



INTERIM REPORT

JANUARY–SEPTEMBER 2013

Third quarter, July – September 2013

- » Income after financial items amounted to SEK –4,773,884 (–2,734,863). The difference compared to last year is mainly due to increased cost related to development and marketing activities for the company's controlled product launch.
- » Earnings per share (weighted average) amounted to SEK –0.61 (–0.43).

Nine months, January – September 2013

- » Income after financial items amounted to SEK –16,712,072 (–9,853,216). The difference compared to last year is mainly due to increased cost related to development and marketing activities for the company's controlled product launch.
- » Number of shares at end of period was 7,953,986 (6,400,000).
- » Average number of shares was 7,852,571 (6,400,000).
- » Earnings per share (weighted average) amounted to SEK –2.13 (–1.54).
- » Shareholders' equity per share amounted to SEK 9.78 (4.74).
- » Number of employees at end of period was 8 (6).
- » Equity/assets ratio was 94,9% (92,9%).

Significant events, third quarter

- » Episurf Medical completed its first kick off meeting with selected surgeons from five orthopaedic sites in northern Europe. Thus, the company's product launch of the personalized implant Episealer® Femoral Condyle was initiated.
- » Episurf Medical received approval for its sixth European patent for the personalized implant Episealer®.
- » Episurf Medical received CE-certification for its personalized implant, the Episealer® Femoral Condyle, which is a prerequisite for commercial sale in the European market.
- » A new share issue with preferential rights for existing shareholders was performed. The preferential rights issue was fully subscribed and provided Episurf Medical with approximately SEK 20 million before deduction of issue costs. The preferential rights issue increased Episurf Medical's share capital by SEK 122,717.40 and the number of shares increased by 409,058 B shares.

Significant events after the reporting period

- » Episurf Medical filed for CE-certification for another product, Episealer® Trochlea.

Share information

There are two types of shares in Episurf Medical, Class A-shares and Class B-shares. Class B-shares are traded on Nasdaq OMX First North since August 15, 2015 under the ticker EPIS B. 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. The total number of shares outstanding at the end of the reporting period was 7,953,986, of which 2,743,883 were Class A-shares and 5,210,103 were Class B-shares.

Consolidated financial statement

In accordance with the Annual Accounts Act, Chapter 7, § 3a, no consolidated financial statement has been prepared as the subsidiaries are considered to be of minor importance.

Forthcoming financial information

Year-end report for 2013: February 21, 2014

Review

This report has not been reviewed by the company's auditors.

Transactions with closely related parties

Shareholder and board member Leif Ryd has received consulting fees of SEK 286,000.

Certified Advisor

Episurf Medical's Certified Adviser on Nasdaq OMX First North is Wildeco Ekonomisk Information AB.

CEO'S COMMENTARY

Episurf Medical reached two significant milestones in the quarter, obtaining our first CE-certification and commencing our first controlled product launch.

Episurf enters commercialization phase

At the end of September, Episurf held the first kick-off meeting for a controlled product launch of its personalized implant Episealer[®], Femoral Condyle. Carefully selected surgeons from five northern European orthopaedic clinics attended the launch. This is a momentous milestone for Episurf Medical because it means several leading orthopaedic surgeons are now trained in our technology and products, which means they're ready to start using our implants in orthopaedic surgery. Another two training sessions for surgeons from central and southern Europe are planned, one of them scheduled before year-end.

Within the controlled product launch, discussions are underway with approximately 25 clinics throughout Europe, including the Nordic countries, Germany, Poland, Switzerland and England.

By allowing a limited group of carefully selected surgeons to act as pilot users of our implants, we can control their use, assure high quality and patient safety. At the same time, we get the usage of our implants by leading surgeons underway in selected countries—a great advantage ahead of our full product launch.

We also recently secured our first product-related revenue, following an implant order from one of the clinics that participated in our kick-off meeting. This means that Episurf Medical's first controlled product launch is now underway and that we've entered the commercialization phase, albeit on a small scale initially.

First CE-certification obtained, more in the pipeline

We were able to start the controlled product launch of Episealer[®] Femoral Condyle in the summer, having secured CE-certification for this product—required for sales and marketing in Europe. Although the process for obtaining certification might seem drawn out, we gained approval almost a full year ahead of original schedule. This is because Episurf Medical's notified body, which oversees and verifies CE-certification, concluded that the results of earlier studies and available product data were sufficient for approval.

We're now actively continuing to commercialize our product portfolio. Our next step is CE-certification for Episealer[®] Trochlea. This new product is based on our personalized implants and intended for the treatment of cartilage damage in the area behind the kneecap. All the necessary documentation has been filed and we expect the application process to be considerably faster this time round. If everything goes according to plan, we expect a decision in the first quarter of next year. Once the product has obtained CE-certification and marketing approval, we plan to commence the controlled product launch of Episealer[®] Trochlea in selected European countries, in the same way as is currently ongoing for Episealer[®] Femoral Condyle.

Stock market listing and controlled product launches

Episurf Medical completed the last of three new share issues in the quarter, raising approximately SEK 20 million of additional capital before issue expenses. The new share issues mean that Episurf Medical is well capitalized with some SEK 75 million in cash at the end of the period.

As previously reported, we intend to transfer marketplace, listing the Episurf Medical share on Nasdaq OMX Stockholm's main list. The reason for the changeover is that ongoing and forthcoming product launches mean Episurf Medical is entering a new phase, and this listing will enable far more institutional investors to trade and hold the share. We started working on our listing process and plan to apply for a listing at some point during the first half-year of 2014.

Our main focus for the immediate future is the ongoing launch of Episealer[®] Femoral Condyle and preparing additional candidate products for commercial launch.

Stockholm, Sweden, November 6, 2013



Nina Bake
CEO, Episurf Medical AB

EPISURF MEDICAL AB (publ.)

Background

Episurf Medical was incorporated in January 2009, having previously been a subsidiary of Diamorph AB. Episurf Medical is listed on Nasdaq OMX First North since August 2011. Since its foundation, the company has focused on developing implants and associated surgical instruments for the repair of cartilage damage in joints.

Osteoarthritis is the most common knee-disease that breaks down cartilage in human joints. Osteoarthritis is a growing problem. An estimated 10 percent of the population in the Western world over the age of 25 suffers from osteoarthritis in any form, which makes the presence of the disease more common than diabetes.

Episurf Medical's treatment method consists of the personalized implant, Episealer[®], and the surgical drilling templates Epiguide[®]. Using Episurf Medical's µFidelity[®] system implants can be cost-effectively adapted to each person's unique injury for optimum fit and minimal intervention.

Vision

Episurf Medical's vision is to be a pioneer in innovating and in providing easy-to-use, effective patient specific treatments for people with painful joints.

Mission

We know that all patients are unique; therefore, we make individually customized implants – perfectly personalized for each patient. In doing so, we believe that we can improve the outcome for the patients.

Business idea

Episurf Medical's business idea is to develop, manufacture and commercialize solutions for the repair of local cartilage damage in human joints.

Strategy

Episurf Medical's strategy is to develop and commercialize cost-effective solutions for repair of local cartilage damages. The strategy aims at treating patients suffering from early stage cartilage lesions, in order to allow maximum quality of life as well as flexibility for treatment options later in the patients' lives.

The Episurf Medical method

Every patient is unique. Therefore, Episurf Medical designs patient-specific implants and surgical instruments specifically manufactured for each surgery. Surgeons are provided with kits that are uniquely tailored to each patient's joint anatomy, damage position and size of injury.

Using customized tools during surgery increases the precision of the surgical procedure and results in an optimal positioning of the implant. The implants and surgical tools are designed prior to the surgery based on patient-specific data.

Three main components

The Episurf Medical method has three main components:

- » The Episealer[®] personalized implant
- » Epiguide[®], Episurf Medical's individualized drill guide
- » The µFidelity[®] process, a web-based system that accounts for the entire process from imaging of the joint to delivering of the customized implant and instruments.

Contract manufacturers are used for all production, providing scalability and adequate control over the manufacturing process.

Product development from concept to launch

Episurf Medical's continued product development is conducted according to a model that is tested and proven by the company's first commercial product. The product development process has the following phases:

- » Product design and product development
- » Preclinical studies
- » Application for clinical studies
- » Clinical studies or preparation of documentation used to apply for marketing approval
- » Application for marketing approval
- » Marketing approval (CE-Certification)
- » Controlled product launch to selected orthopaedic surgeons and clinics
- » Full-scale commercial product launch.

For more information, please contact:

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FINANCIAL INFORMATION



CONDENSED INCOME STATEMENT

(SEK)	Jul-Sep 2013	Jul-Sep 2012	Jan-Sep 2013	Jan-Sep 2012	Jan-Dec 2012
Net turnover	-	-	-	-	-
Capitalized development costs	-	-	-	-	-
Total income	0	0	0	0	0
<i>Operating costs</i>					
Other costs	-3,079,857	-2,063,063	-11,561,388	-7,522,493	-11,566,638
Personnel costs	-1,555,185	-973,872	-4,687,310	-2,379,140	-4,162,287
Depreciation	-308,823	-151,941	-725,294	-400,826	-573,710
Total operating costs	-4,943,865	-3,188,876	-16,973,992	-10,302,459	-16,302,635
Operating loss	-4,943,865	-3,188,876	-16,973,992	-10,302,459	-16,302,635
<i>Financial items</i>					
Financial income, other	170,681	449,681	263,291	449,681	533,297
Financial expenses, other	-700	4,332	-1,371	-438	-441
Loss after net financial items	-4,773,884	-2,734,863	-16,712,072	-9,853,216	-15,769,779
Loss before tax	-4,773,884	-2,734,863	-16,712,072	-9,853,216	-15,769,779
Tax on income for the period	-	-	-	-	-
Loss for the period	-4,773,884	-2,734,863	-16,712,072	-9,853,216	-15,769,779

BALANCE SHEET

(SEK)	Sep 30 2013	Sep 30 2012	Dec 31 2012	Dec 31 2011	Dec 31 2010
ASSETS					
Fixed assets					
<i>Intangible fixed assets</i>					
Patent	4,010,385	2,342,535	2,526,337	1,627,027	464,453
<i>Total intangible fixed assets</i>	4,010,385	2,342,535	2,526,337	1,627,027	464,453
<i>Tangible fixed assets</i>					
Machinery and equipment	401,871	203,480	120,592	100,487	16,942
<i>Total tangible fixed assets</i>	401,871	203,480	120,592	100,487	16,942
<i>Financial assets</i>					
Shares in group companies	150,000	-	-	-	-
<i>Total financial assets</i>	150,000	-	-	-	-
Total fixed assets	4,562,256	2,546,015	2,646,929	1,727,514	481,395
Current assets					
<i>Inventories</i>					
Finished goods and goods for resale	610,363	-	414,049		
<i>Short term receivables</i>					
Other receivables	571,087	435,994	701,858	717,643	594,981
Prepaid expenses and accrued income	609,008	770,331	1,074,445	147,066	18,825
<i>Total short term receivables</i>	1,790,458	1,206,325	2,190,352	864,709	613,806
Cash and bank balances	75,619,339	28,860,883	23,075,008	39,613,305	7,015,894
Total current assets	77,409,797	30,067,208	25,265,360	40,478,014	7,629,700
TOTAL ASSETS	81,972,053	32,613,223	27,912,289	42,205,528	8,111,095

BALANCE SHEET

(SEK)	Sep 30 2013	Sep 30 2012	Dec 31 2012	Dec 31 2011	Dec 31 2010
EQUITY AND LIABILITIES					
Equity					
<i>Restricted equity</i>					
Share capital	2,386,196	1,920,000	1,920,000	1,920,000	640,000
<i>Total restricted equity</i>	2,386,196	1,920,000	1,920,000	1,920,000	640,000
<i>Unrestricted equity</i>					
Share premium reserve	123,210,877	53,598,470	53,598,470	53,598,470	11,655,860
Loss brought forward	-31,126,515	-15,356,736	-15,356,736	-5,720,114	-462,932
Loss for the period	-16,712,072	-9,853,216	-15,769,779	-9,636,622	-5,257,183
<i>Total unrestricted equity</i>	75,372,290	28,388,518	22,471,955	38,241,734	5,935,745
Total equity	77,758,486	30,308,518	24,391,955	40,161,734	6,575,745
<i>Current liabilities</i>					
Accounts payable	1,306,957	838,682	1,615,331	1,127,974	647,023
Other liabilities	403,349	328,642	295,533	214,328	146,770
Accrued liabilities and deferred income	2,503,261	1,137,381	1,609,470	701,492	741,557
<i>Total current liabilities</i>	4,213,567	2,304,705	3,520,334	2,043,794	1,535,350
Total liabilities	4,213,567	2,304,705	3,520,334	2,043,794	1,535,350
TOTAL EQUITY AND LIABILITIES	81,972,053	32,613,223	27,912,289	42,205,528	8,111,095
Pledged assets	None	None	None	None	None
Contingent liabilities	None	None	None	None	None

CONDENSED STATEMENT OF CHANGES IN EQUITY

(SEK)	Share capital	Share premium reserve	Loss brought forward	Loss for the year	Total
Opening equity Jan 1, 2012	1,920,000	53,598,470	-2,558,494	-4,458,653	48,501,323
Change of principle effect			-8,339,589		
Opening equity after change of principle	1,920,000	53,598,470	-10,898,083	-4,458,653	40,161,734
Last year's loss brought forward		-	-4,458,653	4,458,653	-
Loss for the period	-	-	-	-15,769,779	-15,769,779
Closing equity Dec 31, 2012	1,920,000	53,598,470	-15,356,736	-15,769,779	24,391,955

(SEK)	Share capital	Share premium reserve	Loss brought forward	Loss for the period	Total
Opening equity Jan 1, 2013	1,920,000	53,598,470	-15,356,736	-15,769,779	24,391,955
New share issue	466,196	69,612,407			70,078,603
Last year's loss brought forward		-	-15,769,779	15,769,779	0
Loss for the period	-	-	-	-16,712,072	-16,712,072
Closing equity September 30, 2013	2,386,196	123,210,877	-31,126,515	-16,712,072	77,758,486

CONDENSED CASH FLOW STATEMENT

(SEK)	Jan-Sep 2013	Jan-Sep 2012	Jan-Dec 2012	Jan-Dec 2011	Jan-Dec 2010
Current operations					
Operating loss	-16,973,992	-10,302,459	-16,302,635	-10,159,600	-5,249,082
Depreciation	725,294	400,826	573,710	287,327	121,339
Received financial items	263,291	449,681	533,297	526,704	18,255
Paid financial items	-1,371	-438	-441	-3,726	-26,356
Cash flow from current operations before change in working capital	-15,986,778	-9,452,390	-15,196,069	-9,349,295	-5,135,844
Change in working capital					
Decrease/increase in inventory	-196,314	-	-414,049	-	-
Decrease/increase in current receivables	596,208	-341,616	-911,594	-250,903	-423,891
Decrease/increase in current liabilities	693,233	260,911	1,476,540	508,444	1,090,154
Change in working capital	1,093,127	-80,705	150,897	257,541	666,263
Cash flow from current operations	-14,893,651	-9,533,095	-15,045,172	-9,091,754	-4,469,581
Investing activities					
Purchase of intangible fixed assets	-2,169,038	-1,097,398	-1,446,067	-1,441,341	-552,499
Purchase of tangible fixed assets	-321,584	-121,929	-47,058	-92,104	-21,177
Purchase of financial assets	-150,000	-	-	-	-
Cash flow from investing activities	-2,640,622	-1,219,327	-1,493,125	-1,533,445	-573,676
Financing activities					
New share issue	70,078,604	-	-	43,222,610	11,763,860
Shareholder contributions	-	-	-	-	-
Cash flow from financing activities	70,078,604	0	0	43,222,610	11,763,860
Cash-flow for the period	52,544,331	-10,752,422	-16,538,297	32,597,411	6,720,603
Cash and cash equivalents at beginning of period	23,075,008	39,613,305	39,613,305	7,015,894	295,291
Cash and cash equivalents at end of period	75,619,339	28,860,883	23,075,008	39,613,305	7,015,894

Note: This document has been prepared in both Swedish and English. The Swedish version shall govern in case of differences between the two documents.



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