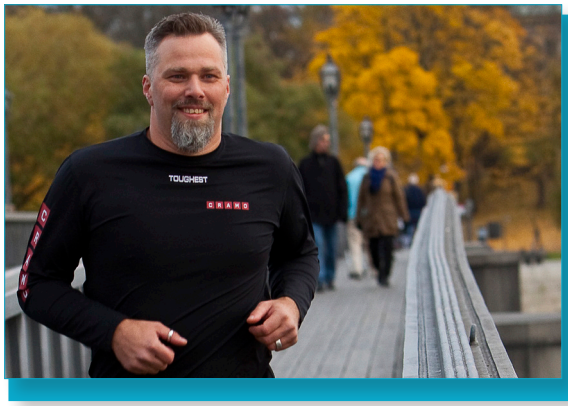
EPISURF Medical





Interim Report
1 July–30 September 2016

Third quarter

- Group net sales more than trippled to SEK 516,641.
- Loss for the period for the Group amounted to SEK –15,042,517.
- Episurf Medical has been granted an additional European patent.
- Episurf Medical obtained its first granted patent in Australia.
- Episurf Medical had a pre-submission meeting in Washington with the FDA in July.
- Episurf Medical hosted its first ever educational symposium at the prestigious ICRS congress In Sorrento, Italy.
- An Extraordinary General Meeting held on 18 August 2016 resolved to elect Dennis D. Stripe (Chairman) and Wil Boren as new members of the Board of Directors.

The period in brief

Third quarter 2016 compared to 2015, Group

- Group net sales increased by 244% to SEK 516,641 (150,174).
- Other operating income amounted to SEK 91,495 (1,212, 350) and is related to capitalized development costs.
- Loss for the period amounted to SEK –15,042,517 (–10,908,522).
- Earnings per share (weighted average) amounted to SEK –0.94 (–0.92).

First nine months 2016, compared to first nine months 2015, Group

- Group net sales increased by 118% to SEK 1,397,855 (641,094).
- Other operating income amounted to SEK 1,038,529 (3,778,750) and is related to capitalized development costs.
- Loss for the period amounted to SEK –43,213,253 (–29,825,819).
- Earnings per share (weighted average) amounted to SEK –2.71 (–2.63).
- Equity per share was SEK 4.22 (7.77).
- Equity ratio was 92.1% (95.2).

Significant events during the third quarter

- Episurf Medical has been granted an additional European patent.
- Episurf Medical obtained its first granted patent in Australia.
- Episurf Medical had a pre-submission meeting in Washington with the FDA in July.
- Episurf Medical hosted its first ever educational symposium at the prestigious ICRS congress in Sorrento, Italy.
- An Extraordinary General Meeting held on 18 August 2016, resolved to elect Dennis D. Stripe (Chairman) and Wil Boren as new members of the Board of Directors.

Significant events after the third quarter

- Touch Surgery released Episealer surgical knee simulations in collaboration with Episurf Medical.

Strategic priorities in 2016

- Consistent commercial execution.
- Continued product and service innovation via our proprietary technology platform.
- Producing scientifically robust clinical evidence.
- Pursue the relevant regulatory and reimbursement pathways to support geographical expansion including an entry strategy into the US.



Rosemary Cunningham Thomas,
President and CEO Episurf Medical.

Message from the CEO

Our business progress is underpinned by a consensus of opinion amongst our surgeons that Episealer® is an optimal treatment for the gap patient

Dear Shareholder,

I am delighted to say that in line with our 2016 strategic priority of consistent commercial execution, Episurf Medical continues to demonstrate steady growth and an accelerating acceptance of Episealer®'s clinical efficacy for the gap patient, which in large is made up out of the middle-aged patients who are too young for a knee replacement but has failed early biological treatments.

Our work with leading knee cartilage repair surgeons is driving early adoption amongst their peers and this is evidenced by increasing demand for the Episealer® procedure. It has been extremely important for us to partner with the right surgeons and to get experts in the field to develop confidence in the procedure. One mistake young med-tech companies sometimes make is to push their technology into the hands of everyone – I have seen companies do this and later experience serious problems. We have minimized this risk by taking a controlled approach and doing things very carefully, very methodically, and by partnering with the right doctors.

Following an intense start to the summer months as measured by the number of Epioscopy™ requests, our 3D-based pre-surgical damage marking process, the European vacation period, when both surgeons and patients are away, contributed to slightly lower activity in August and early September. This is a normal seasonal occurrence which we anticipated.

September was a very productive month for the company. We exceeded the total 2015 implant number, participated in 3 major clinical meetings including hosting Episurf Medical's first ever educational symposium at the International Cartilage Repair Society meeting in Italy.

We have 7 patients who have passed 3 years since surgery, 20 patients who have passed 2 years, and 62 patients who have passed 1 year post surgery. The results remains very strong with a zero percent revision rate and universal improvements in pain, mobility and quality of life. Our portfolio mix is shifting towards increasing demand for the Episealer® Femoral Twin implant, meaning we can treat more elongated lesions in the condyle and trochlea areas of the femur.

I shall continue summarizing development in the third quarter of 2016:

- In addition to implants and Epioscopy™ requests, we are reporting on a new metric, approved orders. These are orders which have been approved for surgery, are in production and will be invoiced. We know we have little control or influence over implant surgery dates. We therefore believe that reporting approved implants prospectively is the best way to demonstrate our growing order book. It should be noted that this is an accepted industry metric for manufacturers of patient specific implants. We finished Q3 with 28 new approved orders in production represents a growth of 75% compared to the same period last year.
- 17 surgeries were performed during the quarter, which represents growth of 55% compared to the same period of last year. The cumulative implant portfolio at the end of Q3 amounted to 125 implants, which is 116% higher than the end of the third quarter 2015. When publishing this report, the portfolio amounted to 138 implants.
- We received 58 Epioscopy™ requests during the third quarter, which represents growth of 115% compared to the corresponding period of last year. During the first 9 months of 2016 we received 152 Epioscopy™ requests,

"Once we reach the tipping point, things can happen very quickly. "

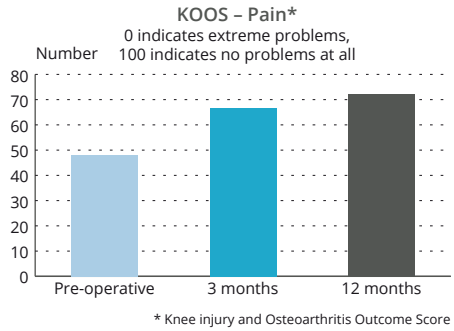
which well exceeds the total number of requests received during the full previous year (82). We know that upward of 75% of our Epioscopy™ requests convert to approved orders and later an Episealer®.

Clinical engagement

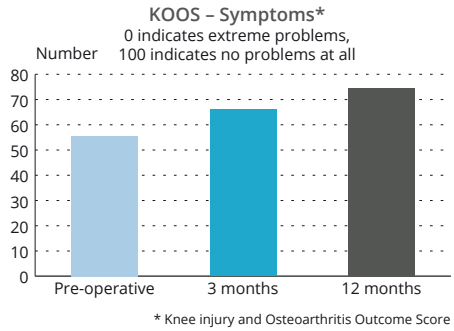
One highlight during the third quarter was Episurf Medical's participation and podium presentations at 3 high profile European orthopedic meetings: the AGA in Basel Switzerland where Dr. Leif Ryd presented 2-year data, the Royal Society of Medicine in London where Dr. Tobias Jung presented on the use of Epioscopy™ damage marking process to assess cartilage damage, and Episurf Medical's first educational symposium at the ICRS meeting in Italy. The symposium had an internationally recognized faculty compromised of Tim Spalding, Mats Brittberg and Adam Mitchell. Over 75 delegates attended. The symposium addressed the treatment gap between failed biology and arthroplasty. Dr. Leif Ryd presented Episurf Medical's latest clinical data, which shows marked improvement from pre–op through to 24 months. In a separate abstract presentation that was attended by over 60 delegates, Dr. Anders Stålman presented 'A customized femoral resurfacing metal implant for focal chondral lesions–short-term results of the first ten patients.'

Clinical follow-up data

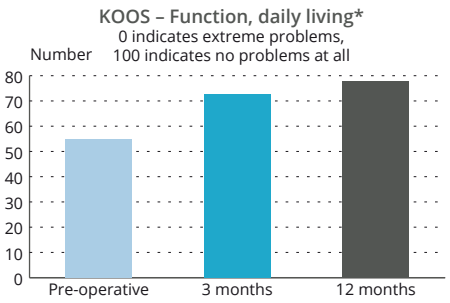
The graphs below present clinical data obtained for 40 Episealer® patients that have passed 12 months' follow-up, expressed as the clinical scores KOOS and VAS.



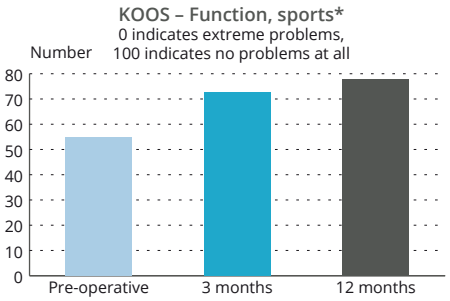
* Knee injury and Osteoarthritis Outcome Score



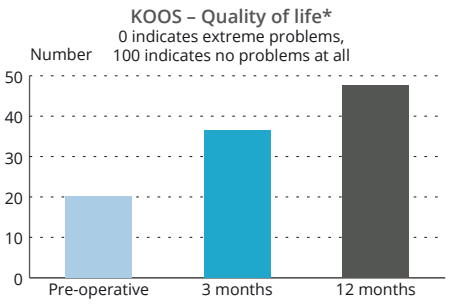
* Knee injury and Osteoarthritis Outcome Score



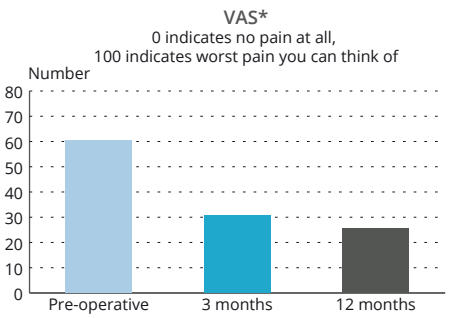
* Knee injury and Osteoarthritis Outcome Score



* Knee injury and Osteoarthritis Outcome Score



* Knee injury and Osteoarthritis Outcome Score



* Visual Analogue Scale

Our regulatory work and reimbursement

Episurf had a pre-submission meeting in Washington with the FDA in July 2016. Following the meeting, we are continuing our regulatory planning dialogue with the FDA in advance of a formal submission. Our ambition is to make a formal submission during 2017. The US reimbursement project to assess both the Medicare/Medicaid and private insurer payment landscapes for Episealer® was completed in Q3 and we are evaluating the best approach to secure reimbursement. It is our ambition to run the FDA and reimbursement processes in parallel.

Our European reimbursement project was completed in Q3 and based on this we will continue our work towards achieving improved re-imbursement in our European key markets.

Process improvements

Whilst we are very capital efficient, in terms of our commitment to improving our gross margin and reaching break-even in due course, we are initiating several efficiency and investment projects designed to improve production efficiency, streamline logistics and decrease the sales cycle.

Concluding remarks

We are still building volumes and it takes time. I am asked constantly: When will you to reach the tipping point and enter the mainstream? Compared with other early stage med-tech companies, I am pleased with the sales progression we have achieved in a market that is difficult to break in to. We are commercializing a novel technology, in a previously difficult to treat patient group, in a traditionally conservative sector – orthopaedic implants.

It is hard to say exactly when the tipping point will come. It could be at 500 implants, or 750 or 1,000, but we are building the business toward that goal. Once we reach the tipping point, things can happen very quickly.

In conclusion, we have great confidence in the business opportunity. Our ambition is to achieve 10% penetration of the treatment market for Grade III-IV knee cartilage lesions. This equates to approximately 30,000 implants per annum globally.

We know Episurf Medical is performing very well compared to med-tech peers in terms of cash efficiency, the ability to generate early revenue, time to regulatory approval and clinical adoption. This, coupled with a highly focused commercialization strategy, constantly improving results, a growing order book and the right team, puts the company in a strong position to deliver long term shareholder value and dominate a new market space for the treatment of early stage cartilage lesions.

Rosemary Cunningham Thomas, CEO
November 2016, London, United Kingdom

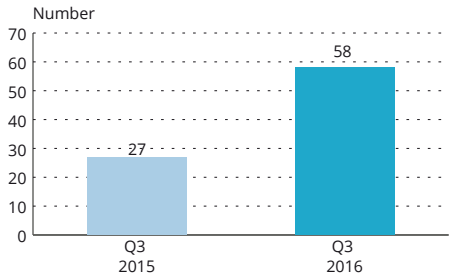
Business update and forward-looking statements

By the reporting date on 4 November 2016, Episurf Medical's implants had been used in 138 surgeries in humans, all with successful outcomes, and Episurf Medical continues to have a 0% revision rate. The fourth quarter started well with 13 surgeries performed in the first weeks. As illustrated by the clinical scores (KOOS and VAS, shown on page 4), Episurf Medical's patients are experiencing significant improvements in pain and mobility. Furthermore, they are also experiencing a short recovery time. Out of the total implant portfolio of 138 implants, 4 implants are now past 3.5 years since the surgery date. A total of 7 patients have had their implants for more than 3 years. A total of 20 patients have had their implants for more than 2 years and Episurf Medical can conclude that these clinical outcomes are highly successful.

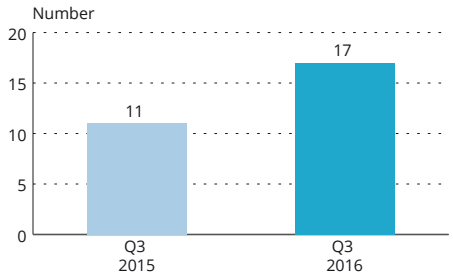
Episurf Medical believes there is a strengthening correlation between the pre-surgical assessment provided by the Epioscopy™ damage marking process, combined with our proprietary Episealer® implant design, and the corresponding 0% revision rate. Use of the Epioscopy™ damage marking report offers a form a pre-surgical quality control that contributes to appropriate patient selection and we believe this will be borne out as more Episealer® patients reach yearly milestones.

The number of Epioscopy™ damage markings requests coming in via µiFidelity® amounted to 58 (27) for the third quarter, which indicates an increasing market interest in Episurf Medical's products among surgeons in prioritized markets. However, as Episurf Medical is working with a limited number of surgeons, the vacation periods in Europe impacted the volume growth of damage marking requests in the third quarter. Episurf Medical is expecting a continued increase in activity going forward. A high proportion of Epioscopy™ damage marking requests convert to surgeon-approved Episealer® treatment plans. The final treatment decision is always made by the referring surgeon and after that, it can take some time before the surgery date is fixed. Often, there is a lead time of several months before the surgery can take place and this very natural lead time impacts the figures, especially as Episurf Medical is still in an early stage of commercializing a novel technology into the orthopaedic industry. During the third quarter, 28 such orders were approved by surgeons. Following approval, the implant is being invoiced and the production process starts and the surgery date is booked.

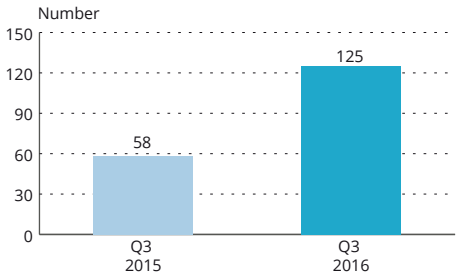
Damage marking requests in quarter



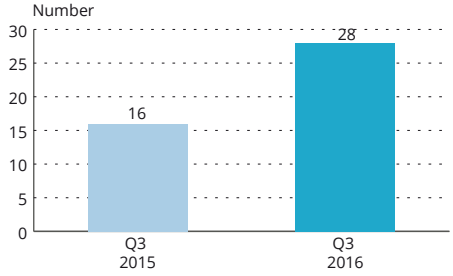
Implants in quarter



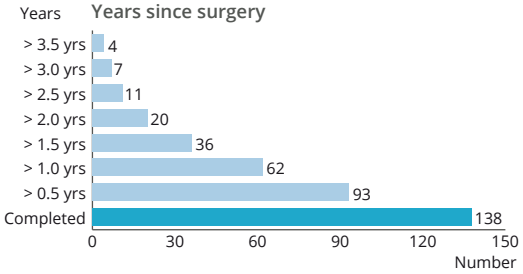
Cumulative implants



Approved orders in quarter



Years since surgery





“For the first time in 25 years I could run again with no pain or swelling”

...41-year-old Nicklas from Sweden has suffered from knee pain for more than 2 decades. Prior to asking for the Episealer® treatment he had undergone 6 procedures with no lasting effect, resulting in decreasing quality of life and constant pain. Last week, he finished a 10 km race, without feeling any pain or swelling...







Nicklas Rudsten visits Episurf Medical’s office and takes the opportunity to go for a run with Episurf Medical Senior Medical Advisor Leif Ryd. Episurf Medical’s engineering team shows Nicklas how his lesion was analyzed through the Epioscopy 3D damage marking process and how his implant was designed.

Financial information

Group

Net sales and operating profit/loss

Group net sales amounted to SEK 516,641 (150,174) in the quarter and to SEK 1,397,855 (641,094) for the first nine months as a result of increased sales activities in prioritized markets. Other operating income amounted to SEK 91,495 (1,212, 350) and is related to capitalized development costs. The increase in personnel expenses compared to the previous year is a direct result of the Company's increased commercial focus. Thirteen new employees have been hired since last September, nine in Sales and Marketing, three in England, four in Germany and two in Sweden. Four new employees have also been hired in Operations, Management and Administration and three have left the company.

The financial items for the third quarter include the cumulative effect of adjustments related to foreign currency translation.

Financial position

Group cash and cash equivalents at end of period amounted to SEK 56,133,926 (117,795,738). The equity ratio was 92.1% (95.2). Group investments in intangible assets for the quarter amounted to SEK 1,040,983 (1,856,908), of which SEK 162,938 (1,212,398) is related to capitalized development costs. Investments in intangible assets for the first nine months amounted to SEK 3,686,867 (4,345,219), of which SEK 1,059,996 (2,861,937) is related to capitalized development costs. The remaining investments relate to patents. Investments in property, plant and equipment amounted to SEK 10,498 (–) for the quarter and SEK 106,530 (–) for the first nine months.

Human resources

The number of employees in the Group at end of the period was 28 (18). The increase is primarily due to recruitment in Sales and Marketing.

Parent Company

Net sales and operating profit/loss

Other operating income amounted to SEK 158,642 (1,209,286) for the quarter and SEK 1,039,425 (3,777,093) for the first nine monthsand and is related to capitalized development costs. Income after financial items amounted to SEK –7,078,621 (–6,026,834) for the quarter and SEK –20,160,920 (–15,245,680) for the first nine months.

Financial position

Cash and cash equivalents at the end of period for the Parent Company amounted to SEK 54,109,197 (115,154,059). The equity ratio was 98.2% (96.7). Investments in intangible assets, capitalized development costs, amounted to SEK 162,938 (1,212,398) for the quarter and SEK 1,059,996 (2,861,937) for the first nine months. Investments in property, plant and equipment amounted to SEK 0 (–) for the quarter and for the first nine months.

Human resources

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

Transactions with closely related parties

Shareholder and Board member Leif Ryd has received consulting fees of SEK 405,000 (405,000). Serendipity Communications AB has received consulting fees of SEK 617,409 (–) and Serendipity Legal AB of SEK 50,000 (–).

Share information

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

30 Sep 2016	
A shares	3,431,807
B shares	12,517 997
Total number of shares	**15,949 804**
Total number of votes	**22,813 418**

Other information

Significant risks and uncertainty factors

Episurf Medical's material business risks, for the Group as well as for the Parent Company, are to obtain regulatory approval and market acceptance, the outcome of clinical studies, the ability to protect intellectual property rights and dependence on key personnel and partners. The Company does not see any new material risks for the upcoming three months. For a more detailed description of significant risks and uncertainties, refer to Episurf Medical's annual report.

The Board of Directors and the CEO hereby give their assurance that the Interim Report gives a true and fair view of the business activities, financial position and results of operations for the Group and Parent Company, and describes significant risks and uncertainty factors to which the Parent Company and the companies included in the Group are exposed.

Stockholm, 3 November 2016

Dennis D. Stripe
Board chairman

Wil Boren
Board member

Saeid Esmaeilzadeh
Board member

Wilder Fulford
Board member

Leif Ryd
Board member

Christian Krüeger
Board member

Rosemary Cunningham Thomas
CEO

Review report

To the Board of Directors ofEpisurf Medical AB (publ)
Corp. id. 556767-0541

Introduction
We have reviewed the summary interim financial information (interim report) of Episurf Medical AB (publ) as of 30 September 2016 and the nine-month period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review
We conducted our review in accordance with International Standard on Review Engagements ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing practices and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe thatthe interim report is not prepared, in all material respects, for the Group in accordance with IAS 34 and the Annual Accounts Act, and for the Parent Company in accordance with the Annual Accounts Act.

Stockholm, 3 November 2016
KPMG AB

Duane Swanson
Authorized Public Accountant

Consolidated income statement

SEK	Jul–Sep 2016	Jul–Sep 2015	Jan–Sep 2016	Jan–Sep 2015	Jan–Dec 2015
Operating income					
Net sales	516,641	150,174	1,397,855	641,094	1,016,462
Other operating income	91,945	1,212,350	1,038,529	3,778,750	5,628,598
Total income	**608,586**	**1,362,524**	**2,436,384**	**4,419,844**	**6,645,060**
Operating expenses					
Other expenses	–7,567,475	–4,371,553	–22,342,152	–15,964,653	–21,584,339
Personnel costs	–6,897,382	–7,354,715	–20,429,401	–16,733,412	–26,834,214
Depreciation	–1,368,522	–544,862	–3,088,178	–1,557,132	–2,235,026
Total operating expenses	**–15,833,379**	**–12,271,130**	**–45,859,731**	**–34,255,197**	**–50,653,579**
Operating loss	**–15,224,793**	**–10,908,606**	**–43,423,347**	**–29,835,353**	**–44,008,519**
Financial items					
Financial income, other	–10,395	241	213,014	9,938	34,544
Financial expenses, other	192,671	–157	–2,920	–404	–687
Results from financial items	**182,276**	**84**	**210,094**	**9,534**	**33,857**
Loss before tax	**–15,042,517**	**–10,908,522**	**–43,213,253**	**–29,825,819**	**–43,974,662**
Tax on income for the period	–	–	–	–	–
Loss for the period	**–15,042,517**	**–10,908,522**	**–43,213,253**	**–29,825,819**	**–43,974,662**
Net loss attributable to:					
Parent company shareholders	–15,042,517	–10,908,522	–43,213,253	–29,825,819	–43,974,662
Earnings per share before and after dilution are consistent with the rules in IAS 33	–0.94	–0.92	–2.71	–2.63	–3.52
Average number of shares	15,949,804	11,918,531	15,949,804	11,342,048	12,504,417

Consolidated statement of comprehensive income

SEK	Jul–Sep 2016	Jul–Sep 2015	Jan–Sep 2016	Jan–Sep 2015	Jan–Dec 2015
Net profit	**–15,042,517**	**–10,908,522**	**–43,213,253**	**–29,825,819**	**–43,974,662**
Other comprehensive income for the period:					
Other comprehensive income that may be reclassified subsequently to profit or loss for the period, net of tax	–32,481	–	583,899	–	173,229
Total comprehensive income for the period	**–15,074,998**	**–10,908,522**	**–42,629,354**	**–29,825,819**	**–43,801,433**

Consolidated balance sheet

SEK	30 Sep 2016	30 Sep 2015	31 Dec 2015
ASSETS			
Non-current assets			
Intangible assets			
Capitalized development costs	4,028,522	3,345,639	4,660,637
Patent	7,744,889	5,434,320	6,385,717
Total intangible assets	**11,773,411**	**8,779,959**	**11,046,354**
Property, plant and equipment			
Equipment	403,619	329,820	423,838
Total property, plant and equipment	**403,619**	**329,820**	**423,838**
Total non-current assets	**12,177,030**	**9,109,779**	**11,470,192**
Current assets			
Inventories, finished goods and goods for resale	1,079,415	1,251,849	1,154,578
Trade receivables	859,041	174,425	199,864
Other receivables	1,479,175	1,341,320	869,741
Prepaid expenses and accrued income	1,323,537	728,256	545,064
Cash and bank balances	56,133,926	117,795,738	103,960,776
Total current assets	**60,875,094**	**121,291,588**	**106,730,023**
TOTAL ASSETS	**73,052,124**	**130,401,367**	**118,200,215**
EQUITY AND LIABILITIES			
Equity			
Equity attributable to owners of the parent			
Share capital	4,788,992	4,788,991	4,788,991
Other capital	237,044,614	237,233,216	237,044,614
Reserves	757,128	–	173,229
Earned income including net result	–175,276,510	–117,923,451	–132,072,295
Total equity	**67,314,224**	**124,098,756**	**109,934,539**
Liabilities			
Non-current liabilities			
Non-current liabilities	3,254	–	–
Total long-term liabilities	**3,254**	**–**	**–**
Current liabilities			
Trade payables	2,182,686	1,039,649	1,787,912
Other liabilities	2,090,626	857,283	1,745,361
Accrued liabilities and deferred income	1,461,334	4,405,679	4,732,403
Total current liabilities	**5,734,646**	**6,302,611**	**8,265,676**
Total liabilities	**5,737,900**	**6,302,611**	**8,265,676**
TOTAL EQUITY AND LIABILITIES	**73,052,124**	**130,401,367**	**118,200,215**
Equity ratio	92.1%	95.2%	93.0%
Equity per share, SEK	4.22	7.77	6.89

Consolidated statement of changes in equity

	Attributable to equity holders of the parent				
SEK	**Share capital**	**Other contributed capital**	**Reserves**	**Accumulated deficit incl. loss for the year**	**Total equity**
Opening equity 1 Jan 2015	**2,386,974**	**124,560,235**	**–**	**–88,097,632**	**38,849,577**
Total		–			
Total comprehensive income for the period			173,229	–43,974,663	–43,801,434
Total comprehensive income	**–**	**–**	**173,229**	**–43,974,663**	**–43,801,434**
Transactions with shareholders					
New share issue, net after issue expenses	2,402,017	112,484,379			114,886,396
Total transactions with shareholders	**2,402,017**	**112,484,379**			**114,886,396**
Closing equity 31 Dec 2015	**4,788,991**	**237,044,614**	**173,229**	**–132,072,295**	**109,934,539**
Opening equity 1 Jan 2016	**4,788,991**	**237,044,614**	**173,229**	**–132,072,295**	**109,934,539**
Total					
Total comprehensive income for the period			583,899	–43,213,253	–42,629,354
Total comprehensive income			**583,899**	**–43,213,253**	**–42,629,354**
Transactions with shareholders					
Options issued to staff	–	–		9,039	9,039
Total transactions with shareholders	**–**	**–**		**9,039**	**9,039**
Closing equity 30 September 2016	**4,788,991**	**237,044,614**	**757,128**	**–175,276,509**	**67,314,224**

Condensed cash flow statement

SEK	Jul–Sep 2016	Jul–Sep 2015	Jan–Sep 2016	Jan–Sep 2015	Jan–Dec 2015
Operating activities					
Operating loss	–15,224,794	–10,908,606	–43,423,347	–29,835,353	–44,008,519
Adjustments for items not included in cash flow					
Depreciation	1,368,522	544,862	3,088,178	1,557,132	2,235,026
Employee stock option expenses	9,039	–	9,039	–	–
Interest received	–185,736	241	37,673	9,938	34,544
Interest paid	192,671	–157	–2,920	–404	–687
Paid taxes	–	–	–		–
Cash flow from operating activities before change in working capital	**–13,840,298**	**–10,363,660**	**–40,291,377**	**–28,268,687**	**–41,739,636**
Change in working capital					
Decrease/increase in inventory	111,143	177,369	75,163	221,815	319,086
Decrease/increase in trade receivables	–632,506	13,252	–659,177	–150,081	–175,520
Decrease/increase in current receivables	–778,084	–28,292	–1,387,907	–1,140,685	–493,057
Decrease/increase in current liabilities	1,384,353	866,034	–1,746,304	1,913,799	4,050,095
Change in working capital	**84,906**	**1,028,363**	**–3,718,225**	**844,848**	**3,700,604**
Cash flow from operating activities	**–13,755,392**	**–9,335,297**	**–44,009,602**	**–27,423,839**	**–38,039,032**
Investing activities					
Purchase of intangible fixed assets	–1,628,934	–1,856,908	–3,686,867	–4,345,219	–7,247,777
Purchase of property, plant and equipment	–67,883	–	–130,381	–	–128,610
Cash flow from investing activities	**–1,696,817**	**–1,856,908**	**–3,817,248**	**–4,345,219**	**–7,376,387**
Financing activities					
New share issue	–	114,474,997	–	115,074,997	114,886,396
Cash flow from financing activities	**–**	**114,474,997**	**–**	**115,074,997**	**114,886,396**
Cash flow for the period	**–15,452,209**	**103,282,792**	**–47,826,850**	**83,305,939**	**69,470,977**
Cash and cash equivalents at beginning of period	71,586,135	14,512,946	103,960,776	34,489,799	34,489,799
Cash and cash equivalents at end of period	**56,133,926**	**117,795,738**	**56,133,926**	**117,795,738**	**103,960,776**

Income statement, Parent Company

SEK	Jul–Sep 2016	Jul–Sep 2015	Jan–Sep 2016	Jan–Sep 2015	Jan–Dec 2015
Operating income					
Net sales	–	–	–	–	754,609
Other operating income	158,642	1,209,286	1,039,425	3,777,093	5,627,648
Total income	**158,642**	**1,209,286**	**1,039,425**	**3,777,093**	**6,382,257**
Operating expenses					
Other expenses	–4,817,297	–2,379,502	–12,031,599	–9,768,101	–12,949,289
Personnel costs	–2,062,631	–4,862,879	–8,660,593	–9,455,030	–14,968,281
Depreciation	–759,861	–31,166	–1,396,911	–93,499	–589,997
Total operating expenses	**–7,639,789**	**–7,273,547**	**–22,089,103**	**–19,316,630**	**–28,507,567**
Operating loss	**–7,481,147**	**–6,064,261**	**–21,049,678**	**–15,539,537**	**–22,125,310**
Financial items					
Financial income, other	402,526	37,507	890,788	293,981	415,906
Financial expenses, other	–	–80	–2,030	–124	–405
Loss from net financial items	**402,526**	**37,427**	**888,758**	**293,857**	**415,501**
Loss before contribution and tax	**–7,078,621**	**–6,026,834**	**–20,160,920**	**–15,245,680**	**–21,709,809**
Contribution					
Group contributions	–	–	–	–	–7,054,000
Loss before tax	**–7,078,621**	**–6,026,834**	**–20,160,920**	**–15,245,680**	**–28,763,809**
Tax on income for the period	–	–	–	–	–
Loss for the period	**–7,078,621**	**–6,026,834**	**–20,160,920**	**–15,245,680**	**–28,763,809**

Parent Company statement of comprehensive income

SEK	Jul–Sep 2016	Jul–Sep 2015	Jan–Sep 2016	Jan–Sep 2015	Jan–Dec 2015
Net profit	**–7,078,621**	**–6,026,834**	**–20,160,920**	**–15,245,680**	**–28,763,809**
Other comprehensive income for the period:					
Other comprehensive income for the period, net of tax	–	–	–	–	–
Total comprehensive income for the period	**–7,078,621**	**–6,026,834**	**–20,160,920**	**–15,245,680**	**–28,763,809**

Balance sheet, Parent Company

SEK	30 Sep 2016	30 Sep 2015	31 Dec 2015
ASSETS			
Non-current assets			
Intangible assets			
Capitalized development costs	4,419,135	3,345,639	4,660,637
Patent	–	–	–
Total intangible assets	**4,419,135**	**3,345,639**	**4,660,637**
Property, plant and equipment			
Machinery	248,632	315,247	281,547
Total property, plant and equipment	248,632	315,247	281,547
Financial assets			
Shares in group companies	35,583,375	15,900,000	16,128,375
Non-current receivables from group companies	17,416,582	13,559,085	11,740,509
Total financial assets	**52,999,957**	**29,459,085**	**27,868,884**
Total non-current assets	**57,667,724**	**33,119,971**	**32,811,068**
Current assets			
Current receivables			
Other receivables	596,950	1,239,153	356,533
Prepaid expenses and accrued income	772,222	390,555	277,319
Total current receivables	**1,369,172**	**1,629,708**	**633,852**
Cash and bank balances	54,109,197	115,154,059	101,963,730
Total current assets	**55,478,369**	**116,783,767**	**102,597,582**
TOTAL ASSETS	**113,146,093**	**149,903,738**	**135,408,650**
EQUITY AND LIABILITIES			
Equity			
Restricted equity			
Share capital	4,788,992	4,788,991	4,788,991
Total restricted equity	**4,788,992**	**4,788,991**	**4,788,991**
Unrestricted equity			
Share premium reserve	235,844,613	236,033,216	235,844,614
Loss brought forward	–109,310,496	–80,546,687	–80,546,687
Loss for the period	–20,160,920	–15,245,680	–28,763,809
Total unrestricted equity	**111,162,189**	**140,240,849**	**126,534,118**
Total equity	**111,162,189**	**145,029,840**	**131,323,109**
Liabilities			
Non-current liabilities			
Non-current liabilities	1,260	–	–
Total non-current liabilities	**1,260**	**–**	**–**
Current liabilities			
Trade payables	786,411	780,493	640,962
Other liabilities	541,906	480,787	556,315
Accrued liabilities and deferred income	654,327	3,612,618	2,888,264
Total current liabilities	**1,982,644**	**4,873,898**	**4,085,541**
TOTAL EQUITY AND LIABILITIES	**113,146,093**	**149,903,738**	**135,408,650**
Pledged assets	None	None	None
Contingent liabilities	None	None	None

Statement of changes in equity, Parent Company

SEK	Share capital	Other contributed capital	Loss brought forward	Loss for the period	Total equity
Opening equity 1 Jan 2015	**2,386,974**	**123,360,235**	**–53,969,350**	**–26,577,337**	**45,200,522**
Comprehensive loss for the period		–			
Loss for the period				–28,763,809	–28,763,809
Disposition according to AGM					
Loss brought forward			–26,577,337	26,577,337	–
Other			–	–	–
Total comprehensive loss for the period			**–80,546,687**	**–28,763,809**	**16,436,713**
Transactions with shareholders					
New share issue, net after issue expenses	2,402,017	112,484,379			114,886,396
Total transactions with shareholders	**2,402,017**	**112,484,379**			**114,886,396**
Closing equity 31 Dec 2015	**4,788,991**	**235,844,614**	**–80,546,687**	**–28,763,809**	**131,323,109**
Opening equity 1 Jan 2016	**4,788,991**	**235,844,614**	**–80,546,687**	**–28,763,809**	**131,323,109**
Comprehensive loss for the period					
Loss for the period				–20,160,920	–20,160,920
Disposition according to AGM					
Loss brought forward			–28,763,809	28,763,809	–
Other			–	–	–
Total comprehensive loss for the period			**–109,310,496**	**–20,160,920**	**111,162,189**
Transactions with shareholders					
Total transactions with shareholders	–	–			–
Closing equity 30 Sep 2016	**4,788,991**	**235,844,614**	**–109,310,496**	**–20,160,920**	**111,162,189**

Condensed cash flow statement, Parent Company

SEK	Jul–Sep 2016	Jul–Sep 2015	Jan–Sep 2016	Jan–Sep 2015	Jan–Dec 2015
Operating activities					
Operating loss	–7,481,148	–6,064,261	–21,049,678	–15,539,537	–22,125,310
Adjustments for items not included in cash flow					
Depreciation	759,861	31,166	1,396,911	93,499	–6,464,003
Interest received	402,526	37,507	890,788	293,981	415,906
Interest paid	–	–80	–2,030	–124	–405
Change in non-current liabilities	1,260	–	1,260	–	–
Cash flow from operating activities before change in working capital	**–6,317,501**	**–5,995,668**	**–18,762,749**	**–15,152,181**	**–28,173,812**
Change in working capital					
Decrease/increase in current receivables	–459,692	118,347	–735,320	–1,001,634	–5,779
Decrease/increase in current liabilities	–889,140	926,203	–2,102,897	1,798,511	1,040,414
Change in working capital	**–1,348,832**	**1,044,550**	**–2,838,217**	**796,877**	**1,034,635**
Cash flow from operating activities	**–7,666,333**	**–4,951,118**	**–21,600,966**	**–14,355,304**	**–27,139,177**
Investing activities					
Acquisition of intangible assets	–162,938	–1,212,398	–1,059,995	–2,861,937	–4,643,111
Acquisition of property, plant and equipment	–	–	–62,499	–	3,378
Changes in financial assets	–6,038,604	–3,499,722	–25,131,073	–11,307,396	–9,747,455
Cash flow from investing activities	**–6,201,542**	**–4,712,120**	**–26,253,567**	**–14,169,333**	**–14,387,188**
Financing activities	**–**		**–**		
New share issue	–	114,474,997	–	115,074,997	114,886,396
Cash flow from financing activities	**–**	**114,474,997**	**–**	**115,074,997**	**114,886,396**
Cash flow for the period	–13,867,875	104,811,759	–47,854,533	86,550,360	73,360,031
Cash and cash equivalents at beginning of period	67,977,072	10,342,300	101,963,730	28,603,699	28,603,699
Cash and cash equivalents at end of period	**54,109,197**	**115,154,059**	**54,109,197**	**115,154,059**	**101,963,730**

Notes

Note 1 *Accounting policies*

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

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

Capitalized expenditures for development of products

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

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

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

Other development expenditure that does not satisfy these criteria is expensed when it arises. Development expenditure previously expensed is not recognized as an asset in subsequent periods. The Group has assessed all of the above criteria to be fulfilled during the period, and the development costs that have been incurred have therefore been capitalized.

Note 2 *Transactions with closely related parties*

Shareholder and Board member Leif Ryd has received consulting fees of SEK 405,000 (405,000). Serendipity Communications AB has received consulting fees of SEK 617,409 (–) and Serendipity Legal AB of SEK 50,000 (–).

Glossary

Approved orders: Orders which have been approved for surgery, are in production and will be invoiced.

Arthritis: see Osteoarthritis.

Arthroscopy: Inspection of the inside of a joint with the help of an arthroscope. An instrument is introduced through a small cut to investigate the inside of the joint and possibly correct any problems (a type of keyhole surgery).

Cartilage: The smooth, rubbery layer of shiny, white connective tissue that covers the end of bones at the joints. This tissue allows movement with low friction.

Cartilage defect of grade III (ICRS scale): Lesion through the cartilage, exposing the bone.

Cartilage defect of grade IV (ICRS scale): Lesion through the cartilage and in the underlying bone.

CE marking: CE marking is a manufacturer's or importer's declaration that a product meets the EU's fundamental health, environmental and safety requirements. The product in question undergoes a conformity assessment by a Notified Body, which decides whether the product fulfils the applicable product requirements in the EU. A CE mark means that the manufacturer or importer has the formal approvals necessary to market and sell the product in the European Economic Area.

Cobalt: A chemical element commonly occurring in metal alloys used in knee prostheses.

Cobalt chrome: A metal alloy mainly consisting of cobalt and chromium, commonly occurring in metal alloys used in knee prostheses.

CT scan: X-ray computed tomography scan, a medical imaging technique where a series of x-ray images allows the user to get three-dimensional image data of the patient.

Debridement: Removal of damaged tissue.

Degenerative origin: Conditions in which the cells, tissues or organs deteriorate and lose function. In degenerative joint disease, the deterioration is due to wear, tear or breakdown of cartilage.

FDA: US Food and Drug Administration.

Focal cartilage defect: A cartilage defect in a well defined area.

Hyaline cartilage: Natural articular cartilage.

Hydroxyapatite: A mineral that is the major component of human bone tissue and the main mineral of dental enamel and dentin.

Invasive treatment alternative: Treatments that require a surgical procedure.

KOL: Key Opinion Leader, prominent and opinion-leading surgeon.

KOOS: Knee injury and Osteoarthritis Outcome Score, a questionnaire used to assess the patient's opinion about their knee and associated problems.

Microfracture: A surgical technique that can be used in treatment of focal cartilage defects (not extensive osteoarthritis) in an attempt to stimulate the growth of new cartilage.

Mosaicplasty: A surgical technique for treatment of cartilage and underlying bone defects where cylindrical bone and cartilage plugs are harvested from less weight-bearing surfaces of the knee joint and inserted into the damaged area.

MRI: Magnetic resonance imaging, a medical imaging technique where images acquired using a strong magnetic field allows the user to get three-dimensional image data of the patient.

Orthopaedics: The medical specialty that focuses on injuries and diseases of the body's musculoskeletal system. This complex system includes bones, joints, ligaments, tendons, muscles and nerves.

Osteoarthritis: Osteoarthritis is type of joint disease that is characterised by loss of joint function with varying destruction of joint cartilage and the underlying bone.

Osteochondral autograft procedure: See Mosaicplasty.

Osteochondral defect: Cartilage and underlying bone defect.

Prosthesis: An artificial device that replaces a missing or injured body part, such as artificial arm or leg. The term prosthesis is also used for certain of the implants that are used to repair joints, such as hip and knee prostheses.

Traumatic damage: Damage caused by an outside force, such as fall injuries.

VAS: Visual Analogue Scale, a psychometric response scale which is used as a pain scale in questionnaires.

Episurf Medical

– a unique solution for every patient

Episurf Medical was founded in 2009 on a commitment to offering people with painful joint injuries a more active and healthy life through customized treatment alternatives. We put the patient in the center of the diagnosis and design of implants and surgical instruments. By combining advanced 3D imaging technology with the latest manufacturing technology, 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 system for patient-specific design and surgical pre-planning

The scalable µiFidelity® system has been developed for diagnostics, surgical pre-planning and cost-effective patient customization. In a first step, the company's main focus is on early stage arthritic changes in the knee joint.

Epioscopy®

Epioscopy® is an advanced clinical assessment tool intended to provide the physician with decision support information in the form of 3D-vizualizations of the segmented patient knee.

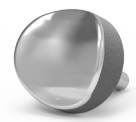
Three different knee implants with a focus on early stages of arthritis

Episurf Medical currently has three types of implants on the market.

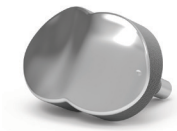
- Episealer® Condyle Solo for the treatment of localized cartilage and underlying bone defects in the knee joint.
- Episealer® Trochlea Solo for the treatment of localized cartilage and underlying bone defects in the area behind the patella.
- Episealer® Femoral Twin for the treatment of localized cartilage and underlying bone defects both in the knee joint and in the area behind the patella.



Episealer®
Condyle Solo



Episealer®
Trochlea Solo



Episealer®
Femoral Twin



Drill guides

Every product is delivered with our surgical drill guide Epiguide®. We also offer a surgical drill guide, Epiguide® MOS, that is designed for use in mosaicplasty procedures.

Around 80 patents and patent applications

The technology that creates patient-specific implants and instruments is supported by a strong patent portfolio with approximately 80 patents and patent applications in the areas of image handling, patient-specific implant systems, patient-specific surgical techniques, patient-specific instrumentation and manufacturing for all of the body's joints.

Financial calendar

Year-End Report 2016	24 February 2017
AGM	22 May 2017

This is a translation of the original Swedish interim report. In the event of a discrepancy between this translation and the Swedish original, the Swedish interim report takes precedence.

This information is information that Episurf Medical AB (publ) is obliged to make public, pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out below, on 4 November 2016 at 08:30 (CET).

The following analysts monitor Episurf Medical's development:

Erik Penser Bank
Analyst: Johan Lochen

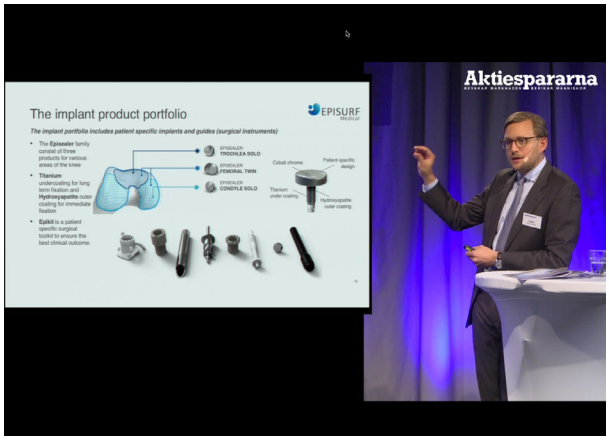
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Episurf Medical was represented by CFO Pål Ryfors in Gothenburg on September 26 and in Malmö on 28 September. Next event is Stora Aktiedagen in Gothenburg on 14 November and Stora Aktiedagen in Stockholm on 28 November.

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