



Pål Ryfors,
CEO

Message from the CEO

Dear shareholders,

During the third quarter, we saw a 50% increase in the number of approved Episealer® orders (42) compared to previous quarter (28) and compared to the corresponding quarter 2016 (28). We are continuing to decrease our expenses, and expenses were SEK 1.6m (10%) lower in Q3 2017 compared to Q3 2016. Billing takes place upon delivery why revenues are recognized with some delay to order approval. During the quarter, we had a number of new surgeons starting to use our technology in locations such as Berlin, Nuremberg, Hochheim and Bad Frankenhausen. Early Q4, we started up new users in locations such as Suhl, Munich, Warwick, Bern, Sint- Niklaas, Aalst, Southampton and Essen. We can conclude that the Episealer® technology is gaining attention and acceptance in Europe.

Our priorities

If we look at the priorities for Episurf Medicals today, I would say that these are two-folded and closely related to

Clinical development

To start off with, a large European multicenter study involving 100 Episealer® patients is ongoing. The patients in the study are followed-up at 3, 6, 12, 24 and 60 months post-operatively with clinical scores focusing on pain relief and knee function. The patients have been enrolled since 2014 and the last surgery was recently performed. The surgeons involved in the clinical study are eleven leading European orthopaedic surgeons. Dr. med. Johannes Holz from Park-Klinik Manhagen, Hamburg, Germany, has been appointed principal investigator for the study. The study is expected to yield publications on both interim results and final results. A abstract has recently been submitted to a leading congress in early 2018.

Moreover, we are in the final stages of completing a comparative cost utility study together with the Linköping University, Sweden, showing the economic scenario over 40 years, comparing Episealer® to microfracture which

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each other. We are focusing on increased revenues and our 50% increase of approved orders in the third quarter represented a strong development in this context. The second priority is the generation of clinical evidence which is the basis for successful commercialisation. Our concept represents a new technology, in a previously difficult to treat patient group. Commercialising such a technology must be backed-up by robust scientific documentation. On this topic, we have some intriguing updates to share.

is a widely used biological procedure. An abstract for this health economic study has also been submitted to a leading congress 2018. More on this topic. A Swedish multicenter study with 24 months' data following 10 patients is in the final stages before scientific publication. Dr Anders Stålmán from the Capio Arthro Clinic in Stockholm is the principal investigator for this study and interim results were presented at two congresses in 2016. Further, Södersjukhuset in Stockholm (Stockholm South General

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▶ Hospital), Sweden, recently received approval to go ahead with a clinical study following 30 Episealer® patients over 60 months. A number of patients have been identified and the study will be initiated shortly. In addition, in the near future, another Swedish clinic is expecting ethical approval for a clinical study involving 20 Episealer® patients to be followed during 12 months. Furthermore, we are awaiting the scientific publication of another pre-clinical Episealer® article, with Dr. med. vet. Hanna Schell from the prestigious Charité University Hospital in Berlin, Germany, as the first author.

I think it is fair to say that our clinical pipeline is filled with highly relevant and very interesting publications, and there is more to come. We are in negotiations with a number of other institutions for both single- as well as multicenter studies on an international basis. We are definitely experiencing a growing scientific interest for the Episealer® technology. Looking at our proprietary data collection, we now have more than 280 Episealers® sold of which 244 surgeries have taken place, with the others being planned for the coming weeks. We now have 63 patients who have passed 2 years since surgery, and 7 patients have passed 4 years since surgery. On this theme, I would like to highlight something that we are particularly happy about: Our very first patient, a then 56 years-old physical education teacher from Stockholm, Sweden, has now had his implant for just about 5 years. This patient is currently in an intense training session for Vasaloppet, a 90-kilometer cross-country ski race, in March 2018. Today, we are posting an informational video of this patient, showing his way back to living life. In the movie which I encourage you to view at our website, I especially appreciate the session where Dr Nicolas Martinez-Carranza from the Karolinska Institute in Stockholm informs the patient about the fact that the patient will be the first in the world to receive this implant.

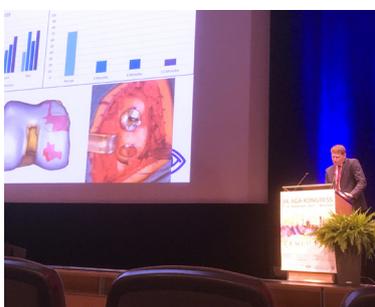
Without hesitation, the patient accepts being treated with an Episealer® given the problems he was experiencing and the lack of treatment alternatives that were available to him. I think that this is a good illustration of the type of problems we are trying to solve for our patients.

Results presentations

In addition to publishing clinical results, it is of great importance that clinical results are presented by prominent surgeons at relevant and leading congresses and meetings. Recent examples of this includes the presentation from **Dr Clemens Kösters** from the University of Münster at the important AGA congress (Society for Arthroscopy and Joint Surgery) in Germany. Dr Kösters talked about his experiences using the Episealer® device and presented results from his patient cases.

In Norway, **Dr Martin Polacek** from Drammen sykehus and **Prof. Lars Engebretsen** from Oslo universitetssjukhus, Ullevål, both held presentations about the Episealer® technology at the Norwegian orthopaedic society’s autumn meeting. Prof. Engebretsen’s presentation focused on a patient who rapidly got pain-free after receiving an Episealer®, following several years of failed knee treatments. Dr Polacek’s presentation focused on the Episealer® as a good alternative for patients with cartilage injuries, offering excellent preoperative mapping and planning capabilities and a straight forward surgical technique. Dr Polacek also highlighted the few complications and the good clinical results.

At the annual “uni-knee meeting” (Combined Bristol & Oxford Unicompartmental Knee Arthritis Symposium) held in Oxford, England in October, the so called “small implants” were yet again on the agenda. **Dr Jon Waite** from Warwick Hospital held a presentation on that theme and Episealer® was highlighted as one of the key alternatives ▶



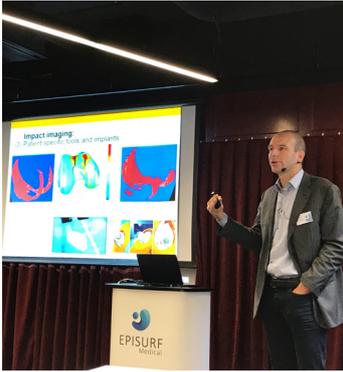
Dr Clemens Kösters



Dr Martin Polacek



Dr Jon Waite



Prof. Pieter Emans



Dr Johannes Holz



Prof. Tim Spalding and Ass. Prof. Karl Eriksson

► for treating this difficult to treat patient group. I was in the audience myself and it was encouraging to listen to the panel discussion where surgeons testified to the fact that they need treatment alternatives for patients who say “I want my life now”. Today, patients are simply not accepting the alternative of waiting for years with severe pain until a knee replacement is the only alternative left.

We also just concluded our first ever Masterclass in Stockholm, where about 40 European surgeons participated. During this two-day educational event, a faculty consisting of **Prof. Pieter Emans** from University Hospital Maastricht, Netherlands, **Ass. Prof. Karl Eriksson**, Söder-sjukhuset, Sweden, **Dr. med. Johannes Holz**, Park-Klinik Manhagen, Hamburg, Germany, Dr Nicolas Martinez-Carranza, Karolinska Institute, Stockholm, Sweden and **Ass. Prof. Tim Spalding**, University Hospitals Coventry and Warwickshire, UK, led the discussions on the use of the Episealer® technology, covering topics such as clinical results, indications, practical use and case studies. Prof. Leif Ryd from Episurf Medical also participated by delivering a presentation of the background and scientific starting point of the Episealer® technology. When we combine the production of relevant clinical data with presentations from Key Opinion Leaders (KOLs), we are effectively reaching out to a significant number of orthopaedic surgeons in our prioritised markets. We are confident that this scientific-based strategy is the correct one, and the recent weeks and months have clearly demonstrated a break-through on this strategy. Our continuous progress will take us closer to the significant volume opportunity that exists for us in the treatment gap of focal cartilage and bone lesions in the knee joint.

Concluding remarks

The type of progress we currently are experiencing is precisely the type of development we would like to see. That said, we are continuing to focus on increasing sales, but we must simultaneously ensure that we are strengthening our scientific base. And we are rapidly improving our position by doing precisely this.

Ending with a couple of personnel changes. As of today, Fredrik Zetterberg is appointed Head of Marketing of Episurf Medical. Fredrik is a highly skilled leader who has worked at Episurf Medical since early 2016 as Head of Sales Nordic and Benelux. For now, Fredrik will combine his two roles and we are grateful for Fredrik’s contribution to our company. On a final note, I would like to thank Professor Seppo Koskinen for his contribution to Episurf Medical. As a member of our Clinical Advisory Board, Prof. Koskinen played an important role within the fields of radiology and imaging techniques. Prof. Koskinen left our advisory board during Q3 2017.

At Episurf Medical, we have a tremendous amount of work ahead of us, however, current developments are really inspiring and indicates a bright future for this company.

Pål Ryfors, CEO
Stockholm, November 2017