



Year-end report

1 October–31 December 2016

Fourth quarter

- » Group net sales amounted to SEK 1,007,759.
- » Income after financial items for the Group amounted to SEK –18,454,211.
- » Episurf Medical achieves milestone of 150th Implant.
- » Episurf Medical's 50th Episealer® Femoral Twin Implant demonstrates rapid clinical adoption.
- » Touch surgery released Episealer® surgical knee training simulations in collaboration with Episurf Medical.



The period in brief

Fourth quarter compared to 2015, Group

- » Group net sales increased by 168% to SEK 1,007,759 (375,368).
- » Other operating income amounted to SEK 821,447 (1,849,848).
- » Income after financial items amounted to SEK -18,454,211 (-14,148,843).
- » Earnings per share (weighted average) amounted to SEK -1,16 (-0,89).

Twelve months 2016, compared to 2015, Group

- » Group net sales increased by 137% to SEK 2,405,614 (1,016,462).
- » Other operating income amounted to SEK 1,859,976 (5,628,598).
- » Income after financial items amounted to SEK -61,667,464 (-43,974,662).
- » Earnings per share (weighted average) amounted to SEK -3,87 (-3,52).
- » Equity per share amounted to SEK 3,05 (6,89).
- » Equity ratio amounted to 80,8% (93,0).

Significant events during the fourth quarter

- » Episurf Medical achieves milestone of 150th Implant.
- » Episurf Medical's 50th Episealer® Femoral Twin Implant demonstrates rapid clinical adoption.
- » Touch surgery released Episealer surgical knee training simulations in collaboration with Episurf Medical.

Significant events after year end

- » Episurf Medical's CEO Rosemary Cunningham Thomas steps down – search for new CEO Initiated.
- » Episurf Medical is expanding Its Clinical Advisory Board.
- » Episurf Medical announces an up to approx. SEK 120 million rights issue subject to EGM approval and brings forward date of year-end report; Dennis Stripe to act as executive chairman.
- » Episurf Medical obtains its first granted patents in China.
- » Episurf Medical's 3D-based image assessment tool: positive development in US patenting.





Pål Ryfors,
Acting CEO and CFO

Message from the CEO

The fourth quarter represented a strong conclusion of 2016

Dear Shareholder,

The fourth quarter represented a strong conclusion of 2016 for Episurf Medical as 34 surgeries were performed with the Episealer® implant which represents a doubling of the number of surgeries performed in the third quarter. Revenues for the quarter amounted to SEK 1,008k and by that, Episurf Medical generated revenues in excess of SEK 1 million during a single quarter for the first time. Germany represented our highest performing market during the fourth quarter with 16 surgeries performed. In total, we ended 2016 with 86 surgeries performed and SEK 2.4 million of revenues. The number of approved orders amounted to 103 for the full year of which 26 came in the fourth quarter.

2016 in review

When summarizing 2016, I can conclude that there were a number of strong achievements during the year, however,

The first congress presentation with compiled Episealer® clinical data was held in May 2016, when 12 months' data was presented at the SFAIM-meeting in Sweden. This was followed by presentations of clinical data at the SOF-meeting in Sweden as well as at ICRS World Congress. The results show statistically significant clinical improvements from preoperatively to 12 and 24 months' follow-up of the patients. Continued production of clinical evidence is of utmost importance for us and we are very satisfied with the progress we made in 2016. However, we realize that we are in the beginning of the process of building our clinical track record and we look forward to increase the patient population.

Another priority for 2016 was our regulatory preparatory work for our goal of obtaining FDA approval in the US, the world's largest orthopedic market. In order for us to obtain FDA approval we have to go through one of three possible regulatory pathways. In July 2016, we

"2016 was an important year for Episurf Medical as we took several important steps on our development curve"

in some parts of our business, the speed of execution did not fully meet the expectations. That said, when taking the long-term view on the company, our positive view remains and clearly outweighs the challenges we met during 2016. Let me explain why.

In early 2016 we set up a number of strategic priorities for the year, namely (i) production of scientific clinical evidence (ii) commercial execution, (ii) regulatory and reimbursement work with respect to our geographical expansion, including a specific focus towards the US market, as well as (iv) continued innovation of products and services. We made significant progress on all of our strategic priorities, and I will continue by focusing on some of the highlights and challenges within each area.

participated in a pre-submission meeting with the FDA in Washington. Following this meeting, we submitted a 513(g) Request for information for obtaining FDA's views about the classification and the regulatory requirements that may be applicable to the Episealer® device. We await FDA's response to our 513(g) Request. We are confident that we did an excellent job with our pre-submission work during 2016 and we are well prepared for taking the next steps on our US strategy. In parallel, we are continuing to work towards securing reimbursement levels in our European key markets.

When it comes to product development, we have continued to develop our Episealer® technology during 2016. This work has been underpinned by our close

co-operation with our surgeons as well as with our clinical advisory board. The highlight during the year was the CE mark of our Epioscopy® Damage assessment tool. We have received very satisfactory feedback from our surgeons on the 3D-based damage assessment tool and its role in the clinical decision making process. We see great potential in Epioscopy® and will continue to develop the product during 2017.

We shall also acknowledge that the speed of execution of our commercialization did not fully meet our expectations and our conclusion is that we underestimated the lead times in our sales cycle. Commercialisation of a novel technology in a previously difficult to treat patient group, with a new sales team in the traditionally conservative sector of orthopedic implants, does come with challenges. It is a top priority in our daily work to remove the bottlenecks and challenges we have faced in our early days and shorten the time from product introduction to actual order and surgery. Efforts to convince surgeons about Episealer's benefits has been a relatively straight-forward sales communication. However, the other selling steps are more challenging, such as re-imbursement, MRI compatibility and clinical data. The surgeon acceptance is clearly a strength. And, we will continue to build off that base. All our sales representatives have intense activity in their respective regions and we look forward to seeing that their persistent work bears fruit.

Establishing ourselves in the industry

I would also like to mention that during 2016, it was very important for Episurf Medical to establish our brand within the knee industry and for our technology to gain recognition as an accepted treatment option through our marketing activities. In May 2016, we attended the ESSKA (European Society of Sports, Traumatology, Knee Surgery and Arthroscopy) congress in Barcelona, attended predominantly by leading European knee surgeons but with a strong international visiting faculty. Later in the

year, we attend the ICRS (International Cartilage Repair Society) World Congress in Sorrento. Here we delivered an educational symposium with well-known surgeons from around the world coming to find out how our technology works. These activities are important in our work towards becoming accepted as a valid treatment option for patients with articular cartilage damages in their knee joints.

In summary, 2016 was a good year for Episurf Medical as we took several important steps on our development curve. We now need to continue our persistent work, which is the only way to introduce a new technology into our targeted market. Every day, we are seeing evidence of the fact that we are becoming a part of the surgeons' treatment algorithm for focal cartilage lesions.

Looking forward

Our priorities for 2017 will build on the momentum from 2016 and our speed of execution shall improve across our business. Continued commercialization in our key European markets together with production of clinical evidence is a top priority for us. The next step of the US strategy, namely the submission of an application for FDA approval, is a second priority. A third priority is continued product development with a focus on our unique digital 3D-based damage assessment tool (Epioscopy®). The fourth key priority is continued strengthening of our positions in the fields of reimbursement, health economic studies and IP. In January 2017, we announced a rights issue of SEK 120 million for the purpose of funding this strategy. All in all, continued progress on this strategy indicates a very interesting future for Episurf Medical.

Stockholm, February 2017

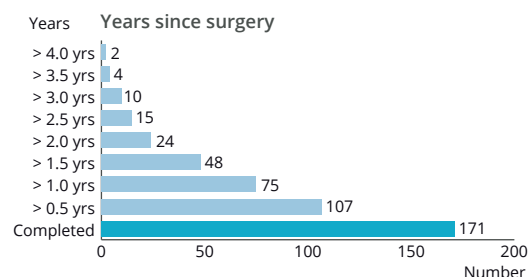
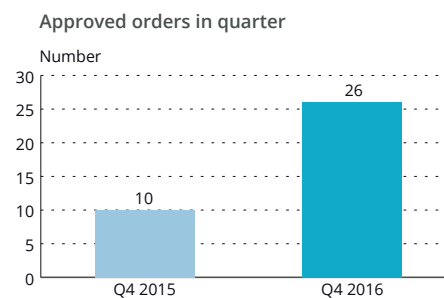
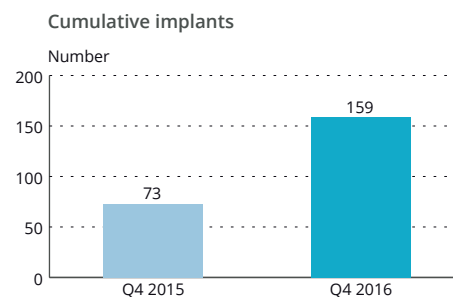
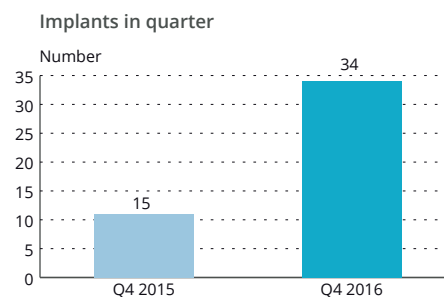
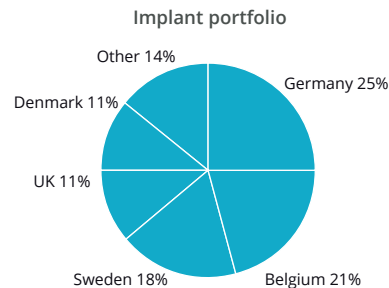
Pål Ryfors
Acting CEO and CFO

Business update and forward-looking statements

As of the reporting date on February 20 2017, Episurf Medical's implants had been used in 171 surgeries. The first quarter 2017 started with 12 surgeries performed in the first weeks. As illustrated by the clinical scores (KOOS and VAS, shown on page 6), 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 171 implants, we now have 2 patients who have had their implants for more than 4 years and 24 patients have now had their implants for more than 2 years since the surgery date.

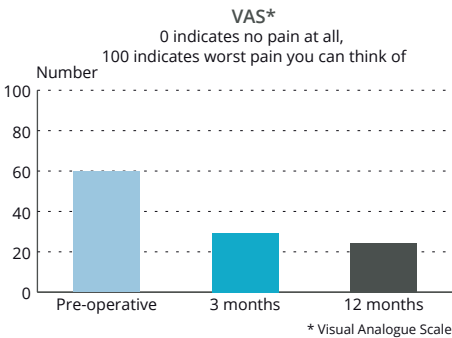
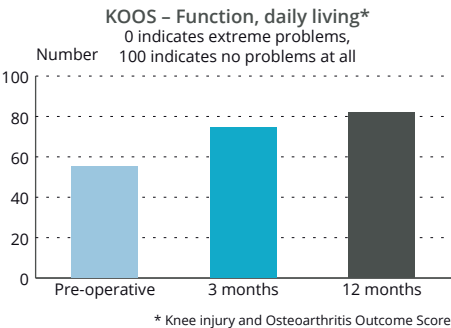
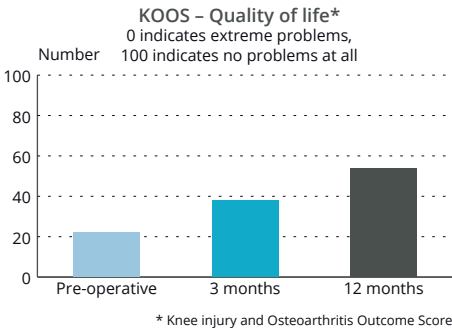
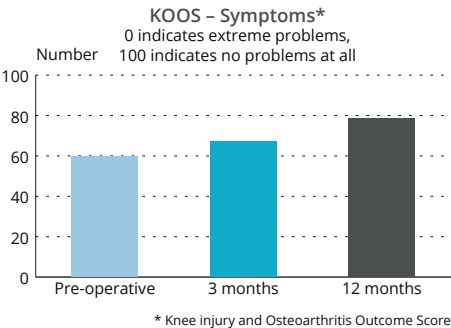
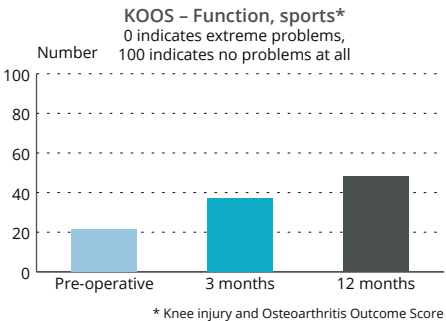
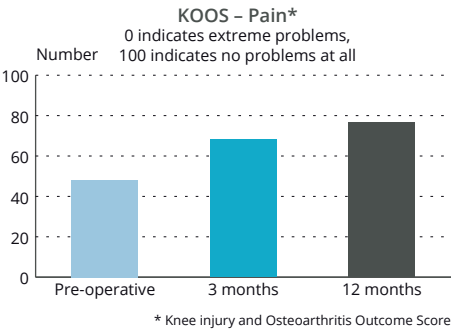
During the fourth quarter, 34 surgeries were performed with Episealer® and Germany was the strongest region with 16 surgeries performed. Germany now represents 25% of our total implant portfolio. 26 orders were approved for surgery during the fourth quarter.

During the fourth quarter, the two first revisions of Episealer® implants were made, one in Sweden and one in Belgium. In one of these cases, our damage marking report indicated damages in several areas of the knee prior to surgery, and the surgeon were left with few treatment options. The surgeon took the decision that an Episealer® was the most appropriate treatment in this difficult case, and the surgery outcome was satisfactory. However, 16 months after the Episealer implantation, the patient went on to do a partial knee replacement given that the damages in the knee were extensive. In the other case, the patient suffered from an infection and our analysis showed that there were no problems with the implant as such and that the surrounding cartilage was well preserved. Both revisions went well.



Clinical follow-up data

The graphs below present clinical data obtained for 48 Episealer® patients that have passed 12 months' follow-up, expressed as the clinical scores KOOS and VAS.



Financial information

Group

Net sales and operating profit/loss

Group net sales amounted to SEK 1,007,759 (375,368) in the quarter and to SEK 2,405,614 (1,016,462) for the financial year 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. 11 new employees have been hired since last December, eight for Sales and Market three in England, three in Germany and two in Sweden. Three new employees have also been hired for Operation, Management and Administration and three have left the company.

Financial position

Group cash and cash equivalents at end of period amounted to SEK 42,300,018 (103,960,776). The equity ratio was 80.8% (93.0). Group investments in intangible assets amounted to SEK 1,718,275 (2,902,558) for the quarter of which SEK 545,053 (1,781,175) are related to capitalized development costs and the financial year investments in intangible assets amounted to SEK 5,405,142 (7,247,777) of which SEK 1,605,049 (4,643,111) are related to capitalized development costs, remaining investments relates to patents. Investments in tangible assets amounted to SEK 29,191 (128,610) for the quarter and SEK 135,721 (128,610) for the financial year.

Human resources

Number of employees in the Group at end of the period was 27 (18). The increase is primarily a result of recruitment in marketing and sales.

Parent Company

Net sales and operating profit/loss

Total income amounted to SEK 565,594 (2,605,164) for the quarter and for the financial year to SEK 1,605,019 (6,382,257) Income after financial items amounted to

SEK -13,966,603 (-6,464,129) for the quarter and SEK -34,127,522 (-21,709,809) for the financial year.

Financial position

Cash and cash equivalents at the end of period for the Parent Company amounted to SEK 40,109,215 (101,963,730). The equity ratio was 90,2% (97,0). Investments in intangible assets, capitalized development costs, amounted to SEK 545,053 (1,781,175) for the quarter and SEK 1,605,049 (4,643,111) for the financial year. Investments in tangible assets amounted to SEK 62,499 (-) for the quarter and for the financial year.

Human resources

Number of employees in the Parent Company at end of the period was 14 (12).

Transactions with closely related parties

Shareholder and Board member Leif Ryd has received consulting fees of SEK 540,000 (540,000).

Serendipity Professionals AB has received consulting fees of SEK 0 (1,629,951) of which SEK 0 (662,875) was recharged costs, Serendipity Communications AB has received a consultancy fee of SEK 850,073 (613,265), Serendipity Legal AB has received consulting fees of SEK 50,000 SEK (-) and Sprof AB has received consulting fees of SEK 21,375 (-). Serendipity Professionals AB, Serendipity Communications AB, Serendipity Legal AB and Sprof AB are related parties to Episurf Medicals largest shareholder Serendipity Ixora AB. The Chairman and Members of the boards fees were agreed by the AGM and is shown below.

The Chairman receive SEK 400,000. Wil Boren and Wilder Fulford receive remuneration of SEK 200,000. Saeid Esmailzadeh, Leif Ryd and Christian Krüeger receive remuneration of SEK 100,000 respectively. In total, the board fees amount to SEK 1,100 000 (500,000). 8/12 of the Directors fees are accrued during 2016.

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.

31 Dec 2016

A-shares	3,400,871
B-shares	12,548,933
Total number of shares	15,949 804
Total number of votes	22,813 418

The ten largest shareholders in Episurf Medical AB at December 31, 2016

	No. of A-shares	No. of B-shares	Share capital in %	Voting rights, %
Serendipity Ixora AB	2,822,563	0	17.7	37.22
Nordea Investment Funds	56,033	1,081,815	7.1	5.49
Gile Medicinkonsult AB	254,945	128,454	2.4	3.93
Försäkringsaktiebolaget, Avanza Pension	0	698,119	4.4	3.07
Rhenman Healthcare L/S Fund	0	688,178	4.3	3.02
AMF - Försäkring och Fonder	0	620,224	3.9	2.73
LMK Forward AB	0	600,000	3.8	2.64
Lönn, Mikael	106,179	280,000	2.4	2.63
Kaupthing HF.	0	501,334	3.1	2.2
Swedbank försäkring	0	399,518	2.5	1.76
Total, 10 largest shareholders	3,239,720	4,997,642	51.6	64.7
Summary, others	161,151	7,551,291	48.4	35.3
Total	3,400,871	12,548,933	100.0	100.0

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 Year-end 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, 19 February 2017

Dennis D. Stripe
Board chairman

Wil Boren
Board member

Saeid Esmailzadeh
Board member

Wilder Fulford
Board member

Leif Ryd
Board member

Christian Krüeger
Board member

Pål Ryfors
Acting CEO and CFO

Consolidated income statement

SEK	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Operating income				
Net sales	1,007,759	375,368	2,405,614	1,016,462
Other operating income	821,447	1,849,848	1,859,976	5,628,598
Total income	1,829,206	2,225,216	4,265,590	6,645,060
Operating expenses				
Other expenses	-10,417,842	-5,619,686	-32,759,994	-21,584,339
Personnel costs	-8,728,449	-10,100,802	-29,157,850	-26,834,214
Depreciation	-968,316	-677,894	-4,056,494	-2,235,026
Total operating expenses	-20,114,607	-16,398,382	-65,974,338	-50,653,579
Operating loss	-18,285,401	-14,173,166	-61,708,748	-44,008,519
Financial items				
Financial income, other	-168,790	24,606	44,224	34,544
Financial expenses, other	-20	-283	-2,940	-687
Results from financial items	-168,810	24,323	41,284	33,857
Loss before tax	-18,454,211	-14,148,843	-61,667,464	-43,974,662
Tax on income for the period	-	-	-	-
Loss for the period	-18,454,211	-14,148,843	-61,667,464	-43,974,662
<i>Net loss attributable to:</i>				
Parent company shareholders	-18,454,211	-14,148,843	-61,667,464	-43,974,662
Earnings per share before and after dilution are consistent with the rules in IAS 33	-1,16	-0,89	-3,87	-3,52
Average number of shares	15,949,804	15,953,620	15,949,804	12,504,417

Consolidated statement of comprehensive income

SEK	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Net profit	-18,454,211	-14,148,843	-61,667,464	-43,974,662
<i>Other comprehensive income for the period:</i>				
Other comprehensive income that may be reclassified subsequently to profit or loss for the period, net of tax	-170,939	173,229	412 960	173,229
Total comprehensive income for the period	-18,625,150	-13,975,614	-61 254 504	-43,801,433

Consolidated balance sheet

SEK	31 Dec 2016	31 Dec 2015
ASSETS		
Non-current assets		
<i>Intangible assets</i>		
Capitalized development costs	4,302,265	4,660,637
Patent	8,271,484	6,385,717
Total intangible assets	12,573,749	11,046,354
<i>Property, plant and equipment</i>		
Equipment	382,054	423,838
Total property, plant and equipment	382,054	423,838
Total non-current assets	12,955,803	11,470,192
Current assets		
Inventories, finished goods and goods for resale	1,106,057	1,154,578
Trade receivables	581,336	199,864
Other receivables	1,570,475	869,741
Prepaid expenses and accrued income	1,791,272	545,064
Cash and bank balances	42,300,018	103,960,776
Total current assets	47,349,158	106,730,023
TOTAL ASSETS	60,304,961	118,200,215
EQUITY AND LIABILITIES		
Equity		
<i>Equity attributable to owners of the parent</i>		
Share capital	4,788,992	4,788,991
Other capital	104,990,893	237,044,614
Reserves	586,189	173,229
Earned income including net result	-61,667,464	-132,072,295
Total equity	48,698,610	109,934,539
Liabilities		
<i>Non-current liabilities</i>		
Non-current liabilities	10,320	-
Total long-term liabilities	10,320	-
<i>Current liabilities</i>		
Trade payables	6,234,498	1,787,912
Other liabilities	1,584,129	1,745,361
Accrued liabilities and deferred income	3,777,404	4,732,403
Total current liabilities	11,596,031	8,265,676
Total liabilities	11,606,351	8,265,676
TOTAL EQUITY AND LIABILITIES	60,304,961	118,200,215
Equity ratio	80.8%	93.0%
Equity per share, SEK	3.05	6.89

Consolidated statement of changes in equity

SEK	Attributable to equity holders of the parent				Total equity
	Share capital	Other contributed capital	Reserves	Accumulated deficit incl. loss for the year	
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			412,960	-61,667,464	-61,254,504
Total comprehensive income			412,960	-61,667,464	-61,254,504
Transactions with shareholders					
Options issued to staff	-	-	-	18,575	18,575
Total transactions with shareholders	-	-	-	18,575	18,575
Closing equity 31 December 2016	4,788,991	237,044,614	586,189	-193,721,184	48,698,610

Condensed cash flow statement

SEK	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Operating activities				
Operating loss	-18,285,401	-14,173,166	-61,708,748	-44,008,519
<i>Adjustments for items not included in cash flow</i>				
Depreciation	968,316	677,894	4,056,494	2,235,026
Employee stock option expenses	9,536	-	18,575	-
Interest received	5,765	24,606	43,438	34,544
Interest paid	-20	-283	-2,940	-687
Paid taxes	-	-	-	-
Cash flow from operating activities before change in working capital	-17,301,804	-13,470,949	-57,593,181	-41,739,636
Change in working capital				
Decrease/increase in inventory	-26,643	97,271	48,520	319,086
Decrease/increase in trade receivables	277,705	-25,439	-381,472	-175,520
Decrease/increase in current receivables	-559,035	647,628	-1,946,942	-493,057
Decrease/increase in current liabilities	5,523,335	2,136,296	3,777,031	4,050,095
Change in working capital	5,215,362	2,855,756	1,497,137	3,700,604
Cash flow from operating activities	-12,086,442	-10,615,193	-56,096,044	-38,039,032
Investing activities				
Purchase of intangible fixed assets	-1,718,275	-2,902,558	-5,405,142	-7,247,777
Purchase of property, plant and equipment	-29,191	-128,610	-159,572	-128,610
Cash flow from investing activities	-1,747,466	-3,031,168	-5,564,714	-7,376,387
Financing activities				
New share issue	-	-188,601	-	114,886,396
Cash flow from financing activities	-	-188,601	-	114,886,396
Cash flow for the period	-13,833,908	-13,834,962	-61,660,758	69,470,977
Cash and cash equivalents at beginning of period	56,133,926	117,795,738	103,960,776	34,489,799
Cash and cash equivalents at end of period	42,300,018	103,960,776	42,300,018	103,960,776

Income statement, Parent Company

SEK	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Operating income				
Net sales	–	754,609	–	754,609
Other operating income	565,594	1,850,555	1,605,019	5,627,648
Total income	565,594	2,605,164	1,605,019	6,382,257
Operating expenses				
Other expenses	–9,296,290	–3,181,188	–21,327,889	–12,949,289
Personnel costs	–4,935,958	–5,513,251	–13,596,551	–14,968,281
Depreciation	–300,996	–496,498	–1,697,907	–589,997
Total operating expenses	–14,533,244	–9,190,937	–36,622,347	–28,507,567
Operating loss	–13,967,650	–6,585,773	–35,017,328	–22,125,310
Financial items				
Financial income, other	1,047	121,925	891,836	415,906
Financial expenses, other	0	–281	–2,030	–405
Loss from net financial items	1,047	121,644	889,806	415,501
Loss before contribution and tax	–13,966,603	–6,464,129	–34,127,522	–21,709,809
Contribution				
Group contributions	–	–7,054,000	–	–7,054,000
Loss before tax	–13,966,603	–13,518,129	–34,127,522	–28,763,809
Tax on income for the period	–	–	–	–
Loss for the period	–13,966,603	–13,518,129	–34,127,522	–28,763,809

Parent Company statement of comprehensive income

SEK	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Net profit	–13,966,603	–13,518,129	–34,127,522	–28,763,809
Other comprehensive income for the period:				
Other comprehensive income for the period, net of tax	–	–	–	–
Total comprehensive income for the period	–13,966,603	–13,518,129	–34,127,522	–28,763,809

Balance sheet, Parent Company

SEK	31 Dec 2016	31 Dec 2015
ASSETS		
Non-current assets		
<i>Intangible assets</i>		
Capitalized development costs	4,692,878	4,660,637
Patent	–	–
Total intangible assets	4,692,878	4,660,637
<i>Property, plant and equipment</i>		
Machinery	218,946	281,547
Total property, plant and equipment	218,946	281,547
<i>Financial assets</i>		
Shares in group companies	46,183,375	16,128,375
Non-current receivables from group companies	15,142,260	11,740,509
Total financial assets	61,325,635	27,868,884
Total non-current assets	66,237,459	32,811,068
Current assets		
Current receivables		
Other receivables	603,742	356,533
Prepaid expenses and accrued income	797,070	277,319
Total current receivables	1,400,812	633,852
Cash and bank balances	40,109,215	101,963,730
Total current assets	41,510,027	102,597,582
TOTAL ASSETS	107,747,486	135,408,650
EQUITY AND LIABILITIES		
Equity		
<i>Restricted equity</i>		
Share capital	4,788,992	4,788,991
Total restricted equity	4,788,992	4,788,991
<i>Unrestricted equity</i>		
Share premium reserve	235,844,613	235,844,614
Loss brought forward	–109,310,495	–80,546,687
Loss for the period	–34,127,523	–28,763,809
Total unrestricted equity	92,406,595	126,534,118
Total equity	97,195,587	131,323,109
Liabilities		
<i>Non-current liabilities</i>		
Non-current liabilities	4,795	0
Total non-current liabilities	4,795	0
<i>Current liabilities</i>		
Trade payables	4,154,482	640,962
Kortfristiga skulder till koncernbolag	2,914,675	0
Other liabilities	530,461	556,315
Accrued liabilities and deferred income	2,947,486	2,888,264
Total current liabilities	10,547,104	4,085,541
TOTAL EQUITY AND LIABILITIES	107,747,486	135,408,650
Pledged assets	None	None
Contingent liabilities	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				-34,127,522	-34,127,522
Disposition according to AGM					
Loss brought forward			-28,763,809	28,763,809	-
Other			-	-	-
Total comprehensive loss for the period			-109,310,496	-34,127,522	97,195,587
Transactions with shareholders	-	-	-	-	-
Total transactions with shareholders	-	-	-	-	-
Closing equity 31 December 2016	4,788,991	235,844,614	-109,310,496	-34,127,522	97,195,587

Condensed cash flow statement, Parent Company

SEK	Oct-Dec 2016	Oct-Dec 2015	Jan-Dec 2016	Jan-Dec 2015
Operating activities				
Operating loss	-13,967,650	-6,585,773	-35,017,328	-22,125,310
<i>Adjustments for items not included in cash flow</i>				
Depreciation	300,996	-6,557,502	1,697,907	-6,464,003
Interest received	1,047	121,925	891,837	415,906
Interest paid	-	-281	-2,030	-405
Change in non-current liabilities	3,536	-	4,795	-
Cash flow from operating activities before change in working capital	-13,662,071	-13,021,631	-32,424,819	-28,173,812
Change in working capital				
Decrease/increase in current receivables	-31,640	995,855	-766,960	-5,779
Decrease/increase in current liabilities	8,564,460	-758,097	6,461,563	1,040,414
Change in working capital	8,532,820	237,758	5,694,603	1,034,635
Cash flow from operating activities	-5,129,251	-12,783,873	-26,730,216	-27,139,177
Investing activities				
Acquisition of intangible assets	-545,053	-1,781,174	-1,605,049	-4,643,111
Acquisition of property, plant and equipment	-	3,378	-62,499	3,378
Changes in financial assets	-8,325,678	1,559,941	-33,456,751	-9,747,455
Cash flow from investing activities	-8,870,731	-217,855	-35,124,299	-14,387,188
Financing activities				
New share issue	-	-188,601	-	114,886,396
Cash flow from financing activities	-	-188,601	-	114,886,396
Cash flow for the period	-13,999,982	-13,190,329	-61,854,515	73,360,031
Cash and cash equivalents at beginning of period	54,109,197	115,154,059	101,963,730	28,603,699
Cash and cash equivalents at end of period	40,109,215	101,963,730	40,109,215	101,963,730

Notes

Note 1 Accounting policies

The Year-end report for the Group has been prepared in accordance with IAS 34 *Interim Reports* and the Annual Accounts Act. The Year-end 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 540,000 (540,000). Serendipity Communications AB has received consulting fees of SEK 850,073 SEK (613,265), Serendipity Legal AB of SEK 50,000 SEK (-) and Sprof AB SEK 21,375 (-). The Chairman and Members of the boards fees were agreed by the AGM and is shown below.

Board members	2016	2015
Dennis Stripe, Chairman	400,000	-
Wil Boren, Member	200,000	-
Wilder Fulford, Member	200,000	-
Christian Krüeger, Member	100,000	-
Saied Esmaeilzadeh, Member	100,000	100,000
Leif Ryd, Ledamot, Member	640,000	640,000
Jeppe Magnusson, Member	-	100,000
Thomas Nortoft, Member	-	100,000
Robert Charpentier, Member	-	100,000
Total	1,640,000	1,040,000

Note 3 Intangible fixed assets

Patent, group	Dec 31 2016	Dec 31 2015
Opening cost	16,725,678	9,477,901
Purchases during the year	3,800,093	2,604,666
Capitalized development costs		
Capitalisation during the year	1,605,049	4,643,111
Impairment development costs	-506,256	-
Closing accumulated cost	21,624,564	16,725,678
Opening depreciation	-5,679,324	-3,582,892
Depreciation for the year	-2,304,939	-1,630,256
Capitalized development costs		
Depreciation for the year	-1,066,552	-466,176
Closing accumulated depreciation	-9,050,815	-5,679,324
Total intangible fixed assets	12,573,749	11,046,354

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-visualizations of the segmented patient knee.

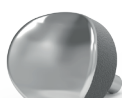
Three different knee implants with a focus on early stages of arthritis

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

Interim report January–March 2017	19 May 2017
AGM	22 May 2017
Interim report April–June 2017	18 August 2017
Interim report July–September 2017	10 November 2017
Year-End Report 2017	23 February 2018

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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