023 was 267,065,447, of which 473,357 were class A shares and 266,592,090 were class B shares. The total number of votes amounted to 268,012,161.

The number of shareholders at year-end was 9,737 (10,820). The ten largest shareholders in Episurf Medical in terms of voting power held shares corresponding to 39.7 percent (40.4) of the share capital and 39.5 percent (40.3) of the votes. The largest shareholder, Health Runner AB (Ilija Batljan), held shares corresponding to 13.0 percent (13.0) of the share capital and 13.0 percent (13.0) of the votes. For further information about the share, shareholders and ownership structure, see pages 32–34 of the annual report.

## 2 General meeting of shareholders

The general meeting of shareholders is the company's highest decision-making body and, according to the Articles of Association, shall be held yearly within six months after the end of the financial year. Shareholders who are recorded in the share register five days before the general meeting and who provide notification of attendance in the correct manner have the right to participate.

Notice of attendance shall be made to the company no later than the date stated in the notice of meeting. All shareholders who are recorded in the share register on the record date and who have given notice of their attendance on time have the right to attend the meeting and vote the total number of shares held.

Notice of general meetings shall be given through an announcement in the Post- och Inrikes Tidningar (the Official Gazette) and through publication on the company's website. At the same time, an announcement that notice has been given shall be published in Dagens Industri and on the company's website.

At the Annual General Meeting (AGM), the shareholders elect the Board of Directors and, when appropriate, the auditors. The AGM also resolves on matters such as principles for appointment of the nominating committee, discharge from liability for the Board of Directors and the CEO, adoption of the annual report, appropriation of earnings, fees for the Board of Directors and auditors, and guidelines for remuneration to the CEO and other senior executives.

Notices, Minutes, communiques and other materials related to general meetings are published on the company's website.

It is the General meeting which decides on amendment of the Article of Association.

**AGM 2023**

**The AGM on 4 May 2023 passed the following resolutions:**

» To adopt the income statement and balance sheet.
» To appropriate the earnings according to the Board's proposal in the annual report.
» To grant the Board of Directors and the CEO discharge from liability for the past financial year.
» The Board of Directors shall comprise of five ordinary members with no deputy members.
» To pay a fixed board fee of SEK 200,000 to each member of the Board, and the Chairman of the Board of Directors shall receive an annual fee of SEK 400,000, and the Chairman of the Audit Committee shall receive SEK 25,000, the total is therefore SEK 1,225,000. It was proposed that fees for the auditors be paid according to approved account.
» To re-elect Laura Shunk, Leif Ryd, Christian Krüeger, Annette Brodin Rampe, Ulf Grunander and Dennis Stripe as members of the Board of Directors for the period until the end of next annual general meeting. It was further resolved to elect Ulf Grunander as chairman of the Board of Directors.
» To elect the authorised public accounting firm Öhrlings PricewaterhouseCoopers AB as the company's auditor for the period until the end of the next annual general meeting, with Tobias Stråhle as auditor-in-charge.
» To Adopt the procedures for establishing the Nomination Committee for the 2024 annual general meeting in accordance with the proposal of the Nomination Committee.
» To adopt the guidelines for remuneration to the senior management in accordance with the proposal of the Board of Directors until the 2024 annual general meeting.
» To approve the remuneration report.
» To (a) adopt an incentive program for certain employees and (b) issue warrants of series 2023/2026 and approve transfers of warrants of series 2023/2026.
» To Authorise the Board of Directors to resolve on new issues of shares for the period until the 2024 annual general meeting.

**AGM 2024**

The 2024 AGM will be held in Stockholm on 9 april 2024. The notice of meeting was made public through a press release and announcements in Post och Inrikes Tidningar and Dagens Industri, as well as published on Episurf Medical's website.

## 3 Nomination Committee

Ahead of the AGM, the nominating committee shall put forward proposals for the number of Board members, the composition of the Board, fees to the Board of Directors, the Chairman of the AGM and of the Board, and when

appropriate, proposals for election of an auditor and auditing fees. The 2023 AGM resolved on principles for Episurf Medical's nominating committee that shall apply until changed by a future general meeting, according to the following:
» The nominating committee shall have four members. The three largest shareholders in the company in terms of voting power in the company at 31 August the year before the year in which the AGM is held shall each have the right to appoint a member to the nominating committee. The Board Chairman shall also be appointed as a member of the nominating committee. The CEO and other members of the executive management shall not be members of the nominating committee.

**Members of the Nomination Committee ahead of 2024 AGM**
**Ulf Grunander**, chairman of Episurf Medical AB
**Ilija Batljan,** representing Health Runner AB
**Sebastian Jahreskog**
**Hites Jina,** representing LMK Forward AB
Sebastian Jahreskog has been appointed chairman of the Nomination Committee.

**The work of Nomination Committee**
» By 15 October, the Board Chairman shall convene the largest shareholders in the company. If any of these should waive its right to appoint a member to the nominating committee, the next largest shareholder in order of voting power shall be given the opportunity to appoint a member.
» The composition of the nominating committee shall be made public no later than six months before the AGM.
» The Board Chairman shall convene the first meeting of the nominating committee. However, the Board Chairman shall not be appointed as chairman of the nominating committee.
» If it becomes known that any of the shareholders that have appointed a member to the nominating committee is no longer one of the largest shareholders, due to changes in the shareholder's holding or as a result of changes in other shareholders' holdings, the member appointed by the shareholder, if the nominating committee deems it appropriate, shall resign and be replaced by a new member who is appointed by the shareholder which at that time is the largest registered shareholder that has not already appointed a member to the nominating committee. If the registered ownership conditions are otherwise significantly changed before the nominating committee has completed its work, and if the nominating committee deems it appropriate, the composition of the nominating committee shall be changed according to the above principles.
» The nominating committee's mandate period extends until a new nominating committee has been appointed.
» The Chairman of the Board shall annually present an evaluation of the Boards work during the year for the nominating committee, which should be the base for the work for the Nomination Committee together with the requirements of the Swedish code and specific requirements of Episurf Medical AB. The nominating committee's proposals are published in the notice of the AGM, on the company's website and at the AGM.

According to the Code, the nomination committee's composition must be announced six months before the annual general meeting. The company published the composition in a press release on 17 October 2023, barely six months before the annual general meeting. The company justifies the deviation by saying it was impossible to assemble the nomination committee earlier.

**Nomination Committee meetings**
Nomination committee for the AGM 2024 has held one formal meeting in addition to the continuous discussions. No fees have been paid for work on the nominating committee.

## 4 Board of Directors

Episurf Medical's Board of Directors consists of five members elected by the AGM, with no deputies. The members of the Board are elected by the AGM to serve for the period until the company's next AGM. The 2023 AGM elected the Board according to the table below, which also shows fees, independence, etc. According to the Articles of Association, the Board shall consist of at least three and at most eight members. The CEO is not a member of the Board.

**Independent**
The company's Board of Directors has been assessed to meet the independence requirements, as four of the five members elected by the AGM are independent in relation to the company and its management and five of the five members are independent in relation to major shareholders. Leif Ryd is not deemed to be independent in relation to the company and its management as he currently active as a consultant in the company. Two Board members are women, but in accordance with the Code, the Board intends to strive for a more even gender distribution on the Board.

**The Board's work and responsibilities**

The Board of Directors establishes the company's goals, strategies, budget and business plan. The Board is responsible for the company's organisation and administration and for ensuring the quality of its financial reporting and internal control. Furthermore, the Board shall examine and approve the financial reports and establish significant policies and regulatory systems. The Board shall also resolve on decisions outside the scope of day-to-day management, such as major investments and changes. The Board shall monitor the company's operations based on the established goals and guidelines. This work is governed by the Swedish Companies Act, the Articles of Association, the Code and the Board's procedural plan.

Every year, the Board shall hold an inaugural meeting immediately following the AGM. The inaugural meeting shall among other things appoint the company's authorised signatories and shall review and adopt the Board's procedural plan. The company's Board meetings shall normally deal with the company's financial situation and matters of material importance to the company. The CEO reports continuously on business plans and strategic issues. According to the Board's procedural plan, the Board is a quorum when at least three of its members are present.

**Composition of the Board**

| | | | | | | Independent | |
|---|---|---|---|---|---|---|---|
| **Name** | **Function** | **Born in** | **Elected in** | **Fees (SEKm)** | **Meeting attendance** | **From the company** | **From shareholders** |
| Ulf Grunander | Board Chairman | 1954 | 2021 | 0.4 | 15/15 | Yes | Yes |
| Christian Krüeger | Board member | 1966 | 2016 | 0.2 | 15/15 | Yes | Yes |
| Laura Shunk | Board member | 1957 | 2017 | 0.2 | 15/15 | Yes | Yes |
| Leif Ryd | Board member | 1949 | 2009 | 0.2 | 15/15 | No | Yes |
| Annette Brodin Rampe | Board member | 1962 | 2021 | 0.2 | 15/15 | Yes | Yes |

Pursuant to the Swedish Companies Act, Episurf Medical's Board of Directors has adopted a written procedural plan for its work. The now applicable procedural plan and CEO instructions were adopted at the inaugural Board meeting no 8, on 4 May 2023. The procedural plan among other things regulates how the Board shall conduct its work and which matters are to be dealt with by the Board. The procedural plan also regulates how the Board is to be continuously provided with information and financial reporting by the CEO.

The Board in its entirety takes part in matters related to auditing, including monitoring and evaluation of the audit process, quality assurance of the company's financial reporting assessment of reports from the independent auditor and review of the auditors' independence from the company, including the scope of any non-audit services provided by the auditor to the company. The Board has also set up an audit committee.

The Board shall annually review the Board's and the CEO's work and present it to the Nomination Committee.

**Work of the Board in 2023**

The Board held fifteen meetings in 2023. The Board members' attendance is shown in the table above. Each scheduled Board meeting followed an agenda and decision data was sent to the members of the Board ahead of each meeting. The CEO and certain other senior executives in the company have taken part in Board meetings in order to present reports. The Board has dealt with matters such as R&D, marketing plans and commercialisation of products, organisation, risk and internal control, financial reporting and monitoring, financial position and investments. In 2023 the Board devoted special attention to issues related to financing, marketing and sales.

Evaluation of the board's work was carried out during November 2023 and presented in writing to the Board and the Nomination Committee during November or December and orally to the board on 16 November 2023. Board's executive director Pål Ryfors was evaluated in November 2023.

**Remuneration to the Board**

Fees and other remuneration to the members of the Board of Directors, including the Chairman, are determined by a general meeting of the shareholders of the company. At the annual general meeting held on 4 May 2023, it was resolved that remuneration shall be paid with SEK 0.4m to Ulf Grunander, who was appointed Chairman of the Board of Directors and SEK 0.2m to Laura Shunk, Christian Krüeger, Annette Brodin Rampe and Leif Ryd. The chairman of the audit committee, Ulf Grunander, shall receive a fee of SEK 0.0 million for 2023; in addition, no other compensation shall be paid for committee work. During the financial year 2023, the total remuneration to the members of the Board of Directors amounted to SEK 1.2m (1.4) distributed in accordance with the table above.

**BOARD COMMITTEES**

## 5 Remuneration committee

According to the Code, the members of the remuneration committee shall be independent in relation to the company and the senior executives.

The Board of Directors' remuneration committee continuously evaluates the remuneration to senior executives in view of current market conditions.

The Remuneration Committee currently consists of three members: Christian Krüeger, Ulf Grunander, which are all considered to be independent in relation to the company and the senior executives. The remuneration committee's main tasks are to:

(a) prepare the Board of Directors' decisions on issues relating to compensation and other employment terms for the senior executives,

(b) monitor and to evaluate current remuneration structures, remuneration levels and programs for variable remuneration to the senior executives and

(c) to monitor and evaluate the outcome of variable compensation schemes and the company's compliance with remuneration guidelines adopted by the general meeting.

After the annual meeting 2023, the Remuneration Committee held two meetings.

**Remuneration committee, no. of meetings**

Christian Krüeger 2/2
Annette Brodin Rampe 2/2
Ulf Grunander 2/2

**– Audit Committee**

The Audit Committee monitors the Company's financial position and the effectiveness of its internal control and risk management. It keeps itself informed of the audit of the annual accounts and consolidated accounts, and reviews and monitors the impartiality and independence of the auditor. The Audit Committee should also assist the Nomination Committee with resolutions on the election of and fees payable to the auditor. Following the Annual General Meeting on May 4, 2023, the Audit Committee consists of Ulf Grunander (Chairman) and Laura Shunk.

## 6 Auditors

The independent auditor is appointed at the AGM to examine the company's financial accounts and the administration of the company by the Board of Directors and the CEO.

**Auditor**

The 2023 AGM elected the auditing firm of Öhrlings PricewaterhouseCoopers AB as the company's independent auditor to serve until the end of the 2024 AGM. Auditor in Charge is Authorised Public Accountant Tobias Stråhle. Tobias Stråhle, born in 1977. is an Authorised Public Accountant and a member of FAR. Öhrlings PricewaterhouseCoopers AB's office address is: Torsgatan 21, 113 21 Stockholm.

## 7-8 CEO and executive management

The Board appoints the CEO. The CEO oversees the company's operations, supervises its day-to-day management and is responsible for ensuring that the Board is provided with the information necessary to discharge its duties.

The CEO is not a member of the Board. The CEO presents reports to the Board and takes part in meetings, except for when the CEO is evaluated, at which time the Board meets with the auditor without the presence of the executive management, or if the Board so decides. The segregation of responsibilities between the Board of Directors and the CEO is described in written CEO instructions that are subject to yearly revision.

The CEO appoints the members of the executive management. The role of the executive management is to drive business operations and monitor the company's development.

At the beginning of 2023 the executive management consisted of Pål Ryfors (CEO), Veronica Wallin (CFO), Katarina Flodström (COO), Fredrik Zetterberg (Marketing Director), Michael Näsström (Head of Quality and Regulatory), Stephen Caswell (Head of Sales OUS) and Patrick Jamnik (President of Episurf Medical Inc).

In November 2023, Michael Näsström left as Head of Quality and Regulatory Affairs, and a recruitment process is underway. Stephen Caswell left as Head of Sales OUS in December 2023.

# Remuneration to the CEO and management

**THE COMPANY'S AGM ON 4 May 2023** resolved to implement the following guidelines for remuneration to senior executives for the period until the 2024 AGM.

Remuneration and terms of employment for senior executives, shall be designed to ensure the company's access to executives with the right expertise. This remuneration shall consist of basic salary, possible variable remuneration, incentive programs and other benefits including a company car and pension contributions. The remuneration shall be market-based and proportionate to the executive's powers and responsibilities. Any variable remuneration shall be related to established, well-defined targets and to the basic salary, and shall be limited to a maximum amount equal to six months' salary (gross).

Episurf Medical's pension policy is based on an individual occupational pension in a maximum amount equal to 30 percent of basic salary. The company has a term of notice of no more than six months. Other remuneration and benefits, such as company car, shall be market-based.

The Board is given the opportunity to deviate from the above guidelines in individual cases where there is special reason to do so. In such case, information and the reasons for the deviation shall be reported at the next AGM. Aside from the CEO, no other senior executive or other employee is entitled to termination benefits.

The Remuneration committee currently consists of Ulf Grunander, who is also chairman of the committee, Annette Brodin Rampe and Christian Krüeger.

Remuneration to other senior executives is negotiated with the CEO and must be approved by the Board Chairman.

**Incentive programs**
See more information about Episurf Medicals incentive programs in note 9.

**Proposal for the Annual General Meeting to be held on April 9 2024**
The Board of Directors of proposes that the Meeting resolves on the following guidelines for remuneration to senior executives. The guidelines comprise the CEO and the other members of the senior management of the company. Remuneration covered by the guidelines shall include salary and other remuneration to the senior executives. These guidelines shall not apply to any remuneration resolved upon or approved by the general meeting. Hence, these guidelines do not apply to share-based incentive programs or board fees to the Board members.

To the extent that a non-employed Board member elected by the general meeting performs work for the company, besides the Board assignment, consultancy fees and other remuneration on market terms may be granted for such work. Decisions on consultancy fees and other remuneration to non-employed Board members elected by the general meeting are taken by the Remuneration Committee.

For employments governed by rules other than Swedish rules, pension benefits and other benefits may be duly adjusted for compliance with mandatory rules or established local practice, taking into account, to the extent possible, the overall purpose of these guidelines.

***The guidelines' contribution to the company's business strategy, long-term interests and sustainability***
The business strategy of the company is to provide orthopaedists with individualised, top-quality treatment alternatives via the company's self-developed technology for image analysis, implant design and manufacturing. For more information on the business strategy, please refer to the company's website. A prerequisite for the successful implementation of the company's business strategy and safeguarding of its long-term interests, including its sustainability, is that the company is able to recruit and retain qualified personnel. The Company shall therefore offer remuneration and other terms of employment that enables the company to recruit and retain skilled executives with the experience and competence required. These guidelines enable the company to offer the senior executives a competitive remuneration.

***Types* of remuneration**
The remuneration shall be on market terms and be competitive, and may consist of the following components: fixed base salary, variable remuneration, pension benefits and other benefits such as company car. Additionally, the general meeting may resolve upon, inter alia, share-based remuneration.

***Fixed base salary***
Each senior executive shall receive a fixed base salary that enables the company to attract and retain skilled employees. The fixed base salary shall be based on the senior executive's competence, responsibilities and performance.

***Variable remuneration***
The variable remuneration shall be linked to predetermined and measurable criteria which can be financial and non-financial. Financial criteria may relate to turnover, results, share price development and operational efficiency. Non-financial criteria may relate to clinical activities, personnel-related KPIs and quality-related KPIs. The variable remuneration is thereby linked to the company's business strategy, long-term interests and sustainability. The criteria shall be established, assessed and re-evaluated annually. Out of the total variable remuneration, the starting point is that 50 per cent shall be based on financial criteria and 50 per cent based on non-financial criteria. The variable remuneration shall not amount to more than 50 per cent of the fixed base salary of the senior executive.

***Pension benefits***
The pension benefits of the senior executives shall be defined premium pension benefits, unless the senior executive is subject to defined-benefit pension in accordance with the provisions of a collective agreement. The pension premiums for defined contribution may not exceed 4.5 per cent of the annual fixed base salary up to 7.5 Income Base Amounts (Sw. inkomstbasbelopp) and 30 per cent of the annual fixed base salary exceeding 7.5 Income Base Amounts. Variable remuneration shall only be pensionable to the extent it is required pursuant to applicable provisions of a collective bargaining agreements. Pension benefits may not amount to more than 50 per cent of the fixed base salary of the senior executive. Further, salary exchange shall be possible, allowing, e.g., senior executives to exchange parts of the monthly fixed salary against pension payments.

***Other benefits***
Remuneration to senior executive may consist of other benefits, for example company car and health insurance. These benefits may not amount to more than 30 per cent of the fixed salary of the senior executive.

***Salary and employment conditions for employees***
In the preparation of the Board of Directors' proposal for these remuneration guidelines, salary and employment conditions for employees of the company have been taken into account by including information on the employees' total income, the components of the remuneration and increase and growth rate over time, in the Board of Directors' basis of decision when evaluating whether the guidelines and the limitations set out herein are reasonable.

***Notice period and severance pay***
The employment agreements between the company and senior executives shall generally apply until further notice. If the company terminates the employment of a senior executive, the notice period may not exceed 12 months. The fixed base salary during the notice period and severance pay may together not exceed an amount corresponding to the fixed base salary for a period of 24 months. When termination is made by the senior executive, the notice period may not exceed six months and may not include any right to severance pay.

***Decision-making process***
The Board of Directors has established a Remuneration Committee. The tasks of the Remuneration Committee includes the preparation of the Board of Directors' proposal for these guidelines. The Board of Directors shall prepare, and submit to the Annual General Meeting, a proposal for new guidelines at least every four years. The guidelines shall apply until new guidelines have been adopted by the Annual General Meeting. The Remuneration Committee shall further monitor and re-evaluate the variable remuneration programs for the senior executives, the application of the guidelines for salary and other remuneration to the senior executives, as well as the current remuneration structures and remuneration levels in Episurf. Senior executives shall not participate insofar as they are affected by the Board of Directors consideration of and decisions on remuneration-related issues.

***Derogation from the guidelines***
The Board of Directors may temporarily resolve to derogate from these guidelines, in whole or in part, if in a specific case there is special cause for such derogation and a derogation is necessary to serve the company's long-term interests, including sustainability, or to ensure the company's financial viability. As indicated above, the tasks of the Remuneration Committee includes the preparation of decisions of the Board of Directors on remuneration-related issues, which includes decisions on deviations from the guidelines.

# INTERNAL CONTROL


**AS STATED IN THE SWEDISH COMPANIES ACT AND THE CODE**, the Board of Directors is responsible for ensuring that the company has satisfactory internal controls, for staying informed about the company's internal control system and for assessing the effectiveness of this system. Episurf Medical's internal control work can be divided between the control environment, risk assessment, control activities, information and communication, and monitoring. Episurf Medical's internal audit is handled by the Board of Directors, the CEO and the CFO, but in view of the company's size this is deemed to meet the requirements placed on the company. On a yearly basis, the Board evaluates the need to set up an internal audit function.

**Control environment**
Episurf Medical has established a control environment that consists of an organisation with defined decision-making paths, powers and responsibilities. This is governed by policy documents such as the Board's procedural plan, instructions for the CEO, risk management policy, the company's information policy, authorisation procedures and other guidelines and instructions. These are reviewed yearly.

**Risk assessment**
The Board of Directors has ultimate responsibility for risk assessment. On a yearly basis, the company evaluates risks and strives to achieve a high level of risk awareness among the employees. The main identified risk areas are financial reporting, operational risks and legal risks.

**Control activities**
The Group's business processes include financial controls to avoid errors and mistakes. In order to enter into agreements, pay invoices and similar, an employee must follow defined decision-making paths and authorisation procedures.

**Information and communication**
Episurf Medical has been listed since 2010 (at that time on the Aktietorget marketplace) and the company has long experience of external financial communication. The company has an organisation and routines to ensure the correctness and accuracy of the financial reporting. This work is governed by internal control documents that define who is responsible for what in order to ensure that the right information reaches the affected parties in the correct manner.

The company has a comprehensive information policy to safeguard high quality in the external and internal information and ensure that Episurf Medical meets the stock market's requirements for information disclosure. The aim is to convey information in confidence-building manner, externally and internally, so that knowledge and confidence in the company are upheld and enhanced. A separate control document contains routines for press releases, financial reports. general meetings, issues, the website, registration of insiders, handling of the logbook, etc. All reports and press releases are published simultaneously with publication on the company's website.

**Monitoring**
The Board of Directors monitors internal control to ensure that shortcomings are corrected and that good ideas are realised, among other things by evaluating the executive management's information.

# BOARD OF DIRECTORS

According to the Articles of Association, Episurf Medical's Board of Directors shall consist of at least three and at most eight members, with up to two deputies. The company's Board of Directors currently consists of five members, including the Chairman. All Board members are elected to serve until the end of the next AGM. Below is a presentation of the Board members with information about their year of birth, education, year of election to the Board, other current positions and shareholdings. Assignments in the Group are not stated. Shareholdings in the company include own direct and indirect holdings and related party holdings at 31 December 2023.

**Ulf Grunander**
**Chairman since 2023 and board member since 2021**
**Shareholding** 381,000 B-shares
**Born** 1954

**Education and experience:** Ulf Grunander holds an economics degree from Stockholm University and previously served 23 years as CFO for Getinge Group. Mr. Grunander currently sits on the boards of Arjo AB (publ) and Lifco AB (publ). Furthermore, he serves as Chairman of Djurgården Hockey AB. Mr. Grunander has held board assignments in several companies of the Getinge group, AMF Fonder AB and AMF Tjänstepension AB, and he has also been a Chartered Accountant.

**Current positions:** Board member of Arjo AB (publ), AMF Tjänstepension AB, AMF Fonder AB, Lifco AB (publ) and Djurgården Hockey AB.
**Independence:** Independent in relation to the company, its senior executives and principal shareholders.

**Leif Ryd**
**Board member since 2009**
**Shareholding** 223 A-shares 583,250 B-shares in person (of which 3,000 is family members), and 421,185 A-shares and 265,714 B-shares through the company Aktiebolaget Gile Medicinkonsult
**Born** 1949

**Education and experience:** Leif Ryd is an orthopedic surgeon with a long career in clinical research. focusing on osteoarthritis (OA). He is also a former Professor at Karolinska Institute in Stockholm. Dr. Ryd's clinical areas of expertise include degenerative joint disease of the hip and knee, as well as traumatic injuries of the knee. Dr. Ryd works on a consultancy basis for Episurf as a Senior Medical Advisor focusing on medical/scientific development and marketing Episurf products to the medical profession.

**Current positions:** Chairman of the board and CEO of Aktiebolaget Gile Medicinkonsult and member of the Board of directors of Crage AB and and Bostadsföreningen Dromedaren.
**Independence:** Independent in relation to the company, but not in relation to the company's senior executives and principal shareholders.

**Christian Krüeger**
**Board member since 2016**
**Shareholding** 300,000 B-shares
**Born** 1966

**Education and experience:** Christian Krüeger has an Bachelor of Science in Business Administration and has Majored in Finance at University of Lund. Mr Krüeger is currently the CEO of Krueger Venture Partners AB. Mr. Krüeger has extensive experience from the financial industry, including stock and bond brokerage, equity raisings and the debt capital markets. Mr Krüeger has held senior positions, most recently as CEO of LMK Venture Partners and Head of Equities, at Pareto Securities in Stockholm. Prior to Pareto, Mr Krüeger held multiple senior positions at Öhman Fondkommission and Matteus Fondkommission.

**Current positions:** Board member of Solnaberg Property AB, Rocker AB, Krueger Venture Partners AB. Deputy director in Krueger Liljefors Konsult AB.
**Independence:** Independent in relation to the company. its senior executives and principal shareholders.

**Laura Shunk**
**Board member since 2017**
**Shareholding** 300,000 B-shares
**Born** 1958

**Education and experience:** Laura Shunk is a senior and founding partner in the law firm of Hudak, Shunk and Farine, Co LPA in Cuyahoga Falls, Ohio, USA, where she has practiced in the field of Intellectual Property Law since 1987. Laura's career has included patent and trademark prosecution work focused in the healthcare and medical device field with representations including InvaCare, Cross Medical, Biomet, OrthoHelix Surgical Designs, Tornier, and Wright Medical, among others.

**Current positions:** Chairman of SCI Engineered Materials, Inc, Board member of SiNaptic Holdings, LLC.
**Independence:** Independent in relation to the company, its senior executives and principal shareholders.

**Annette Brodin Rampe**
**Board member since 2021**
**Shareholding** 240,000 B-shares
**Born** 1962

**Education and experience:** Annette Brodin Rampe holds a Master of Science degree in Chemical Engineering from Chalmers University of Technology and currently serves as the CEO of ImagineCare AB, a digital health monitoring platform. In addition to this, Ms. Brodin Rampe serves as the Chairwoman of Global Child Forum and Storskogen AB (publ) and sits on the Board of Ferronordic AB and Pion Group AB (publ). She also acts as advisor to TechBuddy AB. Previously, Ms. Brodin Rampe served as CEO of Internationella Engelska Skolan and before that she was European Managing Partner of Brunswick Group, a strategy communications PR agency. Ms. Brodin Rampe has previously been the Chairwoman of Stillfront Group AB and sat on the Boards of, amongst others, PEAB AB and Ernströmgruppen AB.

**Current positions:** Chairman of Global Child Forum and Storskogen AB (publ), Board member of Ferronordic AB and Pion Group AB (publ).
**Independence:** Independent in relation to the company, its senior executives, and principal shareholders.

# EXECUTIVE MANAGEMENT

Shareholdings in the company include own direct and indirect holdings and related party holdings at 31 December 2023.

**Pål Ryfors**
**CEO since 2017**
**Shareholding** 3,000,000 B-shares
**Employee stock options** 872,734
**Performance options** 2,627,431
**Warrants** 1,661,427
**Born** 1983

**Education and experience:**
Pål has a Bachelor in Financial Economics from Gothenburg School of Economics. He has vast experience from leading positions within the finance and banking sector both in the Nordics and internationally.

Pål has been CFO of Marginalen Bank, a Swedish bank employing some 350 people. Prior to that, he was Head of Group Controlling at Hoist Finance. Before joining Hoist Finance, he was an investment banker at Societe Generale in London, a position he assumed after holding several leading positions in the restructuring of the Swedish operations of Kaupthing Bank.

**Other appointments:** Chairman of the Board Vivesto AB(publ), Board member Aros Kapital AB, and Stora Rosenvik Bostadsrättsförening.

**Veronica Wallin**
**CFO since 2017**
**Shareholding** 112,148 B-Shares
**Employee stock options** 140,000
**Performance options** 934,799
**Warrants** 10,000
**Born** 1986

**Education and experience:** Veronica Wallin has a Degree of Master of Science in Business and Economics from Stockholm's University and was employed by Episurf Medical in August 2016 as Head of Finance. In June 2017 Veronica became CFO after Pål Ryfors, who then assumed the position as CEO. Prior to joining Episurf Medical Veronica worked as Head of Finance at ApoEx during 2013–2016.

**Other appointments:** Board member Alligator Bioscience AB (publ), IRLAB Therapeutics AB (publ) and Integrative Research Laboratories Sweden AB.

**Katarina Flodström**
**COO since 2019**
**Shareholding** 103,125 B-Shares (of which 28,875 is family members)
**Employee stock options** 140,000
**Performance options** 924,148
**Warrants** 10,000
**Born** 1975
**Education and experience:** Katarina has a PhD in Physical Chemistry from Lund University and a MSc in Chemical Engineering from the Royal Institute of Technology in Stockholm. She was employed by Episurf Medical in 2014. Katarina has over 15 years' experience from RnD in start-up companies. She was the RnD Manager and Quality Manager of Diamorph AB from which Episurf is a spin-off.

**Other appointments:** Board member Bostadsrättsföreningen Oscar.

**Fredrik Zetterberg**
**Marketing Director since 2017**
**Shareholding** 26,500 B-Shares
**Employee stock options** 140,000
**Performance** 936,902
**Warrants** 10,000
**Born** 1975

**Education and experience:** Fredrik Zetterberg was employed by Episurf Medical AB in February 2016 and has 25 years of experience from medical technology companies such as Baxter, Cardinal Health, ArthroCare and Smith & Nephew. Since 2008 the focus has been on orthopedics where he has held senior positions within sales management and international marketing.

**Other appointments:** –

**Patrick Jamnik**
**President, Episurf Medical Inc since 2021**
**Shareholding** 68,050 B-Shares
**Employee stock options** -
**Performance options** 678,814
**Warrants** –
**Warrants TO4B** -
**Born** 1983

**Education and experience:**
Patrick has over 20 years of global market development experience, building businesses across multiple orthopaedic disciplines in both Europe and the US. He has previously held commercial leadership positions at Stryker, Zimmer-Biomet, Stanmore Implants, and InspireMD. While at UK-based Stanmore Implants, he played a central role in establishing, commercialising, and growing its US business, leading to its eventual acquisition by Stryker. Patrick has a Bachelor's Degree and MBA from the University of Wisconsin-Madison.

**Other appointments:** Board member Askel Healthcare Oy.

# FINANCIAL STATEMENTS, CONTENTS

## Consolidated income statement

| mSEK | Note | Jan-Dec 2023 | Jan-Dec 2022 |
|---|---|---|---|
| *Operating income* | | | |
| Net sales | 5, 6 | 10.3 | 6.6 |
| Capitalised development expenditure | | 9.5 | 11.3 |
| Other operating income | 6 | 0.3 | 0.3 |
| **Total income** | | **20.1** | **18.2** |
| | | | |
| *Operating expenses* | | | |
| Merchandise | | -7.3 | -4.2 |
| Other expenses | 8 | -54.3 | -43.3 |
| Personnel costs | 9 | -46.6 | -40.3 |
| | | | |
| Depreciation of equipment and non-current assets | 11,12,21 | -8.7 | -7.4 |
| **Total operating expenses** | | **-116.9** | **-95.2** |
| | | | |
| **Operating loss** | | **-96.7** | **-77.0** |
| | | | |
| *Financial items* | | | |
| Financial income, other | 7 | 3.1 | 0.5 |
| Financial expenses, other | 7 | -0.9 | -0.7 |
| **Results from net financial items** | | **2.2** | **-0.2** |
| | | | |
| **Loss before tax** | | **-94.6** | **-77.2** |
| | | | |
| Tax on income for the year | 10 | -0.3 | -0.1 |
| **Loss for the year** | | **-94.8** | **-77.3** |
| | | | |
| Earnings per share before and after dilution, SEK | 26 | -0.36 | -0.29 |

## Consolidated statement of comprehensive income

| mSEK | Note | Jan-Dec 2023 | Jan-Dec 2022 |
|---|---|---|---|
| **Net profit (loss)** | | **-94.8** | **-77,3** |
| | | | |
| *Items that may be reclassified to profit/loss* | | | |
| Exchange differences arising from the translation of foreign subsidiaries | | -0.1 | 0,1 |
| **Total comprehensive income (loss) for the year** | | **-94,9** | **-77.2** |
| | | | |
| *The years's loss and comprehensive income attributable to* | | | |
| Owners of the parent | | **-94.9** | **-77.2** |
| Average number of shares | | 266,997,306 | 266,627,443 |

## Consolidated balance sheet

| mSEK | Note | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| *Intangible fixed assets* | | | |
| Capitalised development costs | 11 | 21.5 | 15.9 |
| Patents | 11 | 12.2 | 13.6 |
| **Total intangible fixed assets** | | **33.7** | **29.5** |
| *Equipment and right-of use asset* | | | |
| Right-of-use assets | 21 | 5.6 | 6.6 |
| Equipment | 12 | 0.0 | 0.1 |
| **Total equipment and right-of-use asset** | | **5.6** | **6.7** |
| **Total non-current assets** | | **39.3** | **36.2** |
| **Current assets** | | | |
| Inventories | 16 | 3.7 | 1.9 |
| Trade receivables | 15 | 1.4 | 1.9 |
| Other receivables | | 0.5 | 0.9 |
| Deferred expenses and accrued income | 17 | 1.5 | 1.1 |
| Cash | | 57.9 | 155.3 |
| **Total current assets** | | **65.0** | **161.0** |
| **TOTAL ASSETS** | | **104.3** | **197.2** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | 18 | 80.2 | 80.1 |
| Other contributed capital | 18 | 684.8 | 684.8 |
| Reserves | 18 | -0.3 | -0.2 |
| Accumulated deficit incl. Loss for the year | 18 | -680.2 | -587.0 |
| **Total equity** | | **84.5** | **177.7** |
| **Liabilities** | | | |
| *Non-current liabilities* | | | |
| Non-current liabilities | 3, 9, 23 | 0.2 | 1.0 |
| Non-current lease liability | 3,21 23 | 2.3 | 3.8 |
| **Total long-term liabilities** | | **2.4** | **4.8** |
| *Current liabilities* | | | |
| Trade payables | | 6.1 | 4.4 |
| Current lease liability | 3, 21, 23 | 2.9 | 2.5 |
| Other liabilities | 3, 19, 23 | 1.9 | 1.8 |
| Accrued liabilities and deferred income | 20 | 6.4 | 6.0 |
| **Total current liabilities** | | **17.4** | **14.7** |
| **Total liabilities** | | **19.8** | **19.5** |
| **TOTAL EQUITY AND LIABILITIES** | | **104.3** | **197.2** |
| Equity ratio | | 81.0% | 90.1% |
| Equity per share, SEK | | 0.32 | 0.67 |

## 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, 2022** | **80.0** | **684.4** | **-0.3** | **-511.3** | **252.8** |
| Total comprehensive loss for the year | | | | -77.3 | -77.3 |
| Other comprehensive income | | | 0.1 | | 0.1 |
| **Total comprehensive loss for the year** | | | **0.1** | **-77.3** | **-77.2** |
| **Transactions with shareholders** | | | | | |
| Conversion warrants, net after issue expenses* | 0.1 | 0.4 | | | 0.5 |
| Expired warrants to staff | | | | -0.2 | -0.2 |
| Warrants issued to staff | | | | 1.8 | 1.8 |
| **Total transactions with shareholders** | **0.1** | **0.4** | | **1.6** | **2.1** |
| **Closing equity December 31, 2022** | **80.1** | **684.8** | **-0.2** | **-587.0** | **177.7** |
| **Opening equity January 1, 2023** | **80.1** | **684.8** | **-0.2** | **-587.0** | **177.7** |
| Total comprehensive loss for the year | | | | -94.8 | -94.8 |
| Other comprehensive income | | | -0.1 | | -0.1 |
| **Total comprehensive loss for the year** | | | **-0.1** | **-94.8** | **-94.9** |
| **Transactions with shareholders** | | | | | |
| Conversion warrants, net after issue expenses** | 0.0 | | | 0.2 | 0.2 |
| Expired warrants to staff | | | | - | 0.0 |
| Warrants issued to staff | | | | 1.5 | 1.5 |
| **Total transactions with shareholders** | **0.0** | | | **1.7** | **1.7** |
| **Closing equity December 31, 2023** | **80.2** | **684.8** | **-0.3** | **-680.2** | **84.5** |

* Expenses amounts to SEK 0.0m.
** Expenses amounts to SEK 0.0m.

## Consolidated cash flow statement

| mSEK | Note | Jan-Dec 2023 | Jan-Dec 2022 |
|---|---|---|---|
| **Operating activities** | | | |
| Operating loss | | -96.7 | -77.0 |
| *Adjustments for items not included in cash flow* | | | |
| Depreciation | 11, 12, 21 | 8.7 | 7.4 |
| Employee stock option expenses | | 0.7 | -0.2 |
| Interest received | | 2.3 | 0.1 |
| Interest paid | | -0.6 | -0.6 |
| **Cash flow from current operations before change in working capital** | | **-85.6** | **-70.4** |
| | | | |
| **Change in working capital** | | | |
| Decrease/increase in inventory | | -1.8 | 0.1 |
| Decrease/increase in trade receivables | | 0.4 | -0.3 |
| Decrease/increase in current receivables | | 0.0 | 1.5 |
| Decrease/increase in current liabilities | | 2.2 | -0.4 |
| **Change in working capital** | | **0.7** | **0.9** |
| | | | |
| **Cash flow from operating activities** | | **-84.8** | **-69.5** |
| | | | |
| **Investing activities** | | | |
| Investments of intangible fixed assets | | -9.5 | -11.3 |
| Investments of tangible fixed assets | | 0.0 | 0.0 |
| **Cash flow from investing activities** | | **-9.5** | **-11.2** |
| | | | |
| **Financing activities** | | | |
| Amortisation of lease debt | 21 | -3.2 | -2.4 |
| Conversion warrants | | 0.2 | 0.5 |
| **Cash flow from financing activities** | | **-3.0** | **-1.9** |
| | | | |
| **Cash flow for the year** | | **-97.4** | **-82.6** |
| Cash and cash equivalents at the beginning of the year | | 155.3 | 237.9 |
| **Cash and cash equivalents at the end of the year** | | **57.9** | **155.3** |

## Parent Company income statement

| mSEK | Note | Jan-Dec 2023 | Jan-Dec 2022 |
|---|---|---|---|
| **Operating income** | | | |
| Net sales | 6 | 1.1 | 0.7 |
| Capitalised development expenditure | | 8.3 | 9.3 |
| **Total income** | | **9.4** | **9.9** |
| | | | |
| **Operating costs** | | | |
| Other external expenses | 8 | -37.6 | -29.5 |
| Personnel costs | 9 | -22.0 | -20.0 |
| Amortisation of intangible assets and depreciation of property, plant and equipment | 11, 12 | -2.7 | -2.3 |
| **Total operating costs** | | **-62.3** | **-51.9** |
| | | | |
| **Operating loss** | | **-52.9** | **-42.0** |
| | | | |
| *Financial items* | | | |
| Write-downs of financial fixed assets and short-term investments | 13 | -81.2 | - |
| Financial income, other | 7 | 2.3 | 0.1 |
| Financial expenses, other | 7 | -0.0 | -0.1 |
| **Results from net financial items** | | **-78.9** | **-0.1** |
| | | | |
| **Loss before tax** | | **-131.8** | **-42.0** |
| | | | |
| Tax on income for the year | 10 | - | - |
| **Loss at end of the year** | | **-131.8** | **-42.0** |

## Parent Company statement of comprehensive income

| mSEK | Note | Jan-Dec 2023 | Jan-Dec 2022 |
|---|---|---|---|
| | | | |
| **Net profit** | | **-131.8** | **-42.0** |
| *Other comprehensive income for the year:* | | | |
| Other comprehensive income for the year, net of tax | | - | - |
| **Total comprehensive income for the year** | | **-131.8** | **-42.0** |

## Parent Company balance sheet

| mSEK | Note | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|---|
| **ASSETS** | | | |
| **Fixed assets** | | | |
| *Intangible fixed assets* | | | |
| Capitalised development costs | 11 | 21.5 | 15.9 |
| **Total intangible fixed assets** | | **21.5** | **15.9** |
| | | | |
| **Financial assets** | | | |
| Shares in group companies | 13 | 202.0 | 256.2 |
| Long-term receivables from group companies | 14 | 22.7 | 22.6 |
| **Total financial assets** | | **224.7** | **278.8** |
| | | | |
| **Total fixed assets** | | **246.2** | **294.7** |
| | | | |
| **Current assets** | | | |
| *Short term receivables* | | | |
| Trade receivables | | - | 0.6 |
| Other receivables | | 0.2 | 0.4 |
| Prepaid expenses and accrued income | 17 | 0.9 | 0.8 |
| **Total short term receivables** | | **1.1** | **1.8** |
| Cash | | 42.3 | 142.2 |
| **Total current assets** | | **43.5** | **143.9** |
| | | | |
| **TOTAL ASSETS** | | **289.6** | **438.6** |
| | | | |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | 18 | | |
| **Restricted equity** | | | |
| Share capital | | 80.2 | 80.1 |
| Development fund | | 21.5 | 15.9 |
| **Total restricted equity** | | **101.7** | **96.0** |
| | | | |
| **Unrestricted equity** | | | |
| Share premium reserve | | 684.1 | 683.9 |
| Loss brought forward | | -382.7 | -335.0 |
| Loss for the year | | -131.8 | -42.0 |
| **Total unrestricted equity** | | **169.6** | **306.9** |
| **Total equity** | | **271.3** | **402.9** |
| | | | |
| **Liabilities** | | | |
| *Non-current liabilities* | | | |
| Non-current liabilities to group companies | 14 | 8.9 | 27.1 |
| **Total long-term liabilities** | | **8.9** | **27.1** |
| | | | |
| ***Current liabilities*** | | | |
| Trade payables | | 3.3 | 3.0 |
| Other liabilities | 19 | 0.8 | 0.7 |
| Accrued liabilities and deferred income | 20 | 5.4 | 4.8 |
| **Total current liabilities** | | **9.5** | **8.6** |
| | | | |
| **Total liabilities** | | **18.4** | **35.7** |
| | | | |
| **TOTAL EQUITY AND LIABILITIES** | | **289.6** | **438.6** |

## Parent Company statement of changes in equity

| mSEK | Share capital | Development fund | Share premium reserve | Loss brought forward | Loss for the period | Total equity |
|---|---|---|---|---|---|---|
| **Opening equity January 1, 2022** | **80.0** | **9.0** | **683.5** | **-289.5** | **-38.7** | **444.4** |
| Loss for the year | | | | | -42.0 | -42.0 |
| Disposition according to AGM | | | | | | |
| Loss brought forward | | | | -38.7 | 38.7 | - |
| Development fund | | 6.9 | | -6.9 | | - |
| **Total comprehensive loss for the year** | | **6.9** | | **-45.6** | **-3.4** | **-42.0** |
| **Transactions with shareholders** | | | | | | |
| Conversion warrants, net after issue expenses* | 0.1 | | 0.4 | | | 0.5 |
| **Total transactions with shareholders** | **0.1** | | **0.4** | | | **0.5** |
| **Closing equity December 31, 2022** | **80.1** | **15.9** | **683.9** | **-335.0** | **-42.0** | **402.9** |
| **Opening equity January 1, 2023** | **80.1** | **15.9** | **683.9** | **-335.0** | **-42.0** | **402.9** |
| Loss for the year | | | | | -131.8 | -131.8 |
| Disposition according to AGM | | | | | | |
| Loss brought forward | | | | -42.0 | 42.0 | - |
| Development fund | | 5.6 | | -5.6 | | - |
| **Total comprehensive loss for the year** | | **5.6** | | **-47.6** | **-89.8** | **-131.8** |
| **Transactions with shareholders** | | | | | | |
| Conversion warrants, net after issue expenses** | 0.0 | | 0.2 | | | 0.2 |
| **Total transactions with shareholders** | **0.0** | | **0.2** | | | **0.2** |
| **Closing equity December 31, 2023** | **80.2** | **21.5** | **684.1** | **-382.7** | **-131.8** | **271.3** |

* Expenses amounts to SEK 0.0m.

** Expenses amounts to SEK 0.0m.

## Parent Company cash flow statement

| mSEK | Note | Jan-Dec 2023 | Jan-Dec 2022 |
|---|---|---|---|
| **Current operations** | | | |
| Operating loss | | -52.9 | -42.0 |
| *Adjustments for items not included in cash flow* | | | |
| Depreciation | 11, 12 | 2.7 | 2.3 |
| Interest received | | 2.3 | 0.1 |
| Interest paid | | -0.0 | -0.1 |
| **Cash flow from current activities before changes in working capital** | | **-47.8** | **-39.7** |
| **Changes in working capital** | | | |
| Decrease/increase in current receivables | | 0.2 | 1.2 |
| Decrease/increase in current liabilities | | 0.8 | 0.7 |
| **Total changes in working capital** | | **1.0** | **1.9** |
| **Cash flow from operating activities** | | **-46.8** | **-37.8** |
| **Cash flow from investing activities** | | | |
| Acquisition of intangible assets | | -8.3 | -9.3 |
| Shareholder contribution | 13 | -27.0 | -63.3 |
| Repaid group companies | 14 | 7.6 | 4.3 |
| Loan group companies | 14 | -7.0 | -2.0 |
| **Cash flow from investing activities** | | **-34.7** | **-70.3** |
| **Cash flow from financing activities** | | | |
| Raised loans group companies | | 2.0 | 59.0 |
| Amortisation debt group companies | | -20.5 | -30.0 |
| Conversion warrants | | 0.2 | 0.5 |
| **Cash flow from financing activities** | | **-18.3** | **29.5** |
| **Cash flow for the year** | | **-99.8** | **-78,6** |
| Cash and cash equivalents at the beginning of the year | | 142.2 | 220.7 |
| **Cash and cash equivalents at the end of the year** | | **42.3** | **142.2** |

# ACCOUNTING POLICIES AND NOTES

## Note 1 General information

Episurf Medical AB (publ) is a Swedish medical device group that endeavours to help people with joint pain live a more active life by providing them with effective and personalised treatments. The patient-specific technology has been developed in collaboration with leading universities and clinical centers in Sweden. The Parent Company is a limited liability company that is registered in Sweden and is domiciled in Stockholm. The visiting address of the head office is Karlavägen 60, Stockholm, Sweden.

The consolidated financial statements and annual report were approved by the Board of Directors for publication on 7 March 2024. All amounts are presented in mSEK unless otherwise stated. Information in parentheses refers to the previous year.

## Note 2 Summary of key accounting principles

The consolidated financial statements of the Episurf Medical AB (publ) AB Group are presented in compliance with the International Financial Reporting Standards (IFRS) as endorsed for application in the EU. RFR 1. Supplementary Accounting Rules for Groups.

The consolidated financial statements have been prepared on the historical cost basis.
The most important accounting policies applied in the preparation of these consolidated financial statements are described below. These policies have been consistently applied in all years presented, unless otherwise stated. The financial statements of the Parent Company are presented in compliance with RFR 2. Accounting for Legal Entities, and the Swedish Annual Accounts Act. The cases where the accounting policies applied by the Parent Company differ from those of the Group are described separately at the end of this note. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are described in Note 4, Key accounting estimates and judgements.

**Changed accounting principles**
The International Accounting Standards Board (IASB) has issued a number of new and amended standards that have taken effect during 2023. Management believes that other new and amended standards and interpretations have not had a significant impact on the Group's financial statements.

**Subsidiaries**
Subsidiaries are all companies in which the Group has control over the investment, is exposed to or is entitled to variable returns from its involvement in the investment and can use its control over the investment object to influence the size of its return. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations are accounted for using the acquisition method. The purchase consideration for the acquisition of a subsidiary consists of the acquisition-date fair value of assets acquired, equity instruments issued and liabilities assumed, plus costs that are directly attributable to the acquisition. The identifiable assets acquired and liabilities assumed in a business combination are initially measured at the acquisition-date fair value, regardless of the amount of any non-controlling interests. Goodwill is initially measured at cost and represents the difference between the fair value of purchase consideration given in connection with an acquisition and the Group's share in the fair value of identifiable net assets acquired and liabilities and contingent liabilities assumed. If the fair value of consideration transferred is lower than fair value of the acquired subsidiary's assets, liabilities and contingent liabilities, the difference is recognised immediately in profit or loss.

All intra-group transactions and balances and unrealised gains relating to transactions between group companies are eliminated. Unrealised losses are also eliminated but are regarded as an indication of impairment. When necessary, the accounting policies of subsidiaries have been adjusted to ensure conformity with the accounting policies of the Group.

At present, the Group has no subsidiaries with non-controlling interests.

**Foreign currencies**

***Functional and presentation currency***

Items included in the financial information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The presentation currency of the Group is Swedish kronor (SEK), which is also the functional currency of the Parent Company and the Swedish subsidiaries. Other subsidiaries functional currency is their national currency.

***Transactions in foreign currency***

Transactions in foreign currency are translated to the functional currency at the rate of exchange ruling on the dates of the transactions. Foreign exchange gains/losses arising on the payment of such transactions and in translation of monetary assets and liabilities in foreign currency at the closing day rate are recognised in profit or loss. Exchange differences on borrowings and loans are recognised in net financial items, which other exchange differences are recognised in operating profit. At present, the Group has no borrowings or loans in foreign currency, only operating receivables and liabilities.

**Intangible assets**

***Patents***

Patents are stated at cost. Patents have a definite useful life and are recognised at cost less accumulated amortisation.

These are amortised on a straight-line basis to allocate the cost of the patent over its estimated useful life (5 years).

***Capitalised development expenditures***

Development expenditure that is directly attributable to development and testing of identifiable and unique products that are controlled by the Group is recognised in intangible assets when it meets the following criteria:

» It is technically feasible to complete the product so it can be used or sold,
» The company intends to complete the product and use or sell it,
» The company is able to use or sell the product,
» The company can show how the product will generate future economic benefits,
» The company has adequate technical, financial and other resources to complete development and to use or sell the product, and
» The cost of completing development of the product can be measured reliably.

The directly attributable costs that are capitalised as part of the capitalised development expenditure include costs for employees and a reasonable share of indirect costs.

Other development expenses that do not meet the above criteria are expensed as incurred. Development expenses that have been previously expensed are not recorded as assets in subsequent periods.

The company amortises capitalised development expenditure relating to the development projects or finished products that have been completed for sale. These are amortised on a straight-line basis to allocate the cost of the patent over its estimated useful life (5 years).

Capitalised development expenditure is tested for impairment at least yearly by the company. Capitalised development expenditures are capitalised on the line "Capitalised development expenditure" under operating income in the income statement.

**Property, plant and equipment**

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The historical cost includes costs that can be directly attributed to the acquisition.

Subsequent expenditure is added to the carrying amount of the asset or recorded as a separate asset, according to what is appropriate, only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be estimated reliably. The carrying amount for the replaced portion is derecognised from the balance sheet. All other types of repairs and maintenance are accounted for as costs in the income statement in the period in which they arise.

To allocate the depreciable amount (cost less residual value) over the estimated useful life, other assets are depreciated on a straight-line basis as follows:

**Equipment**

The carrying amounts of the Group's assets are reviewed at each balance sheet date to look for any indication that an asset may be impaired. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in other operating income and other operating expenses in the income statement.

**Impairment of non-financial assets**
Property, plant and equipment and amortisable intangible assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the amount whereby the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of the asset's value in use and its fair value less costs to sell.

For the purpose of testing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Property, plant and equipment and intangible assets for which an impairment loss has been previously recognised are tested at each balance sheet date to determine whether the impairment loss should be reversed.

The recoverable amount is the higher of the fair value, less selling costs, and value in use. When calculating the value in use, future cash flows are discounted with a discounting factor that takes into account risk-free interest rates and the risk associated with the specific risk.

**Inventories**
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method (FIFO). The historical cost of goods for resale consists of the cost of purchasing the goods. Borrowing costs are not included. Net realisable value is calculated as the estimated selling price in the ordinary course of business less directly attributable variable selling expenses. The requisite provisions for obsolescence are made after individual assessment.

**Financial instruments**
The Group classifies financial assets and liabilities in accordance with IFRS 9. The classification determines how the financial instruments are valued and recognised based on their classification. The Group's principles for classifying and valuing financial assets are based on an assessment of both (i) the company's business model for the management of financial assets, and (ii) the characteristics of the contractual cash flows from the financial asset.
Financial assets valued at amortised cost are debt instruments that are managed with the aim of realising the cash flow of the instruments by obtaining contractual cash flows that consist solely of capital amounts and interest on the outstanding capital amount. The following financial assets are valued at amortised cost because the assets are held within the framework of a business model whose objective is to keep financial assets with the purpose of collecting contractual cash flows and that the agreed terms for those assets give rise to cash flows which are only payments at specified times of principal and interest on the outstanding amount of capital;

- Other non-current financial receivables
- Accounts receivables
- Other receivables
- Accrued income
- Cash and cash equivalents

All of the Group's financial liabilities, consisting of borrowing, accounts payable and accrued expenses, are recognised at amortised cost.

Financial instruments are initially recognized at fair value with additions/deductions for transaction expenses, except for instruments that are continuously measured at fair value through profit or loss for which transaction expenses are instead expensed when they arise. Accounts receivable (without a significant financing component) are initially valued at the transaction price determined in accordance with IFRS15 Revenue from agreements with customers. The normal credit period with suppliers is 30 days.

***Accounts and other receivables***
Accounts receivable and other receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest method, less any provision for impairment.

***Recognition and derecognition in the balance sheet***
A financial asset or financial liability is recognised in the balance sheet when the Group becomes a party under the instrument's contractual terms with the exception of accounts receivable that are recognized when they are issued.

The Group removes a financial asset from the statement of financial position when the contractual rights to the cash flows from the financial asset cease or if it transfers the right to receive the contractual cash flows through a

transaction in which substantially all risk and rewards of ownership have been transferred or in which the Group does not mainly transfer or retain all the risks and rewards of ownership, and it does not maintain control over the financial asset. The Group removes a financial liability from the statement of financial position when the commitments specified in the agreement are fulfilled, canceled, or terminated. The Group also removes a financial liability from the statement of financial position when the commitments specified in the agreement are fulfilled, canceled, or terminated. The Group also removes a financial liability when the contractual terms are modified, and the cash flows from the adjusted debt are significantly different. In this case, a new financial liability is recognised at fair value based on the modified terms.

A financial asset and a financial liability are offset and reported with a net amount in the balance sheet only when there is a legal right to offset the amounts and that there is an intention to settle the items with a net amount or to simultaneously realise the asset and regulate the debt.

***Impairment of financial assets***

The reserve for expected credit losses is calculated and reported for the financial assets that are valued at amortised cost. The reserve for loan losses is calculated and reported initially on the basis of twelve-month expected loan losses. If the credit risk has increased significantly since the financial asset was first recognised, the reserve for credit losses is calculated and reported based on expected loan losses for the entire remaining term of the asset. For accounts receivable, which do not contain a significant financing component, a simplified method is applied, and the reserve for credit losses is calculated and reported on the basis of expected loan losses for the entire remaining term, regardless of whether the credit risk has increased significantly or not. The calculation of expected loan losses is mainly based on information on historical losses for similar receivables and counterparties. The historical information is evaluated and adjusted continuously based on the current situation and the Group's expectation of future events.

**Cash**

Cash include bank balances.

**Share capital**

Common shares are classified as equity. Transaction costs that can be directly attributed to the issue of new shares are recognised, net of tax, in equity among other contributed capital on a separate line as a deduction from the issue proceeds.

**Current and deferred tax**

The current income tax expense is calculated on the basis of the tax laws that have been enacted or substantively enacted at the balance sheet date in the countries where the Parent Company and its subsidiaries operate and generate taxable income. Management regularly evaluates the claims made in income tax returns regarding situations where the applicable tax rules are subject to interpretation and, when deemed appropriate, makes provisions for amounts that are likely to be paid to the tax authorities. Deferred tax is recognised in full, in accordance with the balance sheet method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which they can be used.

**Employee benefits**

The cost of providing employee benefits in the form of salary and pension is recognised in the period in which the benefit is earned by the employee.

**Pension obligations**

The Group has only defined contribution pension plans. For defined contribution pension plans. Episurf Medical AB (publ) pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations when the contributions have been paid. The contributions are recognised as personnel costs when they fall due for payment. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available to the Group.

**Termination benefits**

Termination benefits are payable when employment is terminated by Episurf Medical AB (publ) before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for special compensation. Episurf Medical AB (publ) recognises termination benefits when the Group is demonstrably committed to either terminate

employment according to a detailed formal plan without realistic possibility of withdrawal, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

**Share-based payments**
The fair value of employee stock options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the vesting period. The cost reported corresponds to the fair value of an estimate of the number of options that are expected to be earned, taking into account the terms of service that are a prerequisite for earning the options. This cost is adjusted in subsequent periods to finally reflect the actual number of vested options.

Social costs relating to employee stock options are expensed in the periods in which the services are performed. The charge for social costs is based on the fair value of the stock options at the time of each report.

**Revenue recognition**
The Group's revenue is generated from the sale of in-house developed products. When Episurf becomes a party to an agreement, it is analysed to determine how many distinct performance obligations it contains. The compensation received or will be obtained according to the agreement, the transaction price, is distributed among the performance commitments based on the respective commitments' relative share of estimated stand-alone sales prices for the commitments, taking into account any discounts. The allocated amount is then recognised as revenue when the commitment is fulfilled over time or at a certain point in time. Below is an account of how each revenue stream is handled in accounting at Episurf.

**Sale of goods**
The Group's income is generated from the sale of goods. Sales take place to companies primarily in the healthcare sector. The product range consists of in-house developed products. Compensation is issued as payment when Episurf signs an agreement with a customer and undertakes to deliver goods. The delivery of goods is deemed to constitute a joint performance commitment. Revenue is recognised when the following criteria are met: The customer holds the legal ownership, physically disposes of the goods, has control and use of that equipment, and Episurf has the right to payment. It happens when control of the goods has passed. Depending on the contract terms, customers obtain control of the goods, either when the goods are dispatched from the Group's warehouse or when the goods have been delivered to the designated location. Invoices are drawn up at this time and are usually due within 30 days.

For agreements that allow customers to return goods, revenue is recognised to the extent that it is highly probable that a material reversal of accumulated revenue will not occur. Assessment of expected returns is based on historical data for specific customers and goods. Expected returns are reported as a reduction in revenue and liability for repayment while the cost of goods attributable to the returns is reduced, and an asset corresponding to the right to recover returned goods is reported.

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

a) Right to access IP - the agreement requires, or the customer can reasonably expect, that the Group will take measures that significantly affect the rights the customer is entitled to, that these measures directly affect the customer and that the measures do not involve the transfer of goods/services to the customer when the measures are carried out. The performance obligation and thus the income is reported over time, usually linearly.

b) Right to use IP - the customer only has the right to use the IP in its existing state at the time when the right was granted to the customer. The performance obligation is fulfilled initially, at that time.

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

**Government grants**
**Government grants research and development projects**
Government grants received for research and development projects are reported net and reduce the personnel costs,over the period necessary to match them with the related costs for which they are intended to compensate.

**Interest income**
Interest income is recognised over the contractual term of the loan using the effective interest rate method.

**Leases**
When an agreement is entered into, the Group assesses whether the agreement is, or contains a lease agreement. An agreement is, or contains, a lease agreement if the agreement assigns the right to decide over a certain period of use over an identified asset in exchange for compensation. The Group recognises a right of use and a lease liability at the commencement date of the lease. The right to use the asset is initially valued at cost, which consists of the initial value of the lease debt with the addition of leasing fees paid on or before the commencement date plus any initial direct expenses. The rights of use are depreciated on a straight-line basis from the commencement date until the earlier of the end of the asset's useful life and the end of the lease period, which is normally the end of the leasing period for the Group. The leasing liability - which is divided into long-term and short-term - is initially valued at the present value of remaining leasing fees during the assessed leasing period. The lease period is the non-cancellable period with the addition of additional periods in the agreement if it is deemed reasonably certain that these will be used at the commencement date.

Leasing fees are normally discounted with the Group's marginal borrowing rate, which, in addition to the Group's / Company's credit risk, reflects the respective leasing period, currency, and quality of the underlying asset as intended security.

The lease liability comprises the present value of the following fees during the estimated lease period:

- fixed fees, including fixed fees for its substance,
- variable leasing fees linked to the index or price (initially), valued initially using the index or price (“rate”) that applied at the commencement date;

The value of the debt is increased by the interest cost for each period and reduced by the lease payments. Interest expense is calculated as the value of the debt times the discount rate.

The leasing liability for the Group's premises with rent that is indexed is calculated on the rent that applies at the end of each reporting period. At this time, the liability is adjusted with the corresponding adjustment of the reported value of the rights of use. Correspondingly, the value of the debt and the asset is adjusted in connection with the re-evaluation of the lease period. This is done in conjunction with the expiry of the notice period within the previously assessed leasing period for local leases, or when significant events occur, or circumstances change in a significant way in a way that is within the Group's control and affects the current assessment of the leasing period. For leasing contracts that have a leasing period of 12 months or less or with an underlying asset of low value, less than SEK 0.1m, no rights of use and leasing debt are reported. Leasing fees for these leases are recognised as a cost on a straight-line basis over the lease period.

**Dividends**
Dividends to the Parent Company’s shareholders are recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Parent Company’s shareholders.

**Accounting policies of the Parent Company**
The Parent Company applies the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for legal entities. The Parent Company applies accounting principles other than the Group in the cases stated below.

**Financial assets and liabilities**
In the Parent Company, financial fixed assets and current financial assets according to the lowest value principle are valued at cost less any impairment losses. For financial assets that are reported at amortised cost, the impairment rules are applied in IFRS 9.

**Leases**
IFRS 16 Leasing Agreements does not affect the parent company as the standard is exempted from application by a legal entity. As a lessee, leasing fees are recognised as a cost on a straight-line basis over the lease period, and thus rights of use and leasing liabilities are not recognised in the balance sheet.

**Presentation of the income statement and balance sheet**
The Parent Company uses the presentation stated in the Swedish Annual Accounts Act, which means among other things that a different presentation of equity is applied. In other respects, the income statement and balance sheet are presented in the same manner as in the Group. Certain terminology in the income statement differs between the Group and the Parent Company, which is an effect of the terms used in the Swedish Annual Accounts Act and IFRS.

**Shares in subsidiaries**
Shares in subsidiaries are recognised at cost less impairment. Dividends received are recognised when the right to receive payment has been established. The shares to which the dividends refer are then tested for impairment. When there is an indication that the value of shares and participations in subsidiaries has decreased, the recoverable amount is calculated. If this is lower than the carrying amount, an impairment loss is recognised. Impairment losses are recognised in profit from shares in group companies.

**Group and shareholder contributions**
Shareholder contributions paid are recognised as an increase in the investments in subsidiaries. The values of the investments in question are then tested for impairment. A group contribution that the Parent Company receives from a subsidiary is recognised according to the same principles as normal dividends from subsidiaries, which means that the group contribution is recognised in financial income.

**Fund development expenses**
The amount capitalised for its own accumulated development costs must be brought about from the unrestricted equity to fund development expenditures in restricted equity. The fund will be reduced in line with the capitalised expenses are amortised or down.

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

## Note 3 Financial risk management

**Financial risk factors**
Through its activities, the Group is exposed to various financial risks: market risk (certain foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management policy is focused on minimising the potential adverse effects on the Group's financial results.

The identified risks consist mainly of a certain foreign exchange risk resulting from foreign trade.
Risk management is handled by the CEO in consultation with the finance department, based on guidelines established by the Board. The CEO, in consultation with the finance department, identifies, evaluates and hedges financial risks in close cooperation with other senior executives in the Group.

**Market risk**

**a) Foreign exchange risk**

The Group is exposed to foreign exchange risk arising from exposures to different currencies. primarily relating to transactions with the US. Episurf Medical AB's (publ) presentation currency is Swedish kronor (SEK), which is also the functional currency of the Parent Company and the Swedish subsidiaries in the Group. The financial statements of foreign subsidiaries are presented in local currency and are translated to SEK in the consolidated financial statements. The balance sheets of foreign subsidiaries are translated to SEK at the closing day rate of exchange and all items in the income statement are translated at the average rate during the year. Any translation differences thus arising are recognised in consolidated financial statements in other comprehensive income for the period, net of tax. The company has a currency risk regarding accounts payable and, mainly the increased costs for the company's investment in the US. In 2023 the company incurred costs for the US of SEK 13.0m (11.8), if the dollar exchange rate would go up or down by 5%, it would affect the company by SEK 0.7m (0.6).

**b) Credit risk**

Credit risk is managed at the group level. Credit risk arises through cash and cash equivalents, deposits in banks and financial institutions and credit exposures to the Group's customers, including outstanding receivables and contractual transactions. The maximum credit exposure consists of the book value of the exposed assets. At present the Group's credit risk is assessed to be limited, since most of the financial assets consist of cash and cash equivalents in major Swedish credit institutions. For cash and cash equivalents consisting of deposit accounts, banks and financial institutions

are counterparts, which are graded a3 for the majority of cash and cash equivalents and second largest has ba1 both based on Moody's credit rating.

**c) Interest risk**

The Group is exposed to interest rate risk on cash and cash equivalents and interest-bearing short-term liabilities. The Group makes an ongoing assessment of current interest rate risk.

**d) Liquidity risk and going concern**

As of December 31, 2023, the group had SEK 57.9 m (155.3) in cash and cash equivalents.
Future undiscounted cash flows conform in all material respects to the book values of the liabilities. See note 23 for an analysis of maturities for financial liabilities.

**Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital. The Group is largely financed through equity. The equity ratio at 31 December 2023 was 81.0 percent (90.1).

**Fair value**

The Group has no financial assets or liabilities that are measured at fair value. The carrying amount of assets and liabilities in the balance sheet, which falls within the scope of disclosures in accordance with IFRS 13, is assessed to correspond closely to fair value.

## Note 4 Key accounting estimates and judgements

Estimates and judgments are evaluated continuously and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Key accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely correspond to the actual results. The estimates and assumptions that are associated with a significant risk for material adjustments in the carrying amounts of assets and liabilities in the next financial year are described below.

**IAS 38 Intangible assets – capitalised development expenditure**

Episurf Medical conducts extensive development activities, which have reached a stage where they have now started to generate revenue for the products, albeit still on a modest scale.

The company's product development model has several phases and the probability of future economic benefits does not start to crystallise until the later phases. Episurf Medical is working on development of several products and at present there are products that have been abandoned, mothballed or are still at the beginning of the development model. An intangible asset that arises through development, or in the development phase of an internal project, is recognised as an asset in the balance sheet only if the company can demonstrate that all of criteria 1-6 in Note 2 have been met.

There are two main criteria that are analysed in order to assess historical expenditure and whether it meets the criteria for capitalisation.

1. The probability of future economic benefits, and
2. whether financing had been arranged at the time when the expense was incurred. For 2013 and the preceding period, we assessed that these two criteria had not been fully met. However, since five of the products have now been approved and are starting to be tested in the market, at the beginning of the fourth quarter of 2014 the company decided to start capitalising development expenses.

**Valuation of loss carry forwards**

Every year, the Group examines whether there is any indication of impairment of deferred tax assets relating to tax loss carry forwards. Furthermore, the Group examines the opportunities to capitalise new deferred tax assets with respect to the year's tax loss carry forwards, if appropriate. The deferred tax asset is recognised only when it is probable that there will be future taxable profits against which the temporary difference can be utilised. Deferred tax assets attributable to the loss carry-forward are therefore not reported with any value in the balance sheet. The carrying amounts of the

deferred tax asset on the respective balance sheet dates are shown in Note 10. At 31 December 2023 the Group had loss carry forwards amounting to SEK 767.4 m (590.3) that had not been included in calculation of the deferred tax asset.

**Going concern**

As of December 31, 2023, the group had SEK 57.9 m in cash and cash equivalents.

In 2024, the company estimates that the costs for the US investment will increase simultaneously as costs in the European operations decrease as the company's strategic focus changes during 2023. . In 2024, the company estimates that the costs for the US investment will increase simultaneously as costs in the European operations decrease as the company's strategic focus changes during 2023. The management has assessed that the company has liquidity to ensure operations during the calendar year 2024. The board works continuously to evaluate various financing alternatives to ensure the continued operation of the business. The board assesses that the company has good conditions to secure future financing through, for example, a new issue of shares. The company also has the opportunity to adapt the overhead level to existing cash if required.

## Note 5 Segment information

An operating segment is an identified part of a group that engages in business activities from which it may earn revenues and incur expenses for which discrete financial information is available. An operating segment's results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its short- and long-term financial performance. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, The Chief Executive Officer and Group CEO, who is responsible for allocation resources and assess the performance of the operating segments, represents the chief operating decision maker who is responsible for strategic decisions.

The majority of Episurf Medical's revenues are generated from western Europe and are derived from one product (Episealer®) and from customers which are comparable. Even though Episurf Medical's revenues are generated from various countries in western Europe. Episurf Medical has grouped all such revenues into one reporting segment due to the similarities. The consolidated profit and loss statement, balance sheet and cash flow statements include information about the group's revenue and profitability development as well as financial position. The majority of the Group's fixed assets are attributable to Sweden.

## Note 6 Operating income

The Group's net sales of SEK 10.3 m (6.6) refer primarily to sales of the Episurf Medical products Episealer® Condyle Solo, Episealer® Trochlea Solo, Episealer® Femoral Twin and Episealer® Talus. The Parent Company's net sales of SEK 1.1 m (0.7) refer to intra-group sales.

**Net sales per country**

| mSEK | 2023 | 2022 |
|---|---|---|
| Germany | 6.1 | 4.4 |
| US | 0.4 | - |
| Sweden | 0.7 | 0.5 |
| Other countries in Europe | 2.8 | 1.5 |
| Other countries outside of Europe | 0.4 | 0.1 |
| **Total net sales** | **10.3** | **6.6** |

**Other operating income**

| Group | 2023 | 2022 |
|---|---|---|
| Other | 0.3 | 0.3 |
| **Total other operating income** | **0.3** | **0.3** |

## Note 7 Financial income and expenses

The year's financial income and expenses consist of exchange rate differences, interest income and interest expenses related to assets and liabilities measured at amortised cost. The year's interest income is attributable to bank accounts with credit institutions and expenses to the Groups Financing agreement.

## Note 8 Other external expenses

Other external expenses in the Group and the Parent Company are mainly attributable to increased investments in the controlled product launch and continued research and development-related costs.

**Audit fees**
Auditing services refer to auditing of the annual report, the accounts and the administration by the Board of Directors and the President, other tasks incumbent upon the company's auditor and advice or other assistance arising from observations in connection with such examination or the performance of such other tasks. All other services are classified as other assignments.

| **Group** | **2023** | **2022** |
|---|---|---|
| | **PWC** | **PWC** |
| Audit assignments | 0.5 | 0.7 |
| Other audit assignments | 0.1 | -- |
| Tax advice | -- | -- |
| Other advisory services | 0.2 | 0.1 |
| **Total** | **0.8** | **0.8** |

| **Other auditors** | **2023** | **2022** |
|---|---|---|
| Audit assignments | 0.2 | 0.2 |
| Tax advice | -- | -- |
| Other advisory services | -- | 0.1 |
| **Total** | **0.2** | **0.3** |

| **Parent Company** | **2023** | **2022** |
|---|---|---|
| | **PWC** | **PWC** |
| Audit assignments | 0.5 | 0.7 |
| Other audit assignments | 0.1 | -- |
| Tax advice | -- | -- |
| Other advisory services | 0.2 | 0.1 |
| **Total** | **0.8** | **0.8** |

| **Other auditors** | **2023** | **2022** |
|---|---|---|
| Audit assignments | -- | 0.1 |
| Tax advice | -- | -- |
| Other advisory services | -- | 0.1 |
| **Total** | **--** | **0.2** |

## Note 9 Employees and personnel costs

**Personnel costs**

| **Group** | **2023** | **2022** |
|---|---|---|
| Remuneration | | |
| Salary and other remuneration | 35.6 | 32.1 |
| Social security expenses | 8.3 | 6.1 |
| Pension expenses - defined contribution plans | 2.0 | 1.8 |
| Other | 0.8 | 0.3 |
| **Total** | **46.6** | **40.3** |

| **Parent Company** | **2023** | **2022** |
|---|---|---|
| Remuneration | | |
| Salary and other remuneration | 15.3 | 14.1 |
| Social security expenses | 5.2 | 4.8 |
| Pension expenses - defined contribution plans | 1.3 | 1.0 |
| Other | 0.0 | 0.1 |
| **Total** | **22.0** | **20.0** |

For salary and remuneration to the CEO, Management and Board of Directors, see Note 22.

**Average number of employees**

| | 2023 | | 2022 | |
|---|---|---|---|---|
| **Group** | **Average no. Of employees** | **Of whom men** | **Average no. Of employees** | **Of whom men** |
| Sweden | 24 | 16 | 21 | 12 |
| UK | 2 | 2 | 3 | 2 |
| Germany | 5 | 3 | 5 | 4 |
| Belgium | 1 | - | 1 | - |
| US | 1 | 1 | 1 | 1 |

| | 2023 | | 2022 | |
|---|---|---|---|---|
| **Parent Company** | **Average no. Of employees** | **Of whom men** | **Average no. Of employees** | **Of whom men** |
| Sweden | 18 | 11 | 16 | 8 |

**Gender distribution of Board members and other senior executives**

| | 2023 | | 2022 | |
|---|---|---|---|---|
| **Group and Parent Company** | **Average no. Of employees** | **Of whom men** | **Average no. Of employees** | **Of whom men** |
| Board members | 5 | 3 | 6 | 4 |
| CEO and senior executives | 5 | 3 | 7 | 5 |
| **Total Group and Parent Company** | **10** | **6** | **13** | **9** |

**Incentive programs**

**Employee stock option and warrant program 2023**

The Annual General Meeting held on 4 May 2023 resolved to (a) adopt an incentive program for certain employees and (b) issue warrants of series 2023/2026 and approve transfers of warrants of series 2023/2026. No more than 3,898,159 performance options were allowed to be issued.

The Performance Options were allotted in accordance with the following:
a) the CEO was allotted 1,042,277 performance options;
b) the other members of the senior management (six persons) were 1,941,181 Performance Options in total, of which no participant within this category were allotted more than 540,548 performance options; and
c) the other participants (up to 16 persons) were allotted 829,651 performance options in total, of which no participant within this category were allotted more than 77,823 performance options.

Provided that a participant is still employed by the Episurf group at the expiry of the vesting period, each exercisable performance option entitles the employee to purchase one share of series B in the Company during the period from and including 1 June 2026 up to and including 31 May 2027.

The performance targets for the Performance Period includes s (i) increase of sales in Episurf's core markets, (ii) increase in the number of clinical publications available for the Company's Episealer® technology, (iii) the degree of progress in clinical studies sponsored by the Company and (iv) the degree of progress within the Company's product development.

| **Changes in outstanding stock options** | **2023** |
|---|---|
| Granted | 3,813,109 |
| Expired | -1,333,572 |
| **Amount at end of year** | **2,479,537** |

| Input information | Grant date |
|---|---|
| Calculation model | Black-Scholes |
| Share price | 1.70 |
| Subscription price | 2.04 |
| Grant date | 2023-05-04 |
| Vesting date | 2026-05-31 |
| Expected dividend | 0 |
| Risk free interest rate | 0.0243 |
| Expected volatility* | 50% |
| Fair value per option | 0.61 |

*Volatility is calculated using share price data for the EPIS B share and verified with external data sources such as Bloomberg.

| | 31 Dec 2023 |
|---|---|
| Total expense recognized during the year, including social security charges | -0.5 |
| **Debt, end of December, social security charges** | **0.0** |

**Employee stock option and warrant program 2022**
The Annual General Meeting held on 4 April 2022 resolved to (a) adopt an incentive program for certain employees and (b) issue warrants of series 2022/2025 and approve transfers of warrants of series 2022/2025. No more than 2,556,392 performance options were allowed to be issued.

The Performance Options were allotted in accordance with the following:
a) the CEO was allotted 593,098 performance options;
b) the other members of the senior management (six persons) were 1,359,568 Performance Options in total, of which no participant within this category were allotted more than 388,970 performance options; and
c) the other participants (up to 15 persons) were allotted 603,726 performance options in total, of which no participant within this category were allotted more than 46,180 performance options.

Provided that a participant is still employed by the Episurf group at the expiry of the vesting period, each exercisable performance option entitles the employee to purchase one share of series B in the Company during the period from and including 1 June 2025 up to and including 31 May 2026.

The performance targets for the Performance Period includes (i) increase of sales in Episurf's core markets, (ii) increase in the number of clinical publications available for the Company's Episealer® technology, (iii) the degree of progress in clinical studies sponsored by the Company and (iv) the degree of progress within the Company's product development.

| Changes in outstanding stock options | 2023 | 2022 |
|---|---|---|
| Opening balance | 1,817,887 | - |
| Granted | - | 2,556,392 |
| Expired | -361,547 | -738,505 |
| **Amount at end of year** | **1,456,340** | **1,817,887** |

| Input information | Grant date |
|---|---|
| Calculation model | Black-Scholes |
| Share price | 2.97 |
| Subscription price | 3.57 |
| Grant date | 2022-04-04 |
| Vesting date | 2025-05-31 |
| Expected dividend | - |
| Risk free interest rate | 0.0012 |
| Expected volatility* | 40% |
| Fair value per option | 1.02 |

*Volatility is calculated using share price data for the EPIS B share and verified with external data sources such as Bloomberg.

| | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Total expense recognised during the year, including social security charges | -0.3 | 0.5 |
| **Debt, end of December, social security charges** | **0.0** | **0.1** |

**Employee stock option and warrant program 2021**
The Annual General Meeting held on 10 May 2021 resolved to (a) adopt an incentive program for certain employees and (b) issue warrants of series 2021/2024(A) and approve transfers of warrants of series 2021/2024(A). No more than 2,355,988 performance options were allowed to be issued.

The Performance Options were allotted in accordance with the following:
a) the CEO was allotted 785,499 performance options;
b) the other members of the senior management (four persons) were allotted 886,346 Performance Options in total, of which no participant within this category were allotted more than 250,355 performance options; and
c) the other participants (up to 15 persons) were allotted 684,143 performance options in total, of which no participant within this category were allotted more than 66,208 performance options.

Provided that a participant is still employed by the Episurf group at the expiry of the vesting period, each exercisable performance option entitles the employee to purchase one share of series B in the Company during the period from and including 1 July 2024 up to and including 30 June 2025.

The performance targets for the performance period included (i) increase of sales in Episurf's core markets, (ii) increase in the number of clinical publications available for the Company's Episealer® technology, (iii) the degree of progress in clinical studies sponsored by the Company and (iv) the degree of progress within the Company's product development.

**Incentive program for the CEO**
The Annual General Meeting held on 10 May 2021 resolved (a) adoption of an incentive program for the CEO, (b) an issue of warrants of series 2021/2024(B) and approval of transfer of warrants of series 2021/2024(B) and (c) an issue of warrants of series 2021/2024(C) and approval of transfer of warrants of series 2021/2024(C).

The CEO has received 732,734 performance options (included below under stock options), and has bought 1,651,427 warrants.

Each performance option entitles the holder to subscribe for one new share of series B in the Company during the period from and including 1 July 2024 up until and including 30 June 2025. For more information, see terms and conditions on the company's website.

| Changes in outstanding stock options | 2023 | 2022 |
|---|---|---|
| Opening balance | 2,443,877 | 2,570,406 |
| Granted | - | - |
| Expired | -187,374 | -126,529 |
| **Amount at end of year** | **2,256,503** | **2,443,877** |

| Input information | Grant date |
|---|---|
| Calculation model | Black-Scholes |
| Share price | 3.39 |
| Subscription price | 4.07 |
| Grant date | 2021-05-10 |
| Vesting date | 2024-06-30 |
| Expected dividend | - |
| Risk free interest rate | -0.0016 |
| Expected volatility* | 40% |
| Fair value per option | 0.66 |

*Volatility is calculated using share price data for the EPIS B share and verified with external data sources such as Bloomberg.

| | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Total expense recognised during the year, including social security charges | -0.4 | 0.3 |
| **Debt, end of December, social security charges** | **-** | **0.0** |

**Employee stock option and warrant program 2020**
The Annual General Meeting held on 2 April 2020 resolved to implement an employee stock option and warrant program for the group's employees. The employee stock option and warrant program included the management team and employees in the Episurf group. No more than 220,000 warrants of series 2020/2023(A) and 5,699,939 employee stock options, which consist of employee stock options and performance options (which were hedged by an issue of the same number of warrants of series 2020/2023(B) to the subsidiary Episurf Operations AB) were issued.

Each employee of the Episurf group (22 persons) was entitled to subscribe up to 10,000 Incentive Warrants.
The employees have paid SEK 0.3535 in connection with the allocation of the warrants.
The Stock Options were allocated in accordance with the following: Each employee of the Episurf group (22 persons) was proposed to be allotted, free of charge:
a) 100,000 Stock Options; and
b) four (4) Stock Options for each Incentive Warrant subscribed for in accordance with the above

The Performance Options were allotted in accordance with the following:
a) the CEO was allotted 756,942 performance options;
b) the other members of the senior management (four persons) were allotted 1,416,647 Performance Options in total, of which no participant within this category was allotted more than 385,989 Performance Options; and
c) the other participants (nine persons) were allotted 446,350 Performance Options in total, of which no participant within this category was allotted more than 66,814 Performance Options.

Provided that the participant is still employed by the Episurf group at the exercise of the employee stock options, each option entitles the employee to purchase 1 share of series B in the Company during the period from and including 1 June 2023 until and including 31 May 2024 for a price of SEK 1.73.

The degree of fulfillment of the performance targets for the cash-based incentive program in 2020 determined how employees had the right to retain and exercise the granted performance options to acquire B shares in the Company after the end of a three-year vesting period. Performance targets included (i) sales growth in Episurf's core markets, (ii) the increase in the number of clinical publications available for the Company's Episealer® technology, and (iii) the degree of progress in the clinical trials sponsored by the Company.

| **Changes in outstanding stock options** | **2023** | **2022** |
|---|---|---|
| Opening balance | 4,859,375 | 5,273,003 |
| Granted | - | - |
| Expired | -413,628 | -413,628 |
| **Amount at end of year** | **4,445,747** | **4,859,375** |

| **Input information** | **Grant date** |
|---|---|
| Calculation model | Black-Scholes |
| Share price | 1.50 |
| Subscription price | 1.73 |
| Grant date | 2020-04-02 |
| Vesting date | 2023-05-31 |
| Expected dividend | - |
| Risk free interest rate | -0.341 |
| Expected volatility* | 60% |
| Fair value per option | 0.54 |

*Volatility is calculated using share price data for the EPIS B share and verified with external data sources such as Bloomberg.

| | 31 Dec 2023 | 31 Dec 2021 |
|---|---|---|
| Total expense recognised during the year, including social security charges | 0.5 | -0.9 |
| **Debt, end of December, social security charges** | **-** | **0.9** |

**Employee stock option and warrant program 2018**
The Annual General Meeting held on 9 April 2018, resolved to implement an employee stock option and warrant program for the group's employees. The employee stock option and warrant program included the management team (excluding the CEO and COO who have chosen not to participate) and employees in the Episurf group. No more than 68,500 warrants of series 2018/2021(A) and 253,500 employee stock options (which were hedged by an issue of the same number of warrants of series 2018/2021(B) to the subsidiary Episurf Operations AB) were issued.

The warrants of series 2018/2021(A) were allocated in accordance with the following: (i) the four members of the senior management (excluding the CEO and COO) were entitled to subscribe for a total of up to 38,000 warrants (of which not more than 15,000 warrants were subscribed for by a sole participant), and (ii) the other participants (19 persons) were entitled to subscribe for a total of 30,500 warrants

The employee stock options were allocated in accordance with the following: (i) the four members of the senior management (excluding the CEO and COO) were allotted a total of up to 75,000 employee stock options free of charge (of which not more than 30,000 employee stock options were allotted to a sole participant), and (ii) the other participants (19 persons) are allotted a total of up to 178,500 employee stock options free of charge (of which not more than 15,000 employee stock options may be allotted to a sole participant).

Provided that the participant is still employed by the Episurf group at the exercise of the employee stock options, each option entitles the employee to purchase 1,14 shares of series B (Adjusted from 1.00 to 1.14 in connection with the rights issue during 2019, the rights issue 2020 does not entail any adjustments.) in the Company during the period from and including 1 June 2021 until and including 31 May 2022 for a price of SEK 6.63.

| Changes in outstanding stock options | 2023 | 2022 |
|---|---|---|
| Opening balance | - | 207,500 |
| Granted | - | 0 |
| Expired | - | -207,500 |
| **Amount at end of year** | **-** | **-** |

**Dilution effects**
Employee stock options and warrants described above may have a potential dilution effect in the future.

## Note 10 Income tax

The difference between the reported income tax expense and calculated income tax expense based on the applicable tax rate is as follows:

| Group | 2023 | 2022 |
|---|---|---|
| Profit before tax | -94.6 | -77.2 |
| Income tax calculated at the Group's applicable tax rate, 20.6% | 19.5 | 15.9 |
| Income that is exempt from taxation | 0.0 | 0.0 |
| Expenses not deductible for tax purposes | -0.3 | -0.2 |
| The year's tax loss carryforward not recognised as deferred tax assets | 19.2 | 15.7 |
| **Income tax expense** | **0.0** | **0.0** |

At 31 December 2023 (2022) the Group had loss carry forwards amounting to SEK 766.6m (590.3), which have not been capitalised as deferred tax assets.

| Parent Company | 2023 | 2022 |
|---|---|---|
| Profit before tax | -131.8 | -42.0 |
| Income tax calculated at the Group's applicable tax rate, 20.6% | 27.1 | 8.7 |
| Income that is exempt from taxation | 0.0 | 0.0 |
| Expenses not deductible for tax purposes | -0.1 | -0.2 |
| The year's tax loss carry forward not recognised as deferred tax assets | 27.0 | 8.5 |
| **Income tax expense** | **0.0** | **0.0** |

At 31 December 2023 (2022) the Parent Company had loss carry forwards amounting to SEK 492.5m (360.8), which have not been capitalised as deferred tax assets.

## Note 11 Intangible assets

| Group<br>Patents | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Opening cost | 37.7 | 35.7 |
| Purchases | 1.2 | 2.0 |
| Sales and disposals | 0.0 | 0.0 |
| **Closing accumulated cost** | **38.9** | **37.7** |
| Opening depreciation | -24.1 | -21.6 |
| The year's depreciation | -2.6 | -2.5 |
| Sales and disposals | 0.0 | 0.0 |
| **Closing accumulated depreciation** | **-26.7** | **-24.1** |
| **Closing carrying amount** | **12.2** | **13.6** |
| **Development expenses** | | |
| Closing cost | 29.2 | 20.0 |
| The year's capitalisation | 8.3 | 9.3 |
| **Closing accumulated cost** | **37.5** | **29.2** |
| Opening depreciation | -13.4 | -11.0 |
| The year's depreciation | -2.7 | -2.3 |
| **Closing accumulated depreciation** | **-16.1** | **-13.4** |
| **Closing carrying amount** | **21.5** | **15.9** |
| **Closing carrying amount, patents and development expenses** | **33.7** | **29.5** |

| Parent Company<br>Development expenses | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Opening cost | 29.2 | 20.0 |
| The year's capitalisation | 8.3 | 9.3 |
| **Closing accumulated cost** | **37.6** | **29.2** |
| Opening depreciation | -13.4 | -11.0 |
| The year's depreciation | -2.7 | -2.3 |
| **Closing accumulated depreciation** | **-16.1** | **-13.4** |
| **Closing carrying amount, development expenses** | **21.5** | **15.9** |

* SEK 6.8m (7.4) refers to balanced development expenses for ungranted/approved patents.
** SEK 11.3m (11.4) refers to balanced development expenses for ongoing, unfinished projects.

## Note 12 Property, plant and equipment

| Group | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Opening cost | 1.0 | 0.9 |
| Purchases | 0.0 | 0.0 |
| Sales and disposals | 0.0 | 0.0 |
| **Closing accumulated cost** | **1.0** | **1.0** |
| | | |
| Opening depreciation | -0.8 | -0.8 |
| The year's depreciation | -0.1 | 0.0 |
| Sales and disposals | 0.0 | 0.0 |
| **Closing accumulated depreciation** | **-0.9** | **-0.8** |
| | | |
| **Closing carrying amount** | **0.0** | **0.1** |

| Parent Company | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Opening cost | 0.7 | 0.7 |
| Purchases | 0.0 | 0.0 |
| Sales and disposals | 0.0 | 0.0 |
| **Closing accumulated cost** | **0.7** | **0.7** |
| | | |
| Opening depreciation | -0.7 | -0.7 |
| The year's depreciation | 0.0 | 0.0 |
| Sales and disposals | 0.0 | 0.0 |
| **Closing accumulated depreciation** | **-0.7** | **-0.7** |
| | | |
| **Closing carrying amount** | **0.0** | **0.0** |

## Note 13 Shares in group companies

Shares in group companies are reported at acquisition value, and impairment testing takes place annually. The shares are written down if the reported value exceeds its recovery value, where the recovery value is defined as the higher of an asset's net sales value and value in use. When calculating value in use, future cash flows that the asset is estimated to generate are discounted. The company uses a weighted rate of return (WACC) to discount future cash flows and calculate the share's value in use.

| Name | Corporate identification no. | Domicile | % of capital | No. Of shares | Equity at 31 Dec 2023 |
|---|---|---|---|---|---|
| Episurf IP-Management AB | 556921-7747 | Stockholm, Sweden | 100% | 10,000 | 0.9 |
| Episurf Operation AB | 556921-7739 | Stockholm, Sweden | 100% | 10,000 | 0.0 |
| Episurf Europe AB | 556921-7721 | Stockholm, Sweden | 100% | 10,000 | 13.6 |
| Episurf UK Ltd | 9548146 | Lincoln, UK | 100% | 1 | (0.6) |
| Episurf DE GmbH | HRB 218113 | München, Germany | 100% | | 0.8 |
| Episurf Medical Inc | 34-408080832 | Delaware, USA | 100% | 1,000 | 1.0 |
| Episurf India Private Limited | U74999DL2018FTC342052 | New Delhi, India | 100% | 100,000 | 0.2 |
| Episurf Australia PTY Ltd | 667 208 737 | New South Wales, Australia | 100% | | - |

Episurf Australia PTY Ltd was started during the year but has not had any operations.

| Parent Company | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Opening cost | 256.2 | 192.9 |
| Capital infusion | 27.0 | 63.3 |
| Write-downs of financial fixed assets and short-term investments | -81.2 | - |
| **Closing carrying amount** | **202.0** | **256.2** |

| Company | Opening cost | Capital infusion | Write-downs of financial fixed assets and short-term investments | Closing carrying amount |
|---|---|---|---|---|
| Episurf IP-Management AB | 27.2 | 4.0 | -9.2 | **22.2** |
| Episurf Operation AB | 29.4 | 3.0 | -9.3 | **23.1** |
| Episurf Europe AB | 199.4 | 20.0 | -62.7 | **156.6** |
| Episurf DE GmbH | 0.2 | - | - | **0.2** |
| Episurf Medical Inc | 0.0 | - | - | **0.0** |
| Episurf India Private Limited | 0.1 | - | - | **0.1** |
| **Closing carrying amount** | **256.2** | **27.0** | **-81.2** | **202.0** |

## Note 14 Long-term receivables and liabilities from group companies

**Long-term receivables and liabilities from group companies**

| Parent Company | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Non-current non-interest-bearing receivables | -4.5 | 27.0 |
| Repaid group companies | -42.1 | -70.4 |
| Loan group companies | 60.4 | 38.8 |
| **Total related party transactions** | **13.8** | **-4.5** |

## Note 15 Trade receivables

The fair value of the Group's trade receivables corresponds to the carrying amount.

On the balance sheet date, trade payables amounting to SEK 1.5m (1.9) The company has written down SEK -0.1 m (0.0) of the company's trade receivables.

| Group | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Trade receivables | 1.5 | 1.9 |
| Less: provisions for doubtful debts | -0.1 | -0.0 |
| **Trade receivables, net** | **1.4** | **1.9** |

## Note 16 Inventories

| Group | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| **Cost of inventories** | | |
| Finished goods | 3.7 | 1.9 |
| **Total inventories before impairment** | **3.7** | **1.9** |

Inventories consist entirely of goods for resale. The inventories are not subject to obsolescence.

## Note 17 Prepaid expenses and accrued income

| Group | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Prepaid rents | 0.2 | 0.0 |
| Accrued income | 0.2 | 0.0 |
| Other items | 1.1 | 1.1 |
| **Total deferred expenses and accrued income** | **1.5** | **1.1** |

| Parent Company | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Prepaid rents | 0.9 | 0.6 |
| Other items | 0.0 | 0.2 |
| **Total deferred expenses and accrued income** | **0.9** | **0.8** |

## Note 18 Share capital

The statement of changes in equity is found in the report, directly after the balance sheet.

| | No. Of shares | Share capital |
|---|---|---|
| **Balance at 31 December 2021** | 266,539,986 | 80,029,679 |
| Issue In-kind, for conversion of debt | 371,934 | 111,675 |
| **Balance at 31 December 2022** | **266,911,920** | **80,141,354** |

| | No. Of shares | Share capital |
|---|---|---|
| **Balance at 31 December 2022** | 266,911,920 | 80,141,354 |
| Issue In-kind, for conversion of debt | 153,527 | 46,097 |
| **Balance at 31 December 2023** | **267,065,447** | **80,187,451** |

The shares have a quota value of SEK 0.30 each (0.30). Each class A share carries the right to three votes at a general meeting and each share of class B carries the right to one vote at a general meeting. Of the total number of 267,065,447 shares, 473,357 were class A shares and 266,592,090 were class B shares. All shares registered on the balance sheet date were fully paid-up.

**Foreign currency translation reserve**
Reserves consist of all exchange gains/losses arising on translation of the financial statements of foreign operations that present their financial statements in a currency other than that used by the Group. This includes foreign currency differences on monetary items that are a receivable from or payable to a foreign operation, for which settlement is neither planned nor likely to occur in the foreseeable future.

**Proposed appropriation of earnings**
The Board of Directors proposes that the following earnings be at the disposal of the Annual General Meeting:

| **mSEK** | |
|---|---|
| Share premium reserve | 684.1 |
| Accumulated deficit | -382.7 |
| **Loss for the year** | **-131.8** |
| **Total** | **169.6** |

The Board proposes that the earnings be appropriated so that SEK 169,629,240 is carried forward to new account, of which SEK 684,053,959 to the share premium reserve and -382,655,388 to balanced earnings.

## Note 19 Other liabilities

| **Group** | **31 Dec 2023** | **31 Dec 2022** |
|---|---|---|
| Personnel-related liabilities | 1.2 | 1.2 |
| Other | 0.7 | 0.6 |
| **Total other liabilities** | **1.9** | **1.8** |

| **Parent Company** | **31 Dec 2023** | **31 Dec 2022** |
|---|---|---|
| Personnel-related liabilities | 0.7 | 0.8 |
| Other | 0.1 | 0.0 |
| **Total other liabilities** | **0.8** | **0.7** |

## Note 20 Accrued expenses and deferred income

| **Group** | **31 Dec 2023** | **31 Dec 2022** |
|---|---|---|
| Accrued personnel-related expenses | 4.7 | 4.5 |
| Accrued Board fees | 0.4 | 0.3 |
| Accrued consulting fees | 1.4 | 1.3 |
| **Total accrued expenses and deferred income** | **6.4** | **6.0** |

| Parent company | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Accrued personnel-related expenses | 4.0 | 3.9 |
| Accrued Board fees | 0.4 | 0.3 |
| Accrued consulting fees | 1.0 | 0.7 |
| **Total accrued expenses and deferred income** | **5.4** | **4.8** |

## Note 21 Leases

Future lease payments under cancellable operating leases fall due as follows:

| Parent Company | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Within one year | 2.7 | 1.9 |
| Between one and three years | 2.7 | 1.7 |
| Later than three years | 0.0 | 1.7 |
| **Total obligations** | **5.3** | **5.4** |

The notice period for these agreements varies between 12 months and 3 years.

**Leases, group**

| Cash flow | 2023 | 2022 |
|---|---|---|
| Depreciation for the year | 3,3 | 2,5 |
| Interest rate for the year | -0,4 | -0,3 |
| Depreciation on lease liabilities | -3,5 | -2,8 |
| This year's cost of contracts with leases of low value during the year | - | - |
| Total cash flow for leases during the year | -4,2 | 3,3 |

| Addition for rights-of-use asset during the year | 2023 | 2022 |
|---|---|---|
| Premises | - | 0,0 |
| New cars | 0,4 | 1,2 |
| Extensions | 1,2 | 4,6 |
| Other | - | 0,0 |
| **Total additions to rights-of-use asset** | **1,7** | **5,8** |

| Value rights-of-use assets | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Premises | 3,4 | 4,2 |
| New cars | 1,5 | 1,5 |
| Extensions | 0,7 | 0,2 |
| **Closing value rights-of-use asset** | **5,6** | **5,9** |

| Leasing liability | 31 Dec 2023 | 31 Dec 2022 |
|---|---|---|
| Current lease liability | 2,9 | 2,5 |
| Non-current lease liability | 2,3 | 3,8 |
| **Closing value leasing liability** | **5,2** | **6,3** |

**Reconciliation of liabilities arising from financing activities – Group**

| mSEK | 31 Dec 2022 | Cash-flow | Non-cash changes | | | 31 Dec 2023 |
|---|---|---|---|---|---|---|
| | | | Acquisition of subsidiaries | New/changed lease agreements | Exchange rate differences/adjustment 2020 | |
| Lease liability | 6.3 | -3.3 | 0.0 | 1.7 | 0.6 | 5.2 |
| **Total liabilities arising from financing activities** | **6.3** | **-3.3** | **0.0** | **1.7** | **0.6** | **5.2** |

| mSEK | 31 Dec 2021 | Cash-flow | Non-cash changes | | | 31 Dec 2022 |
|---|---|---|---|---|---|---|
| | | | Acquisition of subsidiaries | New/changed lease agreements | Exchange rate differences/adjustment 2020 | |
| Lease liability | 2.8 | -2.5 | 0.0 | 5.8 | 0.2 | 6.3 |
| **Total liabilities arising from financing activities** | **2.8** | **-2.5** | **0.0** | **5.8** | **0.2** | **6.3** |

## Note 22 Related party transactions

Shareholder and Board member Leif Ryd has received consulting fees for ongoing work as well as work for the Clinical Advisory Board during the financial year of SEK 0.6m (0.6). The Chairman and Members of the board's fees were agreed by the AGM and is shown below. The Chairman, Ulf Grunander receive SEK 0.4m. Laura Shunk, Annette Brodin Rampe, Christian Krüeger and Leif Ryd receive remuneration of SEK 0.2m. In total, the board fees amount to SEK 1.2m (1.4). Variable remuneration is reported according to the decision of the Remuneration Committee. The Group has only defined contribution pension plans. The pension expense refers to the expense that has affected profit for the year. During the year, the CEO, Pål Ryfors, 812,976 (444,824) performance options. Other senior executives received 1,079,594 (1,019,676) performance options.

| 2023 | Salary /fees | Variable remuneration | Other benefits | Pension expense | Other remuneration | Total |
|---|---|---|---|---|---|---|
| Board Chairman, Ulf Grunander | 0.4 | | | | | **0.4** |
| Former board Chairman, Dennis Stripe | 0.1 | | | | | **0.1** |
| Board member, Laura Shunk | 0.2 | | | | | **0.2** |
| Board member, Leif Ryd | 0.2 | | | | 0.6 | **0.8** |
| Board member, Christian Krüeger | 0.2 | | | | | **0.2** |
| Board member, Annette Brodin Rampe | 0.2 | | | | | **0.2** |
| CEO Pål Ryfors | 3.8 | 0.6 | 0.1 | 0.0 | | **4.5** |
| Other senior executives (6 persons) | 8.0 | 0.9 | 0.4 | 1.1 | | **10.3** |
| **Total** | **13.0** | **1.4** | **0.5** | **1.1** | **0.6** | **16.7** |

* Michael Näsström left the company in September 2023, and Stephen Caswell left the company in December 2023.

| 2022 | Salary /fees | Variable remuneration | Other benefits | Pension expense | Other remuneration | Total |
|---|---|---|---|---|---|---|
| Board Chairman, Dennis Stripe | 0.4 | | | | | **0.4** |
| Board member, Laura Shunk | 0.2 | | | | | **0.2** |
| Board member, Leif Ryd | 0.2 | | | | 0.6 | **0.8** |
| Board member, Christian Krüeger | 0.2 | | | | | **0.2** |
| Board member, Ulf Grunander | 0.2 | | | | | **0.2** |
| Board member, Annette Brodin Rampe | 0.2 | | | | | **0.2** |
| CEO Pål Ryfors | 3.8 | 0.6 | 0.1 | 0.0 | | **4.5** |
| Other senior executives (6 persons) | 7.6 | 0.8 | 0.3 | 1.0 | | **9.7** |
| **Total** | **12.8** | **1.4** | **0.4** | **1.0** | **0.6** | **16.2** |

**Pension**
During both 2022 and 2023, the CEO has been offered the opportunity to exchange pension for salary, provided that this has been cost-neutral for the Company and that the extra salary after tax has been used to invest in Episurf's B share. This means that the CEO's pension costs in relation to salaries during 2022 and 2023 are lower than in previous financial years.

**Variable remuneration**
During the year, the CEO received a cash bonus of SEK 0.6m in accordance with target fulfillment for 2022, which was paid in 2023. In addition, the CEO received a bonus of SEK 0.3m as part of the LTI 2021B share program, a program in which the CEO invests a sum that corresponds to the amount received in the bonus from the company. According to the degree of fulfillment, other management groups' variable remuneration refers to 2022 and will be paid during 2023.

**Termination benefits**
Termination benefits Between the CEO Pål Ryfors and the company there is a mutual term of notice of 6 months. In the event that employment is terminated by the company, for reasons other than the CEO's breach of contract, the CEO has the right to termination benefits equal to six months' salary.

## Note 23 The maturity structure of financial liabilities

**2023**

| Liabilities Group | Currency | Total | <1 mon | 1-3 mon | 3mon - 1years | 1-5 years | >5years |
|---|---|---|---|---|---|---|---|
| Lease liability | SEK | -5.2 | 0.0 | 0.0 | -2.9 | -2.3 | 0.0 |
| Trade payables | SEK | -5.8 | -5.8 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade payables | EUR | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade payables | GBP | -0.2 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade payables | USD | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade payables | INR | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other liabilities | SEK | -1.2 | -1.1 | 0.0 | 0.0 | -0.2 | 0.0 |
| Other liabilities | INR | -0.1 | 0.0 | 0.0 | -0.1 | 0.0 | 0.0 |
| Other liabilities | EUR | -0.8 | -0.1 | -0.6 | -0.1 | 0.0 | 0.0 |
| Other liabilities | GBP | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Summa** | | **-13.3** | **-7.3** | **-0.6** | **-3.1** | **-2.4** | **0.0** |

**2022**

| Liabilities Group | Currency | Total | <1 mon | 1-3 mon | 3mon - 1years | 1-5 years | >5years |
|---|---|---|---|---|---|---|---|
| Lease liability | SEK | -6.3 | 0.0 | 0.0 | -2.5 | -3.8 | 0.0 |
| Trade payables | SEK | -4.1 | -4.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade payables | EUR | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade payables | GBP | -0.3 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade payables | USD | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Trade payables | INR | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other liabilities | SEK | -2.0 | -1.1 | 0.0 | 0.1 | -1.0 | 0.0 |
| Other liabilities | EUR | -0.7 | -0.1 | -0.5 | -0.1 | 0.0 | 0.0 |
| Other liabilities | GBP | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Summa** | | **-13.4** | **-5.7** | **-0.5** | **-2.5** | **-4.8** | **0.0** |

## Note 24 Significant events after the end of the financial year

» Results from up to 10 years follow-up of Episealer ®patients were accepted for presentation

## Note 25 Pledged assets

Neither the parent company nor the group has pledged assets.

## Note 26 Earnings per share

Earnings per share before and after dilution amounted to SEK -0.36 (-0.29). The calculation of earnings per share relating to the Parent Company shareholders is based on the following information:

| | 2023 | 2022 |
|---|---|---|
| **Earnings (numerator)** | | |
| Earnings relating to the Parent Company shareholders, which form the basis for calculation of earnings per share | -94.9 | -77.2 |
| **Number of shares (denominator)** | | |
| Weighted average number of ordinary shares for calculation of earnings per share | 266,974,343 | 266,627,443 |

# STATEMENT OF ASSURANCE

The Board of Directors and CEO affirm that the Annual Report for the parent company has been prepared in accordance with generally accepted accounting principles in Sweden and the consolidated financial statements have been prepared in accordance with International Accounting Standards as prescribed by the European Parliament and Regulation (EC) 1606/2002 dated July 19, 2002 on the application of International Accounting Standards. The Parent Company financial statements and the consolidated financial statements give a true and fair view of the Parent Company's and the Group's financial position and results of operations. The administration report for the Parent Company and the Group provides a true and fair view of the development of the Parent Company and Group's business activities, financial position and results of operations as well as the significant risks and uncertainties the Parent Company and its subsidiaries are exposed to.

The Annual Report for the Parent Company and the Group referred to above was approved by the Board of Directors and CEO on March 7, 2024. The Consolidated income statement and balance sheet and the Parent Company's income statement and balance sheet are subject to approval by the Annual General Meeting of the shareholders on April 9, 2024.

Stockholm, March 7, 2024

Ulf Grunander
Board Chairman

Annette Brodin Rampe
Board member

Christian Krüeger
Board member

Leif Ryd
Board member

Laura Shunk
Board member

Pål Ryfors
CEO

Our auditor's report was submitted on March 7, 2024
Öhrlings PricewaterhouseCoopers AB

Tobias Stråhle
Authorised Public Accountant

# AUDITOR'S REPORT

To the general meeting of the shareholders of Episurf Medical AB (publ), corporate identity number 556767-0541

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Episurf Medical AB (publ) for the year 2023 except for the corporate governance statement on pages 44-50. The annual accounts and consolidated accounts of the company are included on pages 35-87 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company and the group as of 31 December 2023 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2023 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 44-50. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Our audit approach

#### *Audit scope*

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

#### *Materiality*

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with

qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

## Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

| *Key audit matters* | *How our audit addressed the Key audit matter* |
|---|---|
| *Shares in group companies*<br><br>In the parent company's balance sheet, there are assets relating to shares in group companies with a reported value as of December 31, 2023 of SEK 202 million.<br><br>In the management report, under the risk factors section on page 41, risks linked to market acceptance and the possibility of future income appear. Furthermore, it appears under the Accounting principles section on page 71 that write-downs are made when the recoverable amount is lower than the reported value.<br><br>Shares in group companies are subject to impairment testing, which requires management's estimates and judgments to identify and estimate its future revenue, operating profit, working capital and investment needs. Another important assumption is which discount rate should be used to reflect market-based assessments of the time value of money as well as the particular risks that the businesses face.<br><br>For the above reasons, valuation of shares in group companies is considered to be a key audit matter. | Our review has included, but is not limited to, the following measures:<br><br>• With the support of PwC's valuation specialist, we have checked the mathematical accuracy of the model and evaluated whether it is based on accepted valuation methods.<br>• We have evaluated the reasonableness of the input data in the model by checking information from internal data sources and reports.<br>• We have obtained the management's comments regarding the company's applied assumptions and evaluated their reasonableness.<br>• We have evaluated the reasonableness of applied assumptions by comparing historical outcomes against actual outcomes and reconciliation against external data sources. |
| *Valuation of intangible assets*<br><br>In the group's balance sheet, there are intangible assets consisting of research and development projects and patents. Information on reported values can be found in note 11. At the end of the financial year, there are assets where development has not been completed for sale, which is why depreciation has not yet begun. In the management report, under the risk factors section on pages 40-43, it appears that the development of medical technology is a risky process. Furthermore, it appears under the section "Important estimates and assessments" on page 72 that the development of intangible assets is dependent on assessments and estimates.<br><br>According to IFRS, fixed assets that are not depreciated must be tested for impairment annually. The test means that management needs to apply assessments and estimates about the future to ensure the book value.<br><br>For the above reasons, valuation of intangible assets is considered to be a key audit matter. | Our review has included, but is not limited to, the following measures:<br><br>• We have assessed whether the impairment test for intangible assets is established in accordance with the company's processes.<br>• We have assessed the development of the projects during the year against medical approvals and other data sources and obtained the company management's comments regarding the development of the research projects.<br><br>We have followed up the results of ongoing development and carried out random checks of the year's capitalized development costs and patent costs. |

## Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-34 and 94-97. The other information also consist of the remuneration report which we received before the date of this audit opinion. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Board of Director's and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director’s responsibilities and tasks in general, among other things oversee the company’s financial reporting process.

## Auditor’s responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen’s website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor´s report.

## Report on other legal and regulatory requirements

### The auditor’s audit of the administration of the company and the proposed appropriations of the company’s profit or loss

#### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Director's and the Managing Director of Episurf Medical AB (publ) for the year 2023 and the proposed appropriations of the company’s profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Director's and the Managing Director be discharged from liability for the financial year.

#### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor’s Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

#### Responsibilities of the Board of Director's and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company’s profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group’ equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company’s organization and the administration of the company’s affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company´s organization is designed so that the accounting, management of assets and the company’s financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors’ guidelines and instructions and among other matters take measures that are necessary to fulfill the company’s accounting in accordance with law and handle the management of assets in a reassuring manner.

#### Auditor’s responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company’s profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company’s profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen’s website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor’s report.

## The auditor's examination of the ESEF report

### Opinion

In addition to our audit of the annual accounts and consolidated accounts, we have also examined that the Board of Directors and the Managing Director have prepared the annual accounts and consolidated accounts in a format that enables uniform electronic reporting (the Esef report) pursuant to Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528) for Episurf Medical AB (publ) for the financial year 2023.

Our examination and our opinion relate only to the statutory requirements.

In our opinion, the Esef report has been prepared in a format that, in all material respects, enables uniform electronic reporting.

### Basis for Opinion

We have performed the examination in accordance with FAR's recommendation RevR 18 Examination of the Esef report. Our responsibility under this recommendation is described in more detail in the Auditors' responsibility section. We are independent of Episurf Medical AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of the Board of Director's and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of Esef report in accordance with the Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), and for such internal control that the Board of Directors and the Managing Director determine is necessary to prepare the Esef report without material misstatements, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to obtain reasonable assurance whether the Esef report is in all material respects prepared in a format that meets the requirements of Chapter 16, Section 4(a) of the Swedish Securities Market Act (2007:528), based on the procedures performed.

RevR 18 requires us to plan and execute procedures to achieve reasonable assurance that the Esef report is prepared in a format that meets these requirements.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an engagement carried out according to RevR 18 and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the ESEF report.

The firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The examination involves obtaining evidence, through various procedures, that the Esef report has been prepared in a format that enables uniform electronic reporting of the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the report, whether due to fraud or error. In carrying out this risk assessment, and in order to design audit procedures that are appropriate in the circumstances, the auditor considers those elements of internal control that are relevant to the preparation of the Esef report by the Board of Directors and the Managing Director, but not for the purpose of expressing an opinion on the effectiveness of those internal controls. The examination also includes an evaluation of the appropriateness and reasonableness of assumptions made by the Board of Directors and the Managing Director.

The procedures mainly include a validation that the Esef report has been prepared in a valid XHMTL format and a reconciliation of the Esef report with the audited annual accounts and consolidated accounts.

Furthermore, the procedures also include an assessment of whether the consolidated statement of financial performance, financial position, changes in equity, cash flow and disclosures in the Esef report have been marked with iXBRL in accordance with what follows from the Esef regulation.

## The auditor’s examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 44-50 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR’s auditing standard RevR 16 The auditor’s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Öhrlings PricewaterhouseCoopers AB, Torsgatan 21 in Stockholm, was appointed as Episurf Medical AB (publ)'s auditor by the general meeting on May 4, 2023 and has been the company's auditor since April 4, 2022.

Stockholm 7 March 2024

Öhrlings PricewaterhouseCoopers AB

Tobias Stråhle
Authorised Public Accountant

# DEFINITIONS

**Financial definitions:** Reference is made in the Annual Report to a number of financial performance measures which are not defined according to IFRS. These performance measures provide complementary information and are used to help investors as well as group management analyse the company's operations and facilitate an evaluation of the performance. Since not all companies calculate financial performance measures in the same manner, these are not always comparable with measures used by other companies. These financial performance measures should therefore not be regarded as a replacement for measures as defined according to IFRS.

**Average number of shares outstanding:** The weighted average number of shares outstanding before or after dilution. (SEK 84.5m/267,065,447=0.32).

**Debt ratio:** Shareholders' equity divided by total assets at end of period.

**Equity per share:** Shareholders' equity at end of period divided by number of shares outstanding at period end.

**Loss per share:** Profit for the period attributable to owners of the parent divided by the average number of shares outstanding. (SEK 84.5m/104.3m=81.0%).



# GLOSSARY

| | |
|---|---|
| **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):** | Defect extending down to >50% of the cartilage depth. |
| **Cartilage defect of grade IV (ICRS scale):** | Lesion through the cartilage, into the bone. |
| **CE marking:** | A CE mark means that the manufacturer or importer has the formal approvals necessary to market and sell the product in the European Economic Area. |
| **Clinical results:** | Outcome from clinical treatment of humans, where parameters such as efficacy and safety are evaluated. |
| **Cobalt chrome:** | A metal alloy mainly consisting of cobalt and chromium, commonly occurring in metal alloys used in knee prostheses. |
| **Debridement:** | Removal of damaged tissue. |
| **Degenerative origin:** | Conditions in which the cells, tissues or organs deteriorate and lose function. In degenerative joint disease, the deterioration is due to wear, tear or breakdown of cartilage. |
| **FDA:** | US Food and Drug Administration. |
| **Focal cartilage defect:** | A cartilage defect in a well-defined area. |
| **Femoral condyles:** | Two bony protuberances on the thighbone side of the knee joint that articulate with the shinbone. The name originates from the anatomical terms femur (thighbone) and condyle (articular head). |
| **Gross order intake:** | Gross order intake represents the aggregated value of Episealer® orders received and approved by responsible surgeon during the relevant period. |
| **Hydroxyapatite:** | A mineral that is the major component of human bone tissue and the main mineral of dental enamel and dentin. |
| **Invasive treatment alternative:** | Treatments that require a surgical procedure. |
| **Micro fracturing:** | A biological surgical technique that can be used in treatment of focal cartilage defects (not extensive osteoarthritis) in an attempt to stimulate the growth of new cartilage. |
| **MRI:** | Magnetic resonance imaging, a medical imaging technique where images acquired using a strong magnetic field allows the user to get three-dimensional image data of the patient. |
| **OA:** | See osteoarthritis. |
| **Order backlog:** | Order backlog represents all orders that have been booked but where no revenue has been recognised. |
| **Orthopaedics:** | The medical specialty that focuses on injuries and diseases of the body's musculoskeletal system. This complex system includes bones, Joints, ligaments, tendons, muscles and nerves. |
| **Osteoarthritis:** | A type of joint disease that is characterised by loss of joint function with varying destruction of joint cartilage and the underlying bone. |
| **Osteochondral defect:** | Cartilage and underlying bone defect. |
| **Prosthesis:** | An artificial device that replaces a missing or injured body part, such as artificial arm or leg. The term prosthesis is also used for certain of the implants that are used to repair joints, such as hip and knee prostheses. |
| **Reimbursement:** | Reimbursement is a word that is used generally in the healthcare industry to describe the payment systems that apply to healthcare costs in various countries. |

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| **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. |
| **The trochlea area:** | The part of the knee joint that is right under the knee-cap, part of the femur (thigh bone) |
| **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). |

# ANNUAL GENERAL MEETING

**EPISURF MEDICAL AB (PUBL)** will hold its Annual General Meeting on Tuesday, April 9, 2024, at 15:00 CEST in Episurf's premises at Karlavägen 60, 114 49 Stockholm, Sweden. The board of directors has, pursuant to Chapter 7, Section 4 a of the Swedish Companies Act (Sw. aktiebolagslagen (2005:551) and the Company's articles of association, decided that shareholders shall be able to exercise their voting rights by post prior to the Meeting. Accordingly, shareholders may choose to participate in the Meeting in person, by proxy or through postal voting.

Notice of the Annual General Meeting will be made via Episurf Medical's website www.episurf.com and through advertising in the Official Gazette (Post- och Inrikes Tidningar), where the Annual General Meeting agenda will appear. Information that a summons has been issued takes place through advertising in Dagens Industri.

The nominating committee ahead of the AGM consists of Ulf Grunander (Chairman of Episurf Medical AB), Sebastian Jahreskog, Ilija Batljan (representing Health Runner AB) and Hites Jina (representing LMK Forward AB). The Chairman of the Nomination Committee is Sebastian Jahreskog.

**Exercise of voting rights at the meeting**

To exercise its voting rights at the meeting, the shareholder must be registered in the share register maintained by Euroclear Sweden AB on Thursday, 28 March 2024 or, if the shares are registered in the name of a nominee, request that the nominee registers the shares in the shareholder's own name for voting purposes in such time that the registration is completed on Wednesday, 3 April 2024; and give notice of participation to the Company in accordance with the instructions set out under the heading "Notice of attendance in person or by *proxy*", or submit a postal vote in accordance with the instructions set out under the heading "*Instructions for postal voting*", not later than on Wednesday, 3 April 2024.

**Financial calendar**

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| **AGM 2024** | 9 April 2024 |
| **Interim Report January-March 2024** | 24 April 2024 |
| **Interim Report April-June 2024** | 12 July 2024 |
| **Interim Report July-September 2024** | 25 October 2024 |
| **Year-End Report 2024** | 7 February 2025 |

Financial reports and issued press releases are available from the date of publication on Episurf Medical's website www.episurf.com. Episurf Medical has of environmental and cost reasons chosen not to print the annual report. A printed version of the annual report will be distributed to shareholders and others who made such request. The annual report can also be ordered from Episurf Medical on the following address: Karlavägen 60, SE-114 49, Stockholm, Sweden.

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