

**Q4 2019**

## **Year-end report 1 October – 31 December 2019**

### **Fourth quarter 2019 compared to 2018, Group**

- » Group net sales increased by 18.1% to SEK 1.3m (1.1)
- » Gross order intake amounted to SEK 1.2m (1.5)
- » Order backlog amounted to SEK 1.1m (1.2)
- » 21.6% decrease in orders for Episealer® knee implants during the quarter with 47 (60) approved orders, the growth during 2020 up to the reporting date amounts to 115.8%.
- » Loss for the period amounted to SEK -18.7m (-15.3), the increased costs during the quarter are due to the group's work on the IDE study in the US
- » Earnings per share amounted to SEK -0.21 (-0.49)

### **Twelve months 2019, compared to twelve months 2018, Group**

- » Gross order intake amounted to SEK 5.0m (4.4) an increase of 15.4%
- » 22.4% increase in orders for Episealer® knee implants during the financial year with 202 (165) approved orders
- » Group net sales increased by 23.5% to SEK 4.9m (4.0)
- » Loss for the period amounted to SEK -69.8m (-57.8), the increased costs during the twelve months are due to the group's work on the IDE study in the US
- » Earnings per share amounted to SEK -1.04 (-1.71)

### **Significant events during the fourth quarter**

- » Dr. Kevin D. Plancher was appointed Lead Investigator for Episurf's Episealer® IDE study
- » US, Chinese, European and UK patent approvals for Episurf Medical
- » Episurf Medical signed Italian distributor agreement
- » Clinical data were presented in the UK, Germany, Italy and the US
- » Clinical results for Episealer® were accepted as poster presentation for the ESSKA Congress

### **Significant events after the fourth quarter**

- » Episurf Medical received CE mark for Episealer® Talus and Talus Osteotomy Guide
- » Episurf Medical updated on AI-based production process
- » Episealer® will be presented at sports medicine meeting in Germany
- » Clinical data for Episealer® were presented at orthopaedic congress in The United Kingdom
- » US patent approval for Episurf Medical
- » Episealer® Talus was registered for sale in Italy and Spain

## Message from the CEO

Dear shareholders,

In the CEO statement in the last report, I elaborated on the volatility in the orderbook in our early days, given the dependence on the first high-volume surgeons. We clearly noticed that the vacation period over Christmas in 2019 was different from the same period in 2018, with very limited activity during the last two weeks of 2019. This led to a slight decrease in the orderbook for the fourth quarter 2019 compared to the same period 2018. However, 2020 has started very well and up to the reporting date, the orderbook has increased by 116%. We are currently experiencing rapid growth, and I am happy to conclude that the year has started so well.



### Clinical results

In December 2019, we presented an update of the most important European clinical trials that are ongoing for the Episealer® knee implant technology. The summary included no less than seven important parts, and I believe it is important to keep track of this development. We are convinced that the ongoing studies will show the strength and utility of our technology. If we can demonstrate strong clinical results, combined with fast rehab and high implant survival rates, we have met our original hypothesis that the combination of a pre-operative planning tool, individualised surgical instruments and a HA and Ti coated individualised implant delivers excellent results. It is very reassuring that there will be a steady flow of scientific papers, and that very promising interim results already have been presented. We are expecting several scientific publications already in 2020, and we repeat that this will be of utmost importance to Episurf.

### Episealer® Talus

Early this year we announced that we had received CE mark for Episealer® Talus and Talus Osteotomy Guide. The Episealer® Talus is an implant technology intended for osteochondral lesions of the talar dome of the ankle joint. Talus Osteotomy Guide is an individualised osteotomy guide that is intended to help surgeons finding the correct position and depth of the cut when performing a medial malleolar osteotomy to access the talar dome. Ankle surgery can be quite tricky, and we believe that our surgical guides can add a lot of value for ankle surgeons. We had, of course, been looking forward to this and we are enormously happy to finally conclude this project. We believe that there are few alternatives for lesions in the ankle. In many cases, lesions progress further and the patients are forced to undergo joint fusion. Hence, we believe this could be a great alternative for these patients. The next step is introducing the product into the market. Clinical studies are planned, and training of reference users is being conducted.

### EPIC Knee study

The work with the EPIC Knee study, our US clinical trial, continued during the quarter, focusing on the clinical trial agreements with several sites. Sites are now pre-screening patients and we look forward to communicating more soon on the patient recruitment process. In the European arm of the clinical trial, we are in the process of obtaining ethics approval for the various sites. Sites from Germany, UK and Denmark will participate in the trial and constitute approx. 50% of the sites in the trial.

### Financials

The increased investments during 2019 was due to the increased investments in the US clinical trial. During the fourth quarter, these investments amounted to SEK 4.3m (2.0).

### Looking forward

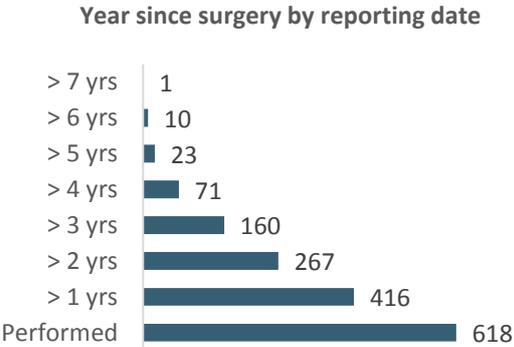
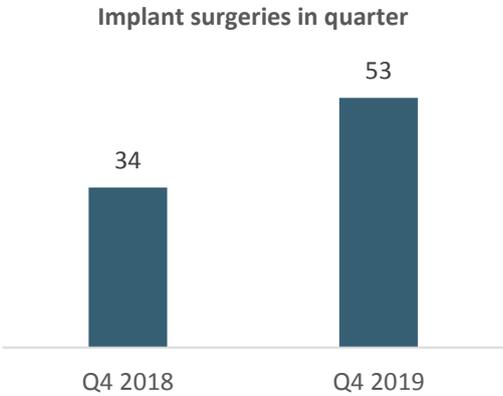
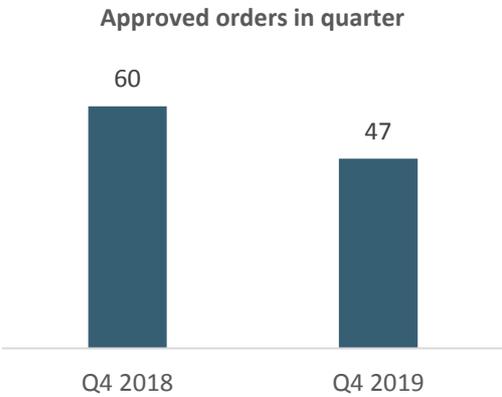
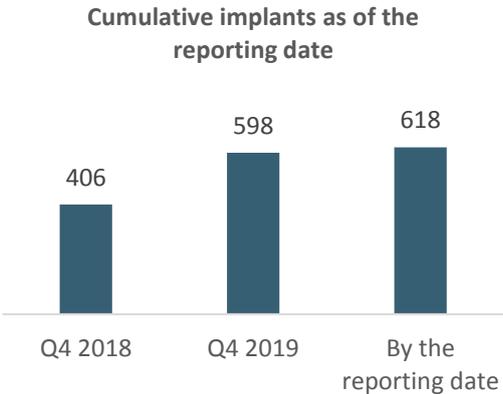
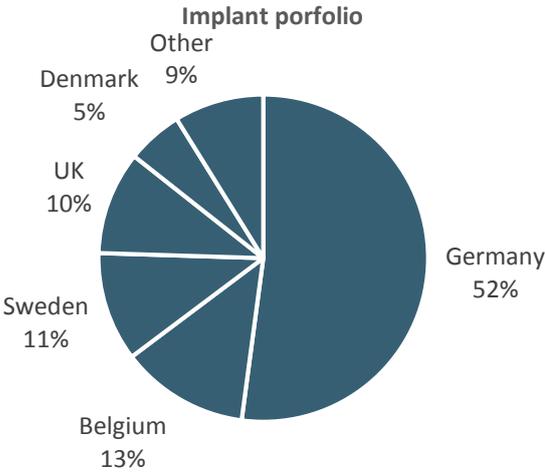
2020 is an incredibly important year for us. We are focusing on clinical results in Europe, the surgeries in the EPIC Knee study, strong growth in Europe and the launch of the ankle implant. In our opinion, all of this creates the basis for a very exciting 2020.

Stockholm, February 2020

Pål Ryfors

# Business update and forward-looking statements

By the reporting date on February 7, 2020, Episurf Medical’s implants had been used in 618 surgeries. Another 45 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 618 implants, we now have 71 patients who have had their implants for more than 4 years and 267 patients have now had their implants for more than 2 years since the surgery date. During the fourth quarter, 53 surgeries were performed with the Episealer® knee implant and we continued to make progress in all of our key markets. 47 orders were approved for surgery during the fourth 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, 618 surgeries have been performed with the Episealer® implant and 160 patients have had their implant for more than 3 years and 267 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 1.3m (1.1) in the quarter and to SEK 4.9m (4.0) for the financial year. Loss before tax amounted to SEK -18.7m (-15.4) for the quarter and SEK -69.8m (-57.8) for the financial year. Other expenses amounted to SEK -10.8m (-9.0) in the quarter, the increased costs are due to the group's work on the IDE study in the US. Initial costs for entering the US market amounts to SEK 4.3m SEK (2.0) during the quarter. During the financial year 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 terminated.

#### Financial position and continued operation

Group cash and cash equivalents at end of period amounted to SEK 25.3m (28.3). The group completed a share issue during the financial year and in total, SEK 75.2m before transaction cost was contributed to the group.

As the company, in spite of the financing measures outlined above, within the next 12 months has additional financing needs that have not yet been secured, the Board is continuously working on evaluating various financing options to ensure continued operation. It is the Board's assessment that the company has good prospects of securing future financing, for example, through a new share issue, however, the absence of assurance at the time of submission of this report means that there is an uncertainty factor regarding the company's ability to continue operation.

The equity ratio was 71.9% (81.8). Group investments in intangible assets amounted to SEK 1.4m (2.2) for the quarter of which SEK 0.1m (0.7) are related to capitalised development costs and for the financial year investments in intangible assets amounted to SEK 5.5m (9.7) of which SEK 1.1m (4.3) are related to capitalised development costs, remaining investments relates to patents. Investments in tangible assets amounted to SEK -m (-) for the quarter and the financial year.

#### Human resources

Number of employees in the Group at end of the period was 25 (24).

### Parent Company

#### Net sales and operating profit/loss

Net sales amounted to SEK 0.1m (0.1) in the quarter and for the financial year to SEK 0.6m (0.4). Loss before tax amounted to SEK -11.1m (-7.9) in the quarter and SEK -40.9m (-29.7) for the financial year. Other expenses amounted to SEK 7.3m (4.8) in the quarter, the increased costs are due to the company's work on the IDE study in the US. During the financial year 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 terminated. During the year, the company completed the start-up of the subsidiary Episurf India Private Limited.

#### Financial position and continued operation

Cash and cash equivalents at the end of period for the Parent Company amounted to SEK 18.1m (17.6). The equity ratio was 96.2% (95.6). Investments in intangible assets, capitalised development costs, amounted to SEK 0.1m (0.7) for the quarter and SEK 1.1m (4.3) for the financial year. Investments in tangible assets amounted to SEK -m (-) for the quarter for the financial year. In 2018, the company acquired Episurf India Private Limited and completed the transaction during 2019. Also, see the comment above regarding continued operation.

#### Human resources

Number of employees in the Parent Company at end of the period was 12 (11).

### **Rights issue**

Episurf Medical has completed a share issue during the financial year with preferential rights for the company's shareholders. The subscription price for the new shares of series A and B was 1.40 SEK per share and the subscription period took place from and including 15 May until and including 29 May 2019. The final outcome shows that 37,976,547 shares, corresponding to approx. 54.1 percent of the rights issue, were subscribed for with subscription rights (including subscription commitments). Additionally, 993,602 shares, corresponding to approx. 1.4 percent of the rights issue, were subscribed for without subscription right. Consequently, 14,759,694 shares, corresponding to 21.0 percent of the rights issue, have been allotted to underwriters in accordance with the underwriting commitments entered into beforehand. Through the rights issue, Episurf Medical received proceeds of approximately SEK 75.2m before deduction of transaction related costs.

Through the rights issue, Episurf Medical's share capital increased with SEK 16,132,677.74 to SEK 27,302,316.80 and the number of shares increased with 478,147 shares of series A and 53,251,966 shares of series B to a total of 90,930,755 shares and 92,872,803 votes.

### **Directed share issue**

Episurf Medical has during the fourth quarter 2018 completed a directed share issue that was registered on January 9, 2019. In total, 3,290,210 shares of series B and all 2,252,210 warrants were subscribed for. In total, SEK 13.2m before transaction costs was contributed to Episurf Medical. Through the share issue, Episurf Medical's share capital was increased by SEK 1.0m.

### **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 0.7m (0.6). Board member Wilder Fulford has received consulting fees for ongoing project during the period of SEK 0.4 (-).

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 financing agreement. These shares were returned during the second quarter 2019.

### **Rounding**

Due to rounding, the sum of numbers may differ.

### **Financing Agreement**

During 2018, a financing agreement with European Select Growth Opportunities Fund ("ESGOF") was entered. The agreement provided the company with access to SEK 70m over a 36month period in the form of convertible debt securities divided into a number of tranches. The Company has used one tranche of SEK 7m and all convertible debentures have now been converted. The Company announced in April 2019 that they intended to terminate the agreement and, it has now been terminated. In connection with the used tranche of convertibles, warrants were also issued to ESGOF and existing shareholders.

#### Main characteristics of the warrants issued to ESGOF

- » ESGOF and existing shareholders received warrants without further remuneration.
- » The warrants have a term of five (5) years from the date of the registration of their issuance with the Swedish Companies Registration Office. 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 tranche.

#### Use of convertibles and warrants

- » The first and only tranche was conducted in the second quarter of 2018 as a targeted issue of SEK 7m through the issuance of 140 convertibles of 573,770 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. Which has been adjusted in connection with the rights issue that was carried out during the second quarter of 2019 to

1.40 according to current conditions. See table below for follow-up of number of outstanding and utilised convertibles and warrants.

#### Convertibles

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

#### 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	1.40*	1,705,232	--	1,705,232

\* Has been adjusted based on calculation in the terms and conditions of the warrants in connection with the rights issue during the second quarter 2019.

#### 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.

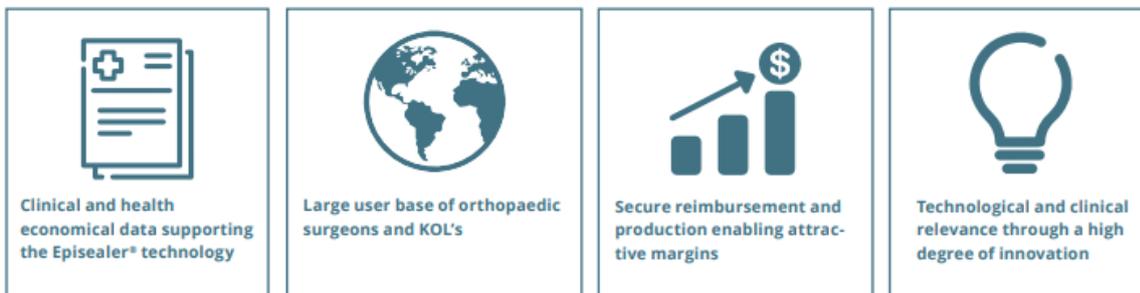
#### 31 December 2019

A-shares	971,024
B-shares	89,959,731
<b>Total number of shares</b>	<b>90,930,755</b>
<b>Total number of votes</b>	<b>92,872,803</b>

#### The ten largest shareholders in Episurf Medical at December 31, 2019

Name	No. Of A-shares	No. Of B-shares	Share capital in %	Voting rights, %
UBS Switzerland AG, W8IMY	--	9,612,931	10.6	10.4
Försäkringsaktiebolaget, Avanza Pension	--	5,183,815	5.7	5.6
CBNY-National Financial Services LL	--	3,714,720	4.1	4.0
Skandinaviska Enskilda Banken, W8IMY	--	3,694,454	4.1	4.0
SEB Life International	--	3,341,878	3.7	3.6
Nordnet Pensionsförsäkring AB	--	2,776,402	3.1	3.0
Mikael Lönn	318,537	1,445,730	1.9	2.6
Aktiebolaget Gile Medicinkonsult	421,185	215,714	0.7	1.6
Rafet Chaban	--	1,195,444	1.3	1.3
Swedbank Försäkring	--	1,178,767	1.3	1.3
<b>Total, 10 largest shareholders</b>	<b>739,722</b>	<b>32,359,855</b>	<b>36.4</b>	<b>37.2</b>
<b>Summary, other</b>	<b>231,302</b>	<b>57,599,876</b>	<b>63.6</b>	<b>62.8</b>
<b>Total</b>	<b>971,024</b>	<b>89,959,731</b>	<b>100.0</b>	<b>100.0</b>

Episurf Medical's strategy rests on four key pillars:



## 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, 6 February 2020

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	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
<b>Operating income</b>				
Net sales	1.3	1.1	4.9	4.0
Other operating income	0.1	0.0	0.5	0.3
<b>Total income</b>	<b>1.4</b>	<b>1.1</b>	<b>5.4</b>	<b>4.3</b>
<b>Operation expenses</b>				
Merchandise	-1.1	-0.9	-4.5	-3.3
Other expenses	-10.8	-9.0	-39.7	-36.1
Personnel costs	-7.4	-7.1	-28.1	-27.3
Capitalised development expenditure	1.4	2.2	5.5	9.7
Depreciation of equipment and non-current assets	-2.2	-1.4	-7.4	-4.8
<b>Total operating expenses</b>	<b>-20.0</b>	<b>-16.2</b>	<b>-74.2</b>	<b>-61.8</b>
<b>Operating loss</b>	<b>-18.6</b>	<b>-15.1</b>	<b>-68.9</b>	<b>-57.5</b>
<b>Financial items</b>				
Financial income, other	-	0.0	0.5	0.3
Financial expenses, other*	-0.2	-0.3	-1.5	-0.7
<b>Results from net financial items</b>	<b>-0.2</b>	<b>-0.3</b>	<b>-0.9</b>	<b>-0.3</b>
<b>Loss before tax</b>	<b>-18.7</b>	<b>-15.4</b>	<b>-69.8</b>	<b>-57.8</b>
Tax on income for the period	0.0	0.0	0.0	-
<b>Loss for the period</b>	<b>-18.7</b>	<b>-15.3</b>	<b>-69.8</b>	<b>-57.8</b>
<i>Net loss attributable to:</i>				
Parent company shareholders	-18.7	-15.3	-69.8	-57.8
Earnings per share before and after dilution, SEK	-0.21	-0.49	-1.04	-1.71
Average number of shares	90,930,755	31,337,687	67,343,023	33,741,280

\* During the financial year 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 terminated.

## Consolidated statement of comprehensive income

mSEK	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
<b>Net profit</b>	<b>-18.7</b>	<b>-15.3</b>	<b>-69.8</b>	<b>-57.8</b>
<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	-0.9	-0.1	-0.1	-0.1
<b>Total comprehensive income for the period</b>	<b>-19.6</b>	<b>-15.4</b>	<b>-69.9</b>	<b>-57.9</b>
<i>The period's loss and comprehensive income attributable to</i>				
Owners of the parent	-19,6	-15,4	-69,9	-57,9

## Condensed consolidated balance sheet

mSEK	31 Dec 2019	31 Dec 2018
<b>ASSETS</b>		
<b>Non-current assets</b>		
<i>Intangible fixed assets</i>		
Capitalised development costs	8.0	9.5
Patents	13.5	11.6
<b>Total intangible fixed assets</b>	<b>21.5</b>	<b>21.1</b>
<i>Equipment and right-of use asset</i>		
Rights-of-use asset	5.9	-
Equipment	0.1	0.1
<b>Total equipment and right-of use asset</b>	<b>6.0</b>	<b>0.1</b>
<b>Total non-current assets</b>	<b>27.5</b>	<b>21.2</b>
<b>Current assets</b>		
Inventories	1.8	1.5
Trade receivables	0.7	0.8
Other receivables	1.3	1.7
Deferred expenses and accrued income	1.1	1.3
Cash and bank balances	25.3	28.3
<b>Total current assets</b>	<b>30.2</b>	<b>33.6</b>
<b>TOTAL ASSETS</b>	<b>57.6</b>	<b>54.8</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>	<b>41.4</b>	<b>44.8</b>
<b>Liabilities</b>		
<i>Non-current liabilities</i>		
Non-current liabilities	0.0	0.0
Non-current lease liability	3.5	-
<b>Total long-term liabilities</b>	<b>3.5</b>	<b>0.0</b>
<i>Current liabilities</i>		
Trade payables	6.0	1.6
Current interest-bearing liabilities	-	2.8
Current lease liability	2.4	-
Other liabilities	1.2	1.6
Accrued liabilities and deferred income	3.2	4.0
<b>Total current liabilities</b>	<b>12.7</b>	<b>9.9</b>
<b>Total liabilities</b>	<b>16.2</b>	<b>10.0</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>57.6</b>	<b>54.8</b>
Equity ratio	71.9%	81.8%
Equity per share, SEK	0.46	1.42

## Consolidated statement of changes in equity

mSEK	Attributable to equity holders of the parent				Total equity
	Share capital	Other contributed capital	Reserves	Accumulated deficit incl. loss for the year	
<b>Opening equity January 1, 2018</b>	<b>9.2</b>	<b>330.4</b>	<b>0.6</b>	<b>-254.6</b>	<b>85.6</b>
<b>Total</b>					
Total comprehensive income for the period			-0.1	-57.8	-57.9
<b>Total comprehensive income</b>			<b>-0.1</b>	<b>-57.8</b>	<b>-57.9</b>
<b>Transactions with shareholders</b>					
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
<b>Total transactions with shareholders</b>	<b>1.3</b>	<b>15.6</b>		<b>0.3</b>	<b>17.2</b>
<b>Closing equity December 31 2018</b>	<b>10.5</b>	<b>346.0</b>	<b>0.5</b>	<b>-312.1</b>	<b>44.8</b>
<b>Opening equity January 1, 2019</b>	<b>10.5</b>	<b>346.0</b>	<b>0.5</b>	<b>-312.1</b>	<b>44.8</b>
<b>Total</b>					
Reclassification**		-1.1	-0.7	1.8	-
Loss for the period				-69.8	-69.8
Other comprehensive income			-0.1		-0.1
<b>Total comprehensive income</b>			<b>-0.1</b>	<b>-69.8</b>	<b>-69.9</b>
<b>Transactions with shareholders</b>					
Issue in-kind, for conversion of debt***	0.7	2.2			2.9
New share issue, net after issue expenses****	16.1	47.4			63.5
<b>Total transactions with shareholders</b>	<b>16.8</b>	<b>49.7</b>			<b>66.3</b>
<b>Closing equity December 31, 2019</b>	<b>27.3</b>	<b>394.6</b>	<b>-0.4</b>	<b>-380.1</b>	<b>41.4</b>

\* Issue expenses amounts to SEK 0.9m.

\*\* Correction of previous classification.

\*\*\* See more information about the financing agreement under financial information on page 5-6.

\*\*\*\* Issue expenses amounts to SEK 11.6m.

## Cash flow statement

mSEK	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
<b>Operating activities</b>				
Operating loss	-18.6	-15.1	-68.9	-57.5
<i>Adjustments for items not included in cash flow</i>				
Depreciation	2.2	1.4	7.4	4.8
Employee stock option expenses	0.0	-0.1	0.1	0.2
Interest received	0.0	-0.1	0.0	0.3
Interest paid	-0.1	0.0	-0.3	-0.0
<b>Cash flow from current operations before change in working capital</b>	<b>-16.5</b>	<b>-13.9</b>	<b>-61.7</b>	<b>-52.2</b>
<b>Change in working capital</b>				
Decrease/increase in inventory	-0.1	0.3	-0.3	0.2
Decrease/increase in trade receivables	-0.1	-0.3	0.1	0.2
Decrease/increase in current receivables	-0.7	0.4	-0.5	0.8
Decrease/increase in current liabilities	1.9	1.8	3.3	-1.3
<b>Change in working capital</b>	<b>1.1</b>	<b>2.3</b>	<b>2.6</b>	<b>-0.1</b>
<b>Cash flow from operating activities</b>	<b>-15.4</b>	<b>-11.6</b>	<b>-59.2</b>	<b>-52.3</b>
<b>Investing activities</b>				
Investments of intangible fixed assets	-1.4	-2.2	-5.5	-9.7
<b>Cash flow from investing activities</b>	<b>-1.4</b>	<b>-2.2</b>	<b>-5.5</b>	<b>-9.7</b>
<b>Financing activities</b>				
Amortisation of lease debt	-0.5	-	-2.0	-
Investment in warrants	-	-	-	0.1
New share issue	-	12.3	63.6	12.3
Issue of convertibles*	-	-	-	6.7
<b>Cash flow from financing activities</b>	<b>-0.5</b>	<b>12.3</b>	<b>61.6</b>	<b>19.1</b>
<b>Cash flow for the period</b>	<b>-17.3</b>	<b>-1.6</b>	<b>-3.0</b>	<b>-43.0</b>
Cash and cash equivalents at beginning of period	42.6	29.9	28.3	71.3
<b>Cash and cash equivalents at end of period</b>	<b>25.3</b>	<b>28.3</b>	<b>25.3</b>	<b>28.3</b>

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

## Income statement, Parent Company

mSEK	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
<b>Operating income</b>				
Net sales	0.1	0.1	0.6	0.4
Other operating income	-	0.0	0.0	-
<b>Total income</b>	<b>0.1</b>	<b>0.1</b>	<b>0.6</b>	<b>0.4</b>
<b>Operating costs</b>				
Other external expenses	-7.3	-4.8	-26.5	-19.0
Personnel costs	-3.3	-3.2	-12.6	-12.6
Capitalised development expenditure	0.1	0.7	1.1	4.3
Amortisation of intangible assets and depreciation of property, plant and equipment	-0.7	-0.6	-2.6	-2.1
<b>Total operating costs</b>	<b>-11.2</b>	<b>-7.9</b>	<b>-40.6</b>	<b>-29.4</b>
<b>Operating loss</b>	<b>-11.1</b>	<b>-7.7</b>	<b>-40.0</b>	<b>-29.0</b>
<i>Financial items</i>				
Financial income, other	-	0.0	0.0	0.0
Financial expenses, other*	-0.0	-0.2	-0.9	-0.7
<b>Results from net financial items</b>	<b>-0.0</b>	<b>-0.2</b>	<b>-0.9</b>	<b>-0.7</b>
<b>Loss before tax</b>	<b>-11.1</b>	<b>-7.9</b>	<b>-40.9</b>	<b>-29.7</b>
Tax on income for the period	-	-	-	-
<b>Loss at end of the period</b>	<b>-11.1</b>	<b>-7.9</b>	<b>-40.9</b>	<b>-29.7</b>

\* During the financial year 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 terminated.

## Parent Company statement of comprehensive income

mSEK	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
<b>Net profit</b>	<b>-11.1</b>	<b>-7.9</b>	<b>-40.9</b>	<b>-29.7</b>
<i>Other comprehensive income for the period:</i>				
Other comprehensive income for the period, net of tax	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>-11.1</b>	<b>-7.9</b>	<b>-40.9</b>	<b>-29.7</b>

## Condensed balance sheet, Parent Company

mSEK	31 Dec 2019	31 Dec 2018
<b>ASSETS</b>		
<b>Fixed assets</b>		
<i>Intangible fixed assets</i>		
Capitalised development costs	8.0	9.5
<b>Total intangible fixed assets</b>	<b>8.0</b>	<b>9.5</b>
<i>Tangible fixed assets</i>		
Equipment	0.0	0.0
<b>Total tangible fixed assets</b>	<b>0.0</b>	<b>0.0</b>
<b>Financial assets</b>		
Shares in group companies	137.4	106.8
Long-term receivables from group companies	20.0	24.0
<b>Total financial assets</b>	<b>157.4</b>	<b>130.8</b>
<b>Total fixed assets</b>	<b>165.4</b>	<b>140.3</b>
<b>Current assets</b>		
<i>Short term receivables</i>		
Other receivables	0.8	1.3
Prepaid expenses and accrued income	0.9	0.6
<b>Total short term receivables</b>	<b>1.6</b>	<b>1.9</b>
Cash and cash equivalents	18.1	17.6
<b>Total current assets</b>	<b>19.8</b>	<b>19.5</b>
<b>TOTAL ASSETS</b>	<b>185.2</b>	<b>159.7</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>	<b>178.2</b>	<b>152.6</b>
<b>Liabilities</b>		
<b>Long-term liabilities</b>		
Long-term liabilities	-	-
<b>Total long-term liabilities</b>	<b>-</b>	<b>-</b>
<b>Current liabilities</b>		
Trade payables	4.3	0.4
Current interest-bearing liabilities	-	2.8
Other liabilities	0.4	0.7
Accrued liabilities and deferred income	2.3	3.3
<b>Total current liabilities</b>	<b>7.0</b>	<b>7.1</b>
<b>Total liabilities</b>	<b>7.0</b>	<b>7.1</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>185.2</b>	<b>159.7</b>

## Statement of changes in equity, Parent Company

mSEK	Share capital	Development fund	Share premium reserve	Loss brought forward	Loss for the period	Total equity
<b>Opening equity January 1, 2018</b>	<b>9.2</b>	<b>4.5</b>	<b>329.3</b>	<b>-148.0</b>	<b>-29.7</b>	<b>165.3</b>
<b>Comprehensive loss for the period</b>						
Loss for the period					-29.7	-29.7
Disposition according to AGM						
Loss brought forward				-29.7	29.7	-0.0
Development fund		3.3		-3.3		-0.0
<b>Total comprehensive loss for the period</b>	<b>9.2</b>	<b>7.9</b>	<b>329.3</b>	<b>-181.0</b>	<b>-29.7</b>	<b>135.6</b>
<b>Transactions with shareholders</b>						
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
<b>Total transactions with shareholders</b>	<b>1.3</b>		<b>15.6</b>	<b>0.1</b>		<b>17.0</b>
<b>Closing equity December 31 2018</b>	<b>10.5</b>	<b>7.9</b>	<b>344.9</b>	<b>-181.0</b>	<b>-29.7</b>	<b>152.6</b>
<b>Opening equity January 1, 2019</b>	<b>10.5</b>	<b>7.9</b>	<b>344.9</b>	<b>-181.0</b>	<b>-29.7</b>	<b>152.6</b>
<b>Comprehensive loss for the period</b>						
Loss for the period					-40.9	-40.9
Disposition according to AGM						
Loss brought forward				-29.7	29.7	-
Development fund		-0.4		0.4		-
<b>Total comprehensive loss for the period</b>	<b>10.5</b>	<b>7.4</b>	<b>344.9</b>	<b>-210.2</b>	<b>-40.9</b>	<b>111.7</b>
<b>Transactions with shareholders</b>						
Issue in-kind, for conversion of debt**	0.7		2.2			2.9
New share issue, net after issue expenses***	16.1		47.4			63.6
<b>Total transactions with shareholders</b>	<b>16.8</b>		<b>49.7</b>			<b>66.5</b>
<b>Closing equity December 31, 2019</b>	<b>27.3</b>	<b>7.4</b>	<b>394.6</b>	<b>-210.2</b>	<b>-40.9</b>	<b>178.2</b>

\* Issue expenses amounts to SEK 0.9m.

\*\* See more information about the financing agreement under financial information on page 5-6.

\*\*\* Issue expenses amounts to SEK 11.6m.

## Cash flow statement, Parent Company

mSEK	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
<b>Current operations</b>				
Operating loss	-11.1	-7.7	-40.0	-29.0
<i>Adjustments for items not included in cash flow</i>				
Depreciation	0.7	0.6	2.6	2.1
Interest received	-	0.0	0.0	0.0
Interest paid	-0.0	-0.0	-0.0	-0.0
Change in non-current liabilities	-	-0.0	-	-0.0
<b>Cash flow from current activities before changes in working capital</b>	<b>-10.4</b>	<b>-7.2</b>	<b>-37.4</b>	<b>-26.9</b>
<b>Changes in working capital</b>				
Decrease/increase in current receivables	-0.4	0.1	-0.4	0.1
Decrease/increase in current liabilities	1.7	1.6	2.7	-0.4
<b>Total changes in working capital</b>	<b>1.3</b>	<b>1.7</b>	<b>2.3</b>	<b>-0.2</b>
<b>Cash flow from operating activities</b>	<b>-9.1</b>	<b>-5.5</b>	<b>-35.2</b>	<b>-27.2</b>
<b>Cash flow from investing activities</b>				
Acquisition subsidiary	-	-	-0.1	-
Acquisition of intangible assets	-0.1	-0.7	-1.1	-4.3
Changes in financial assets	-5.0	-8.4	-26.6	-32.5
<b>Cash flow from investing activities</b>	<b>-5.2</b>	<b>-9.1</b>	<b>-27.9</b>	<b>-36.8</b>
<b>Cash flow from financing activities</b>				
Investment in warrants	-	-	-	0.1
New share issue	-	12.3	63.6	12.3
Issue of convertibles*	-	-	-	6.7
<b>Cash flow from financing activities</b>	<b>0.0</b>	<b>12.3</b>	<b>63.6</b>	<b>19.1</b>
<b>Cash flow for the period</b>	<b>-14.3</b>	<b>-2.3</b>	<b>0.6</b>	<b>-44.9</b>
Cash and cash equivalents at beginning of period	32.4	19.9	17.6	62.5
<b>Cash and cash equivalents at end of period</b>	<b>18.1</b>	<b>17.6</b>	<b>18.1</b>	<b>17.6</b>

\*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 of what is stated below.

#### 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. The Group follow these exceptions.

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 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 programs, the importance of the underlying asset to Episurf Medical's activities and/or costs attributable to not extending or terminating leases.

At the closing date for the fourth quarter of 2019, the total leasing asset amounted to SEK 5.9m, and the leasing liability amounted to SEK 5.8m.

The effect on the consolidated income statement during the fourth quarter was SEK 0.1m and SEK 0.6m for net finance cost and operating loss, respectively. The leasing costs which the group would have recorded under prior accounting standards totaled approximately SEK 0.6m which explains the net effect of zero. The effect for the financial year on the consolidated income statement was SEK 0.3m and SEK 2.3m for net finance cost and operating loss respectively. There was no net effect on the operating loss as the leasing costs which the group would have recorded under the prior accounting principles also totaled SEK 2.3m.

The average marginal interest rate of 5 percent has been used as a discounting rate when calculating the transitional effects. For the Groups alternative KPI, there were no significant effects after the implementation of IFRS 16.

<b>Effect from IFRS16, mSEK</b>	<b>Oct-Dec 2019 (IFRS 16)</b>	<b>Effect from IFRS16</b>	<b>Oct-Dec 2019 (IAS 17)</b>
Operating loss	-18.6	0.0	-18.6
Net finance cost	-0.2	-0.1	-0.1
Loss for the period	-18.7	-0.1	-18.7
<b>Effect from IFRS16, mSEK</b>	<b>Jan-Dec 2019 (IFRS 16)</b>	<b>Effect from IFRS16</b>	<b>Jan-Dec 2019 (IAS 17)</b>
Operating loss	-68.9	0.0	-68.9
Net finance cost	-0.9	-0.3	-0.6
Loss for the period	-69.8	-0.3	-69.5

Accounting principles for IFRS 16 will be provided in the Annual Report 2019.

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 recognised 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.

### Financial assets and liabilities

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.

### Note 2 Breakdown of net sales by country is as follows

mSEK	Oct-Dec 2019	Oct-Dec 2018	Jan-Dec 2019	Jan-Dec 2018
Germany	0.8	0.5	3.4	2.0
Sweden	0.1	0.0	0.2	0.3
Other countries in Europe	0.3	0.6	1.2	1.6
Other countries outside of Europe	--	--	0.1	--
<b>Total net sales</b>	<b>1.3</b>	<b>1.1</b>	<b>4.9</b>	<b>4.0</b>

### Note 3 Intangible assets

mSEK	Jan-Dec 2019	Jan-Dec 2018
<b>Patents, group</b>		
Opening cost	25,9	20,5
Purchases	4,4	5,4
<b>Closing accumulated depreciation</b>	<b>30,2</b>	<b>25,9</b>
Opening depreciation	-14,2	-11,2
The year's depreciation	-2,5	-3,0
<b>Closing accumulated depreciation</b>	<b>-16,8</b>	<b>-14,2</b>
<b>Closing carrying amount</b>	<b>13,5</b>	<b>11,6</b>
<b>Development expenses</b>		
Closing cost	13,3	8,6
The year's capitalisation	1,1	4,7
<b>Closing accumulated cost</b>	<b>14,4</b>	<b>13,3</b>
Opening depreciation	-3,9	-1,8
The year's depreciation	-2,6	-2,0
<b>Closing accumulated depreciation</b>	<b>-6,4</b>	<b>-3,9</b>
<b>Closing carrying amount</b>	<b>8,0</b>	<b>9,5</b>
<b>Closing carrying amount patents and development expenses</b>	<b>21,5</b>	<b>21,1</b>

## Definitions

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

## Glossary

<b>Approved orders:</b>	Orders which have been approved for surgery, are in production and will be invoiced.
<b>Arthritis:</b>	See Osteoarthritis.
<b>Arthroscopy:</b>	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).
<b>Cartilage:</b>	Shock absorbing and friction reducing tissue. This tissue that covers the end of bones and allows movement with low friction.
<b>Cartilage defect of grade III (ICRS scale):</b>	Lesion through the cartilage, exposing the bone.
<b>Cartilage defect of grade IV (ICRS scale):</b>	Defect extending down to >50% of the cartilage depth.
<b>CE marking:</b>	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.
<b>Clinical results:</b>	Outcome from clinical treatment of humans, where parameters such as efficacy and safety are evaluated.
<b>Cobalt chrome:</b>	A metal alloy mainly consisting of cobalt and chromium, commonly occurring in metal alloys used in knee prostheses.
<b>Debridement:</b>	Removal of damaged tissue.
<b>Degenerative origin:</b>	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.
<b>FDA:</b>	US Food and Drug Administration.
<b>Focal cartilage defect:</b>	A cartilage defect in a well-defined area.
<b>Femoral condyles:</b>	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).
<b>Gross order intake:</b>	Gross order intake represents the aggregated value of Episealer® orders received and approved by responsible surgeon during the relevant period.
<b>Hydroxyapatite:</b>	A mineral that is the major component of human bone tissue and the main mineral of dental enamel and dentin.
<b>Invasive treatment alternative:</b>	Treatments that require a surgical procedure.
<b>Micro fracturing:</b>	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.
<b>Mosaicplasty:</b>	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.

<b>MRI:</b>	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.
<b>OA:</b>	See osteoarthritis.
<b>Order backlog:</b>	Order backlog represents all orders that have been booked but where no revenue has been recognised.
<b>Orthopaedics:</b>	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.
<b>Osteoarthritis:</b>	A type of joint disease that is characterised by loss of joint function with varying destruction of joint cartilage and the underlying bone.
<b>Osteochondral defect:</b>	Cartilage and underlying bone defect.
<b>Prosthesis:</b>	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,
<b>Reimbursement:</b>	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.
<b>TKA:</b>	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).
<b>Traumatic damage:</b>	Damage caused by an outside force, such as fall injuries.
<b>UKA:</b>	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  $\mu$ Fidelity<sup>®</sup> 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. This is now followed by lesions in the second joint, the ankle.

### **Individualised implants with a focus on early stages of arthritis**

#### **Episurf Medical has three types of knee implants on the market**

- » Episealer<sup>®</sup> Condyle Solo for the treatment of localised cartilage and underlying bone defects on the femoral condyles of the knee joint.
- » Episealer<sup>®</sup> Trochlea Solo for the treatment of localised cartilage and underlying bone defects in the area behind the patella (the trochlea area).
- » Episealer<sup>®</sup> 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.



#### **Episurf Medical has one implant for the ankle on the market**

- » Episealer Talus<sup>®</sup> intended for osteochondral lesions of the talar dome of the ankle joint

#### **Patient-specific surgical instruments**

Every product is delivered with our individualised surgical drill guide Epiguide<sup>®</sup> and a set of associated surgical instrument. We also offer a surgical drill guide, Epiguide<sup>®</sup> MOS, that is designed for use in mosaicplasty surgery for treatment of cartilage and deep underlying bone defects in the knee joint. Further, for the ankle Episurf Medical offers an individualised sawguide, Talus Osteotomy Guide. It is intended to help the surgeon to find the correct position and depth when performing an osteotomy of the medial malleolus for access to the talar dome of the ankle 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 180 patents and patent applications worldwide, distributed over 20 patent families.

- » The first Episealer<sup>®</sup> surgery in a human was performed in December 2012. At the end of 2019, a total of 598 surgeries had been performed throughout Europe
- » 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

<b>AGM</b>	2 April 2020
<b>Interim Report January-March 2020</b>	24 April 2020
<b>Interim Report April-June 2020</b>	17 July 2020
<b>Interim Report July-September 2020</b>	23 October 2020
<b>Year-End Report 2020</b>	5 February 2021

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 7 February 2020 at 06.30 (CET).

### **Annual General Meeting 2020**

The 2020 Annual General Meeting will be held on Thursday 2 April 2020 in Stockholm.

### **Annual Report 2019**

The Annual Report and the Corporate Governance Report are expected to be published on 5 March 2020 on [www.episurf.com](http://www.episurf.com) and will be sent out by post to shareholders that have so requested. The documents will also be available at the company's head office.

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