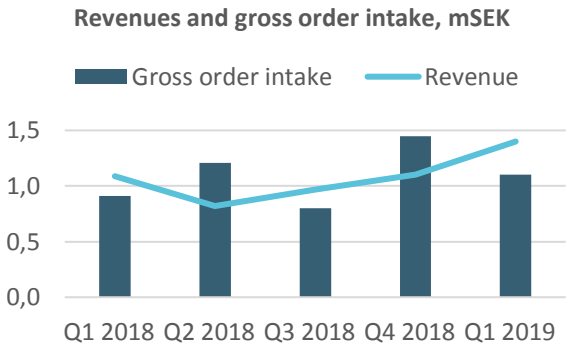
Q1 2019

Interim Report 1 January – 31 March 2019

First quarter 2019 compared to 2018, Group

- Gross order intake amounted to SEK 1.1m (0.9) and increase of 25.5%
- Order backlog amounted to SEK 1.0m (0.5)
- 25.6% increase in orders for Episealer® knee implants during the quarter with 49 (39) approved orders
- Group net sales Increased by 29.4% to SEK 1.4m (1.1)
- Loss before tax amounted to SEK -14.6m (-13.3)
- Earnings per share (weighted average) amounted to SEK -0.42 (-0.44)



Significant events during the first quarter

- Episurf Medical announced the start of a comparative investigator-initiated clinical study performed at the Julius Wolff Institute, Charité University Hospital, Berlin
- New Australian, Canadian, and US patent approvals for Episurf Medical
- Clinical results for Episealer® were presented at a German clinical congress in February
- Episurf Medical reached milestone of 500 implants
- Progress for Episurf medical in initiation of Episealer® Knee IDE study
- Pre-clinical study proving chondrointegration was accepted for publication in scientific journal

Significant events after the first quarter

- Prof. Niek van Dijk joined Episurf Medical's Clinical Advisory Board
- US and Japanese patent approvals for Episurf Medical
- Episurf Medical announced that the Company's COO Jeanette Spångberg has decided to leave the company June 1 and the Company's Chief Regulatory Officer – Regulatory Affairs, Quality and IP, Katarina Flodström, is appointed as new COO. In conjunction to these changes, the company announced that Michael Näsström is appointed Acting Quality Manager
- Episurf Medical announced that the Board resolved on a share issue of SEK 98.3m through a partially guaranteed preferential rights issue
- Episurf Medical announced that the Company will terminate the financing agreement with European Select Growth Opportunities Fund
- The Episealer® implant was highlighted in three scientific publications

Message from the CEO

Dear shareholders,

It is exciting times at Episurf Medical. For several years, Episurf has been a pioneer in our orthopaedic niche, and we believe we are well positioned to take the next step and become a leader. There isn't much disagreement in the industry about the fact a new standard is needed for the treatment of focal cartilage and bone lesions in the knee. However, it has not yet been clear which treatment alternative will become that standard. Several recent scientific publications have discussed the treatment gap, the challenges in treating this patient group, and various treatment alternatives. We are very pleased that the Episealer® has been highlighted as a promising technology for the future given the early clinical success and low revision rate. The Episealer® implant represents a new alternative for the treatment of a patient group that previously has been difficult to treat, and it is very encouraging that this is generating more and more scientific interest.

More and more surgeons include the Episealer® in their treatment algorithm in Europe, and the 500th surgery was planned during the first quarter. This was a significant milestone for us. Orthopaedic surgeons, authorities and other industry participants all want to see long term data in larger patient populations. We can confidently say that we have reached a critical mass in the number of patients treated, meaning that we expect the confidence in the Episealer® to benefit from a rapidly increasing supply of reported clinical data available. Eleven patients have now had their implant for more than five years, and four patients have had the implant for more than six years. The clinical results continue to look good, and we look forward to seeing the reliable clinical results demonstrated in larger patient populations.

During the quarter, we also concentrated on our important work in the US. Following the approval from the FDA in December 2018 to initiate a clinical trial in the US, we are now focusing on the necessary administrative steps before patients can be enrolled. We recently received Institutional Review Board approval which allows us to enroll patients at all US investigational sites, and we have recruited a terrific group of surgeons. Clinical trial agreements are currently being negotiated, and we look forward to communicating more shortly.

On our important ankle implant project, we are still awaiting CE-approval. In the meantime, we continued to strengthen our IP protection for the Talus implant and surgical tools. We already have IP protection for the Episealer® Talus technology; however, ankle surgery comes with specific challenges, and we strengthened the IP protection by a new important US patent on our surgical guide for ankle surgery. Further, we recently announced that Prof. Niek van Dijk joined the Episurf Clinical Advisory Board. I wholeheartedly agree with our founder Prof. Leif Ryd that we could not have hoped for a more skilled surgeon to join our team. Prof. van Dijk is one of the most eminent figures in ankle surgery globally, and we are thrilled that he has decided to work closely with Episurf Medical on our unique Talus implant.

Looking at our financial statements, we are increasing our revenues simultaneously as we are lowering our staff costs and other expenses, despite the fact that our investments in the US clinical trial are increasing. In the quarter, we took a one-time non-cash charge of SEK 0.7m related to the cancellation of a financing agreement with L1 Capital. We are educating surgeons across Europe on the Episealer® technology, and we are investing in this process. In June, we are arranging yet another Masterclass which has been fully booked with 45 European surgeons coming to Stockholm learning about the Episealer®. There is an intense activity when it comes to clinical studies as you will see from the summary at the end of this statement. All the above represents the kind of investments that we must undertake at this point, and I am happy that we are improving on revenues and expenses while doing this.

In the last months, there have been some important developments for Episurf Medical. In late 2018, our then-largest shareholder Serendipity Ixora announced that they were planning to wind up their operations, and in this process, distribute their holding in Episurf Medical to the fund holders. Around the same time, we also announced that Niles Noblitt, the founder and previous Chairman of global market leader Biomet (now Zimmer Biomet) had invested in Episurf Medical. A few days ago, the Board of Episurf announced that it intended to execute a rights issue, targeting SEK 98,3 million. In summary: the Serendipity shares have now been distributed to the fund holders which has increased our shareholder base; we have gained a large US investor with unparalleled industry experience; and we are taking the steps needed to raise capital for the next important steps in the Episurf journey. We are determined to reach our goal of establishing the Episealer® technology as a new standard with the orthopaedic industry, and I believe we are taking all the rights steps. I hope you want to continue to support us for this journey, but first, I wish you a happy Easter.

Stockholm, April 2019

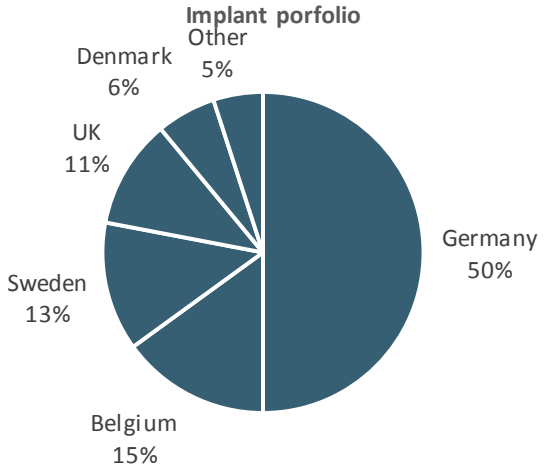
Pål Ryfors, CEO

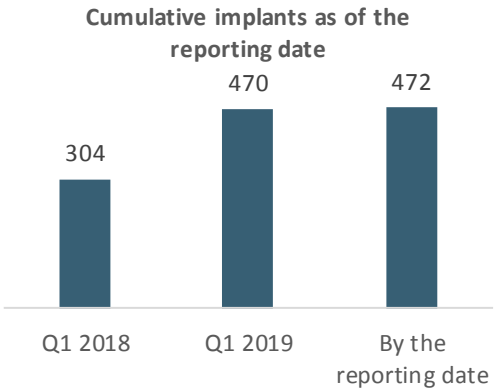
Summary of clinical studies of the Episealer® technology

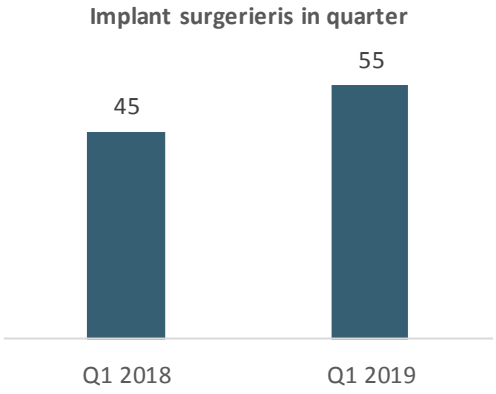
Description		Start-up phase	Patient rec. phase	Fully recruited / data collection	Published
Pre-clinical study Episealer® Knee	Focal knee resurfacing and effects of surgical precision on opposing cartilage	✓	✓	✓	✓
Pre-clinical study Episealer® Knee	Fixation of a double-coated titanium-hydroxyapatite focal knee resurfacing implant	✓	✓	✓	✓
Pre-clinical study Episealer® Knee	Treatment of full thickness focal cartilage lesions with a metallic resurfacing implant in	✓	✓	✓	✓
Pre-clinical study Episealer® Knee	Cartilage Health in Knees Treated with Metal Resurfacing Implants or Untreated Focal Cartilage Lesions	✓	✓	✓	✓
Pre-clinical study, Episealer® knee	Study on cartilage sealing with hydroxyapatite coated metal implants	✓	✓	✓	✓
Clinical trial, Episealer® Condyle solo	Swedish multicenter study, 10 patients, 24 months follow-up	✓	✓	✓	✓
Clinical trial, Episealer® Knee	5-year follow-up of Episealer® knee patients	✓	✓	✓	
Health economic study Episealer® knee	Comparative cost utility calculation showing economical scenario over 40 years	✓	✓	✓	
Clinical trial, Episealer® knee	European multicenter clinical trial of 100 patients, 60 months follow-up	✓	✓	✓	
Episealer® knee	Swedish single center clinical trial of 30 patients, 60 months follow-up	✓	✓		
Clinical trial, Episealer® knee	X-Ray Fluoroscopic Analysis of knee joint kinematic (Episealer® Knee Implants)	✓	✓		
Episealer® talus	European multicenter clinical trial of the ankle implant	✓			
EPIC-Knee study	Multicenter clinical trial (IDE) in the US and in Europe	✓			
Clinical trial, Episealer® knee	Investigator-initiated clinical study, following 30 Episealer® patients over 10 years	✓	✓		

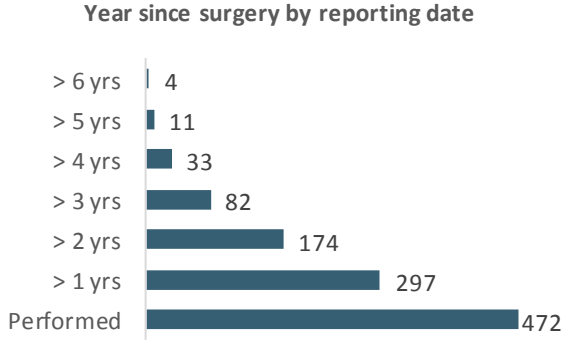
Business update and forward-looking statements

By the reporting date on April 18, 2019, Episurf Medical's implants had been used in 472 surgeries. Another 35 orders are approved for surgery in the coming weeks. 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 472 implants, we now have 33 patients who have had their implants for more than 4 years and 174 patients have now had their implants for more than 2 years since the surgery date. During the first quarter, 55 surgeries were performed with the Episealer® knee implant and we continued to make progress in all of our key markets. 49 orders were approved for surgery during the first quarter. This clearly shows that there is a demand for treating the more elongated lesions and the Episurf technology and the Episealer® Femoral Twin implant meets this demand in a very good way.









As of the reporting day, 472 surgeries have been performed with the Episealer® implant and 82 patients have had their implant for more than 3 years and 174 patients have had the implant for more than 2 years since surgery.

Financial information

Group

Net sales and operating profit/loss
Group net sales amounted to SEK 1.4m (1.1) in the quarter. Loss before tax amounted to SEK –14.6m (–13,3) for the quarter. During the first quarter the Group has taken a cost of SEK 0.7m, which relates to the termination of the financing agreement with European Select Growth Opportunities Fund, that the company has announced that it intends to terminate. Initial costs for entering the US market amounts to 1.9m SEK (0.5) during the quarter.

Financial position
Group cash and cash equivalents at end of period amounted to SEK 13.5m (56.8). The Board of Directors is continuously reviewing the company's financial need and financial position, as well as the optimal capital structure for the company.

In the beginning of April, the Company announced that it has resolved on a share issue of SEK 98.3m through a partially guaranteed preferential rights issue, see below under Rights issue.

During the fourth quarter 2018, the company carried out a directed share issue to a number of selected investors, including Niles Noblitt (one of the founders of Biomet) and the existing shareholder Rhenman Healthcare Equity L/S. In total, SEK 13,2m before transaction costs was contributed to Episurf which was registered on January 9, 2019.

The equity ratio was 63.1% (88.9). Group investments in intangible assets amounted to SEK 1.8m (2.9) for the quarter of which SEK 0.6m (2.0) are related to capitalised development costs, remaining investments relates to patents. Investments in tangible assets amounted to SEK -m (-) for the quarter.

Human resources
Number of employees in the Group at end of the period was 25 (25).

Parent Company

Net sales and operating profit/loss
Net sales amounted to SEK 0.1m (0.1) in the quarter. Loss before tax amounted to SEK –8.7m (–6.5) for the quarter. During the first quarter the Parent Company has taken a cost of SEK 0.7m, which relates to the termination of the financing agreement with European Select Growth Opportunities Fund, that the company has announced that it intends to terminate.

Financial position
Cash and cash equivalents at the end of period for the Parent Company amounted to SEK 3.3m (47.2). The equity ratio was 95.1% (96.9). Investments in intangible assets, capitalised development costs, amounted to SEK 0.6m (2.0) for the quarter. Investments in tangible assets amounted to SEK -m (-) for the quarter.

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

Rights issue
Episurf Medical has in the beginning of April 2019 announced that the board resolved on a share issue of SEK 98.3m through a partially guaranteed preferential rights issue. 70.0 per cent of the Rights Issue has been guaranteed through subscription commitments and guarantee undertakings, corresponding to approximately SEK 68.8m. In addition, declarations of intention to subscribe for up to their pro rata share has been received from existing shareholders Rhenman Partners Asset Management AB and a small cap fund owned by a Swedish pension company. Subscription commitments, Guarantee commitments and declarations of intention to subscribe for shares amounts to, in total approximately SEK 76.0m.

The board's resolution is subject to approval by the extraordinary general meeting ("EGM") to be held on May 7, 2019. In order to allow the Rights Issue, the board of directors also proposes amendments to the articles of association. Notice to shareholders of the EGM has been published and is available on the Company's webpage together with more information about the Rights Issue.

Directed share issue
Episurf Medical has during the fourth quarter 2018 completed a directed share issue to a number of selected investors, including Niles Noblitt, one of the founders of Biomet, and the current shareholder Rhenman Healthcare Equity L/S. The shares of series B were issued at the subscription price of SEK 4.00 per share. In total, 3,290,210 shares of series B and all 2,252,210 warrants were subscribed for. The share issue was consequently not fully subscribed. In total, SEK 13.2 m before transaction costs was contributed to Episurf. Through the share issue, Episurfs share capital was increased by SEK 1.0m. The total number of shares thus increased by 3,290,210 B-shares and the same number of votes. The change in shares was registered on January 9, 2019.

Warrants
During the period a number of warrants was issued to employees within the group.

Transactions with closely related parties
Shareholder and Board member Leif Ryd has received consulting fees for ongoing work as well as work for the Clinical Advisory Board during the period of SEK 0.2m (0.2).

As a technical measure in order to meet the Investor's demand for immediate access to its shares, certain shareholders, during a transitional period, lend shares to the issuing agent engaged for this agreement.

Rounding
Due to rounding, the sum of numbers may differ.

Financing Agreement
To assure financing of continued operations, a financing agreement with European Select Growth Opportunities Fund ("ESGOF") was entered into in February 2018 and decided on the Annual General Meeting in April 2018. The agreement provides the company with access to SEK 70m over a 36month period in form of convertible debt securities divided into a number of tranches.
In connection with each tranche of convertibles, warrants are also issued to ESGOF.
When convertibles and warrants are issued to ESGOF, warrants are also issued free of charge to existing shareholders. Full utilization of these warrants would entail an additional SEK 70 million being added to the company. The Company announced in April 2019 that they intend to terminate the agreement.

Key terms of the financing agreement
» The notes have a principal amount of SEK 50,000 each. they bear no interest and have a maturity of 12 months from the date of the registration of their issuance with the Swedish Companies Registration Office. During their term, the investor may request to convert some or all of the notes at a variable conversion price representing an 8% discount to the lowest daily volume weighted average price over the last 15 trading days during which the investor has not sold any share on the market prior to the conversion date.
» Upon such conversion request, Episurf Medical has the option to remit, at its discretion, cash, shares in Episurf Medical or a combination of both. This characteristic will enable Episurf Medical to manage the potential dilution resulting from the notes.
» Episurf Medical pay to the investor a commitment fee equal to 4% of the aggregate principal amount of the notes issued under the requested tranche.
» In case of an event of default, each outstanding note will accrue interest at a rate of 15%.

Main characteristics of the warrants issued to ESGOF
» ESGOF receives warrants without further remuneration in connection with the issuance of a tranche of convertibles. The number is determined based on the current stock price in connection with the execution of the tranche.
» The warrants have a term of five (5) years from the date of the registration of their issuance with the Swedish Companies Registration Office and will immediately be detached from the notes. Each warrant gives right to subscribe for one (1) new share (subject to standard adjustments in accordance with the terms and conditions of the warrants) in Episurf Medical at a fixed strike price representing a 120 % premium to the reference price on the date of the request from Episurf Medical to issue a new tranche.

Key terms of warrants issued to existing shareholders
» In connection with the issue of convertible bonds and warrants to ESGOF, warrants are also issued free of charge to existing shareholders, the number is determined on the basis of the current share price in connection with the completion of the tranche. » The shareholder options have the same characteristics as the warrants and are admitted to public trading.

Use of convertibles and warrants
» The first tranche was conducted in the second quarter of 2018 as a targeted issue of SEK 7m through the issuance of 140 convertibles of 1,147,540 associated warrants to ESGOF. In connection with this, 1,131,462 warrants were also issued to the shareholders. All warrants have a redeeming price of SEK 6.10. See table below for follow-up of number of outstanding and utilised convertibles and warrants.

Follow-up table, financing agreement

Financing, mSEK	Total	Used	Remaining
European Select Growth Opportunities Fund	70.0	7.0	63.0

Convertibles

Tranches	Amount before costs	Date	Number of notes	Number utilised	Number of outstanding notes
KV1	SEK 7m	2018-05-23	140	92	48

Summary of transactions, mSEK	
Received cash from issue of convertible debentures	7.0
Transaction costs	-0.3
Net proceeds	**6.7**
Amount classified as equity	-0.6
Converted debentures	-4.5
Accrued interest	0.6
Reported value of debt as March 31, 2019	**2.3**

Warrants

Tranche	Registration date	Term to maturity	Strike price	Number of warrants outstanding	Number of utilised	Number outstanding
KV1/TO4B	2018-05-23	5 year	6.10	2,279,002	--	2,279,002

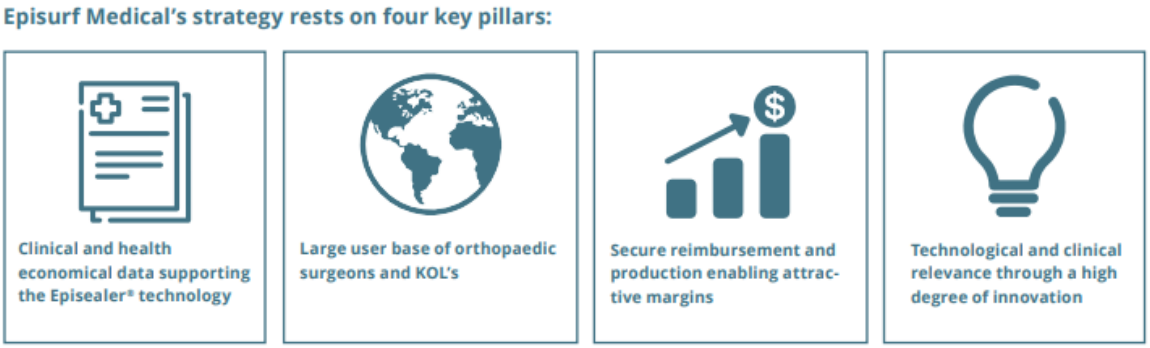
Share information
There are two types of shares in the Company. Each Class A-share carries three votes, and entitles the holder to three votes at the General Meeting and each class B-share carries one vote and entitles the holder to one vote at the General Meeting. Class B shares have traded on Nasdaq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

31 March 2019	
A-shares	508,077
B-shares	34,605,609
Total number of shares	**35,113,686**
Total number of votes	**36,129,840**

The ten largest shareholders in Episurf Medical at March 31, 2019

Name	No. Of A-shares	No. Of B-shares	Share capital in %	Voting rights, %
Eminova Fondkomission AB	--	4,601,494	13.1	12.7
UBS Switzerland AG, W8IMY	--	2,451,682	7.0	6.8
Aqurat Fondkommission AB**	--	2,252,210	6.4	6.2
Försäkringsaktiebolaget, Avanza Pension	--	1,666,419	4.8	4.6
Skandinaviska Enskilda Banken, W8IMY	--	1,539,356	4.4	4.3
AMF Aktiefond Småbolag	--	1,164,448	3.3	3.2
Gile Medicinkonsult AB	279,945	142,954	1.2	2.7
LMK Forward AB	--	938,000	2.7	2.6
Nordnet Pensionsförsäkring AB	--	872,590	2.5	2.4
Pål Ryfors*	--	666,393	1.9	1.8
Total, 10 largest shareholders	**279,945**	**16 295,546**	**47.2**	**47.4**
Summary, other	**228,132**	**18 310,063**	**52.8**	**52.6**
Total	**508,077**	**34 605,609**	**100.0**	**100.0**

*As stated in the information above, the shares issued in the directed share issue, including the shares issued to Mr Niles Noblitt, was registered in the beginning of January, hence not included in the table above. Pål Ryfors has lent out 350,000 shares to the European Select Growth Opportunities Fund and owns a total of 1,016,393 shares. No interest expires.
** The shares are held by Aqurat Fondkommission AB on behalf of the owner Sacajo Investments LCC, which is controlled by Niles Noblitt.



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, the possibility to obtain the correct reimbursement for the Group's products and dependence on key personnel and partners. The Company does not see any new material risks for the upcoming three months. For a more detailed description of significant risks and uncertainties, refer to Episurf Medical's annual report.

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

Stockholm, 17 April 2019

Dennis Stripe Board chairman	Wilder Fulford Board member
Christian Krüeger Board member	Leif Ryd Board member

Laura Shunk
Board member

Pål Ryfors
CEO

The information in this interim report has not been reviewed by the company's auditors.

Consolidated income statement

mSEK	Jan-Mar 2019	Jan-Mar 2018	Jan-Dec 2018
Operating income			
Net sales	1.4	1.1	4.0
Other operating income	0.1	0.1	0.3
Total income	**1.5**	**1.1**	**4.3**
Operating expenses			
Merchandise	-1.2	-0.8	-3.3
Other expenses	-7.8	-8.6	-36.1
Personnel costs	-6.7	-7.6	-27.3
Capitalised development expenditure	1.8	2.9	9.7
Depreciation of equipment and non-current assets	-1.7	-0.9	-4.8
Total operating expenses	**-15.6**	**-14.9**	**-61.8**
Operating loss	**-14.0**	**-13.8**	**-57.5**
Financial items			
Financial income, other	0.3	0.5	0.3
Financial expenses, other*	-0.8	-0.0	-0.7
Results from net financial items	**-0.6**	**0.4**	**-0.3**
Loss before tax	**-14.6**	**-13.3**	**-57.8**
Tax on income for the period	-0.0	-0.0	--
Loss for the period	**-14.6**	**-13.3**	**-57.8**
Net loss attributable to:			
Parent company shareholders	-14.6	-13.3	-57.8
Earnings per share before and after dilution	-0.42	-0.44	-1.87
Average number of shares	34,791,308	30,549,495	30,869,741

* During the first quarter the Group has taken a cost of SEK 0.7m, which relates to the termination of the financing agreement with European Select Growth Opportunities Fund, that the company has announced that it intends to terminate.

Consolidated statement of comprehensive income

mSEK	Jan-Mar 2019	Jan-Mar 2018	Jan-Dec 2018
Net profit	**-14.6**	**-13.3**	**-57.8**
Other comprehensive income for the period:			
Other comprehensive income that may be reclassified subsequently to profit or loss for the period, net of tax	0.0	0.0	-0.1
Total comprehensive income for the period	**-14.6**	**-13.3**	**-57.9**

Consolidated balance sheet

mSEK	31 Mar 2019	31 Mar 2018	31 Dec 2018
ASSETS			
Non-current assets			
Intangible fixed assets			
Capitalised development costs	9.5	8.7	9.5
Patents	12.3	9.4	11.6
Total intangible fixed assets	**21.8**	**18.1**	**21.1**
Equipment and right-of use asset			
Right-of-use asset	7.6	--	--
Equipment	0.1	0.2	0.1
Total equipment and right-of use asset	**7.7**	**0.2**	**0.1**
Total non-current assets	**29.5**	**18.3**	**21.2**
Current assets			
Inventories	1.5	1.6	1.5
Trade receivables	0.8	0.7	0.8
Other receivables	1.4	1.9	1.7
Deferred expenses and accrued income	1.7	1.8	1.3
Cash and bank balances	13.5	56.8	28.3
Total current assets	**18.9**	**62.8**	**33.6**
TOTAL ASSETS	**48.4**	**81.1**	**54.8**
EQUITY AND LIABILITIES			
Equity	**30.6**	72.1	44.8
Liabilities			
Non-current liabilities			
Non-current liabilities	0.0	0.1	0.0
Non-current lease liability	5.1	--	--
Total long-term liabilities	**5.1**	**0.1**	**0.0**
Current liabilities			
Trade payables	3.6	3.5	1.6
Current interest-bearing liabilities	2.3	--	2.8
Current lease liability	2.3	--	--
Other liabilities	1.4	1.9	1.6
Accrued liabilities and deferred income	3.2	3.5	4.0
Total current liabilities	**12.7**	**8.9**	**9.9**
Total liabilities	**17.8**	**9.0**	**10.0**
TOTAL EQUITY AND LIABILITIES	**48.4**	**81.1**	**54.8**
Equity ratio	63.1%	88.9%	81.8%
Equity per share, SEK	0.87	2.36	1.42

Consolidated statement of changes in equity

	Attributable to equity holders of the parent				
mSEK	**Share capital**	**Other contributed capital**	**Reserves**	**Accumulated deficit incl. loss for the year**	**Total equity**
Opening equity January 1, 2018	**9.2**	**330.4**	**0.6**	**(254.6)**	**85.6**
Total					
Total comprehensive income for the period			-0.1	-57.8	-57.9
Total comprehensive income			**-0.1**	**-57.8**	**-57.9**
Transactions with shareholders					
Directed share issue, net after issue expenses*	1.0	11.3			12.3
Warrant issued		0.5			0.5
Issue in-kind, for conversion of debt**	0.3	3.8			4.1
Options issued to staff				0.3	0.3
Total transactions with shareholders	**1.3**	**15.6**		**0.3**	**17.2**
Closing equity December 31 2018	**10.5**	**346.0**	**0.5**	**-312.1**	**44.8**
Opening equity January 1, 2019	**10.5**	**346.0**	**0.5**	**-312.1**	**44.8**
Total					
Total comprehensive income for the period			-0.1	-14.6	-14.7
Total comprehensive income			**-0.1**	**-14.6**	**-14.7**
Transactions with shareholders					
Issue in-kind, for conversion of debt**	0.1	0.4			0.5
Options issued to staff				-0.0	-0.0
Total transactions with shareholders	**0.1**	**0.4**		**-0.0**	**0.5**
Closing equity March 31 2019	**10.5**	**346.4**	**0.4**	**-326.7**	**30.6**

* Issue expenses amounts to SEK 0.9m.
** See more information about the financing agreement under financial information on page 6-7.

Cash flow statement

mSEK	Jan-Mar 2019	Jan-Mar 2018	Jan-Dec 2018
Operating activities			
Operating loss	-14.0	-14.2	-57.5
Adjustments for items not included in cash flow			
Depreciation	1.7	1.3	4.8
Employee stock option expenses	-0.0	0.1	0.2
Interest received	0.0	0.5	0.3
Interest paid	--	-0.0	-0.0
Cash flow from current operations before change in working capital	**-12.3**	**-12.4**	**-52.2**
Change in working capital			
Decrease/increase in inventory	0.0	0.1	0.2
Decrease/increase in trade receivables	-0.0	0.3	0.2
Decrease/increase in current receivables	-1.2	-0.6	0.8
Decrease/increase in current liabilities	0.6	1.1	-1.3
Change in working capital	**-0.7**	**0.9**	**-0.1**
Cash flow operating activities	**-13.0**	**-11.5**	**-52.3**
Investing activities			
Investments of intangible fixed assets	-1.8	-2.9	-9.7
Cash flow from investing activities	**-1.8**	**-2.9**	**-9.7**
Financing activities			
Investment in warrants	--	--	0.1
New share issue	--	--	12.3
Issue of convertibles*	--	--	6.7
Cash flow from financing activities	**--**	**--**	**19.1**
Cash flow for the period	**-14.8**	**-14.4**	**-43.0**
Cash and cash equivalents at beginning of period	28.3	71.3	71.3
Cash and cash equivalents at end of period	**13.5**	**56.8**	**28.3**

*Refers to the utilised part of the financing agreement net for transaction costs.

Income statement, Parent Company

mSEK	Jan-Mar 2019	Jan-Mar 2018	Jan-Dec 2018
Operating income			
Net sales	0.1	0.1	0.4
Total income	**0.1**	**0.1**	**0.4**
Operating costs			
Other external expenses	-4.8	-4.5	-19.0
Personnel costs	-3.3	-3.6	-12.6
Capitalised development expenditure	0.6	2.0	4.3
Amortisation of intangible assets and depreciation of property, plant and equipment	-0.6	-0.5	-2.1
Total operating costs	**-8.1**	**-6.6**	**-29.4**
Operating loss	**-7.9**	**-6.5**	**-29.0**
Financial items			
Financial income, other	0.0	--	0.0
Financial expenses, other*	-0.8	-0.0	-0.7
Results from net financial items	**-0.7**	**-0.0**	**-0.7**
Loss before tax	**-8.7**	**-6.5**	**-29.7**
Tax on income for the period	--	--	--
Loss at end of the period	**-8.7**	**-6.5**	**-29.7**

* During the first quarter the Group has taken a cost of SEK 0.7m, which relates to the termination of the financing agreement with European Select Growth Opportunities Fund, that the company has announced that it intends to terminate.

Parent Company statement of comprehensive income

mSEK	Jan-Mar 2019	Jan-Mar 2018	Jan-Dec 2018
Net profit	**-8.7**	**-6.5**	**-29.7**
Other comprehensive income for the period:			
Other comprehensive income for the period , net of tax	--	--	--
Total comprehensive income for the period	**-8.7**	**-6.5**	**-29.7**

Balance sheet, Parent Company

mSEK	31 Mar 2019	31 Mar 2018	30 Dec 2018
ASSETS			
Fixed assets			
Intangible fixed assets			
Capitalised development costs	9.5	8.7	9.5
Total intangible fixed assets	**9.5**	**8.7**	**9.5**
Tangible fixed assets			
Equipment	0.0	0.1	0.0
Total tangible fixed assets	**0.0**	**0.1**	**0.0**
Financial assets			
Shares in group companies	106.9	91.3	106.8
Long-term receivables from group companies	30.6	14.3	24.0
Total financial assets	**137.5**	**105.5**	**130.8**
Total fixed assets	**147.0**	**114.3**	**140.3**
Current assets			
Short term receivables			
Other receivables	0.8	1.4	1.3
Prepaid expenses and accrued income	0.8	1.1	0.6
Total short term receivables	**1.6**	**2.5**	**1.9**
Cash and cash equivalents	3.3	47.2	17.6
Total current assets	**4.9**	**49.7**	**19.5**
TOTAL ASSETS	**151.9**	**163.9**	**159.7**
EQUITY AND LIABILITIES			
Equity	**144.4**	**158.8**	**152.6**
Liabilities			
Non-current liabilities			
Non-current liabilities	--	0.0	--
Total non-current liabilities	**--**	**0.0**	**--**
Current liabilities			
Trade payables	2.0	2.0	0.4
Current interest-bearing liabilities	2.3	--	2.8
Other liabilities	0.5	0.9	0.7
Accrued liabilities and deferred income	2.6	2.2	3.3
Total current liabilities	**7.5**	**5.1**	**7.1**
Total liabilities	**7.5**	**5.1**	**7.1**
TOTAL EQUITY AND LIABILITIES	**151.9**	**163.9**	**159.7**

Statement of changes in equity, Parent Company

mSEK	Share capital	Development fund	Share premium reserve	Loss brought forward	Loss for the period	Total equity
Opening equity January 1, 2018	**9.2**	**4.5**	**329.3**	**-148.0**	**-29.7**	**165.3**
Comprehensive loss for the period						
Loss for the period					-29.7	-29.7
Disposition according to AGM						
Loss brought forward				-29.7	29.7	--
Development fund		3.3		-3.3		--
Total comprehensive loss for the period	**9.2**	**7.9**	**329.3**	**-181.0**	**-29.7**	**135.7**
Transactions with shareholders						
Directed share issue, net after issue expenses*	1.0		11.3			12.3
Warrant issued			0.5			0.5
Issue in-kind, for conversion of debt**	0.3		3.8			4.1
Options issued to staff				0.1		0.1
Total transactions with shareholders	**1.3**		**15.6**	**0.1**		**16.9**
Closing equity December 31 2018	**10.5**	**7.9**	**344.9**	**-180.9**	**-29.7**	**152.6**
Opening equity January 1, 2019	**10.5**	**7.9**	**344.9**	**-180.9**	**-29.7**	**152.6**
Comprehensive loss for the period						
Loss for the period					-8.7	-8.7
Disposition according to AGM						
Loss brought forward				-29.7	29.7	--
Development fund		0.3		-0.3		--
Total comprehensive loss for the period	**10.5**	**8.2**	**344.9**	**-210.9**	**-8.7**	**143.9**
Transactions with shareholders						
Issue in-kind, for conversion of debt**	0.1		0.4			0.5
Total transactions with shareholders	**0.1**		**0.4**			**0.5**
Closing equity March 31 2019	**10.5**	**8.2**	**345.3**	**-210.9**	**-8.7**	**144.4**

* Issue expenses amounts to SEK 0.9m.
** See more information about the financing agreement under financial information on page 6-7.

Cash flow statement, Parent Company

mSEK	Jan-Mar 2019	Jan-Mar 2018	Jan-Dec 2018
Current operations			
Operating loss	-7.9	-6.5	-29.0
Adjustments for items not included in cash flow			
Depreciation	0.6	0.5	2.1
Interest received	0.0	--	0.0
Interest paid	0.0	-0.0	-0.0
Change in non-current liabilities	--	0.0	-0.0
Cash flow from current activities before changes in working capital	**-7.3**	**-6.0**	**-26.9**
Changes in working capital			
Decrease/increase in current receivables	-0.4	-1.1	0.1
Decrease/increase in current liabilities	0.8	1.1	-0.4
Total changes in working capital	**0.4**	**0.0**	**-0.2**
Cash flow from operating activities	**-6.9**	**-6.0**	**-27.2**
Cash flow from investing activities			
Acquisition of intangible assets	-0.6	-2.0	-4.3
Changes in financial assets	-6.7	-7.3	-32.5
Cash flow from investing activities	**-7.4**	**-9.3**	**-36.8**
Cash flow from financing activities			
Investment in warrants	--	**--**	0.1
New share issue	--	--	12.3
Issue of convertibles*	--	--	6.7
Cash flow from financing activities	**--**	**--**	**19.1**
Cash flow for the period	**-14.3**	**-15.3**	**-44.9**
Cash and cash equivalents at beginning of period	17.6	62.5	62.5
Cash and cash equivalents at end of period	**3.3**	**47.2**	**17.6**

*Refers to the utilised part of the financing agreement net for transaction costs.

Notes

Note 1 Accounting policies

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

The Group's accounting policies are unchanged from previous year except from that the company has chosen to clarify costs for capitalised development expenditure and commercial goods and has therefore changed comparison figures in the income statement both for the group and the parent company.

Changes in significant accounting policies

As of 1 January 2019, Episurf Medical applies IFRS 16 Leasing, which replaces IAS 17 Leases. The standard requires lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

Following the implementation of the new standard, Episurf Medical has used the modified retroactive transition method, which means that the comparative figures have not been recalculated.

Long-term operational leases are reported as right-of-use asset under fixed assets and as Non-current and Current lease liability in the Group's balance sheet. Instead of operating leasing costs, Episurf Medical reports depreciation and interest expenses in the consolidated income statement. Lease liabilities that have previously been classified as operational leases according to IAS 17 is now valued at the present value of the remaining lease payments. Episurf Medical report a right of use to an amount corresponding to the lease liability. The main impact relates to lease contracts for premises, machines and vehicles.

The majority of Episurf Medical's leases include options to either extend or terminate the agreement. When the term of the lease is being established, Episurf Medical takes into consideration all facts and circumstances that provide a financial incentive to utilise an extension option or not to utilise an option to terminate an agreement. Examples of factors that are considered include strategic plans, restructuring programmes, the importance of the underlying asset to Episurf Medical's activities and/or costs attributable to not extending or terminating leases.

As regards other accounting principles that are applied, these correspond with the accounting principles that were used in the preparation of the most recent Annual Report.

Capitalised 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 recognised 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 capitalised 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 the above criteria to be fulfilled during the period, the costs for development that has been incurred is there for activated.

Note 2 Transactions with related parties

Shareholder and Board member Leif Ryd has received consulting fees for ongoing work as well as work for the Clinical Advisory Board of SEK 0.2m (0.2). As a technical measure in order to meet the Investor's demand for immediate access to its shares, certain shareholders, during a transitional period, lend shares to the issuing agent engaged for this agreement.

Note 3 Breakdown of net sales by country is as follows

mSEK	Jan-Mar 2019	Jan-Mar 2018	Jan-Dec 2018
Germany	1.1	0.4	2.0
Sweden	0.1	0.2	0.3
Other countries in Europe	0.2	0.5	1.6
Other countries outside of Europe	--	--	--
Total net sales	**1.4**	**1.1**	**4.0**

Note 4 Financial assets and financial liabilities

Current interest-bearing liabilities

Summary of transactions, mSEK	Jan-Mar 2019	Jan-Mar 2018	Jan-Dec 2018
Opening net proceeds	6.7	--	--
Received cash from issue of convertible debentures	--	--	7.0
Transaction costs	--	--	-0.3
Net proceeds	**6.7**	**--**	**6.7**
Opening other transactions	-4.0	--	--
Amount classified as equity	-0.1	--	-0.5
Converted debentures	-0.4	--	-4.1
Accrued interest	0.0	--	0.6
Total other transactions	**-4.4**	**--**	**-4.0**
Reported value of debt as March 31, 2019	**2.3**	**--**	**2.8**

Other financial assets and liabilities in the balance sheet are reported as acquisition value, which is judged to be a good approximation to the fair value of the items.

Definitions

General:	All amounts in the tables are presented in SEK millions unless otherwise stated. All amounts in brackets () represent comparative figures for the same period of the prior year, unless otherwise stated.
Net debt/equity ratio:	Net debt at the end of the period divided by equity at the end of the period.

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:	Shock absorbing and friction reducing tissue. This tissue that covers the end of bones and 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):	Defect extending down to >50% of the cartilage depth.
CE marking:	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.
Clinical results:	Outcome from clinical treatment of humans, where parameters such as efficacy and safety are evaluated.
Cobalt chrome:	A metal alloy mainly consisting of cobalt and chromium, commonly occurring in metal alloys used in knee prostheses.
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.
Femoral condyles:	Two bony protuberances on the thighbone side of the knee joint that articulate with the shinbone. The name originates from the anatomical terms femur (thighbone) and condyle (articular head).
Gross order intake:	Gross order intake represents the aggregated value of Episealer® orders received and approved by responsible surgeon during the relevant period.
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.
Micro fracturing:	A biological 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 biological 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.
OA:	See osteoarthritis.
Order backlog:	Order backlog represents all orders that have been booked but where no revenue has been recognized.
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:	A type of joint disease that is characterised by loss of joint function with varying destruction of joint cartilage and the underlying bone.
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,
Reimbursement:	Reimbursement is a word that is used generally in the healthcare industry to describe the payment systems that apply to healthcare costs in various countries.
TKA:	Total knee arthroplasty, total knee joint replacement, which is a surgical procedure primarily used to relieve arthritis in which the knee joint is replaced with artificial parts (prostheses).
Traumatic damage:	Damage caused by an outside force, such as fall injuries.
UKA:	Unicompartmental knee arthroplasty, partial knee joint replacement which is a surgical procedure primarily used to relieve arthritis in one of the knee compartments. Parts of the knee joint are replaced with artificial parts (prostheses).

This is Episurf Medical

– a unique solution for every patient

EPISURF WAS FOUNDED IN 2009 on a commitment to offer people with painful joint injuries a more active and healthy life through customised treatment alternatives. We put the patient in the centre of the design of implants and surgical instruments. By combining advanced 3D imaging technology with the latest manufacturing technologies, 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 platform for individualised design and surgical pre-planning

Episurf Medical's scalable µiFidelity® system has been developed for damage assessment, surgical pre-planning and cost-effective patient customisation of implants and associated surgical instruments. In a first step, the company's main focus has been on early stage arthritic changes in the knee joint.

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

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

» Episealer® Condyle Solo for the treatment of localised cartilage and underlying bone defects on the femoral condyles of the knee joint.

» Episealer® Trochlea Solo for the treatment of localised cartilage and underlying bone defects in the area behind the patella (the trochlea area).

» Episealer® Femoral Twin for the treatment of elongated localised cartilage and underlying bone defects both on the femoral condyles and in the trochlea area of the knee joint.

Individualised surgical instruments

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 surgery for treatment of cartilage and deep underlying bone defects in the knee joint.

Patents and patent applications

The generation of new intellectual property and the ongoing maintenance of current IP is of paramount importance for Episurf Medical to ensure that Episurf Medical's proprietary, existing technologies and future innovations are well protected. In total Episurf Medical has approximately 140 patents and patent applications worldwide, distributed over 20 patent families.

» Episurf Medical's head office is located in Stockholm and the company has an in-house sales organisation in Europe.

» The share (EPIS B) has been listed on Nasdaq Stockholm since June 2014.

Financial calendar

EGM	7 May 2019
Interim report January–June 2019	19 July 2019
Interim report January–September 2019	25 October 2019
Year-end report for 2019	7 February 2020

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

This information is information that Episurf Medical AB (publ) is obliged to make public, pursuant to the EU Market Abuse Regulation and the Securities Markets Act. The information was submitted for publication, through the agency of the contact person set out below, on 18 April 2019 at 08.30 (CEST).

The following analysts follow Episurf Medical's development:

DNB Analyst: Patrik Ling
Redeye Analyst: Anders Hedlund

IR-contact

Pål Ryfors
CEO
Phone: +46 (0) 709 623 669
E-mail: pal.ryfors@episurf.com

Veronica Wallin
CFO
Phone: +46 (0) 700 374 895
E-mail: veronica.wallin@episurf.com