EPISURF Medical

Interim Report
1 April–30 June 2016

Second quarter

- Group net sales increased by 78% to SEK 469,380.
- Continued increase in the number of requests for Epioscopy™ Damage marking assessment.
- Income after financial items for the Group amounted to SEK –16,473,988.
- Clinical results were presented for the first time and with solid results.
- The 100th surgery was performed during the quarter.

The period in brief

Second quarter compared to 2015, Group

- Group net sales increased by 78% to SEK 469,380 (263,909).
- Other operating income amounted to SEK 381,298 (1,110,025).
- Income after financial items amounted to SEK –16,473,988 (–11,384,072).

First six months 2015, compared to first six months 2015, Group

- Group net sales increased by 80% to SEK 881,214 (490 920).
- Other operating income amounted to SEK 946,584 (2,566,400).
- Income after financial items amounted to SEK –28,170,735 (–18,917,297).
- Earnings per share (weighted average) amounted to SEK –1.00 (–1.43).
- Equity per share amounted to SEK –5.16 (2.58).
- Equity ratio amounted to 94.1% (79.1).

Significant events during the second quarter

- Clinical results based on 1 and 2 year follow up data were presented for the first time with excellent results where the patients show significant improvements regarding pain and mobility.
- The 100th surgery was performed in the beginning of June 2016.
- The current sales force expansion project was completed by the hiring of two additional sales representatives in Germany and two in the UK.
- A "pre-submission dossier" was submitted to the FDA.
- Episurf Medical attend its first large European knee meeting, ESSKA (European Society of Sports Traumatology, Knee Surgery and Arthroscopy).
- Further reimbursement was received from a number of private health care providers in the UK, the Netherlands and in Belgium.

Significant events after the second quarter

- Episurf Medical's nomination committee proposed Mr. Dennis Stripe and Mr. Wil Boren as new board members of Episurf Medical, to be elected at an extra general meeting on August 18 2016. Mr. Dennis Stripe and Mr. Wil Boren both have extensive experience from the orthopaedic industry.
- Episurf Medical obtained a new granted patent in Europe covering a surgical drilling guide which was the first patent in this family of patents to be granted.

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

Continued growth and our first clinical results presented

Dear Shareholder,

I can gladly conclude that in line with our 2016 strategic priority of consistent commercial execution, Episurf Medical experienced its strongest quarterly performance to date.

Sales growth in the second quarter was underpinned by the achievement of key clinical milestones including the 100th implant and 1 and 2 years follow up data demonstrating statistically significant improvements in pain, mobility and quality of life post the Episealer procedure. We have 4 patients who've past 3 years since surgery, 15 patients past 2 years and 47 patients past 1 year post surgery. This means that nearly 50% of the cumulative implants are past 1 year post surgery. Most importantly, the results are exceptionally strong, and we have a zero percent revision rate and no adverse events to date.

I would like to continue by summarizing the development during the second quarter;

- The second quarter was our best ever regarding implants and damage marking requests which contributes to building our order book.
- 22 surgeries were performed during the quarter which represents a growth of 38% compared to the same period previous year. The total implant portfolio amounted to 108 at the end of the quarter which is 130% higher than the end of the second quarter 2015.
- We received 66 Damage Marking requests during the second quarter which represents a growth of 247% compared to the corresponding period previous year. During the six first months of 2016, we received 100 damage marking request which well exceeds the total number of damage marking requests received during the full previous year (83).
- During the second quarter, we received 5.1 damage marking requests per week which is equal to just above 1 per business day. We are very happy to conclude that the strong trend we experienced in the first quarter was firmly established during the second quarter.
- The cumulative implant portfolio consists of 60% condyle solo, 21% trochlea solo, 19% twin condyle.
- During the second quarter, we completed the sales expansion program adding 2 more German heads in April and 2 heads in UK in April and June respectively.

A highlight during the second quarter was Episurf Medical's participation at its first large European knee meeting, ESSKA (European Society of Sports Traumatology, Knee Surgery and Arthroscopy). Episurf Medical was very well received at the event and the company debuted its first ever custom built exhibition stand which functioned as a meeting point during the conference. We took a significant number

A highlight during the second quarter was Episurf's participation at its first large European knee meeting, ESSKA (European Society of Sports Traumatology, Knee Surgery and Arthroscopy).

"The number of damage marking requests is increasing rapidly and a high percentage will convert into Episealer® patients. This shows that there is a great demand for our patient specific implant technology and our Epioscopy® damage marking process. The best part is that we have only scratched the surface of this market. "

of high quality leads from numerous European cartilage repair surgeons.

The marketing activities continue, in particular, through the inclusion of clinical results in the marketing material for the first time. We also developed three new short information videos featuring a German patient and two of our German surgeons. During the third quarter, we will be able to launch a new and upgraded website and a web-based surgical simulation tool for training surgeons.

Our regulatory work and reimbursement

Our regulatory work continued during the quarter and Episurf Medical submitted its pre-submission dossier to the FDA in advance of a mid-summer pre-submission meeting.

Episurf Medical received reimbursement from several private health care providers in the UK and the Netherlands and further government reimbursement in Belgium for the Episealer® Twin. The US reimbursement project to assess both the Medicare/Medicaid and private insurer payment landscape for Episealer® commenced in the quarter and is scheduled for completion in the third quarter. A similar European project was started in the second quarter to assess how Episurf Medical can drive higher reimbursement levels in line with our advanced patient specific technology platform

Increased knowledge about our technology

Following the 100th surgery and the acceptance and presentation of 1 and 2 year Episealer® follow up data during the second quarter and upcoming in the third quarter 2016, the knowledge about the our technology is increasing. 2 years' follow up data is generally considered the acceptable threshold for clinical success. Since both data sets prove good implant safety without adverse effects and demonstrate statistically significant improved outcome scores, we expect increased acceptance from orthopaedic surgeons over the coming quarters.

Episurf Medical has strong, growing support from active surgeons. Direct feedback from our surgical users confirms they are impressed with the pre-surgical damage marking via Epioscopy®, the precise fit of guide and implants and the "skin-to-skin" surgical procedure time of approximately 30 minutes.

Clinical results are now presented at two key knee specialists meetings with a 3rd and 4th meeting to follow in Sept 2016 at the ICRS (International Cartilage Repair Society) in Italy and the AGA (The Society for Arthroscopy and Joint Surgery) in Germany.

In total, we now have 1 year data on 24 patients and 2 year data on 10 patients. The results show correct implant positioning, joint space preserved, no adverse events and very good scores for pain relief and increased mobility.

I would also like to comment on Episurf Medical's annual general meeting which was held 24 May in Stockholm. It was my first opportunity to meet many of our shareholders and present our long term strategy for the company. Episurf Medical continues to make consistent progress along the technology adoption curve as we drive towards the tipping point whereby Episealer® is adopted into the mainstream. We have achieved the following:

- clinical evidence – 1 and 2 year data,
- credibility with early adopters,
- recurring revenue,
- 5 CE-approved products, and
- more than 100 implants, all with excellent clinical resultants.

A new patient – the gap patient

We know that cartilage damage progresses along a timeline and that treatment is age related. Episurf Medical is addressing a new patient – the gap patient who may have failed regenerative treatment and is too young for invasive knee replacements.

To maintain a quality of life, the middle aged patient needs a treatment to address increasing pain and disability whilst sparing as much bone as possible in the event of later treatments. Until now, surgeons, had no viable treatment option for this very large, silent majority of patients with progressive cartilage degeneration.

We also know that the large orthopaedic companies are no longer innovating because their traditional implant technology is now a commodity and they are fighting amongst themselves to maintain market share. Therefore, this is a prime opportunity for Episurf Medical to dominate the treatment gap and become the market leader for patient specific implants.

On a final note, I would briefly like to comment on the announcement from Episurf Medical's nomination committee released to the market at the beginning of the third quarter. In line with our current growth and focused expansion plans, particularly into the US, I am delighted that two leading orthopaedic executives have been nominated to join the board. Both Mr Dennis Stripe and Mr Wil Boren believe in what Episurf Medical is doing in regard to patient specific technology for the treatment of early cartilage damage. They very much see the treatment gap and believe there is a sizable global market for a patient specific implant technology instead of or when biologics fail. They are impressed with what we have achieved to date and I am confident their strategic guidance will help accelerate our growth and expansion into new markets.

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

Business update and forward looking statements

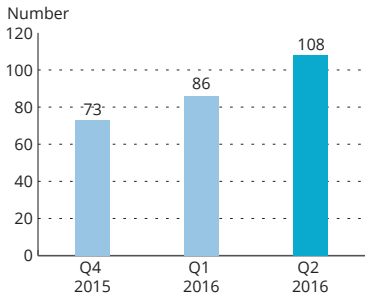
By the end of the second quarter 2016, Episurf Medical's implants have been used in 108 surgeries in humans, all with successful outcomes, and Episurf Medical has a 0% revision rate. Episurf Medical's patients are experiencing significant improvements with pain and mobility. Further, they are experiencing a short recovery time. 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.

Episurf Medical is continuing to experience a significant growth in the number of Epioscopy™ damage markings requests coming in via uiFidelity, which points to the increasing market interest for Episurf Medical's products with surgeons in prioritized markets. This, in turn, leads to a continued increase of the number of surgeries performed, which in turn generates more clinical evidence.

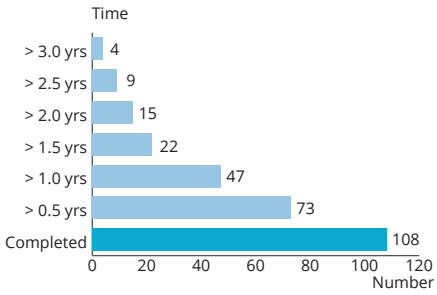
During 2015, when the commercialisation of Episurf Medical's technology started, an average of 1,6 damage marking requests were submitted to Episurf Medical per week. During 2016, Episurf Medical has experienced a significant increase in the number of requests. During the first quarter, Episurf Medical received 2,6 requests per week, a number which continued to increase during the second quarter and almost doubled to 5,1 damage marking requests per week. This corresponds to a significant growth compared to the first quarter 2016 as well as compared to full year 2015, and Episurf Medical is of the opinion that this growth will continue.

The growth in the number of Epioscopy™ damage marking requests is increasing primarily from the existing user base and existing accounts in uiFidelity®, which is a result of increasing clinical acceptance. 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.

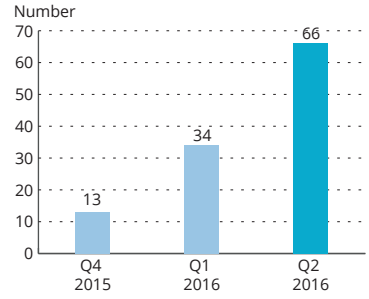
Cumulative implants



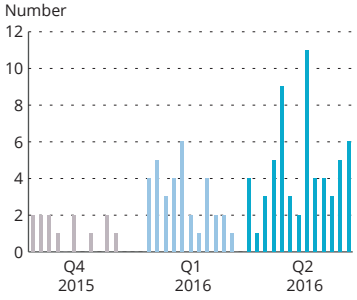
Time since surgery



Damage marking requests



Damage marking requests per week, October 2015–June 2016



Financial information

Group

Net sales and operating profit/loss

Group net sales amounted to SEK 469,380 (263,909) in the quarter and to SEK 881,214 (490 920) for the first six months as a result from increased sales activities in prioritized markets. The increase in personnel expenses compared with the previous year is a direct result of the Company's increased commercial focus. 15 new employees have been hired since last July, 10 for Sales and Market three in England, five in Germany and two in Sweden. Five new employees have also been hired for Management and Administration and six have left the company.

Financial position

Group cash and cash equivalents at end of period amounted to SEK 71,586,135 (14,512,946). The equity ratio was 94.1% (79.1). Group investments in intangible assets amounted to SEK 738,983 (1,033,502) for the quarter of which SEK 343,765 (712,705) are related to capitalized development costs and for the first six months investments in intangible assets amounted to SEK 2,057,933 (2,488,311) of which SEK 897,056 (1,649,538) are related to capitalized development costs, remaining investments relates to patents. Investments in tangible assets amounted to SEK 45,574 (–) for the quarter and SEK 62,498 for the first half year.

Human resources

Number of employees in the Group at end of the period was 29 (17). The increase is primarily a result of recruitment in marketing and sales.

Parent Company

Net sales and operating profit/loss

Other operating income amounted to SEK 327,485 (1,107,769) for the quarter and for the first six months to SEK 880,784 (2,567,807) Income after financial items amounted to SEK –7,267,449 (–5,436,563) for the quarter and SEK –13,082,298 (–9,218,846) for the first six months.

Financial position

Cash and cash equivalents at the end of period for the Parent Company amounted to SEK 67,977,072 (10,342,300). The equity ratio was 97.6% (90.3). Investments in intangi¬ble assets, capitalized development costs, amounted to SEK 343,758 (712,705) for the quarter and SEK 897,057 (1,649,5399) for the first six months. Investments in tangible assets amounted to SEK 62 499 (-) for the quarter and for the first six months.

Human resources

Number of employees in the Parent Company at end of the period was 15 (9).

Transactions with closely related parties

Shareholder and Board member Leif Ryd has received consulting fees of SEK 270,000 (270,000). Serendipity Communications AB has received consulting fees of SEK 175,000 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.

2016-06-30	
A-shares	3,431,974
B-shares	12,531,331
Total number of shares	**15,963,305**
Total number of votes	22,827,253

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 six 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, August 9, 2016

Saeid Esmaeilzadeh
Board chairman

Wilder Fulford
Board member

Leif Ryd
Board member

Christian Krüeger
Board member

Rosemary Cunningham Thomas
CEO

Review
This report has not been reviewed by the Company´s auditors.

Consolidated income statement

SEK	Apr–Jun 2016	Apr–Jun 2015	Jan–Jun 2016	Jan–Jun 2015	Jan–Dec 2015
Operating income					
Net sales	469,380	263,909	881,214	490,920	1,016,462
Other operating income	381,298	1,110,025	946,584	2,566,400	5,628,598
Total income	**850,678**	**1,373,934**	**1,827,798**	**3,057,320**	**6,645,060**
Operating costs					
Other costs	–9,678,272	–6,059,176	–14,774,676	–11,593,100	–21,584,339
Personnel costs	–6,766,926	–6,181,901	–13,532,019	–9,378,697	–26,834,214
Depreciation	–888,494	–516,351	–1,719,656	–1,012,270	–2,235,026
Total operating costs	**–17,333,692**	**–12,757,428**	**–30,026,351**	**–21,984,067**	**–50,653,579**
Operating loss	**–16,483,014**	**–11,383,494**	**–28,198,553**	**–18,926,747**	**–44,008,519**
Financial items					
Financial income, other	204,539		223,409	9,697	34,544
Financial expenses, other	–195,513	–578	–195,591	–247	–687
Loss after financial items	**–16,473,988**	**–11,384,072**	**–28,170,735**	**–18,917,297**	**–43,974,662**
Loss before tax	**–16,473,988**	**–11,384,072**	**–28,170,735**	**–18,917,297**	**–43,974,662**
Tax on income for the period	–	–	–	–	–
Loss at end of the period	**–16,473,988**	**–11,384,072**	**–28,170,735**	**–18,917,297**	**–43,974,662**

Consolidated statement of comprehensive income

SEK	Apr–Jun 2016	Apr–Jun 2015	Jan–Jun 2016	Jan–Jun 2015	Jan–Dec 2015
Net profit	**–16,473,988**	**–11,384,072**	**–28,170,735**	**–18,917,297**	**–43,974,662**
Other comprehensive income for the period:					
Other comprehensive income for the period, net of tax	564,832	–	616,380	–	173,229
Total comprehensive income for the period	**–15,909,156**	**–11,384,072**	**–27,554,355**	**–18,917,297**	**–43,801,433**
Net profit and comprehensive income attributable					
Parent company shareholders	–15,909,156	–11,384,072	–27,554,355	–18,917,297	–43,801,433
Earnings per share before and after dilution	–1,00	–1,43	–1,73	–2,37	–3,50
Average number of shares	15,949,804,00	7,971,323	15,949,804	7,971,323	12,504,417

Consolidated balance sheet

SEK	30 Jun 2016	30 Jun 2015	31 Dec 2015
ASSETS			
Fixed assets			
Intangible fixed assets	4,981,827	2,133,240	4,660,637
Capitalized development costs	7,073,375	5,302,386	6,385,717
Patent	12,055,202	7,435,626	11,046,354
Total intangible fixed assets	**12,055,202**	**7,435,626**	**11,046,354**
Tangible fixed assets			
Machinery and equipment	432,359	362,106	423,838
Total tangible fixed assets	**432,359**	**362,106**	**423,838**
Total fixed assets	**12,487,561**	**7,797,732**	**11,470,192**
Current assets			
Inventories Finished goods and goods for resale	1,190,558	1,429,218	1,154,578
Accounts receivable	536,370	187,677	199,864
Other receivables	760,729	1,289,353	869,741
Prepaid expenses and accrued income	953,849	751,931	545,064
Cash and bank balances	71,586,135	14,512,946	103,960,776
Total current assets	**75,027,641**	**18,171,125**	**106,730,023**
TOTAL ASSETS	**87,515,202**	**25,968,857**	**118,200,215**
EQUITY AND LIABILITIES			
Equity			
Equity attributable to owners of the parent			
Share capital	4,788,991	2,392,037	4,788,991
Other capital	237,044,614	125,155,172	237,044,614
Reserves	789,608	–	173,229
Earned income including net result	–160,243,030	–107,014,929	–132,072,295
Total equity	**82,380,183**	**20,532,280**	**109,934,539**
Liabilities			
Current liabilities			
Accounts payable	2,214,274	2,474,622	1,787,912
Other liabilities	1,034,947	866,018	1,745,361
Accrued liabilities and deferred income	1,885,798	2,095,937	4,732,403
Total current liabilities	**5,135,019**	**5,436,577**	**8,265,676**
Total liabilities	**5,135,019**	**5,436,577**	**8,265,676**
TOTAL EQUITY AND LIABILITIES	**87,515,202**	**25,968,857**	**118,200,215**
Equity ratio	94.1%	79.1%	93.0%
Equity per share, SEK	5.16	2.58	6.89

Consolidated statement of changes in equity

	Attributable to equity holders of the parent				
SEK	**Share capital**	**Other capital**	**Reserves**	**Earned income including net result**	**Total equity**
Opening equity Jan 1, 2015	**2,386,974**	**124,560,235**	**–**	**–88,097,632**	**38,849,577**
Total		–			
Total comprehensive income for the period				–43,801,434	–43,801,434
Total comprehensive income	**–**	**–**	**–**	**–43,801,434**	**–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 Dec 31 2015	**4,788,991**	**237,044,614**		**–131,899,066**	**109,934,539**
Opening equity Jan 1, 2016	**4,788,991**	**237,044,614**		**–131,899,066**	**109,934,539**
Total					
Total comprehensive income for the period				–27,554,355	–27,554,355
Total comprehensive income				**–27,554,355**	**–27,554,355**
Transactions with shareholders					
New share issue, net after issue expenses	–	–			–
Total transactions with shareholders	**–**	**–**			**–**
Closing equity June 30 2016	**4,788,991**	**237,044,614**		**–159,453,421**	**82,380,184**

Condensed cash flow statement

SEK	Apr–Jun 2016	Apr–Jun 2015	Jan–Jun 2016	Jan–Jun 2015	Jan–Dec 2015
Current operations					
Operating loss	–16,483,014	–11,383,494	–28,198,553	–18,926,747	–44,008,519
Adjustments for items not included in cash flow					
Depreciation	888,494	516,351	1,719,656	1,012,270	2,235,026
Interest received	204,539	–	223,409	9,697	34,544
Interest paid	–195,513	–578	–195,591	–247	–687
Paid taxes	–	–	–		–
Cash flow from current operations before change in working capital	**–15,585,494**	**–10,867,721**	**–26,451,079**	**–17,905,027**	**–41,739,636**
Change in working capital					
Decrease/increase in inventory	23,149	66,422	–35,980	44,446	319,086
Decrease/increase in accounts receivables	283,165	–163,333	–26,671	–163,333	–175,520
Decrease/increase in current receivables	–96,839	–174,942	–609,823	–1,112,393	–493,057
Decrease/increase in current liabilities	–1,043,776	500,390	–3,130,657	1,047,765	4,050,095
Change in working capital	**–834,301**	**228,537**	**–3,803,131**	**–183,515**	**3,700,604**
Cash flow from current operations	**–16,419,795**	**–10,639,184**	**–30,254,210**	**–18,088,542**	**–38,039,032**
Investing activities					
Purchase of intangible fixed assets	–738,983	–1,033,502	–2,057,933	–2,488,311	–7,247,777
Purchase of tangible fixed assets	–45,574	–	–62,498	–	–128,610
Cash flow from investing activities	**–784,557**	**–1,033,502**	**–2,120,431**	**–2,488,311**	**–7,376,387**
Financing activities					
New share issue	–	600,000	–	600,000	114,886,396
Cash flow from financing activities	**–**	**600,000**	**–**	**600,000**	**114,886,396**
Cash flow for the period	**–17,204,352**	**–11,072,686**	**–32,374,641**	**–19,976,853**	**69,470,977**
Cash and cash equivalents at beginning of period	88,790,487	25,585,632	103,960,776	34,489,799	34,489,799
Cash and cash equivalents at end of period	**71,586,135**	**14,512,946**	**71,586,135**	**14,512,946**	**103,960,776**

Income statement, Parent Company

SEK	Apr–Jun 2016	Apr–Jun 2015	Jan–Jun 2016	Jan–Jun 2015	Jan–Dec 2015
Operating income					
Net sales	0	0			754,609
Other operating income	327,485	1,107,769	880,784	2,567,807	5,627,648
Total income	**327,485**	**1,107,769**	**880,784**	**2,567,807**	**6,382,257**
Operating costs					
Other costs	–4,765,469	–3,829,700	–7,214,302	–7,388,599	–12,949,289
Personnel costs	–2,782,551	–2,824,338	–6,597,962	–4,592,151	–14,968,281
Depreciation	–321,426	–31,166	–637,050	–62,333	–589,997
Total operating costs	**–7,869,446**	**–6,685,204**	**–14,449,314**	**–12,043,083**	**–28,507,567**
Operating loss	**–7,541,961**	**–5,577,435**	**–13,568,530**	**–9,475,276**	**–22,125,310**
Financial items					
Financial income, other	276,464	140,900	488,262	256,474	415,906
Financial expenses, other	–1,952	–28	–2,030	–44	–405
Loss after net financial items	**–7,267,449**	**–5,436,563**	**–13,082,298**	**–9,218,846**	**–21,709,809**
Loss before contribution and tax	**–7,267,449**	**–5,436,563**	**–13,082,298**	**–9,218,846**	**–21,709,809**
Contribution					
Group contributions	–	–	–	–	–
Loss before tax	**–7,267,449**	**–5,436,563**	**–13,082,298**	**–9,218,846**	**–21,709,809**
Tax on income for the period	–	–	–	–	–
Loss at end of the period	**–7,267,449**	**–5,436,563**	**–13,082,298**	**–9,218,846**	**–21,709,809**

Parent Company statement of comprehensive income

SEK	Apr–Jun 2016	Apr–Jun 2015	Jan–Jun 2016	Jan–Jun 2015	Jan–Dec 2015
Net profit	**–7,267,449**	**–5,436,563**	**–13,082,298**	**–9,218,846**	**–21,709,809**
Other comprehensive income for the period:					
Other comprehensive income for the period, net of tax	–	–	–	–	–
Total comprehensive income for the period	**–7,267,449**	**–5,436,563**	**–13,082,298**	**–9,218,846**	**–21,709,809**

Balance sheet, Parent Company

SEK	30 Jun 2016	30 Jun 2015	31 Dec 2015
ASSETS			
Fixed assets			
Intangible fixed assets			
Capitalized development costs	4,981,827	2,133,240	4,660,637
Patent	–	–	–
Total intangible fixed assets	**4,981,827**	**2,133,240**	**4,660,637**
Tangible fixed assets			
Machinery and equipment	282,862	346,413	281,547
Total tangible fixed assets	282,862	346,413	281,547
Financial assets			
Shares in group companies	19,753,375	15,900,000	16,128,375
Long-term receivables from group companies	27,238,238	10,059,363	11,740,509
Total financial assets	**46,991,613**	**25,959,363**	**27,868,884**
Total fixed assets	**52,256,302**	**28,439,016**	**32,811,068**
Current assets			
Short term receivables			
Other receivables	349,059	1,084,956	356,533
Prepaid expenses and accrued income	560,422	663,099	277,319
Total short term receivables	**909,481**	**1,748,055**	**633,852**
Cash and bank balances	67,977,072	10,342,300	101,963,730
Total current assets	**68,886,553**	**12,090,355**	**102,597,582**
TOTAL ASSETS	**121,142,855**	**40,529,371**	**135,408,650**
EQUITY AND LIABILITIES			
Equity			
Equity Restricted equity			
Share capital	4,788,991	2,392,037	4,788,991
Total restricted equity	**4,788,991**	**2,392,037**	**4,788,991**
Unrestricted equity			
Share premium reserve	235,844,614	123,955,172	235,844,614
Loss brought forward	–109,310,496	–80,546,687	–80,546,687
Loss for the period	–13,082,298	–9,218,846	–28,763,809
Total unrestricted equity	**118,240,811**	**34,189,639**	**126,534,118**
Total equity	**118,240,811**	**36,581,676**	**131,323,109**
Liabilities			
Current liabilities			
Accounts payable	1,264,185	1,946,682	640,962
Other liabilities	650,214	364,270	556,315
Accrued liabilities and deferred income	987,645	1,636,743	2,888,264
Total current liabilities	**2,902,044**	**3,947,695**	**4,085,541**
TOTAL EQUITY AND LIABILITIES	**121,142,855**	**40,529,371**	**135,408,650**
Pledged assets	None	None	None
Contingent liabilities	None	None	None

Statement of changes in equity, Parent Company

SEK	Share capital	Share premium reserve	Loss brought forward	Loss for the period	Total equity
Opening equity Jan 1, 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 Dec 31 2015	**4,788,991**	**235,844,614**	**–80,546,687**	**–28,763,809**	**131,323,109**
Opening equity Jan 1, 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				–13,082,298	–13,082,298
Disposition according to AGM					
Loss brought forward			–28,763,809	28,763,809	–
Other			**–**	**–**	**–**
Total comprehensive loss for the period			**–109,310,496**	**–13,082,298**	**118,240,811**
Transactions with shareholders					
New share issue, net after issue expenses	–	–			–
Total transactions with shareholders	**–**	**–**			**–**
Closing equity June 30 2016	**4,788,991**	**235,844,614**	**–109,310,496**	**–13,082,298**	**118,240,811**

Condensed cash flow statement, Parent Company

SEK	Apr–Jun 2016	Apr–Jun 2015	Jan–Jun 2016	Jan–Jun 2015	Jan–Dec 2015
Current operations					
Operating loss	–7,541,961	–5,577,435	–13,568,530	–9,475,276	–22,125,310
Adjustments for items not included in cash flow					
Depreciation	321,426	31,166	637,050	62,333	–6,464,003
Interest received	276,464	140,900	488,262	256,474	415,906
interest paid	–1,952	–28	–2,030	–44	–405
Cash flow from current operations before change in working capital	**–6,946,023**	**–5,405,397**	**–12,445,248**	**–9,156,513**	**–28,173,812**
Change in working capital					
Decrease/increase in current receivables	–65,270	–469,336	–275,628	–1,119,981	–5,779
Decrease/increase in current liabilities	–596,902	501,897	–1,213,757	872,308	1,040,414
Change in working capital	**–662,172**	**32,561**	**–1,489,385**	**–247,673**	**1,034,635**
Cash flow from current operations	**–7,608,195**	**–5,372,836**	**–13,934,633**	**–9,404,186**	**–27,139,177**
Investing activities					
Acquisition of subsidiaries					
Acquisition of intangible assets	–343,758	–712,705	–897,057	–1,649,539	–4,643,111
Acquisition of tangible assets	–62,499	0	–62,499		3,378
Changes in financial assets	–9,742,307	–2,966,430	–19,092,469	–7,807,674	–9,747,455
Cash flow from investing activities	**–10,148,564**	**–3,679,135**	**–20,052,025**	**–9,457,213**	**–14,387,188**
Financing activities					
New share issue	–	600,000	–	600,000	114,886,396
Cash flow from financing activities	**–**	**600,000**	**–**	**600,000**	**114,886,396**
Cash-flow for the period	–17,756,759	–8,451,971	–33,986,658	–18,261,399	73,360,031
Cash and cash equivalents at beginning of period	85,733,831	18,794,271	101,963,730	28,603,699	28,603,699
Cash and cash equivalents at end of period	**67,977,072**	**10,342,300**	**67,977,072**	**10,342,300**	**101,963,730**

Notes

Note 1 *Accounting principles*

The consolidated financial statements have been prepared in accordance with the Annual Accounts Act, RFR's (Rådet för finansiell rapportering, the Swedish Financial Reporting Board) recommendation RFR 1 and RFR 2, Supplementary Accounting Rules for Groups and the International Financial Reporting Standards (IFRS) and interpretation statements from the International Financial Reporting Interpretations Committee (IFRIC), as endorsed by the EU.

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.

After first-time reporting, capitalized development expenditure is recognized at cost after deducting for accumulated amortization and potential accumulated impairment. Amortization of capitalized expenditure for product development started in October 2014.

Note 2 *Transactions with closely related parties*

Shareholder and Board member Leif Ryd has received consulting fees of SEK 270,000 (270,000). Serendipity Communications AB has received consulting fees of SEK 175,000 and Serendipity Legal AB of SEK 50,000.

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: 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: CX-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 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.

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.

Episurf Medical

– a unique solution for every patient

Episurf Medical was founded in 2009 on a commitment to offering people with painful joint injuries a more active and healthy life through customised treatment alternatives. We put the patient in the centre of the 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 customisation. In a first step, the company's main focus is on early stage arthritic changes in the knee joint.

Epioscopy®

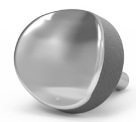
Epioscopy® is an advanced clinical assessment tool intended to provide the physician with decision support information in the form of 3D-vizualizations of the segmented patient knee.

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

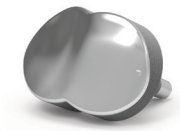
Episurf Medical currently has three types of implants on the market.

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

Interim Report July-September 2016:	November 4, 2016
Year End Report 2016:	February 24, 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.

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