Appendix 4D Half-Yearly Financial Report and Accounts for the Six Months Ended 30 June 2017 Provided Pursuant to ASX Listing Rule 4.2A

Lexington, Massachusetts, United States and Sydney, Australia – 15 August 2017 – GI Dynamics, Inc. (**ASX: GID**) ("**GI Dynamics"** or the "**Company**"), a medical device company developing innovative treatments for type 2 diabetes and obesity, today provides its Amended Half-Yearly Report for the six months ended 30 June 2017 **("Half-Yearly Report")**. This Half-Yearly Report contains information including the full Form 10 Q second quarter filing made with the United States Securities and Exchange commission on 14 August 2017 required by ASX Listing Rule 4.2A.

This Half-Yearly Report does not include all of the commentary, notes, and information that are typically found in an annual financial report. Accordingly, this Half-Yearly Report should be read in conjunction with the Company's annual report for the year ended 31 December 2016 and any public announcements made by the Company during the interim period in accordance with any continuous disclosure requirements of the ASX Listing Rules.

Results for Announcement to the Market

Important information concerning the financial results for the half-year ended 30 June 2017

GI Dynamics lodges its half-year financial results in the form of United States Securities and Exchange Commission ("SEC") Quarterly Report on Form 10-Q, which includes financial results for the three and six months ended 30 June 2017. The Form 10-Q for the three and six months ended 30 June 2017 is attached, has been prepared in accordance with United States Generally Accepted Accounting Principles, and was filed with the SEC on 14 August 2017.

All amounts in the Form 10-Q and this Half-Yearly Report are denominated in United States dollars unless otherwise indicated.

Review of Operations for the Half-Year ended 30 June 2017

GI Dynamics' net loss for the half-year ended 30 June 2017 was approximately US$5.6 million compared to approximately US$7.3 million for the half-year ended 30 June 2016, a decrease in net loss of approximately US$1.7 million. The decrease in net loss for the half-year ended 30 June 2017 was a result of a decrease in operating expenses of approximately $1.1 million for the comparable periods, primarily due to lower personnel related expenses, including stock-based compensation expense and professional services expense in all operating expense categories and to a lesser extent a reduction in gross loss for the comparable periods of approximately $0.6 million. The reduction in the gross loss for the comparable periods is due to the 2016 six-month period reflecting unabsorbed manufacturing operations expenses and additional inventory reserve charges in that six month period that did not recur in the 2017 six month period.

	Half-Year Ended 30 June 2017 US$ (000's)	Half-Year Ended 30 June 2016 US$ (000's)	Increase / (Decrease) US$ (000's)	Increase / (Decrease) %
Revenue from ordinary activities	**$ 150**	**$ 341**	**$ (191)**	**-56.0%**
Profit (loss) from ordinary activities after tax attributable to members	**$ (5,649)**	**$ (7,328)**	**$ 1,679**	**-22.9%**
Net profit (loss) for the period attributable to members	**$ (5,649)**	**$ (7,328)**	**$ 1,679**	**-22.9%**

	Half-Year Ended 30 June 2017 US$	Half-Year Ended 30 June 2016 US$
Net tangible assets per share of common stock	**$ 0.13**	**$ 1.20**
Net tangible assets per CDI	**$ 0.003**	**$ 0.02**

Commentary to the Operating Results

A detailed discussion of the Company's operating results for the half-year ended 30 June 2017 can be found in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" of the attached Form 10-Q.

Dividends

No dividend was paid during the period ended 30 June 2017 and the Directors do not recommend that a dividend relating to the interim period ended 30 June 2017 be paid. As such, there is no franking or applicable record date.

Compliance Statement

The attached SEC Quarterly Report on Form 10-Q is not subject to audit dispute or qualification. This Half-Yearly Report is based on the attached SEC Quarterly Report on Form 10-Q and has been subject to review procedures as required by the SEC and includes a Review Report of Independent Registered Public Accounting Firm provided by Moody, Famiglietti & Andronico, LLP. GI Dynamics has a formally constituted audit committee.

Please find attached the Company's SEC Quarterly Report on Form 10-Q for the six months ended 30 June 2017.

James Murphy
Chief Financial Officer
(principal accounting and financial officer)

About GI Dynamics

GI Dynamics, Inc. (ASX:GID) is the developer of EndoBarrier, the first endoscopically delivered device approved for the treatment of type 2 diabetes and obesity. EndoBarrier is not approved for sale in the United States and is limited by federal law to investigational use only in the United States. Founded in 2003, GI Dynamics is headquartered in Boston, Massachusetts. For more information, please visit www.gidynamics.com.

Forward-Looking Statements

This announcement may contain forward-looking statements. Any forward-looking statements are based on GI Dynamics management's current estimates and expectations of future events as of the date of this announcement. Furthermore, the estimates are subject to several risks and uncertainties that could cause actual results to differ materially and adversely from those indicated in or implied by such forward-looking statements. These risks and uncertainties include but are not limited to, risks associated with obtaining funding from third parties; the consequences of stopping the ENDO trial and the possibility that future clinical trials will not be successful or confirm earlier results; the timing and costs of clinical trials; the timing of regulatory submissions; the timing, receipt and maintenance of regulatory approvals; the timing and amount of other expenses; the timing and extent of third-party reimbursement; risks associated with commercial product sales, including product performance, competition, market acceptance of products, intellectual-property risk; risks related to excess inventory; and risks related to assumptions regarding the size of the available market, the benefits of our products, product pricing, timing of product launches, future financial results and other factors, including those described in our filings with the U.S. Securities and Exchange Commission. Given these uncertainties, one should not place undue reliance on these forward-looking statements. We do not assume any obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events or otherwise, unless we are required to do so by law.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of GI Dynamics, Inc. and Subsidiaries

We have reviewed the condensed consolidated balance sheet of GI Dynamics, Inc. and Subsidiaries as of June 30, 2017 and the related condensed consolidated statements of operations and comprehensive loss for the three-month and six month periods ended June 30, 2017 and 2016, and condensed consolidated statements of cash flows for the six month periods then ended. These consolidated financial statements are the responsibility of the company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of GI Dynamics, Inc. and Subsidiaries as of December 31, 2016, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 30, 2017, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Note 1 of the Company's audited consolidated financial statements as of December 31, 2016, and for the year then ended discloses the Company has experienced recurring losses, and negative cash flows from operations since inception and has an accumulated deficit as of December 31, 2016. Our auditor's report on those consolidated financial statements include an explanatory paragraph referring to the matters in Note 1 of those consolidated financial statements that these matters raised substantial doubt about the Company's ability to continue as a going concern. As indicated in Note 1 of the Company's unaudited interim consolidated financial statements as of June 30, 2017, and for the three and six months ended, the Company is still experiencing recurring losses and negative cash flows from operations since inception and has an accumulated deficit as of June 30, 2017. The condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Moody, Famiglietti and Andronico, LLP
Tewksbury, Ma
August 14, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2017

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 000-55195

GI DYNAMICS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**84-1621425**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
355 Congress Street Boston, Massachusetts	**02210**
(Address of Principal Executive Offices)	**(Zip Code)**

(781) 357-3300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
☐ Yes ☒ No

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

As of August 1, 2017, there were 11,157,489 shares of common stock outstanding.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements concerning our business, operations, financial performance and condition as well as our plans, objectives and expectations for our business, operations and financial performance and condition concerning the potential for EndoBarrier as an important treatment option for patients with type 2 diabetes and obesity. Any statements contained in this Quarterly Report on Form 10- Q that are not of historical facts may be deemed to be forward-looking statements. The forward-looking statements are contained principally in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements include, but are not limited to, statements about:

- our expectations with respect to regulatory submissions and receipt and maintenance of regulatory approvals;
- our expectations with respect to our clinical trials;
- our expectations with respect to our intellectual property position;
- our ability to commercialize our products;
- our ability to develop and commercialize new products;
- our expectation with regard to inventory; and
- our estimates regarding our capital requirements and our need for additional financing.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "aims," "assumes," "goal," "intends," "objective," "potential," "positioned," "target," "continue," "seek" and similar expressions intended to identify forward-looking statements.

These forward-looking statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management's beliefs and assumptions. These forward-looking statements are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. As a result, any or all of our forward- looking statements in this Quarterly Report on Form 10-Q may later become inaccurate. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward- looking statements we make. We have included important factors in the cautionary statements included in this Quarterly Report on Form 10-Q, particularly in the "Risk Factors" section (which incorporates by reference to our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC), that could cause actual results or events to differ materially from the forward- looking statements that we make.

You are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on the forward-looking statements. You should read this Quarterly Report on Form 10-Q and the documents that we have filed as exhibits to our Annual Report on Form 10-K completely and with the understanding that our actual future results may be materially different from what we expect. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Unless required by law, we do not intend to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. You should, however, review the factors and risks we describe in the reports we will file from time to time with the SEC after the date of this Quarterly Report on Form 10-Q.

GI DYNAMICS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED June 30, 2017

TABLE OF CONTENTS

		Page
	PART I – FINANCIAL INFORMATION	1
Item 1.	Financial Statements (unaudited)	1
	Condensed Consolidated Balance Sheets as of June 30, 2017, and December 31, 2016	1
	Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three and six months Ended June 30, 2017 and 2016	2
	Condensed Consolidated Statements of Cash Flows for the six months Ended June 30, 2017 and 2016	3
	Notes to Condensed Consolidated Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	30
Item 4.	Controls and Procedures	31
	PART II – OTHER INFORMATION	32
Item 1A.	Risk Factors	32
Item 2.	Unregistered Sales of Equity Securities	34
Item 6.	Exhibits	34
	Signatures	35

References

Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "GI Dynamics," "the Company," "we," "us" and "our" refer to GI Dynamics, Inc. and its consolidated direct and indirect subsidiaries.

Currency

Unless indicated otherwise in this Quarterly Report on Form 10-Q, all references to "$", "US$" or "dollars" refer to United States dollars, the lawful currency of the United States of America. References to "A$" refer to Australian dollars, the lawful currency of the Commonwealth of Australia. References to "€" or "euros" means euros, the single currency of Participating Member States of the European Union.

Trademarks

EndoBarrier® and various company logos are the trademarks of the Company, in the United States and other countries. All other trademarks and trade names mentioned in this Quarterly Report on Form 10-Q are the property of their respective owners.

PART I – FINANCIAL INFORMATION

Item 1. ***Financial Statements***

GI Dynamics, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 8,015	$ 8,293
Restricted cash	30	30
Accounts receivable, net	44	30
Inventory, net	—	213
Prepaid expenses and other current assets	321	483
Total current assets	8,410	9,049
Property and equipment, net	114	149
Total assets	$ 8,524	$ 9,198
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 881	$ 1,006
Accrued expenses	1,232	1,160
Deferred revenue	14	11
Other current liabilities	29	214
Total current liabilities	2,156	2,391
Long term debt-related party, net of debt issuance costs	4,891	—
Warrant liability	57	17
Total liabilities	7,104	2,408
Commitments (Note 12)		
Stockholders' equity:		
Preferred stock, $0.01 par value – 500,000 shares authorized; no shares issued and outstanding at June 30, 2017 and December 31, 2016	—	—
Common stock, $0.01 par value – 50,000,000 and 13,000,000 shares authorized at June 30, 2017 and December 31, 2016; 11,157,489 shares issued and outstanding at June 30, 2017 and 10,907,857 shares issued and outstanding at December 31, 2016	112	109
Class B common stock, $0.01 par value –zero and 1,000,000 shares authorized at June 30, 2017 and December 31, 2016 and no shares issued and outstanding at June 30, 2017 and December 31, 2016	—	—
Additional paid-in capital	255,188	254,884
Accumulated deficit	(253,880)	(248,203)
Total stockholders' equity	1,420	6,790
Total liabilities and stockholders' equity	$ 8,524	$ 9,198

The accompanying notes are an integral part of these condensed consolidated financial statements.

GI Dynamics, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Loss

(In thousands, except share and per share amounts)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Revenue	$ 48	$ 132	$ 150	$ 341
Cost of revenue	64	637	208	990
Gross loss	(16)	(505)	(58)	(649)
Operating expenses:				
Research and development	989	1,181	2,050	2,031
Sales and marketing	525	610	980	1,274
General and administrative	1,442	1,559	2,529	3,366
Total operating expenses	2,956	3,350	5,559	6,671
Loss from operations	(2,972)	(3,855)	(5,617)	(7,320)
Other income (expense):				
Interest income	5	13	12	27
Interest expense	(18)	—	(18)	—
Foreign exchange gain (loss)	(4)	(14)	(6)	3
Other Income	23	—	23	—
Re-measurement of warrant liability	11	(17)	(40)	(17)
Other income (expense), net	17	(18)	(29)	13
Loss before income tax expense	(2,955)	(3,873)	(5,646)	(7,307)
Income tax expense (benefit)	(3)	17	3	21
Net loss	$ (2,952)	$ (3,890)	$ (5,649)	$ (7,328)
Basic and diluted net loss per common share	$ (0.26)	$ (0.41)	$ (0.51)	$ (0.77)
Weighted-average number of common shares used in basic and diluted net loss per common share	11,157,489	9,510,557	11,136,801	9,508,296

The accompanying notes are an integral part of these condensed consolidated financial statements.

GI Dynamics, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	Six Months Ended June 30,	
	2017	**2016**
Operating activities		
Net loss	$(5,649)	$ (7,328)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	35	155
Amortization of debt issuance costs	6	—
Stock-based compensation expense	81	508
Remeasurement of warrant liability	40	17
Impairment loss on fixed assets	—	145
Change in inventory reserve	(76)	(191)
Gain on sale of property and equipment	—	2
Changes in operating assets and liabilities:		
Accounts receivable	(14)	18
Prepaid expenses and other current assets	162	239
Inventory	289	712
Accounts payable	(125)	—
Accrued expenses	72	(1,384)
Deferred revenue	3	—
Deferred rent	—	(82)
Net cash used in operating activities	(5,176)	(7,189)
Investing activities		
Change in restricted cash	—	(150)
Proceeds from sale of property and equipment	—	4
Net cash used in investing activities	—	(146)
Financing activities		
Proceeds from issuance of common stock	198	—
Debt issuance costs	(115)	—
Proceeds from long term borrowing, related party	5,000	—
Payments on short term note payable	(185)	(1)
Net cash (used in) provided by financing activities	4,898	(1)
Net decrease in cash and cash equivalents	(278)	(7,336)
Cash and cash equivalents at beginning of period	8,293	19,590
Cash and cash equivalents at end of period	$ 8,015	$12,254
Supplemental cash flow disclosures		
Income taxes paid	$ 22	$ 19
Effect on retained earnings of adopting ASU No. 2016-09 in 2017	$ 28	$ —

The accompanying notes are an integral part of these condensed consolidated financial statements.

GI Dynamics, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

1. Nature of Business

GI Dynamics, Inc. (the "Company") was incorporated on March 24, 2003, as a Delaware corporation, with operations based in Boston, Massachusetts. The Company is dedicated to restoring health and improving quality of life through the design and application of device and disease management solutions for treatment of metabolic disease. The Company's near and long-term goal is to establish EndoBarrier Therapy as a vital treatment option for patients suffering from type 2 diabetes and obesity by restoring more manageable blood sugar levels and reducing body weight. The Company is the developer of EndoBarrier®, the first endoscopically-delivered device therapy approved for the treatment of obese type 2 diabetic patients. EndoBarrier is the only proven, incision-free, non-anatomy altering solution designed to specifically mimic the duodenal-jejunal exclusion created by gastric bypass surgery, without the permanent safety issues associated with gastric bypass. Since incorporation, the Company has devoted substantially all of its efforts to product commercialization, research and development, business planning, recruiting management and technical staff, acquiring operating assets, and raising capital. The Company currently operates in one reportable business segment which designs, manufactures and markets medical devices.

In 2011, the Company began commercial sales of its product, the EndoBarrier, which is approved and commercially available in multiple countries outside the U.S.

In the U.S., the Company received approval from the Food and Drug Administration ("FDA"), to commence its pivotal trial of EndoBarrier Therapy (the "ENDO Trial"), which the Company began in 2013. The multi-center, randomized, double-blinded study planned to enroll 500 patients with uncontrolled type 2 diabetes and obesity at 25 sites in the U.S. The primary endpoint was improvement in diabetes control as measured by HbA1c levels. In the second half of fiscal 2015, the Company announced its decision to stop the ENDO Trial.

On August 21, 2015, the Company announced that it was reducing headcount by approximately 46% as part of its efforts to restructure its business and expenses in response to stopping the ENDO Trial and to ensure sufficient cash remained available for it to establish new priorities, continue limited market development and research, and to evaluate strategic options.

In the second and third quarters of fiscal 2016, the Company took additional actions to provide additional time to evaluate and develop its strategic options. These actions resulted in non-recurring charges totaling approximately $1.1 million, including $0.4 million related to restructuring charges in our second quarter, $0.6 million related to employee departures in both our second and third quarters and $0.1 million related to abandonment of our former headquarters in Lexington, MA.

In October 2016, the Company received final cancellation notification from the Therapeutic Goods Administration (**TGA**) for the listing of EndoBarrier on the Australian Register of Therapeutic Goods (**ARTG**). The TGA stated that the Company failed to provide adequate evidence of compliance with certain provisions of the TGA Essential Principles within the required number of working days.

In May 2017, the Company received notification from its notified body SGS United Kingdom Limited (SGS) that the CE Mark for its EndoBarrier® system has been suspended pending closure of non-conformances related to its quality management system required under ISO regulations. GI Dynamics is working diligently to resolve all outstanding non-conformances and have the suspension of the CE mark removed.

Currently, the Company is focused on commercialization efforts within select European Union and Middle East countries and is re-engaging with the FDA with the intent of seeking agreement regarding a new investigational device exemption (IDE) pivotal trial to more towards to explore regulatory approval for EndoBarrier.

The Company has incurred operating losses since inception and at June 30, 2017 had an accumulated deficit of approximately $254 million. GI Dynamics expects to incur significant operating losses for the next several years. At June 30, 2017, the Company had approximately $8.0 million in cash, cash equivalents and restricted cash. The Company does not expect its current cash balances will be sufficient to enable it to conduct an additional clinical trial for the purpose of seeking regulatory approval from the FDA.

1. Nature of Business (continued)

From its inception in 2003 to its initial public offering ("IPO") in 2011, the Company was financed by a series of preferred stock financings. In September 2011, the Company completed its IPO of common stock in the form of CHESS Depositary Interests ("CDIs") in Australia and has completed a number of equity financings since that time.

In June 2017, the Company completed a Convertible Term Promissory Note financing for a gross amount of $5.0 million that accrues interest at 5% per annum compounded annually. The note is due by December 31, 2018 and contains provisions for conversion during the term of the note (See Note 11 of the Condensed Consolidated Financial Statements for a more complete description of the terms and conditions). As of June 30, 2017, our primary source of liquidity is our cash and cash equivalents balances. We continue to evaluate which markets are appropriate to continue pursuing reimbursement, market awareness and general market development and selling efforts, and continue to restructure our business and costs, establish new priorities, and evaluate strategic options. As a result, we expect to incur significant operating losses for the next several years. We do not expect our current cash balances will be sufficient to enable us to conduct an additional clinical trial for the purpose of seeking regulatory approval from the FDA and complete development of an improved EndoBarrier for its current use and potential new indications. The Company will need to raise additional capital before the end of the first quarter of fiscal 2018 in order to continue to pursue its current business objectives as planned and to continue to fund its operations. This fact raises substantial doubt about the Company's ability to continue as a going concern. The Company is looking to raise additional funds through any combination of collaborative arrangements, strategic alliances, and additional equity and debt financings or from other sources. There can be no assurance that any such financing opportunities will be available on acceptable terms, if at all. If the Company is unable to raise capital when needed, it could be forced to significantly delay or discontinue research and development activities and further commercialization of EndoBarrier, which could have a material adverse effect on its business, financial condition and results of operations. In addition, the Company could be required to cease operations if it is unable to raise capital when needed.

In September 2011, the Company completed its initial public offering ("IPO") of common stock in the form of CHESS Depository Interests ("CDIs") in Australia. On December 20, 2016, the Company completed a private placement sale of 69,865,000 CDIs (1,397,300 shares) for approximately $1.0 million, net of expenses. In January 2017, the Company completed the sale of 249,632 shares (12,481,600 CDIs) to eligible investors under a Security Purchase Plan for approximately $0.83 per share resulting in net proceeds after expenses of approximately $0.1 million. To date GI Dynamics has raised approximately $238 million in net proceeds through issuance of debt and sales of its equity

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and liabilities and commitments in the normal course of business. The condensed consolidated financial statements as of June 30, 2017, and December 31, 2016 and the three and six months ended June 30, 2017 and 2016 do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to the Company's ability to continue as a going concern.

2. Summary of Significant Accounting Policies and Basis of Presentation

The accompanying condensed consolidated financial statements and the related disclosures as of June 30, 2017, and for the three and six months ended June 30, 2017 and 2016, are unaudited and have been prepared in accordance with accounting principles generally accepted in the U.S. ("GAAP") and the applicable rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K ("Form 10-K"), filed with the SEC on March 30, 2017. The December 31, 2016 condensed consolidated balance sheet included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP for complete financial statements.

2. Summary of Significant Accounting Policies and Basis of Presentation (continued)

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments of a normal recurring nature considered necessary to present fairly the Company's financial position as of June 30, 2017, results of its operations for the three and six months ended June 30, 2017 and 2016, and its cash flows for the six months ended June 30, 2017 and 2016. The interim results for the six months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

The Company's significant accounting policies are as described in Note 2, *Summary of Significant Accounting Policies and Basis of Presentation*, in the Company's Form 10-K.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of GI Dynamics, Inc. and its wholly owned subsidiaries. All intercompany transactions and balances are eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires the Company's management to make estimates and judgments that may affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company's management evaluates its estimates, including those related to revenue recognition, allowance for doubtful accounts, inventory valuation including reserves for excess and obsolete inventory, impairment of long-lived assets, income taxes including the valuation allowance for deferred tax assets, research and development, contingencies, stock-based compensation, going concern considerations, and warrant valuations. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. Changes in estimates are reflected in reported results in the period in which they become known.

Guarantees

The Company has identified the guarantees described below as disclosable, in accordance with ASC 460, *Guarantees*.

As permitted under Delaware law, the Company indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Company's request in such capacity. The maximum potential amount of future payments the Company could be required to make is unlimited; however, the Company has directors' and officers' insurance coverage that should limit its exposure and enable it to recover a portion of any future amounts paid.

The Company is a party to a number of agreements entered into in the ordinary course of business that contain typical provisions that obligate the Company to indemnify the other parties to such agreements upon the occurrence of certain events. Such indemnification obligations are usually in effect from the date of execution of the applicable agreement for a period equal to the applicable statute of limitations. The aggregate maximum potential future liability of the Company under such indemnification provisions is uncertain.

As of June 30, 2017 and December 31, 2016, the Company had not experienced any material losses related to these indemnification obligations, and no material claims with respect thereto were outstanding. The Company does not expect significant claims related to these indemnification obligations and, consequently, concluded that the fair value of these obligations is negligible. As a result, no related reserves have been established.

Restricted Cash

Restricted balances of cash, which are shown under current assets as restricted cash, relate to funds set aside to secure amounts outstanding on company supported credit card balances.

2. Summary of Significant Accounting Policies and Basis of Presentation (continued)

Subsequent Events

The Company evaluates events occurring after the date of its condensed consolidated balance sheet for potential recognition or disclosure in its condensed consolidated financial statements. There have been no subsequent events that have occurred through the date the Company issued its condensed consolidated financial statements that require disclosure in or adjustment to its condensed consolidated financial statements.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standard setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company believes that the effect of recently issued standards that are not yet effective will not have a material effect on its consolidated financial position or results of operations upon adoption.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). ASU 2016-02 requires that lessees recognize in the statement of financial position for all leases (with the exception of short-term leases) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, and a right-of-use asset, which is an asset representing the lessee's right to use the underlying asset for the lease term. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. The adoption of this guidance is not expected to have a significant impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"). ASU 2016-09 will simplify the income tax consequences, accounting for forfeitures and classification on the statements of consolidated cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. The Company elected to adopt ASU 2016-09 in the first quarter of 2017 retrospectively to January 1, 2017. As a result of adopting ASU No. 2016-09 during the three and six months ended June 30, 2017, the Company adjusted retained earnings related to the accounting policy election to recognize the impact of share-based award forfeitures only as they occur rather than by applying an estimated forfeiture rate as previously required. ASU No. 2016-09 requires that this change be applied using a modified-retrospective transition method by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is adopted. As a result of this adoption, the Company recorded a decrease to retained earnings of approximately $28,000.

In August, 2016, the FASB issued ASU No. 2016-15—Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). The amendments in ASU 2016-15 address eight specific cash flow issues and apply to all entities that are required to present a statement of cash flows under FASB Accounting Standards Codification (FASB ASC) 230, Statement of Cash Flows. The amendments in ASU 2016-15 are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption during an interim period. The Company has not yet adopted this update and is currently evaluating the impact of ASU No. 2016-15 on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issue Task Force)*, or ASU 2016-18. This new standard addresses the diversity that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments in ASU 2016-18 require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash

2. Summary of Significant Accounting Policies and Basis of Presentation (continued)

or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within the year of adoption, with early adoption permitted. We do not expect that the adoption of ASU 20116-18 will have a material impact on our consolidated financial statements.

3. Net Loss per Common Share

Basic net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Potential common stock equivalents are determined using the treasury stock method. For diluted net loss per share purposes, the Company excludes stock options and other stock-based awards, including shares issued as a result of option exercises but which are subject to repurchase by the Company, whose effect would be anti-dilutive from the calculation. During the three and six months ended June 30, 2017 and 2016, common stock equivalents were excluded from the calculation of diluted net loss per common share, as their effect was anti-dilutive due to the net loss incurred. Therefore, basic and diluted net loss per share was the same in all periods presented.

The following potentially dilutive securities have been excluded from the computation of diluted weighted-average shares outstanding as of June 30, 2017 and 2016, as they would be anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Warrants to purchase common stock	28,532	78,532	28,532	78,532
Options to purchase common stock and other stock-based awards	1,496,326	1,034,070	1,496,326	1,034,070
Total	1,524,858	1,112,602	1,524,858	1,112,602

4. Common Stock Warrants

In connection with the Company's initial public offering ("IPO") in September 2011, the Company issued warrants ("IPO Warrants") in an aggregate amount of 50,000 shares of common stock at an exercise price of A$55.00 per share to the lead manager of the IPO and certain other investors. The IPO Warrants expired on September 1, 2016.

On May 4, 2016, the Company entered into a consulting agreement pursuant to which a consulting firm provides strategic advisory, finance, accounting, human resources and administrative functions, including chief financial officer services, to the Company. In connection with the consulting agreement, the Company granted the consulting firm a warrant ("Consultant Warrant," together with the IPO Warrants, the "Warrants") to purchase up to 28,532 shares of the Company's common stock at an exercise price per share equal to $0.64. The Consultant Warrant vests on a monthly basis over two years and has a term of five years. The Company has reserved 28,532 shares of common stock related to the Consultant Warrant. As of June 30, 2017, the Consultant Warrants had not been exercised.

The Company accounts for the Warrants under Accounting Standards Codification 815, *Derivatives and Hedging* ("ASC 815"). In accordance with the guidance included in ASC 815, because the Company's functional currency is the U.S. dollar and the exercise price of the IPO Warrants was in Australian dollars, the Company was exposed to currency exchange risk related to the IPO Warrants. As a result, the IPO Warrants were not considered

4. Common Stock Warrants (continued)

indexed to the Company's own stock, and therefore, the IPO Warrants were classified as a liability. The Consultant Warrant contains a cashless exercise provision which meets the net settlement criteria of ASC 815 and is therefore considered a derivative and is classified as a liability.

The Consultant Warrant is classified as a liability and as such the fair value of the Warrant must be remeasured at each reporting period. At the time the Warrant was issued, the Company estimated the fair value of the Warrant using the Black-Scholes option pricing model. The Company remeasures the fair value of the Warrant at each reporting period using current assumptions. Changes in value recorded are as other income or expense (Note 5).

5. Fair Value of Financial Instruments

The tables below present information about the Company's assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016, and indicates the fair value hierarchy of the valuation techniques the Company used to determine such fair value. In general, fair values determined by Level 1 inputs utilize observable inputs such as quoted prices in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize data points that are either directly or indirectly observable, such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs utilize unobservable data points in which there is little or no market data, requiring the Company to develop its own assumptions for the asset or liability.

The following tables present the assets and liabilities the Company has measured at fair value on a recurring basis (in thousands):

		Fair Value Measurements at Reporting Date Using		
Description	**June 30, 2017**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Money market funds (included in cash and cash equivalents)	$ 7,013	$ 7,013	$ —	$ —
Total assets	$ 7,013	$ 7,013	$ —	$ —
Liabilities				
Warrants to purchase common stock	$ 57	$ —	$ —	$ 57
Total liabilities	$ 57	$ —	$ —	$ 57

		Fair Value Measurements at Reporting Date Using		
Description	**December 31, 2016**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Money market funds (included in cash and cash equivalents)	$ 6,344	$ 6,344	$ —	$ —
Total assets	$ 6,344	$ 6,344	$ —	$ —
Liabilities				
Warrants to purchase common stock	$ 17	$ —	$ —	$ 17
Total liabilities	$ 17	$ —	$ —	$ 17

5. Fair Value of Financial Instruments (continued)

The assumptions used in the Black-Scholes option pricing model to determine the fair value of the Consultant Warrant as of June 30, 2017, and December 31, 2016 were as follows:

	June 30, 2017	December 31, 2016
Exercise price	$ 0.64	$ 0.64
Fair value of common stock	$ 2.39	$ 0.59
Expected volatility	128.63%	90.5%
Expected term (in years)	3.85	4.34
Risk-free interest rate	1.69%	1.78%
Expected dividend yield	— %	— %

The following table rolls forward the fair value of the Warrants, where fair value is determined by Level 3 inputs (in thousands):

Balance at December 31, 2016	$ 17
Issuance of Consultant Warrant	—
Increase in fair value of Warrants upon remeasurement included in other income (expense)	40
Balance at June 30, 2017	$ 57

Cash equivalents, restricted cash, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses, short term loans payable and other current liabilities at June 30, 2017 and December 31, 2016 are carried at amounts that approximate fair value due to their short-term maturities and highly liquid nature of these instruments. The carrying value of the Company's Senior Secured Convertible Promissory Note approximates fair value based on certain industry studies obtained by the Company.

6. Concentrations of Credit Risk, Accounts Receivable and Related Valuation Accounts

Financial instruments that subject the Company to credit risk primarily consists of cash and cash equivalents, restricted cash and accounts receivable. The Company maintains its cash, cash equivalents and restricted cash balances with high quality financial institutions, and consequently, the Company believes that such funds are subject to minimal credit risk.

Accounts receivable primarily consist of amounts due from customers, including distributors and health care providers in different countries. In light of the current economic state of many foreign countries, the Company continues to monitor the creditworthiness of its customers.

In May 2017, the Company entered into a sales arrangement with certain distributors totaling $517,000 of EndoBarrier inventory. Due to certain extended right of return periods and payment terms, the Company determined that the revenue and related product costs associated with this transaction should be deferred for accounting purposes. No revenue or cost of sales have been recorded for the three and six months ended June 30, 2017 related to this transaction. Additionally, no payments have been received from distributors in connection with the transaction. As a result, the Company has recorded an adjustment to accounts receivable of $517,000 for the unpaid portion of deferred revenue. As of June 30, 2017, the Company has also reported deferred product costs of $29,000 in other current assets. The Company expects to recognize revenue after payment has been received and the right of return periods are elapsed or once an estimate for returns can be established, as appropriate. The Company will also recognize costs of revenue upon receipt of payment.

6. Concentrations of Credit Risk, Accounts Receivable and Related Valuation Accounts (continued)

At June 30, 2017, one distributor accounted for approximately 20% of the Company's accounts receivable. One healthcare provider accounted for approximately 34% and a second healthcare provider accounted for approximately 16% of the accounts receivables. At December 31, 2016 one health care provider accounted for approximately 43% of the Company's accounts receivable and another health care provider accounted for approximately 22% of the Company's accounts receivable. No other customer accounted for greater than 10% of the Company's accounts receivable at June 30, 2017 and December 31, 2016.

The Company grants credit to customers in the normal course of business but generally does not require collateral or any other security to support its receivables. The Company makes judgments as to its ability to collect outstanding receivables and provides an allowance for receivables when collection becomes doubtful. Provisions are made based upon a specific review of all significant outstanding invoices and the overall quality and age of those invoices not individually reviewed. Amounts determined to be uncollectible are written off against this reserve. During the three and six months ended June 30, 2017 and 2016 the Company did not write off any uncollectible accounts receivable against the bad debt reserve.

In certain circumstances the Company allows customers to return defective or nonconforming products for credit or replacement products. Defective or nonconforming products typically include those products that resulted in an unsuccessful implant procedure. The Company records an estimate for product returns based upon historical trends. The associated reserve for product returns is recorded as a reduction of the Company's accounts receivable.

The following table shows the components of the Company's accounts receivable at June 30, 2017 and December 31, 2016 (in thousands):

	June 30, 2017	December 31, 2016
Accounts receivable	$ 105	$ 68
Less: allowance for doubtful accounts	(55)	(16)
Less: allowance for sales returns	(6)	(22)
Total	$ 44	$ 30

The following is a roll forward of the Company's allowance for doubtful accounts (in thousands):

	Six Months Ended June 30,	
	2017	2016
Beginning balance	$ 16	$ 59
Net charges to expenses	46	1
Utilization of allowances	(7)	(48)
Ending balance	$ 55	$ 12

7. Inventory

The Company states inventory at the lower of first-in, first-out cost or market. The Company records a provision for excess, expired, and obsolete inventory based primarily on estimates of forecasted revenues. A significant change in the timing or level of demand for products as compared to forecasted amounts may result in recording additional provisions for excess, expired, and obsolete inventory in the future. When capitalizing inventory, the Company considers factors such as status of regulatory approval, alternative use of inventory, and anticipated commercial use of the product.

The determination of obsolete or excess inventory requires the Company to estimate the future demand for its products within appropriate time horizons. The estimated future demand is compared to inventory levels to determine the amount, if any, of obsolete and excess inventory. The demand forecast includes the Company's estimates of market growth and various internal estimates, and is based on assumptions that are consistent with the plans and estimates the Company is using to manage its underlying business and short-term manufacturing plans. Forecasting demand for EndoBarrier in a market in which there are few, if any, comparable approved devices and for which reimbursement from third-party payers is limited is challenging. To the extent the Company's demand forecast is less than its inventory on-hand, the Company could be required to record additional reserves for excess, expired or obsolete inventory in the future.

The Company has reserves totaling approximately $4.5 million for excess, expired and obsolete inventory both as of June 30, 2017 and December 31, 2016. The Company continues to review any evidence that may indicate that the utility of additional amounts of inventory, as it was expected to be used, will be less than cost.

Inventory, net, at June 30, 2017 and December 31, 2016 was as follows (in thousands):

	June 30, 2017	December 31, 2016
Finished goods	$ —	$ 213
Work-in-process	—	—
Raw materials	—	—
Total	$ —	$ 213

The Company has entered into consignment arrangements in which the Company delivers product to the customer but retains title to the product until it is implanted or otherwise consumed. At June 30, 2017 and December 31, 2016, approximately 0% and 5%, respectively, of the finished goods inventory was at customer locations pursuant to these arrangements.

8. Property and Equipment

Property and equipment consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Laboratory equipment and manufacturing equipment	$ 591	$ 591
Computer equipment and software	1,174	1,174
Office furniture and equipment	183	183
Leasehold improvements	21	21
	1,969	1,969
Less accumulated depreciation and amortization	(1,855)	(1,820)
Total	$ 114	$ 149

Depreciation and amortization expense of property and equipment, including equipment recorded under capital leases, totaled approximately $16,000 and $77,000 for the three months ended June 30, 2017 and 2016, respectively and $35,000 and $155,000 for the six months ended June 30, 2017 and 2016, respectively.

The Company recognized a charge for impaired property and equipment related to the facility as follows for the three and six months ended June 30, 2016 (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenue	$ —	$ 24	$ —	$ 24
Research and development		79		79
Sales and marketing		—		—
General and administrative		42		42
	$ —	$ 145	$ —	$ 145

9. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Payroll and related liabilities	$ 336	$ 430
Professional fees	708	617
Other	188	113
Total	$ 1,232	$ 1,160

10. Short Term Notes Payable

In September 2016, GI Dynamics, Inc. entered into a short-term loan agreement with First Insurance Funding Corp to borrow $306,380 to be used to purchase insurance. The agreement calls for ten monthly payments of $30,638 which includes principal and interest. The annual interest rate on the borrowing is 1.95%. The outstanding balance at June 30, 2017 and December 31, 2016 was $29,106 and $214,466, respectively, and has been included in other current liabilities in the accompanying balance sheet.

11. Long-Term Debt

On June 15, 2017, the "Company entered into a Note Purchase Agreement by and between the Company, as borrower, and Crystal Amber Fund Limited, as purchaser (the "Purchaser"). Pursuant to the Note Purchase Agreement, the Company issued and sold to the Purchaser a senior secured convertible promissory note in an aggregate original principal amount of $5,000,000 (the "Note"). The Purchaser is a Related Party as deemed by ASX and is the Company's largest shareholder.

The Note accrues interest at a rate equal to 5% per annum, compounded annually, other than during the continuance of an event of default, when the Note accrues interest at a rate of 8% per annum. The entire outstanding principal balance and all unpaid accrued interest thereon is due on the maturity date, December 31, 2018. The Note is secured by a first priority security interest in substantially all personal property assets of the Company, including intellectual property.

Subject to the receipt of any required shareholder approval (as described in the Listing Rules of the Australian Securities Exchange (the "ASX")), the entire outstanding principal balance under the Note and all unpaid accrued interest thereon is convertible into CHESS Depositary Interests ("CDIs"), each representing 1/50th of a share of the Company's common stock, (i) at the option of the Purchaser at a conversion price calculated based on the five-day volume weighted average closing price of the Company's CDIs on the ASX, or (ii) automatically upon the occurrence of an equity financing in which the Company raises at least $10.0 million (a "Qualified Financing") at the price per CDI of the CDIs issued and sold in such financing. If shareholder approval is required to approve the issuance of any CDIs upon such a conversion and such approval is not obtained, the Company is obligated to prepay all accrued and unpaid interest plus 110% of the remaining outstanding unconverted principal balance on the earlier of the maturity date or the date that is six months following the date of the stockholder meeting at which the requisite approval was not obtained.

In the event that the Borrower issues additional CDIs in a subsequent equity financing at a price per CDI that is less than the then-effective optional conversion price (based on the five-day volume weighted average price on the ASX), the Purchaser has a 30-day option to convert (subject to any applicable shareholder approval) at an adjusted conversion price reflecting, on a weighted average basis, the lower price per CDI. The number of CDIs that the Purchaser may acquire upon conversion of the Note at this adjusted conversion price is limited to the number that maintains the Purchaser's fully-diluted ownership percentage of the Company at the same level as existed immediately preceding the applicable subsequent equity financing.

In addition, upon a change of control of the Company (other than a change of control resulting from a Qualified Financing) in which the Company's stockholders receive cash consideration, the Company is obligated to prepay all accrued and unpaid interest plus 110% of the remaining outstanding unconverted principal balance. Other than as described above, the Company may not prepay the Note without the consent of the Purchaser.

The Note Purchase Agreement contains customary events of default. If a default occurs and is not cured within the applicable cure period or is not waived, any outstanding obligations under the Note may be accelerated. The Note Purchase Agreement and related Note documents also contain additional representations and warranties, covenants and conditions, in each case customary for transactions of this type.

The company has recorded the $5M note net of its debt issuance costs and will amortize the cost over life of the note. For the three and six months ended June 30, 2017, the Company recognized interest expense of $10,274 and amortization of the issuance costs of $6,230 related to the Senior Secured Convertible Promissory Note.

12. Commitments and Contingencies

Lease Commitments

In June 2013, the Company entered into a noncancelable agreement to sublease 33,339 square feet of office, laboratory and manufacturing space in Lexington, Massachusetts. The sublease commenced in June 2013 and expired in December 2016. The rent expense, inclusive of the escalating rent payments and free rent period, was recognized on a straight-line basis over the term of the sublease agreement. In accordance with the terms of the sublease agreement, the Company maintained a secured letter of credit of approximately 0.2 million securing its obligations under the sublease agreement. In July 2016, the Company left this facility prior to the expiration of the lease.

In June 2016, the Company entered into a noncancelable agreement to lease approximately 4,200 square feet of office and laboratory space in Boston, Massachusetts. The lease commenced in June 2016 and expires in April 2018. Rent during the term is $11,900 per month.

Rent expense on noncancelable operating leases was approximately $36,000 and $127,000 for the three months ended June 30, 2017 and 2016, respectively and $71,000 and $239,000 for the six months ended June 30, 2017 and 2016, respectively. In June 2017, the Company has made an additional monthly rent payment which is recognized within its Prepaid expenses and other current Assets.

Future minimum lease payments under all noncancelable lease arrangements at June 30, 2017, are as follows (in thousands):

Year Ending December 31,	
2017	$ 59
2018	48
Total	$107

13. Stockholders' Equity

On May 22, 2017, the Stockholders of the Company approved an increase of its authorized shares of Common Stock from 13,000,000 to 50,000,000 and to eliminate Class B shares of common stock of the Company. The authorized capital stock of the Company consists of 50,500,000 shares, of which 50,000,000 shares are designated as common stock and 500,000 shares are designated as preferred stock.

14. Stock Plans

The Company has two stock-based compensation plans under which incentive stock options, nonqualified stock options, restricted and unrestricted stock awards, and other stock-based awards are available for grant to employees, directors and consultants of the Company. At June 30, 2017, there were 1,278,333 shares available for future grant under both plans.

The 2011 Employee, Director and Consultant Equity Incentive Plan (the "2011 Plan", together with the 2003 Omnibus Stock Plan, the "Plans") allows for an annual increase in the number of shares available for issue under the 2011 Plan commencing on the first day of each fiscal year during the period beginning in fiscal year 2012 and ending in fiscal year 2020. The annual increase in the number of shares shall be equal to the lowest of:

a. 500,000 shares;

b. 4% of the number of common shares outstanding as of such date; and

c. an amount determined by the Board of Directors or the Company's compensation committee.

Accordingly, in the first quarter of fiscal 2017, 436,314 options available for future grant were added to the 2011 Plan.

Stock-Based Compensation

Stock-based compensation is reflected in the condensed consolidated statements of operations and comprehensive loss as follows for the three and six months ended June 30, 2017 and 2016 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Cost of revenue	$ —	$ 16	$ —	$ 34
Research and development	10	20	13	44
Sales and marketing	23	38	29	95
General and administrative	28	154	39	335
	$ 61	$ 228	$ 81	$ 508

The stock options granted under the Plans generally vest over a four-year period and expire ten years from the date of grant. From time to time, the Company grants stock options to purchase common stock subject to performance-based milestones. The vesting of these stock options will occur upon the achievement of certain milestones. When achievement of the milestone is deemed probable, the Company expenses the compensation of the respective stock option over the implicit service period.

In calculating stock-based compensation costs, the Company estimates the fair value of stock options using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model was developed for use in estimating the fair value of short-lived, exchange-traded options that have no vesting restrictions and are fully transferable. Such costs are then recognized over the requisite service period of the awards on a straight-line basis.

14. Stock Plans (continued)

Determining the fair value of stock-based awards using the Black-Scholes option-pricing model requires the use of highly subjective assumptions, including the expected term of the award and expected stock price volatility. The weighted-average assumptions used to estimate the fair value of employee stock options using the Black- Scholes option-pricing model were as follows for the three and six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Expected volatility	93.2%	69.6%	90.1%	68.9%
Expected term (in years)	6.05	6.05	6.05	6.05
Risk-free interest rate	2.0%	1.4%	2.0%	1.5%
Expected dividend yield	— %	— %	— %	— %

Stock Options

The following table summarizes share-based activity under the Company's stock option plans:

	Shares of Common Stock Attributable to Options	Weighted-Average Exercise Price	Weighted-Average Contractual Life	Aggregate Intrinsic Value
			(in years)	*(in thousands)*
Outstanding at December 31, 2016	748,571	$ 8.67	8.38	$ —
Granted	378,635	$ 1.02		
Exercised				
Cancelled	(34,381)	$ 28.86		
Outstanding at June 30, 2017	1,092,825	$ 5.39	8.45	$ 1,288
Vested or expected to vest at June 30, 2017	1,092,825	$ 5.39	8.45	$ 1,288
Exercisable at June 30, 2017	268,024	$ 18.08	6.16	$ 192

As of June 30, 2017, there was approximately $0.6 million of unrecognized stock-based compensation related to unvested stock option grants having service-based vesting under the Plans which is expected to be recognized over a weighted-average period of 2.2 years. The intrinsic value in the table above represents the difference between the fair value of the Company's common stock on the measurement date and the exercise price of the stock option.

The stock-based compensation plans provide that grantees may have the right to exercise an option prior to vesting. Shares purchased upon the exercise of unvested options will be subject to the same vesting schedule as the underlying options, and are subject to repurchase at the original exercise price by the Company should the grantee discontinue providing services to the Company for any reason, prior to becoming fully vested in such shares.

14. Stock Plans (continued)

Restricted Stock Units

Each restricted stock unit ("RSU") represents a contingent right to receive one share of the Company's common stock. The RSUs outstanding at June 30, 2017 vest upon the achievement of certain product revenue, regulatory and reimbursement milestones. There is no consideration payable on the vesting of RSUs issued under the Plans. Upon vesting, the RSUs are exercised automatically and settled in shares of the Company's common stock.

The following table summarizes information related to the unvested RSUs and activity during the six months ended June 30,

	Number of Units	Weighted-Average Contractual Life	Aggregate Intrinsic Value
		(in years)	*(in thousands)*
Outstanding at December 31, 2016	403,501	9.11	$ 365
Granted	—		
Vested	—		
Cancelled	—		
Outstanding at June 30, 2017	403,501	8.62	$ 962

The aggregate intrinsic value at June 30, 2017 and December 31, 2016 noted in the table above represents the closing price of the Company's common stock multiplied by the number of RSUs outstanding. The fair value of each RSU award equals the closing price of the Company's common stock on the date of grant

At June 30, 2017, all of the RSUs outstanding are subject to performance-based vesting criteria as described in the applicable award agreement. For these awards, vesting will occur upon the achievement of certain product revenue, regulatory and reimbursement milestones. When achievement of the milestone is deemed probable, the Company expenses the compensation of the respective stock award over the implicit service period.

At June 30, 2017 and 2016, no RSUs that have performance-based vesting criteria are considered probable of achievement. For the three and six months ended June 30, 2017 and 2016, the Company did not recognize any stock-based compensation for RSUs subject to performance-based vesting criteria.

As of June 30, 2017, there remains approximately $0.3 million of unrecognized stock-based compensation.

15. Segment Reporting

Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by the Company's chief operating decision-maker in deciding how to allocate resources and in assessing performance. The Company has one reportable segment which designs, develops, manufactures and markets medical devices for non-surgical approaches to treating type 2 diabetes and obesity.

Geographic Reporting

All the Company's revenue is attributable to customers outside the U.S. The Company is dependent on favorable economic and regulatory environments for its products. Products are sold to customers located in Europe, the Middle East and the Asia Pacific region and sales are attributed to a country or region based on the location of the customer to whom the products are sold.

At June 30, 2017, long-lived assets, comprised of property and equipment, of approximately $0.1 million are all held in the U.S.

Product sales by geographic location for the three and six months ended June 30, 2017 and 2016 are listed in the table below (in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Europe	$ 33	$ 65	$ 129	$ 207
Middle East	15	43	21	87
Asia Pacific	—	24	—	47
Total Revenue	$ 48	$ 132	$ 150	$ 341

Germany comprised a significant component of revenue in Europe for the three and six months ended June 30, 2017

Germany and the United Kingdom comprised a significant component of revenue in Europe for the three and six months ended June 30, 2016.

Major Customers

For the three months ended June 30, 2017, one healthcare customer accounted for 38% of the Company's revenue. A second, third and fourth healthcare customer accounted for 23%, 21% and 15% of the Company's revenue, respectively.

For the six months ended June 30, 2017, one distributor accounted for 19% of the Company's revenue and one healthcare customer accounted for 15% of the Company's revenue.

For the three and six months ended June 30, 2016, one health care provider accounted for approximately 18% and 13% of the Company's revenue, respectively. In addition, for the three and six months ended June 30, 2016 one distributor accounted for approximately 34% and two distributors each accounted for approximately 33% of the Company's revenue, respectively.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Forward-Looking Information

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes to those financial statements appearing elsewhere in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and notes thereto and management's discussion and analysis of financial condition and results of operations for the year ended December 31, 2016 included in our Annual Report on Form 10-K. This discussion and analysis contains forward-looking statements that involve significant risks, uncertainties and assumptions. As a result of many factors, such as those set forth under "Risk Factors" Item 1A. of our Annual Report on Form 10-K which are incorporated herein by reference, our actual results may differ materially from the results described in or implied by the forward-looking statements described in the following discussion and analysis.

Overview

We are a medical device company headquartered in Boston, Massachusetts, which is dedicated to restoring health and improving quality of life through the design and application of device and disease management solutions for treatment of metabolic disease. Our vision is to make our product, EndoBarrier®, a vital treatment option for patients with type 2 diabetes and obesity by restoring healthier blood sugar levels and reducing body weight. EndoBarrier is the first endoscopically-delivered device approved for the treatment of obese type 2 diabetes. EndoBarrier is the only proven, incision-free, non-anatomy altering solution designed to specifically mimic the clinical benefit of the duodenal-jejunal exclusion created by gastric bypass surgery. We have commercially launched EndoBarrier, which is approved and commercially available in multiple countries outside the U.S.

In the U.S., we commenced enrollment of patients in our pivotal trial of EndoBarrier Therapy, the ENDO Trial, in 2013. In the third quarter of 2015, we announced our decision to stop the ENDO Trial. On August 21, 2015, we announced that we were reducing headcount by approximately 46% as part of our efforts to restructure our business and expenses in response to stopping the ENDO Trial and to ensure sufficient cash remained available for us to establish new priorities, continue market development and research, and to evaluate strategic options.

As part of our reorganization efforts in the third quarter of 2015, we decided to focus sales activity on a limited number of countries while disengaging from others. As a result, currently we are focused on the commercialization of EndoBarrier in selected countries in Europe and the Middle East. In certain geographies where reimbursement is necessary for clinical acceptance and commercial uptake such as in Europe, we are receiving partial reimbursement in certain markets at a local level, but we have not yet achieved full or national reimbursement in any market.

On May 10, 2016, we announced that we were further reducing headcount by approximately 30% as part of our previously announced efforts to restructure our expenses in order to extend our cash runway.

On September 14, 2016, we announced that we received formal notification from the TGA of the cancellation of the inclusion of EndoBarrier on the ARTG, taking effect on October 12, 2016. As a result, with effect from October 12, 2016, we are not permitted to supply the EndoBarrier in Australia, outside of approved trials.

In May 2017, we received notification from our notified body SGS United Kingdom Limited (SGS) that the CE Mark for our EndoBarrier system has been suspended pending closure of non-conformances related to its quality management system required under ISO regulations. We are working diligently to resolve all outstanding non-conformances.

For financial reporting purposes, we have one reportable segment which designs, manufactures and markets a medical device for the treatment of type 2 diabetes and obesity.

To date, we have devoted substantially all our efforts to research and development, business planning, clinical research, clinical study management, reimbursement development, product commercialization, acquiring operating assets and raising capital. We have incurred significant operating losses since our inception in 2003. As of June 30, 2017, we had an accumulated deficit of approximately $254 million. We expect to incur net losses for the next several years while we continue to evaluate which markets are appropriate to continue pursuing reimbursement, market awareness and general market development efforts, and continue to restructure our business and costs, establish new priorities, continue limited research, and evaluate strategic options.

To date, we have raised net proceeds of approximately $238 million through the issuance of convertible debt and sales of our equity. On June 15, 2017, we executed a Senior Secured Convertible Promissory Note (“Note”) to a single note holder and our largest shareholder who is a Related Party for net proceeds of approximately $5 million.

Our corporate headquarters are in Boston, Massachusetts.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements prepared in accordance with generally accepted accounting principles in the U.S. The preparation of these financial statements requires us to make certain estimates and assumptions that may affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the reported periods and related disclosures. These estimates and assumptions, including those related to revenue recognition, allowance for doubtful accounts, inventory valuation including reserves for excess and obsolete inventory, impairment of long-lived assets, income taxes including the valuation allowance for deferred tax assets, research and development expenses, contingencies, stock-based compensation, going concern considerations, and warrant valuations are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. We base our estimates on our historical experience and various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions.

During the three and six months ended June 30, 2017, there were no material changes to our critical accounting policies as reported in our Annual Report on Form 10-K.

Results of Operations

The following is a description of significant components of our operations, including significant trends and uncertainties that we believe are important to an understanding of our business and results of operations (in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(dollars in thousands)		(dollars in thousands)	
Revenue	$ 48	$ 132	$ 150	$ 341
Cost of revenue	64	637	208	990
Gross loss	(16)	(505)	(58)	(649)
Operating expenses:				
Research and development	989	1,181	2,050	2,031
Sales and marketing	525	610	980	1,274
General and administrative	1,442	1,559	2,529	3,366
Total operating expenses	2,956	3,350	5,559	6,671
Loss from operations	(2,972)	(3,855)	(5,617)	(7,320)
Other income (expense):				
Interest income	5	13	12	27
Interest expense	(18)	—	(18)	—
Foreign exchange gain (loss)	(4)	(14)	(6)	3
Other Income	23	—	23	—
Re-measurement of warrant liability	11	(17)	(40)	(17)
Other income (expense), net	17	(18)	(29)	13
Loss before income tax expense	(2,955)	(3,873)	(5,646)	(7,307)
Income tax expense (benefit)	(3)	17	3	21
Net loss	$ (2,952)	$ (3,890)	$ (5,649)	$ (7,328)
Basic and diluted net loss per common share	$ (0.26)	$ (0.41)	$ (0.51)	$ (0.77)
Weighted-average number of common shares used in basic and diluted net loss per common share	11,157,489	9,510,557	11,136,801	9,508,296

Three and six months Ended June 30, 2017 compared to Three and six months Ended June 30, 2016

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2017	2016	$	%	2017	2016	$	%
	(dollars in thousands)							
Revenue	$ 48	$ 132	$ (84)	-63.6%	$ 150	$ 341	$(191)	-56.0%
Cost of revenue	64	637	(573)	-90.0%	208	990	(782)	-79.0%
Gross loss	$ (16)	$ (505)	$ 489	-96.8%	$ (58)	$ (649)	$ 591	-91.1%

Revenue.

The decrease in revenue for the three months ended June 30, 2017 compared to the three months ended June 30, 2016 was primarily due to decreased unit volume sales across Europe, the Middle East and Asia Pacific. Revenue decreased approximately 49% in Europe, 65 % in the Middle East and 100% in Asia Pacific.

The decrease in revenue for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 was primarily due to decreased unit volume sales across Europe, the Middle East and Asia Pacific. Revenue decreased approximately 38% in Europe, 76% in the Middle East and 100% in Asia Pacific.

In May 2017, the Company entered into a sales arrangement with certain distributors totaling $517,000. Due to certain extended right of return periods and payment terms, the Company determined that the revenue and related product costs associated with this transaction should be deferred for accounting purposes. No revenue or cost of sales have been recorded for the three and six months ended June 30, 2017 related to this transaction. Additionally, no payments have been received from distributors in connection with the transaction. As a result, the Company has recorded an adjustment to accounts receivable of $517,000 for the unpaid portion of deferred revenue The Company expects to recognize revenue after payment has been received and the right of return periods are elapsed or once an estimate for returns can be established, as appropriate.

We decided in the second quarter of 2016 that, for the near term, we would concentrate sales and marketing efforts on select treatment centers in limited geographies. In addition, due to the cancellation of EndoBarrier inclusion on the ARTG in October 2016 we are no longer permitted to supply EndoBarrier in Australia. In May 2017, the CE Mark was temporary suspended due to the notified body observations regarding the company's Quality Management System (QMS). The suspension does not constitute a recall and does not call into question the safety and efficacy of EndoBarrier. Although EndoBarrier cannot be sold to GI Dynamics customers during the suspension period, EndoBarrier inventory intended to be sufficient during the suspension period was sold to GI Dynamics customers prior to the suspension with the approval of GI Dynamics' notified body. All EndoBarrier inventory currently residing with GI Dynamics customers may be used to conduct EndoBarrier procedures and the suspension has no relationship to the safety and efficacy of the device. Any investigator led trials in process were allowed to continue to enroll patients and use EndoBarrier.

We believe the following factors continue to adversely affect our commercial activities:

- stopping the ENDO Trial in 2015 and the regulatory-related questions arising out of that decision;
- our decision, as part of our reorganization efforts, to reduce the number of sales related employees and focus sales activity on a limited number of markets while disengaging from others; and
- Suspension of our CE Mark in the second quarter of fiscal 2017.

In the near-term, we intend to continue to focus commercialization efforts on strategic centers while continuing to support efforts in collecting additional clinical evidence via the numerous ongoing investigator-initiated studies around the world, many of which are randomized controlled trials. We will also continue to work to secure reimbursement in our target markets. We believe that the collection of additional data via patient registries is important to help support the attainment of reimbursement, but will likely adversely affect our commercial operations as it may limit commercial expansion.

***Cost of Revenue*.**

The decrease in cost of revenue for the three and six months ended June 30, 2017 compared to the same period in the prior year is due in part to the reduction in sales for the comparative periods and to us no longer maintaining a manufacturing organization to produce the EndoBarrier.

In May 2017, the Company entered into a distributor agreement and transferred its inventory to a distributor. As of June 30, 2017, the Company has also reported deferred products costs of $29,000 in other current assets. The Company will recognize cost of revenue when it receives payment from distributor on sale of these assets

In the first half of 2016, we incurred approximately $0.6 million of manufacturing production related costs and only produced one quarter of the capacity, resulting in expensing unabsorbed manufacturing costs in that six-month period of approximately $0.4 million.

Operating expenses

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2017	2016	$	%	2017	2016	$	%
	(dollars in thousands)				(dollars in thousands)			
Research and development	$ 989	$ 1,181	$(192)	-16.3%	$2,050	$2,031	$ 19	0.9%
Sales and marketing	525	610	(85)	-13.9%	980	1,274	(294)	-23.1%
General and administrative	1,442	1,559	(117)	-7.5%	2,529	3,366	(837)	-24.9%
Total operating expenses	$ 2,956	$ 3,350	$(394)	-11.8%	$5,559	$6,671	$(1,112)	-16.7%

Research and Development Expense. The decrease in research and development expense for the three months ended June 30, 2017 compared to the three months ended June 30, 2016 was primarily due to lower compensation and employee related costs caused by lower headcount and lower facility related costs. These were offset by higher professional service related costs in connection with rectifying quality and regulatory deficiencies. Further, expenses for the three months' end June 30, 2016 reflected adjustments to our accrued clinical study costs as we were winding up our U.S. study during that period.

The increase in research and development expense for the six months ended June 30, 2017 compared to the six months ended June 30, 2016 was primarily due to higher professional services costs related to quality and regulatory related costs and to the transfer of our manufacturing to a third-party manufacturer. These were offset by lower compensation and employee related expenses, primarily due to lower headcount and lower facility and information technology support costs. Further, expenses for the six months' end June 30, 2016 reflected adjustments to our accrued clinical study costs as we were winding up our U.S. study during that period.

Sales and Marketing Expense. The decrease in sales and marketing expense for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 was primarily the result of a decrease in a number of expense categories including lower compensation and employee related expenses, primarily due to lower headcount, lower marketing and sales support expenses and lower facility related support expenses. This was offset by higher professional service costs in connection with our ongoing efforts to qualify EndoBarrier for reimbursement in Europe.

General and Administrative Expense. The decrease in general and administrative expense for the three and six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 was primarily a result of decreased compensation and employee related expenses, including non-cash stock compensation expense and to a lesser extent lower costs related to being a public company, lower corporate insurance expenses and lower facility and information related support costs, offset by higher professional service costs.

We continue to look for ways to realize a more efficient cost structure in order to extend our cash runway. We may not be able to achieve cost reductions in all instances as we look to build and support our organization for the potential of the future. We expect operating expenses for quarter three 2017 to approximate those of each quarter, in the first half of 2017.

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2017	2016	$	%	2017	2016	$	%
	(dollars in thousands)				(dollars in thousands)			
Interest income	$ 5	$ 13	$ (8)	-61.5%	$ 12	$ 27	$(15)	-55.6%
Interest expense	(18)	—	(18)	-100.0%	(18)	—	(18)	-100.0%
Foreign exchange gain (loss)	(4)	(14)	10	-71.4%	(6)	3	(9)	-300.0%
Other Income	23	—	23	100.0%	23	—	23	100.0%
Re-measurement of warrant liability	11	(17)	28	-164.7%	(40)	(17)	(23)	135.3%
Other income (expense), net	$ 17	$ (18)	$ 35	-194.4%	$ (29)	$ 13	$(42)	-323.1%

Other income (expense). The change to other income in the three months ended June 30, 2017 from other expense in the three months ended June 30, 2016, is primarily due to a reimbursement from our prior landlord in connection with moving our headquarters to Boston in fiscal 2016 as well as the impact of re-measuring our warrant liability at June 30, 2017, offset by interest expense related to our Senior Secured Convertible Promissory Note issued in the second quarter of fiscal 2017. The change in the re-measurement of warrant liability was due to a decrease in the fair value of our Consultant Warrant during the period.

The change to other expense in the six months ended June 30, 2017 from other income in the six months ended June 30, 2016, is primarily due to the impact of re-measuring our warrant liability at June 30, 2017 and by interest expense related to our Senior Secured Convertible Promissory Note issued in the second quarter of fiscal 2017, offset in part by a reimbursement from our prior landlord in connection with moving our headquarters to Boston in fiscal 2016. The change in the re-measurement of warrant liability was due to an increase in the fair value of our Consultant Warrant during the period.

Liquidity and Capital Resources

We have incurred losses since our inception in March 2003 and, as of June 30, 2017, we had an accumulated deficit of approximately $254 million. We have financed our operations from a combination of sales of equity securities and issuances of convertible term notes. As of June 30, 2017, we had approximately $8 million of cash and cash equivalents.

On June 15, 2017, we entered into a Note Purchase Agreement by and between the Company, as borrower, and Crystal Amber Fund Limited, as purchaser (the “Purchaser”). Pursuant to the Note Purchase Agreement, we issued and sold to the Purchaser a senior secured convertible promissory note in an aggregate original principal amount of $5,000,000 (the “Note”). The Purchaser is a Related Party and our largest shareholder.

The Note accrues interest at a rate equal to 5% per annum, compounded annually, other than during the continuance of an event of default, when the Note accrues interest at a rate of 8% per annum. The entire outstanding principal balance and all unpaid accrued interest thereon is due on the maturity date, December 31, 2018. The Note is secured by a first priority security interest in substantially all of our personal property assets, including intellectual property and is convertible into the Company’s CDIs on the terms set forth therein.

Subject to obtaining any applicable shareholder approval required by the listing Rules of the Australian Securities Exchange (the “ASX”), the entire outstanding principal balance under the Note and all unpaid accrued interest thereon is convertible into CHESS Depositary Interests (“CDIs”), each representing 1/50th of a share of our common stock, (i) at the option of the Purchaser at a conversion price calculated based on the five-day volume weighted average closing price of our CDIs on the ASX, or (ii) automatically upon the occurrence of an equity financing in which we raise at least $10.0 million (a “Qualified Financing”) at the price per CDI of the CDIs issued and sold in such financing. If shareholder approval is required to approve the issuance of any CDIs upon such a conversion and such approval is not obtained, we are obligated to prepay all accrued and unpaid interest plus 110% of the remaining outstanding unconverted principal balance on the earlier of the maturity date or the date that is six months following the date of the stockholder meeting at which the requisite approval was not obtained.

In the event we issue additional CDIs in a subsequent equity financing at a price per CDI that is less than the then-effective optional conversion price (based on the five-day volume weighted average price on the ASX), the Purchaser has a 30-day option to convert (subject to any applicable shareholder approval) at an adjusted conversion price reflecting, on a weighted average basis, the lower price per CDI. The number of CDIs that the Purchaser may acquire upon conversion of the Note at this adjusted conversion price is limited to the number that maintains the Purchaser's fully-diluted ownership percentage of the Company at the same level as existed immediately preceding the applicable subsequent equity financing.

In addition, upon a change of control of the Company (other than a change of control resulting from a Qualified Financing) in which our stockholders receive cash consideration, we are obligated to prepay all accrued and unpaid interest plus 110% of the remaining outstanding unconverted principal balance. Other than as described above, we may not prepay the Note without the consent of the Purchaser.

During the six months ended June 30, 2017, our cash and cash equivalents balance decreased by approximately $0.3 million as a result of funds utilized to support our operations, offset by proceeds from the issuance of convertible debt in the second quarter of fiscal 2017.

The following table sets forth the major sources and uses of cash for each of the periods set forth below:

	Six Months Ended June 30,	
	2017	2016
	(dollars in thousands)	
Net Cash (used in) provided by:		
Operating activities	$(5,176)	$(7,189)
Investing activities	—	(146)
Financing activities	4,898	(1)
Net decrease in cash and cash equivalents	$ (278)	$(7,336)

Cash Flows From Operating Activities

The primary uses of cash used in operating activities for the six months ended June 30, 2017 were:

- to fund our net loss of approximately $5.6 million and;
- a net positive adjustment to cash flow from changes in working capital of approximately $0.5 million resulting primarily from decreases in prepaid and other current assets, changes inventory balances and accrued expenses; and
- a net negative adjustment to cash flow from changes in working capital of approximately $0.1 million resulting primarily from decreases in accounts payable offset with an increase in accounts receivable and net positive adjustment to cash from stock-based compensation of approximately $0.1 million and depreciation and amortization of debt offering costs.

The primary uses of cash used in operating activities for the six months ended June 30, 2016 were:

- to fund our net loss of approximately $7.3 million;
- a net negative adjustment to cash flow from changes in working capital of approximately $0.5 million resulting primarily from decreases in accrued expenses and other current liabilities, partially offset by a decrease in inventory, and prepaid expense; and
- a net positive adjustment to cash flow for non-cash operating expenses of approximately $0.6 million, primarily from stock-based compensation of approximately $0.5 million, depreciation and amortization of approximately $0.2 million.

During the second quarter of 2016, we expensed $0.7 million in restructuring and other employee departure costs.

Cash Flows From Investing Activities

Cash used in investing activities for the six months ended June 30, 2016 totaled approximately $0.2 million and primarily resulted from the change in restricted cash due to collateralizing our standby letter of credit.

Cash Flows From Financing Activities

Cash provided by financing activities for the six months ended June 30, 2017 is due to the net proceeds from the approximately $5 million Senior Secured Convertible Promissory Note we completed in June 2017 and to a lesser extent issuance of common stock in January 2017 offset by payments on our short-term note payable.

Funding Requirements

As of June 30, 2017, our primary source of liquidity is our cash and cash equivalents balances. Based on our decision to stop the ENDO Trial, we continue to evaluate which markets are appropriate to continue pursuing reimbursement, market awareness and general market development efforts, and continue to restructure our business and costs, establish new priorities, continue limited research, and evaluate strategic options. As a result, we expect to incur significant operating losses for the next several years. We do not expect our current cash balances will be sufficient to enable us to conduct an additional clinical trial for the purpose of seeking regulatory approval from the FDA and complete development of an improved EndoBarrier for its current use and potential new indications. We continue to evaluate our costs and will need to raise additional funds before the end of first quarter of fiscal 2018 in order to implement our business objectives and to continue to fund our operations. These factors raise substantial doubt about our ability to continue as a going concern. We may seek to raise additional funds through any combination of collaborative arrangements, strategic alliances, and additional equity and debt financings or from other sources. There can be no assurance that any such financing opportunities will be available on acceptable terms, if at all. If we are unable to raise capital when needed, we could be forced to significantly delay or discontinue research and development activities and further commercialization of EndoBarrier, which could have a material adverse effect on our business, financial condition and results of operations. In addition, we could be required to cease operations if we are unable to raise capital when needed

Our forecast of the period of time through which our financial resources will be adequate to support our operations are forward-looking statements and involve risks and uncertainties, and actual results could vary materially and negatively as a result of a number of factors, including the factors discussed in the “Risk Factors” in Item 1A. of our Annual Report on Form 10-K which is incorporated herein by reference. We have based these estimates on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we currently expect.

Due to the numerous risks and uncertainties associated with the development and commercialization of EndoBarrier, at this time we are unable to estimate precisely the amounts of capital outlays and operating expenditures necessary to complete the development of, and to obtain regulatory approval for, EndoBarrier (other than in select markets in South America and the Middle East) for the U.S. and other markets for which we believe EndoBarrier is suited. Our funding requirements will depend on many factors, including, but not limited to, the following:

- the rate of progress and cost of our commercialization activities;
- the expenses we incur in marketing and selling EndoBarrier;
- the timing and decisions of payer organizations related to reimbursement;
- the revenue generated by sales of EndoBarrier;
- the product performance from a safety and efficacy standpoint in addressing diabetes and obesity;
- the success of our investment in our manufacturing and supply chain infrastructure;
- the time and costs involved in obtaining and maintaining regulatory approvals for EndoBarrier in new and existing markets;
- the success of our research and development efforts;
- the costs associated with any additional clinical trial(s) required in the U.S.;
- the ability to ship CE marked products;
- the emergence of competing or complementary developments; and
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights.

We may seek to raise additional funds through a combination of collaborative arrangements, strategic alliances, and additional equity and debt financings or from other sources. We will continue to manage our capital structure and to consider all financing opportunities, whenever they may occur, that could strengthen our long-term liquidity profile. Any such capital transactions may or may not be similar to transactions in which we have engaged in the past and the ownership interests of our existing stockholders may be materially diluted. There can be no assurance that any such financing opportunities will be available on acceptable terms, if at all. If we are unable to raise capital when needed, we could be forced to significantly delay or discontinue research and development activities and further commercialization of EndoBarrier. In addition, we could be required to cease operations if we are unable to raise capital prior to the end of first quarter of fiscal 2018.

Off–Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that would have been established for the purpose of facilitating off-balance sheet arrangements (as that term is defined in Item 303(a)(4)(ii) of Regulation S-K) or other contractually narrow or limited purposes. As such, we are not exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in those types of relationships. We enter into guarantees in the ordinary course of business related to the guarantee of our own performance and the performance of our subsidiaries.

Contractual Obligations and Commitments

The disclosure of our contractual obligations and commitments is set forth under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Contractual Obligations and Commitments” in our Annual Report on Form 10-K.

There have been no material changes from the contractual commitments and obligations previously disclosed in our Annual Report on Form 10-K.

Recent Accounting Pronouncements

For a discussion of recent accounting pronouncements please refer to Note 2, "Summary of Significant Accounting Policies and Basis of Presentation," to our condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

We develop, manufacture and sell EndoBarrier globally and our earnings and cash flows are exposed to market risk from changes in currency exchange rates and interest rates.

Interest Rate Sensitivity

Our cash, cash equivalents and restricted cash of approximately $8.0 million at June 30, 2017, consisted of cash and money market funds, all of which will be used for working capital purposes. We do not enter into investments for trading or speculative purposes. The goals of our investment policy are preservation of capital, fulfillment of liquidity needs and fiduciary control of cash and investments. We also seek to maximize income from our investments without assuming significant risk. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of interest rates in the U.S. and Australia.

Because of the short-term nature of our cash, cash equivalents and restricted cash, we do not believe that we have any material exposure to changes in their fair values as a result of changes in interest rates. The continuation of historically low interest rates in the U.S. will limit our earnings on investments held in U.S. dollars.

Foreign Currency Risk

We conduct business in foreign countries. For U.S. reporting purposes, we translate all assets and liabilities of our non-U.S. entities at the period-end exchange rate and revenue and expenses at the average exchange rates in effect during the periods. The net effect of these translation adjustments is shown in the accompanying condensed consolidated financial statements as a component of net loss.

We generate a significant portion of our revenue and collect receivables in foreign currencies. Fluctuations in the exchange rate of the U.S. dollar against major foreign currencies, including the euro, British Pound and Australian dollar, can result in foreign currency exchange gains and losses that may significantly impact our financial results. These foreign currency transaction and translation gains and losses are presented as a separate line item in our condensed consolidated statements of operations and comprehensive loss. Continued fluctuation of these exchange rates could result in financial results that are not comparable from quarter to quarter. We do not currently utilize foreign currency contracts to mitigate the gains and losses generated by the re- measurement of non- functional currency assets and liabilities but do hold cash reserves in currencies in which those reserves are anticipated to be expended.

All of the proceeds from our offerings were denominated in Australian dollars and as of June 30, 2017, we held the equivalent of approximately US $53,000 denominated in Australian dollars and approximately US $0.5 million denominated in euros. Accordingly, we have had and will continue to have exposure to foreign currency exchange rate fluctuations. A change of 10% or more in foreign currency exchange rates of the Australian dollar or the euro would not have a material impact on our financial position and results of operations.

Effects of Inflation

We do not believe that inflation and changing prices over the three and six months ended June 30, 2017 and 2016 had a significant impact on our results of operations.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, or the Exchange Act, our management, including our principal executive officer and our principal financial officer, conducted an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective at the reasonable assurance level in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control

As required by Rule 13a-15(d) of the Exchange Act, our management, including our principal executive officer and our principal financial officer, conducted an evaluation of the internal control over financial reporting to determine whether any changes occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, our principal executive officer and principal financial officer concluded no such changes during the quarter ended June 30, 2017 materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Controls and Procedures

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Thus, misstatements due to error or fraud may occur and not be detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of controls.

PART II – OTHER INFORMATION

Item 1A. ***Risk Factors***

In addition to the other information contained elsewhere in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in "Item 1A. Risk Factors" in our Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks that we do not presently know or that we currently believe are immaterial could also materially and adversely affect any of our business, financial condition or future results. The trading price of our CDIs may decline due to these risks. In May 2017, we received notification from our notified body SGS United Kingdom Limited (SGS) that the CE Mark for EndoBarrier has been suspended pending closure of nonconformances related to its quality management system required under ISO 13485:2003 and 93/42/EEC. In addition, our revenue in the six month period ended June 30, 2017 decreased by 56.0% from our revenue in the corresponding period in 2016 and we continue to fund operations out of available cash. The following risk factors have been modified from those contained in our 2016 Annual Report on Form 10-K to reflect the risks related to such suspension and revenue decrease.

In order to commercialize our products in the U.S. and certain other countries, we will need to obtain regulatory and other approvals. If we are unable to achieve, maintain or are delayed in achieving such approvals, this could have a significant effect on the time it takes to commercialize our technology in the U.S. and certain other countries.

At present, our only product that is approved for marketing and sale is EndoBarrier. However, in October 2016, we received final cancellation notification from the Australian Therapeutic Goods Administration, or TGA, for the listing of EndoBarrier on the Australian Register of Therapeutic Goods, or ARTG. As a result, we are not permitted to supply the EndoBarrier in Australia for use outside of approved trials. In addition, in May 2017, we received notification from our notified body SGS United Kingdom Limited (SGS) that the CE Mark for EndoBarrier has been suspended pending closure of nonconformances related to its quality management system required under ISO 13485:2003 and 93/42/EEC. There is no guarantee that we will be reapproved for inclusion on the ARTG, re-obtain the CE Mark, or obtain additional approvals from other regulatory bodies, including the FDA in the U.S., to commercialize EndoBarrier or any of our other products. In the U.S., we stopped our pivotal trial of EndoBarrier. Accordingly, we will not be able to obtain FDA approval to commercialize EndoBarrier in the U.S. without a new clinical trial which may be lengthy and expensive. The regulatory authorities in other countries may also require additional clinical trials. Necessary regulatory approvals could also be delayed, which could significantly impact our ability to commercialize our technology in the U.S. and other countries.

Our products are subject to extensive, dynamic and ongoing regulation in the E.U. as well asr areas and countries where we sell EndoBarrier, which may impede or hinder the approval or sale of our products and, in some cases, may ultimately result in our inability to obtain approval of certain products or may result in the recall or seizure of previously approved products.

The medical device industry is regulated extensively by governmental authorities, principally the FDA and corresponding state and foreign regulatory agencies and authorities, such as the E.U., legislative bodies and the European Economic Area, or EEA, Member State Competent Authorities. Before we can market our products in the E.U., and in many other parts of the world, we must obtain and maintain CE Mark certification, which indicates that a product meets the essential requirements of applicable E.U. Directives and has been subject to the appropriate conformity assessment route. This conformity assessment procedure is often done through a self-certification, but depending on the type of product, may also require verification by an independent certification body, called a "Notified Body." Notified Bodies will also periodically audit us to ensure that we remain in compliance with the applicable requirements. The CE Mark allows free movement of products in the E.U., the EEA and Switzerland although any of the member countries may require medical devices to be registered and also impose requirements relating to the language of the device information. Many non-European countries also recognize and accept the CE Mark. If we cannot support our performance claims and demonstrate continued compliance with the applicable E.U. requirements, we could lose our right to affix the CE Mark to our products, which would prevent us from selling our products within the territory and in other countries that recognize the CE Mark.

In addition, even after we receive regulatory approval of our products in existing markets, we are subject to ongoing regulatory requirements relating to our existing products in those markets. These include the requirement to timely file various reports with regulatory authorities in the countries in which we market our products, including reports of adverse events such as those experienced in our U.S. pivotal trial, including events that may have caused or contributed to a death or serious injury and malfunctions that would likely cause or contribute to a death or serious injury if the malfunction were to recur. If these reports are not timely filed, regulators may impose sanctions, including temporarily suspending our market authorizations or CE Mark, and sales of EndoBarrier may suffer. In that case, we may be subject to product liability or regulatory enforcement actions, all of which could harm our business. Our failure to comply with EEA or other foreign regulations applicable in the countries where we operate could lead to the issuance of warning letters or untitled letters, the imposition of injunctions, suspensions or loss of regulatory clearance or approvals, product recalls, termination of distribution, product seizures or civil penalties. In the most extreme cases, criminal sanctions or closure of our manufacturing facilities are possible.

In addition, numerous new regulatory changes in the E.U. came into effect in 2016. The company may not be able to comply with the new regulations and standards, despite compliance with prior regulations and standards

In addition, the company has evidenced a historical issue with compliance, leading to quality system issues that led to a 2014 shipping hold for E.U. as well as the suspension of our CE Mark in May 2017, multiple observations by the TGA in Australia regarding the company's failure to comply with Essential Principals of the TGA and compliance issues which led to the TGA's cancellation of the EndoBarrier's listing on the ARTG. Given the history of non-compliance on a quality system basis, a substantial risk exists of future compliance issues, until such time as the company has had adequate time and resources to address the historical issues.

In some countries, we rely on our foreign distributors and agents to assist us in complying with foreign regulatory requirements, and we cannot be sure that they will always do so. If we or any of our suppliers, third-party manufacturers, distributors, agents or customers fail to comply with applicable requirements, we may face:

- adverse publicity;
- investigations by governmental authorities;
- fines and prosecutions;
- inability to raise capital;
- inability to attract and retain sales professionals;
- inability to attract and agree to terms with business partners;
- increased difficulty in obtaining required approvals;
- losses of approvals already granted;
- delays in purchasing decisions by customers or cancellation of existing orders; and
- the inability to sell our products in or to import our products into such countries.

Regulatory requirements affecting the development, manufacture and sale of medical devices are evolving and subject to future change. We cannot predict what impact, if any, those changes might have on our business. Failure to comply with regulatory requirements could have a material adverse effect on our business, financial condition and results of operations. Later discovery of previously unknown problems with a product or manufacturer could result in fines, delays or suspensions of regulatory approvals. The failure to receive product approval on a timely basis, or the withdrawal of product approval by regulatory agencies, such as the TGA's cancellation of the EndoBarrier's listing on the ARTG and the suspension of our CE Mark, could have a material adverse effect on our business, financial condition or results of operations.

We require substantial additional funding and may be unable to raise capital when needed, which could force us to delay, reduce, or eliminate planned activities or result in our inability to operate as a going concern.

As we have limited commercialization of our products, we are generating a small amount of revenue and are not cash flow positive or profitable. Our net revenue from product sales was approximately $150,000 and $341,000 for the six months ended June 30, 2017 and June 30, 2016, respectively, and as of June 30, 2017, we had cash and cash equivalents of approximately $8.0 million. Our existing capital is insufficient to meet our requirements (including the costs of commercializing our products, conducting clinical trials, obtaining regulatory approvals and partnering with third-party manufacturers) and cover any losses, so we will need to raise additional funds through financings or borrowings before the end of the first quarter of 2018. Failure to raise additional funds could delay, reduce, or halt our commercialization and clinical trial efforts and would impact our ability to continue as a going concern.

We have no committed sources of capital funding and there is no assurance that additional funding will be available to us in the future or be secured on acceptable terms. These factors raise substantial doubt about our ability to continue as a going concern. If adequate funding is not available, we may no longer be a going concern and may be forced to curtail operations, including our commercial activities and research and development programs, or cease operations altogether, file for bankruptcy, or undertake any combination of the foregoing. In such event, our stockholders may lose their entire investment in our company.

In addition, if we do not meet our payment obligations to third parties as they become due, we may be subject to litigation claims and our credit worthiness would be adversely affected. Even if we are successful in defending against these claims, litigation could result in substantial costs and would be a distraction to management, and may have other unfavorable results that could further adversely impact our financial condition.

Item 2. ***Unregistered Sales of Equity Securities***

None.

Item 6. ***Exhibits***

See the Exhibit Index following the signature page to this Quarterly Report on Form 10-Q, which is incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GI Dynamics, Inc.

Date: August 14, 2017

By: /s/ SCOTT W. SCHORER
Scott W. Schorer
President and Chief Executive Officer
(principal executive officer)

Date: August 14, 2017

By: /s/ JAMES MURPHY
James Murphy
Chief Financial Officer
(principal financial officer and accounting officer)

EXHIBIT INDEX

Exhibit No:	Description
3.1.1	Certificate of Incorporation of GI Dynamics, Inc. incorporated by reference to Exhibit 3.1 of GI Dynamics, Inc.'s registration statement on Form 10, filed with the SEC on April 30, 2014
3.1.2	Certificate of Amendment to the Restated Certificate of Incorporation of GI Dynamics, Inc. incorporated by reference to Exhibit 3.1 of GI Dynamics, Inc.'s Current Report on Form 8-K, filed with the SEC on April 9, 2015
3.1.3*	Certificate of Amendment to the Restated Certificate of Incorporation of GI Dynamics, Inc. filed with the Secretary of State for the State of Delaware on June 13, 2017.
3.2	Bylaws of GI Dynamics, Inc. incorporated by reference to Exhibit 3.2 of GI Dynamics, Inc.'s registration statement on Form 10, filed with the SEC on April 30, 2014
10.1*	Note Purchase Agreement, dated June 15, 2017, by and between GI Dynamics, Inc. and Crystal Amber Fund Limited, as purchaser.
10.2*	Senior Secured Convertible Promissory Note, dated June 15, 2017, by and between GI Dynamics, Inc., as payor, and Crystal Amber Fund Limited, as holder.
31.1*	Certification of Chief Executive Officer pursuant to Rules 13a-14 or 15d-14 of the Exchange Act
31.2*	Certification of Chief Financial Officer pursuant to Rules 13a-14 or 15d-14 of the Exchange Act
32.1‡	Certification of Chief Executive Officer pursuant to Rules 13a-14(b) or 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350
32.2‡	Certification of Chief Financial Officer pursuant to Rules 13a-14(b) or 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Database
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.
‡ Furnished herewith.
† Management contract or compensatory plan or arrangement.

Exhibit 3.1.3

CERTIFICATE OF AMENDMENT OF

RESTATED CERTIFICATE OF INCORPORATION

OF GI DYNAMICS, INC.

It is hereby certified that:

1. The Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on March 24, 2003. A Restated Certificate of Incorporation was filed on September 1, 2011. A Certificate of Amendment of Restated Certificate of Incorporation was filed on April 9, 2015.

2. The Restated Certificate of Incorporation filed on September 1, 2011, as amended, is hereby further amended to change the capitalization of the Corporation by striking out the first paragraph of the section titled "Designation and Number of Shares" of Article Fourth in its entirety and by substituting in lieu of the following two paragraphs:

"The total number of shares of all classes of stock which the Corporation shall have the authority to issue is Fifty Million Five Hundred Thousand (50,500,000) shares, consisting of Fifty Million (50,000,000) shares of common stock, par value $0.01 per share (the "Common Stock"), Zero (0) shares of Class B Common Stock, par value $0.01 per share (the "Class B Common Stock"), and Five Hundred Thousand (500,000) shares of preferred stock, par value $0.01 per share (the "Preferred Stock")."

3. The Amendment of the Restated Certificate of Incorporation herein certified has been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

EXECUTED, this 13th day of June 2017.

GI Dynamics, Inc.

By: /s/ Scott Schorer
Scott Schorer
Chief Executive Officer and President

Exhibit 10.1

GI DYNAMICS, INC.

NOTE PURCHASE AGREEMENT

GI DYNAMICS, INC.

NOTE PURCHASE AGREEMENT

THIS NOTE PURCHASE AGREEMENT (this "***Agreement***") is made as of the 15th day of June, 2017 (the "***Effective Date***") by and among **GI DYNAMICS, INC.,** a Delaware corporation (the "***Company***"), and **CRYSTAL AMBER FUND LIMITED** (the "***Purchaser***"). Capitalized terms used herein and not otherwise defined herein shall have the respective meanings given to them in the Note (as defined below).

The parties hereby agree as follows:

1. AMOUNT AND TERMS OF THE LOAN

1.1 The Loan. Subject to the terms of this Agreement, the Purchaser agrees to purchase from the Company, and the Company agrees to issue and sell to the Purchaser, a senior secured convertible promissory note in the aggregate principal amount of Five Million dollars (US$5,000,000) (the "***Loan Amount***") and in substantially the form attached hereto as ***Exhibit A*** (the "***Note***"). The Note may be converted into Chess Depositary Interests ("***CDIs***") (with each CDI representing 1/50th of a share of the Company's common stock, $0.01 par value per share (the "***Common Stock***")) as provided in such Note.

2. THE CLOSING

2.1 Closing Date. The closing of the purchase and sale of the Note (the "***Closing***") shall be held on the Effective Date or at such other time as the Company and the Purchaser shall agree (the "***Closing Date***").

2.2 Delivery. At the Closing (i) the Purchaser will deliver to the Company a check or wire transfer funds in an amount equal to the Loan Amount; (ii) the Company shall issue and deliver the Note to the Purchaser; and (iii) the Company shall execute and deliver such other documents as the Purchaser shall reasonably require, including a Security Agreement in the form attached hereto as ***Exhibit B***.

3. REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE COMPANY

The Company hereby represents and warrants to the Purchaser, as of the date hereof and as of the Closing Date, as follows:

3.1 Organization; Good Standing and Qualification. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own its property and carry on its business as now conducted. The Company is duly qualified to transact business and is in good standing in the Commonwealth of Massachusetts and in each jurisdiction in which the failure to be so qualified could have a material adverse effect on its business or properties.

3.2 Corporate Power. The Company has all requisite corporate power to execute and deliver this Agreement, the Note and the Security Agreement in favor of the Purchaser and any other document provided for herein or by any of the foregoing (collectively, as the same may from to time be amended, modified, supplemented or restated, the "***Loan Documents***") and to carry out and perform its obligations under the terms of the Loan Documents and to issue CDIs in accordance with the terms thereof.

3.3 Authorization. The execution and delivery of each of the Loan Documents by the Company and the consummation by the Company of the transactions contemplated hereby and thereby, including, without limitation, the issuance of the Notes, the reservation of the Common Stock underlying the CDIs issuable upon conversion of the Note (the "***Conversion CDIs***" and, together with the Notes and the Common Stock, "***Securities***") and the issuance of the Conversion CDIs, was duly authorized by the Company's board of directors. Other than those consents and authorizations obtained by the Company prior to the date hereof that are in full force and effect on the Closing Date and except for any required stockholder approval of the Company as set forth in Section 2(d) of the Note, no further consent or authorization is required by the Company, its board of directors or its stockholders. Each of the Loan Documents has been duly executed and delivered by the Company, and constitutes the legal, valid and binding obligations of the Company enforceable in accordance with its terms, subject to laws of general application relating to equitable principles, bankruptcy, insolvency and the relief of debtors. Upon conversion of the Note into Conversion CDIs ,in accordance with the provisions of this Agreement and the Note, the Conversion CDIs will be validly issued, fully paid and nonassessable and free of any liens or encumbrances (other than as set out in Section 2(g) of the Note). The issuance of the Note (and the Conversion CDIs) pursuant to the provisions of this Agreement will not give rise to any preemptive rights or rights of first refusal granted by the Company, and the Note (and the Conversion CDIs) will be issued in compliance with all applicable federal and state securities laws, and will be free of any liens or encumbrances; *provided, however*, that the Note (and the underlying securities) may be subject to restrictions on transfer as set out in the Loan Documents or under state and/or federal securities laws as set forth herein or as otherwise required by such laws at the time the transfer is proposed. The issuance and sale of the Note (and the Conversion CDIs) do not and will not cause any dilution adjustment in any existing securities of the Company.

3.4 Governmental Consents. All consents, approvals, orders, or authorizations of, or registrations, qualifications, designations, declarations, or filings with, any governmental authority, required on the part of the Company in connection with the valid execution and delivery of the Loan Documents, the offer, sale or issuance of the Note and the Conversion CDIs, or the consummation of any other transaction contemplated hereby shall have been obtained and will be effective at the Closing, except for (i) any stockholder approval described by Section 2(d) of the Note and (ii) notices required or permitted to be filed with certain foreign, state and/or federal securities commissions or stock exchanges, which notices will be filed on a timely basis.

3.5 No Conflicts. The execution, delivery and performance of the Loan Documents by the Company and the consummation by the Company of the transactions contemplated hereby and thereby (including, without limitation, the issuance of the Notes and the reservation for issuance and issuance of the Conversion CDIs) will not (i) result in a violation of the certificate

of incorporation or by-laws of the Company or (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any material agreement, indenture or instrument to which the Company is a party or by which the Company is bound, or (iii) result in a violation of any law, rule, regulation, order, judgment or decree including federal and state securities laws and regulations applicable to the Company or by which any property or asset of the Company is bound or affected.

3.6 Offering. Assuming the accuracy of the representations and warranties of the Purchaser contained in Section 4 hereof, the offer, issue, and sale of the Note is and will be exempt from the registration and prospectus delivery requirements of the Securities Act of 1933, as amended (the "***Act***"), and has been registered or qualified (or is exempt from registration and qualification) under the registration, permit, or qualification requirements of all applicable state securities laws.

3.7 Lien Priority. Each lien created hereunder or provided for hereby or under any other Loan Documents is a valid lien and, assuming completion of the filing of a financing statement under the Uniform Commercial Code, having a first priority interest in the assets and Intellectual Property of the Company

3.8 Use of Proceeds. The Company shall use the proceeds of the sale and issuance of the Note for general corporate purposes.

3.9 Delivery of SEC Filings. The Company has provided the Purchaser with copies of the Company's most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2016, and all other reports filed by the Company pursuant to the Securities Exchange Act of 1934, as amended (the "***1934 Act***") since the filing of the Annual Report on Form 10-K and prior to the date hereof (collectively, the "***SEC Filings***"); which reports represent all filings required of the Company pursuant to the 1934 Act for such period. During the two (2) years prior to the date hereof, the Company has filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC pursuant to the reporting requirements of 1934 Act (all of the foregoing filed prior to the date hereof or prior to the date of the Closing, and all exhibits included therein and financial statements, notes and schedules thereto and documents incorporated by reference therein being hereinafter referred to as the "***SEC Documents***"). As of their respective filing dates, or, if amended or superseded by a subsequent filing, as of the date of the last such amendment or superseding filing, the SEC Documents complied in all material respects with the requirements of the 1934 Act and the rules and regulations of the SEC promulgated thereunder applicable to the SEC Documents, and none of the SEC Documents, at the time they were filed or, if amended or superseded by a subsequent filing, as of the date of the last such amendment or superseding filing, with the SEC, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. As of their respective filing dates, or, if amended or superseded by a subsequent filing, as of the date of the last such amendment or superseding filing, the financial statements of the Company included in the SEC Documents complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC with respect thereto. Such financial statements have been prepared in accordance with generally

accepted accounting principles, consistently applied, during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto, or (ii) in the case of unaudited interim statements, to the extent they may exclude footnotes or may be condensed or summary statements) and fairly present in all material respects the financial position of the Company as of the dates thereof and the results of its operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments).

3.10 Conduct of Business; Regulatory Permits. To the knowledge of the Company, the Company is not in violation of any term of, or in default under, its Certificate of Incorporation, as amended and as in effect on the date hereof, or any certificate of designation of an outstanding series of stock of the Company or Bylaws, as amended and as in effect on the date hereof. The Company is not in violation of any judgment, decree or order or any statute, ordinance, rule or regulation applicable to the Company, and the Company does not and will not conduct its business in violation of any of the foregoing, except for possible violations which could not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the Company. Without limiting the generality of the foregoing, the Company is not in violation of any of the rules, regulations or requirements of the ASX (defined below) and has no knowledge of any facts or circumstances that would reasonably lead to delisting or suspension of its securities by the ASX in the foreseeable future. Except as set forth in its SEC Filings, the Company possesses all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct its business, and the Company has not received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit.

3.11 Absence of Litigation. There is no action, suit, proceeding, inquiry or investigation before or by the SEC, the ASX, any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its subsidiaries or affiliates, the Securities or any of the Company's or its subsidiaries' officers or directors, whether of a civil or criminal nature or otherwise, which, if adversely determined, would have a material adverse effect on the Company's business or financial condition.

3.12 Negative Pledge. Except for the granting of non-exclusive licenses or sublicenses by the Company in the ordinary course of business, the Company has not, and shall not, sell, transfer, assign, mortgage, pledge, lease, grant a security interest in, or encumber or suffer to exist any lien on any of its property or assets including, but not limited to, the Intellectual Property (as defined below), whether now owned or hereafter created or acquired. The Company has not, and shall not, enter into a negative pledge agreement, or similar agreement, affecting the rights of the Intellectual Property with any other party. As used herein, "***Intellectual Property***" means:

(a) Any and all Copyrights;

(b) Any and all trade secrets, and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired or held;

(c) Any and all design rights which may be available to the Company now or hereafter existing, created, acquired or held;

(d) All Patents;

(e) Any Trademarks;

(f) Any and all claims for damages by way of past, present and future infringements of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above;

(g) All licenses or other rights to use any of the Copyrights, Patents, or Trademarks and all license fees and royalties arising from such use to the extent permitted by such license or rights;

(h) All amendments, extensions, renewals and extensions of any of the Copyrights, Trademarks, or Patents; and

(i) All proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

"Copyrights" means any and all copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held.

"Patents" means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"Trademarks" means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of the Company connected with and symbolized by such trademarks.

3.13 Securities Laws. The Company shall timely make all filings and reports relating to the issuance of the Securities required under applicable securities laws, including filing any notice of sale of securities required by applicable law or regulation and complying with any applicable "blue sky" laws of the states of the United States. The Company shall pay all fees and expenses in connection with satisfying its obligations under this Section 3.13. The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any "security" (as defined in the Act) that could be integrated with the issuance of the Notes in a manner that could require the registration of the Notes under the Act.

3.14 Restriction on the Incurrence of Additional Indebtedness. So long as the Note is outstanding, neither the Company nor its affiliates or subsidiaries will issue any other securities that would cause a breach or default under the Notes. Neither the Company nor its subsidiaries will create, incur, assume or permit to exist any Indebtedness that has any right in priority or payment that is senior to or pari passu the rights under the Notes. "***Indebtedness***" means, without duplication, (a) all obligations of the Company or its subsidiaries for borrowed money or with respect to deposits or advances of any kind made to the Company, (b) all obligations of the Company or its subsidiaries evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of the Company or its subsidiaries upon which interest charges are customarily paid, (d) all obligations of the Company or its subsidiaries under conditional sale or other title retention agreements relating to property acquired by the Company, (e) all obligations of the Company or its subsidiaries in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any lien or encumbrance on property owned or acquired by the Company or its subsidiaries , whether or not the indebtedness secured thereby has been assumed, (g) all guarantees by the Company or its subsidiaries of indebtedness of others, (h) all capital lease obligations of the Company or its subsidiaries , and (i) all obligations, contingent or otherwise, of the Company or its subsidiaries as an account party in respect of letters of credit and letters of guaranty. The Indebtedness of the Company shall include the Indebtedness of any other entity to the extent the Company is liable therefor as a result of the Company's ownership interest in or other relationship with such entity, except to the extent such Indebtedness is non-recourse to the Company.

3.15 Efforts to Obtain Stockholder Approval. The Company shall use its commercially reasonable efforts to obtain any stockholder approval described in Section 2(d) of the Note.

4. REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser hereby represents and warrants to the Company as follows:

4.1 Purchase for Own Account. The Purchaser understands that the Securities, have not been registered under the Act, and the Purchaser is acquiring the Securities for its own account and not with a view towards, or for resale in connection with, the public sale or distribution thereof, except pursuant to sales registered or exempted from registration. The Purchaser represents that, if it is permitted to acquire any Securities under the Note, it is acquiring the Securities solely for its own account and beneficial interest for investment and not for sale or with a view to distribution of the Securities or any part thereof, has no present intention of selling (in connection with a distribution or otherwise), granting any participation in, or otherwise distributing the same.

4.2 Information and Sophistication. Without lessening or obviating the representations and warranties of the Company set forth in Section 3, the Purchaser hereby: (i) acknowledges that it has received all the information it has requested from the Company including, but not limited to, the SEC Filings, (ii) represents that it has had an opportunity to ask questions and receive answers from the Company regarding the Company, its business and the terms and conditions of the offering of the Securities and (iii) further represents that it has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risk of this investment.

4.3 Ability to Bear Economic Risk. The Purchaser acknowledges that investment in the Securities involves a high degree of risk, and represents that it is able, without materially impairing its financial condition, to hold the Securities for an indefinite period of time and to suffer a complete loss of its investment.

4.4 Rule 144. The Purchaser is aware that none of the Securities may be sold pursuant to Rule 144 adopted under the Act unless certain conditions are met, including, among other things, the existence of a public market for the shares, the availability of certain current public information about the Company, the resale following the required holding period under Rule 144 and the number of shares being sold during any three month period not exceeding specified limitations.

4.5 Accredited Investor Status. The Purchaser is an "***accredited investor***" as such term is defined in Rule 501 under the Act.

4.6 Regulation S. In issuing and selling the Securities, the Company may be relying upon the "safe harbor" provided by Regulation S and/or on Section 4(2) under the Act; it is a condition to the availability of the Regulation S "safe harbor" that the Securities not be offered or sold in the United States or to a U.S. person until the expiration of a one-year "distribution compliance period" (or a six-month "distribution compliance period," if the issuer is a "reporting issuer," as defined in Regulation S) following the closing; and notwithstanding the foregoing, prior to the expiration of the one-year "distribution compliance period" (or six-month "distribution compliance period," if the issuer is a "reporting issuer," as defined in Regulation S) after the closing (the "***Restricted Period***"), the Note and the underlying securities may, subject to any restrictions contained in the Note, be offered and sold by the holder thereof only if such offer and sale is made in compliance with the terms of this Agreement and the Note and either: (A) if the offer or sale is within the United States or to or for the account of a U.S. person (as such terms are defined in Regulation S), the securities are offered and sold pursuant to an effective registration statement or pursuant to Rule 144 under the Act or pursuant to an exemption from the registration requirements of the Act; or (B) the offer and sale is outside the United States and to other than a U.S. person. If the Purchaser is not a United States person, the Purchaser hereby represents that the Purchaser is satisfied as to the full observance of the laws of the Purchaser's jurisdiction applicable to the Purchaser in connection with any invitation to subscribe for the Securities, including (i) the legal requirements within the Purchaser's jurisdiction for the purchase of the Securities, (ii) any foreign exchange restrictions applicable to such purchase, (iii) any governmental or other consents that may need to be obtained and (iv) the income tax and other tax consequences, if any, that may be relevant to the purchase, holding, redemption, sale or transfer of such Securities. The Purchaser's subscription and payment for, and the Purchaser's continued beneficial ownership of the Securities, will not violate any applicable securities or other laws of the Purchaser's jurisdiction that are applicable to the Purchaser.

4.7 Rule 506(d). If the Purchaser beneficially owns twenty percent (20%) or more of the outstanding voting securities of the Company, calculated in accordance with Rule 506(d) of Regulation D of the Act, or may designate a director of the Company, the Purchaser hereby represents and warrants to the Company that the Purchaser has not been convicted of any of the felonies or misdemeanors or been subject to any of the orders, judgments, decrees or other conditions set forth in Rule 506(d) of Regulation D of the Act.

4.8 Further Limitations on Disposition. Without in any way limiting the representations set forth above and subject to any restrictions contained in the Note, the Purchaser further agrees not to make any disposition of all or any portion of the Securities unless and until:

(a) There is then in effect a Registration Statement under the Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(b) The Purchaser shall have notified the Company of the proposed disposition and shall have furnished the Company with a detailed statement of the circumstances surrounding the proposed disposition, and if reasonably requested by the Company, the Purchaser shall have furnished the Company with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration under the Act or any applicable state securities laws.

(c) Notwithstanding the provisions of paragraphs (a) and (b) above, but subject to the terms of the Note, no such registration statement or opinion of counsel shall be necessary for a transfer by the Purchaser to (i) any shareholder, partner, retired partner, member or former member of the Purchaser for no additional consideration or (ii) any affiliate, including affiliated funds, for no additional consideration, in each case if all transferees agree in writing to be subject to the terms hereof to the same extent as if they were the Purchaser hereunder.

(d) Notwithstanding the provisions of paragraphs (a) and (b) above, the Company acknowledges and agrees that the Securities may be pledged by the Purchaser, and its successors and assigns, in connection with a bona fide margin agreement or other loan or financing arrangement that is secured by the Securities, provided that any pledge of those Securities does not constitute an offer of those Securities for sale within 12 months after their issue such that it would require disclosure under section 707(3) of the *Corporations Act 2001* (Cth). The pledge of Securities shall not be deemed to be a transfer, sale or assignment of the Securities hereunder, and no Person effecting a pledge of Securities shall be required to provide the Company with any notice thereof or otherwise make any delivery to the Company pursuant to this Agreement or any other Loan Document. The Company hereby agrees to execute and deliver such documentation as a pledgee of the Securities may reasonably request, at the Purchaser's expense, in connection with a pledge of the Securities to such pledgee by the Purchaser and any successor or assignee.

4.9 Legends. The Purchaser understands that any securities issued upon conversion of the Note, may bear one or all of the following legends:

(a) "THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND HAVE BEEN ACQUIRED FOR INVESTMENT AND

NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SALE OR DISTRIBUTION OF SUCH SHARES MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY OR OTHER EVIDENCE REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT."

(b) Any legend set forth in or required by another section of this Agreement or the Note.

(c) Any legend required by the securities laws of any state to the extent such laws are applicable to the shares represented by the certificate so legended.

4.10 Market Standoff. The Purchaser agrees not to sell any of the Securities during a period specified by the representative of the underwriters of Common Stock (not to exceed one hundred eighty (180) days) following the effective date of the initial registration statement of the Company filed under the Act, so long as all officers, directors, and 1% stockholders have executed similar agreements and are similarly restricted from selling the Company's stock.

4.11 Foreign Ownership Restrictions. The Purchaser acknowledges and agrees that in order to ensure that US persons do not purchase any CDIs that may be issued to it, a number of procedures governing the trading and clearing of CDIs, while the Company is listed on the Australian Securities Exchange (the "***ASX***"), will be implemented, including the application to any CDIs issued to it of the status of Foreign Ownership Restrictions securities under the ASX Settlement Operating Rules and the addition of the notation "FORUS" to the CDI description on ASX trading screens and elsewhere, which will inform the market of the prohibition of US persons acquiring CDIs.

5. EVENTS OF DEFAULT; REMEDIES

5.1 Events of Default. Each of the following shall constitute an event of default (each, an "***Event of Default***") under this Agreement and the other Loan Documents:

(a) any default in the payment, when the same becomes due and payable, of principal under or interest in respect of the Note or other amount due and payable under any other Loan Document including, but not limited to, the failure by the Company to pay on the Maturity Date, upon a Change of Control pursuant to Section 2(c) of the Note or to the extent due and payable under Section 2(d) of the Note, any and all unpaid principal, accrued interest and all other amounts owing under any Loan Document;

(b) The Company files any petition or action for relief under any bankruptcy, reorganization, insolvency or moratorium law or any other law for the relief of, or relating to, debtors, now or hereafter in effect, or makes any general assignment for the benefit of creditors or takes any corporate action in furtherance of any of the foregoing;

(c) An involuntary petition is filed against the Company (unless such petition is dismissed or discharged within sixty (60) days) under any bankruptcy statute now or hereafterin effect, or a custodian, receiver, trustee, assignee for the benefit of creditors (or other similar official) is appointed to take possession, custody or control of any property of the Company;

(d) The Company's stockholders (other than the Purchaser) or board of directors affirmatively vote to liquidate, dissolve, or wind up the Company or the Company otherwise ceases to carry on its ongoing business operations;

(e) If (i) a material portion of the Company's assets is attached, seized, levied on, or comes into possession of a trustee or receiver and the attachment, seizure or levy is not removed in thirty (30) days, (ii) the Company is enjoined, restrained, or prevented by a court order or other order of a governmental body from conducting its business, or (iii) notice of lien, levy, or assessment is filed against any material portion of the Company's assets by any court order or other order of any governmental body and it is not paid within sixty (60) days after the Company received notice thereof;

(f) The Company shall fail in any material respect to observe or perform any covenant, obligation, condition or agreement contained in this Agreement or any other Loan Document (other than a failure to pay as specified in Section 5.1(a) hereof or any failure or breach under Section 3.12 (Negative Pledge) hereof) and such failure shall continue for thirty (30) days after the Company's receipt of written notice thereof; or

(g) any breach or default under Section 3.12 hereof (Negative Pledge).

5.2 Remedies. Upon the occurrence or existence of any Event of Default (other than an Event of Default referred to in Sections 5.1(b) or 5.1(c) hereof) and at any time thereafter during the continuance of such Event of Default, the Purchaser or any holder of the Note may, by written notice to the Company, declare all outstanding obligations payable by the Company under the Note and the other Loan Documents to be immediately due and payable without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. Upon the occurrence or existence of any Event of Default described in Sections 5.1(b) or 5.1(c) hereof, immediately and without notice, all outstanding obligations payable by the Company hereunder shall automatically become immediately due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived, anything contained herein to the contrary notwithstanding. In the event of any Event of Default, the Company shall pay all reasonable attorneys' fees and costs incurred by the Purchaser in enforcing and collecting the Note and the other Loan Documents. Subject to Section 5(c) of the Security Agreement, no right or remedy conferred upon or reserved to the Purchaser under this Agreement is intended to be exclusive of any other right or remedy, and every right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now and hereafter existing under applicable law.

6. CONDITIONS TO CLOSING

6.1 Conditions to Purchaser's Obligations at the Closing. The obligations of the Purchaser under the Loan Documents are subject to the fulfillment on or before the Closing of each of the following conditions, which may be waived in writing by the Purchaser:

(a) Representations and Warranties. The representations and warranties of the Company contained in Section 3 shall be true on and as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a specific date, which shall be true and correct as of such specified date).

(b) Performance. The Company shall have performed and complied with all agreements, obligations, and conditions contained in the Loan Documents that are required to be performed or complied with by it on or before the Closing.

(c) Qualifications. All authorizations, approvals, or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Note and the Conversion CDIs shall be duly obtained and effective as of the Closing.

(d) Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated at the Closing and all documents incident thereto shall be reasonably satisfactory in form and substance to the Purchaser's counsel, which shall have received all such counterpart original and certified copies of such documents as it may reasonably request.

6.2 Conditions to Company's Obligations at the Closing. The obligations of the Company under the Loan Documents are subject to the fulfillment on or before the Closing of each of the following conditions, which may be waived in writing by the Company:

(a) Representations and Warranties. The representations and warranties made by the Purchaser in Section 4 hereof shall be true and correct on the Closing Date.

(b) Purchase Price. The Purchaser shall have delivered to the Company, in immediately available funds, the Loan Amount.

7. MISCELLANEOUS

7.1 Binding Agreement. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, expressed or implied, is intended to confer upon any third party any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

7.2 Governing Law. This Agreement shall be governed by and construed under the laws of the State of New York.

7.3 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

7.4 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

7.5 Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (c) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the address set forth in this Section 7.5 or at such other address as the Company or the Purchaser may designate by ten (10) days advance written notice to the other parties hereto.

If to the Purchaser:

CRYSTAL AMBER FUND LIMITED

_____

_____

Attention:

If to the Company:

GI DYNAMICS, INC.
355 Congress Street
Boston, MA 02210
Attention: Chief Executive Officer

7.6 Amendment; Modification; Waiver. No amendment, modification or waiver of any provision of this Agreement or consent to departure therefrom shall be effective unless in writing and approved by the Company and the Purchaser. Further, while the terms of any waiver granted by ASX in respect of the Loan Documents remains applicable to the Company, any variation to the terms of this Agreement which is not a minor change or which is inconsistent with the terms of any relevant waiver granted by ASX to the Company must be approved by the Company's ordinary securityholders.

7.7 Entire Agreement. This Agreement, the Exhibits hereto, and the Loan Documents constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and no party shall be liable or bound to any other party in any manner by any representations, warranties, covenants and agreements except as specifically set forth herein and therein.

IN WITNESS WHEREOF, the parties have executed this **NOTE PURCHASE AGREEMENT** as of the date first written above.

COMPANY:

GI DYNAMICS, INC.

By: /s/ Scott Schorer
Name: Scott Schorer
Title: President & CEO

PURCHASER:

CRYSTAL AMBER FUND LIMITED

By: /s/ Kevin Smith
Name: Kevin Smith
Title: Alternative Director
Crystal Amber Asset Management (Guernsey) Limited as Investment Manager of Crystal Amber Fund Limited

EXHIBIT A

FORM OF SENIOR SECURED CONVERTIBLE PROMISSORY NOTE

EXHIBIT B

FORM OF SECURITY AGREEMENT

Exhibit 10.2

THIS SENIOR SECURED CONVERTIBLE PROMISSORY NOTE (THIS "NOTE") AND THE SECURITIES ISSUABLE UPON THE CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF REGULATION S PROMULGATED UNDER THE SECURITIES ACT, PURSUANT TO REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM REGISTRATION. HEDGING TRANSACTIONS INVOLVING THE SECURITIES REPRESENTED HEREBY MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE SECURITIES ACT. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE ISSUER THAT SUCH OFFER, SALE OR TRANSFER OTHERWISE COMPLIES WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

SENIOR SECURED CONVERTIBLE PROMISSORY NOTE

US$5,000,000

June 15, 2017
Boston, Massachusetts

FOR VALUE RECEIVED, GI DYNAMICS, INC., a Delaware corporation ("***Payor***"), hereby promises to pay to the order of **CRYSTAL AMBER FUND LIMITED** (the "***Holder***"), the principal sum of Five Million dollars (US$5,000,000) with interest on the outstanding principal amount at the rate of five percent (5%) per annum, compounded annually based on a 365-day year. Interest shall commence with the date hereof and shall continue on the outstanding principal until paid in full or, if permitted by the terms of the Note, converted pursuant to Section 2 below.

1. PAYMENT AND MATURITY

(a) Reference is hereby made to the Note Purchase Agreement (the "***Purchase Agreement***") dated as of even date herewith between Payor and Holder. Capitalized terms used herein and not otherwise defined herein shall have the respective meanings given to them in the Purchase Agreement.

(b) If this Senior Secured Convertible Promissory Note (this "***Note***") has not already been paid in full or, if permitted by the terms of this Note, converted in accordance with the terms of Section 2(a), 2(b) or 2(c) below, the entire outstanding principal balance of this Note and all unpaid accrued interest thereon shall be due and payable on December 31, 2018 (the "***Maturity Date****").* All payments of interest and principal shall be in lawful money of the United States of America. All payments shall be applied first to accrued interest, and thereafter to principal. If any payments on this Note become due on a Saturday, Sunday or a public holiday under the laws of the State of New York, such payment shall be made on the next succeeding business day and such extension of time shall be included in computing interest in connection with such payment.

(c) Upon the occurrence and during the continuance of any Event of Default, the principal balance of this Note shall bear interest at the rate of eight percent (8%) per annum, including after the commencement of, and during the pendency of, any bankruptcy or other insolvency proceeding.

2. CONVERSION

(a) Automatic Conversion upon Qualified Financing. Subject to Section 2(d) hereof, if, at any time prior to December 31, 2018, Payor issues and sells shares of its common stock, par value $0.01 per share (the "***Common Stock***") or CHESS Depositary Interests (with each CDI representing 1/50th of a share of Common Stock) ("***CDIs***") to investors (the "***Investors***") in a Qualified Financing (as defined herein) and this Note has not been paid in full, then the entire unpaid principal amount of this Note, together with any interest accrued but unpaid thereon (such principal amount and interest, the "***Outstanding Amount***"), shall automatically convert into CDIs at a conversion price (the "***Conversion Price***") equal to the price per CDI of the CDIs issued and sold at such Qualified Financing (or, if only Common Stock is issued and sold in such Qualified Financing, a conversion price equal to the price per share of such Common Stock proportionately adjusted to reflect the ratio of CDIs to Common Stock in effect at the time of such Qualified Financing or, if another security of the Payor is issued and sold in such Qualified Financing, a conversion price equal to the price of such security proportionately adjusted to reflect the ratio of CDIs to such security in effect at the time of such Qualified Financing). "***Qualified Financing***" means a round of equity financing of Common Stock or CDIs in a single transaction or a series of related transactions involving the issuance of the Payor's securities to one or more investors which raises gross proceeds to the Payor of at least $10,000,000 in the aggregate (excluding proceeds from this Note). Subject to Section 2(d) hereof, the number of CDIs to be issued upon such conversion shall be equal to the quotient obtained by dividing (i) the Outstanding Amount by (ii) the price per CDI rounded to the nearest whole CDI. Upon such conversion, the Holder will execute such agreements as may be entered into by purchasers of CDIs, shares of Common Stock or other securities, as applicable, in the Qualified Financing generally. For the avoidance of doubt, no Investor in such Qualified Financing shall receive rights or preferences that are more favorable than those provided to the Holder.

(b) Optional Conversion. Subject to Section 2(d) and Section 6(c) of this Note, the Holder shall have the option (the "***Conversion Option***"), but not the obligation, at any time after the date hereof and prior to December 31, 2018, exercisable upon written notice to the Payor, to (a) convert all (but not less than all) of the Outstanding Amount into the number of CDIs equal to the quotient obtained by dividing (x) the Outstanding Amount by (y) the price per CDI equal to the volume weighted average bid closing price of the Payor's CDIs on the Australian Securities Exchange (the "***ASX***") for the five (5) trading days ending immediately prior to business day that the Payor's receipt of the Holder's written notice to convert (regardless if received during the trading hours or after) (such conversion price, the "***CO Conversion Price***").

(c) Change of Control. Upon the consummation of a Change of Control (that is not the result of a Qualified Financing) prior to December 31, 2018 in which the Payor's stockholders receive cash consideration, the Holder shall receive an amount in cash equal to all unpaid interest that has accrued to date hereunder and 110% of the entire unpaid principal amount of this Note in full satisfaction of all obligations under the Note. Upon the consummation of a Change of Control (that is not the result of a Qualified Financing) prior to December 31, 2018 in which the consideration received by the Payor's stockholders consists of non-cash consideration, including, without limitation, securities, the Holder shall, subject to Section 2(d) hereof, have the Conversion Option set forth in Section 2(b) hereof. A "***Change of Control***" means any transaction or series of related transactions that could result in any of the following: (i) the sale of all or substantially all of the assets of the Payor to any person or related group of persons (other than the Holder or a person that directly or indirectly controls, is controlled by, or is under common control with, the Holder), (ii) the acquisition, directly or indirectly, by any person or related group of persons (other than the Payor or the Holder or a person that directly or indirectly controls, is controlled by, or is under common control with, the Payor or the Holder) of beneficial ownership of securities possessing more than fifty percent (50%) of the total combined voting power of the Payor's outstanding securities pursuant to a tender or exchange offer made directly to the Payor's stockholders, (iii) a merger or consolidation of the Payor, other than for the purpose of re-domiciling the Payor, unless following such transaction or series of transactions, the holders of the Payor's securities prior to the first such transaction continue to hold more than fifty percent (50% percent) of the voting rights and equity interests in the surviving entity, (iv) a recapitalization, reorganization or other transaction involving the Payor that constitutes or results in a transfer of more than one-third of the equity interests in the Payor, unless following such transaction or series of transactions, the holders of the Payor's securities prior to the first such transaction continue to hold more than fifty percent (50%) of the voting rights and equity interests in the surviving entity or acquirer or (v) the execution by the Payor or its controlling stockholders of an agreement providing for or reasonably likely to result in any of the foregoing events.

(d) Stockholder Approval. Notwithstanding anything to the contrary contained herein or in the Note Purchase Agreement, in the event that the rules of the ASX (or any other exchange on which the CDIs or Common Stock is then traded) require the Payor to obtain stockholder approval to issue CDIs pursuant to Section 2(a) or Section 2(b) or Section 2(c) hereof, the Payor shall convene a meeting of stockholders to seek approval to issue those CDIs or Common Stock. If such approval is not obtained at such meeting, the Holder shall instead become entitled to receive an amount in cash equal to all unpaid (and unconverted) interest that has accrued to date hereunder and 110% of the entire unpaid (and unconverted) principal amount of this Note in full satisfaction of all obligations under the Note, and such amounts shall be due and payable upon the earlier of (i) the Maturity Date, or (ii) the date that is six months following the date of the stockholders' meeting at which such approval is not obtained. For the avoidance of doubt, while the Payor is listed on the ASX and the rules of the ASX require the Payor to obtain stockholder approval to issue CDIs, no conversion may occur under this Note, and no CDIs or Common Stock may be issued pursuant to Section 2(a) or Section 2(b) or Section 2(c) hereof, unless and until the Payor has obtained stockholder approval pursuant to this Section 2(d).

(e) Fractional Shares. No fractional shares of Payor's capital stock will be issued upon conversion of this Note. In lieu of any fractional share to which Holder would otherwise be entitled, Payor will pay to Holder in cash the amount of the unconverted principal and interest balance of this Note that would otherwise be converted into such fractional share.

Upon conversion of this Note pursuant to Section 2, Holder shall surrender this Note, duly endorsed, at the principal offices of Payor. At its expense, Payor will, as soon as practicable thereafter, issue and deliver to Holder, at Holder's address set forth on the first page hereto or such other address requested by Holder, a certificate or certificates or holding statement (as applicable) for the number of shares of Common Stock or CDIs to which Holder is entitled upon such conversion, together with any other securities and property to which Holder is entitled upon such conversion under the terms of this Note, including a check payable to Holder for any cash amounts payable as a result of any fractional shares as described herein.

(f) Holder Representations and Warranties; Transfer and Assignment. The representations and warranties and rights and obligations of transfer and assignment of Holder that are set forth in Section 4 of the Purchase Agreement with respect to the shares of Common Stock or CDIs issuable to Holder are hereby made a part of this Note and incorporated herein by this reference.

(g) Restriction on Transfer. Notwithstanding any other provision of this Note, the Purchase Agreement or the Security Agreement, the Holder may not sell or transfer any shares of Common Stock or CDIs issued to the Holder pursuant to Section 2(a) or Section 2(b) or Section 2(c) hereof ("***Restricted Securities***"), or grant, issue or transfer interests in, or options over, any Restricted Securities, at any time within 12 months after the issue of those Restricted Securities ("***Restricted Period***") except as permitted by section 708 or any other applicable section of the *Corporations Act 2001* (Cth). Before commencement of the Restricted Period, to prevent any such restricted dealings in the Restricted Securities during the Restricted Period, the Holder agrees to (i) the application of a holding lock to the Restricted Securities by the Payor's securities registry for the Restricted Period, and (ii) enter into any other documents reasonably necessary to prevent any such restricted dealings in the Restricted Securities during the Restricted Period.

3. DEFAULT; REMEDIES

(a) The occurrence of any Event of Default described in Section 5.1 of the Purchase Agreement shall be an Event of Default hereunder.

(b) Upon the occurrence and during the continuance of any Event of Default, all unpaid principal on this Note, accrued and unpaid interest thereon and all other amounts owing hereunder shall, at the option of the Holder, and, upon the occurrence of any Event of Default pursuant to Sections 5.1(b), (c) or (d) of the Purchase Agreement, automatically, be immediately due, payable and collectible by Holder pursuant to applicable law. Subject to Section 5(c) of the Security Agreement dated as of the date hereof between the Payor and the Holder ("***Security Agreement***"), the Holder shall have all rights and may exercise all remedies available to it under law, successively or concurrently.

(c) Upon the occurrence and during the continuance of any Event of Default, Payor shall pay, on demand, all reasonable attorneys' fees and court costs incurred by Holder in enforcing and collecting this Note.

4. PREPAYMENT. Payor may not prepay this Note prior to the Maturity Date without the consent of the Holder, except to the extent permitted pursuant to Section 2(c) and Section 2(d) hereof.

5. NON-TRANSFERABLE. The Holder may not sell or transfer this Note, or grant, issue or transfer interests in, or options over, this Note at any time within 12 months after the date hereof except as permitted by section 708 or any other applicable section of the *Corporations Act 2001* (Cth).

6. FUNDAMENTAL TRANSACTIONS; CORPORATE EVENTS.

(a) Fundamental Transactions. If, at any time while this Note is outstanding, (i) the Payor effects any merger or consolidation of the Payor with or into another person pursuant to which the Common Stock is effectively converted and exchanged, (ii) the Payor effects any sale of all or substantially all of its assets in one or a series of related transactions pursuant to which the Common Stock is effectively converted and exchanged, (iii) any tender offer or exchange offer (whether by the Payor or another person) is completed pursuant to which at least a majority of the outstanding Common Stock is tendered and exchanged for other securities, cash or property or (iv) the Payor effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (other than as a result of a subdivision or combination of shares of Common Stock covered by Section 5(a) above) (in any such case, a "***Fundamental Transaction***"), then prior to any subsequent conversion of this Note, and subject to the provisions of Section 2(c) hereof, the Holder shall be entitled to require the surviving entity to issue to the Investor an instrument identical to this Note (with an appropriate adjustment to the conversion price(s)) such that the Holder may receive stock (or a beneficial interest in stock) of the surviving company's stock. Subject to the provisions of Section 2(c) hereof, the terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this paragraph (c) and insuring that this Note (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(b) Notice of Corporate Events. If the Payor (i) declares a dividend or any other distribution of cash, securities or other property in respect of its Common Stock, including without limitation any granting of rights or warrants to subscribe for or purchase any shares of the Payor or any subsidiary, (ii) authorizes and publicly approves, or enters into any agreement contemplating or solicits stockholder approval for any Fundamental Transaction or (iii) publicly authorizes the voluntary dissolution, liquidation or winding up of the affairs of the Payor, then the Payor shall deliver to the Holder a notice describing the material terms and conditions of such transaction, at least ten (10) business days prior to the applicable record or effective date on which a person would need to hold Common Stock or CDIs in order to participate in or vote with respect to such transaction, and the Payor will take all steps reasonably necessary in order to insure that the Holder is given the practical opportunity to convert this Note prior to such time so as to participate in or vote with respect to such transaction; provided, however, that the failure to deliver such notice or any defect therein shall not affect the validity of the corporate action required to be described in such notice.

(c) *Subsequent Equity Sales*. Notwithstanding any provision of this Note to the contrary, in the event that the Company issues any CDIs or Common Stock or any security that is exchangeable or convertible into CDIs or Common Stock ("***Additional Securities***") at a price (the "***AD Conversion Price***") per CDI (or equivalent number of shares of Common Stock) that is less than the Existing Conversion Price (or the equivalent for shares of Common Stock) in an equity financing other than a Qualified Financing, then the CO Conversion Price may be reduced as provided in this Section 6(c).

(i) For a period of time (the "***Specified Expiration Period***") commencing on the date of the closing of the issuance of the Additional Securities and expiring on the date that is thirty (30) days after the date that Payor delivers a notice (such notice being an "***Additional Securities Notice***") describing the material terms and conditions of such transaction (but in any event, not less than 30 days after the issuance of the Additional Securities), the CO Conversion Price shall be reduced so that during such period it will not be more than an amount (the "***CO Maximum Amount***") equal to the following: Existing Conversion Price * (A+B) / (A+C).

(ii) For purposes of this Note, the following terms shall have the definitions ascribed thereto in this subsection:

(1) "***A***" shall mean the number of CDIs (plus the number of CDIs representing the issued and outstanding shares of Common Stock (with each CDI representing 1/50th of a share of Common Stock)), deemed to be outstanding immediately prior to the issuance of the Additional Securities (including all shares of outstanding Common Stock, all shares of outstanding preferred stock on an as-converted basis, and all outstanding options, warrants or similar instruments on an as-exercised or converted basis, including the CDIs or shares of Common Stock underlying this Note).

(2) "***B***" shall mean the aggregate cash consideration received by Payor at the closing of the issuance of Additional Securities (together with such additional cash amounts payable with respect to any exercise or conversion of Additional Securities for shares of Common Stock or CDIs if such amount is then less than the Existing Conversion Price) divided by the Existing Conversion Price.

(3) "***C***" shall mean the number of CDIs underlying the Additional Securities in such issuance, including for this purpose the number CDIs representing the number of shares of Common Stock underlying such Additional Securities (with each CDI representing 1/50th of a share of Common Stock).

(4) "***Existing Conversion Price***" shall mean the CO Conversion Price in effect immediately prior to the issuance of the Additional Securities.

(5) "***Pre Sale Pro Rata Percentage***" shall mean a percentage equal to (x) the number of CDIs that are owned by the Holder (excluding the CDIs or shares of Common Stock underlying this Note) immediately prior to the issuance of the Additional Securities (the "***Holder's Existing Ownership***"); (y) divided by A, which for purposes hereof excludes securities issuable upon conversion of the Note.

(6) "***Post Sale CDIs***" shall mean the number of CDIs outstanding determined on a fully diluted basis (including the CDIs or shares of Common Stock underlying this Note that become exercisable pursuant to clause (iv) below) and including for this purpose the number CDIs representing the number of shares of Common Stock underlying such Additional Securities (with each CDI representing 1/50th of a share of Common Stock).

(iii) The Payor agrees that it will provide each Additional Securities Notice to the Holder promptly after the issuance of Additional Securities, including a calculation in reasonable detail of the CO Maximum Amount.

(iv) The number of CDIs that the Holder may elect to have issued in accordance with Section 2(b) of this Note at the CO Conversion Price as reduced by this Section 6(c) shall not be more than the amount that, when combined with the Holder's Existing Ownership, would result in the Holder's ownership percentage of the Post Sale CDIs exceeding its Pre Sale Pro Rata Percentage.

7. WAIVER; PAYMENT OF FEES AND EXPENSES. Payor waives presentment and demand for payment, notice of dishonor, protest and notice of protest of this Note, and shall pay all costs of collection when incurred, including, without limitation, reasonable attorneys' fees, costs and other expenses. The right to plead any and all statutes of limitations as a defense to any demands hereunder is hereby waived to the full extent permitted by law. No delay by Holder shall constitute a waiver, election or acquiescence by it.

8. CUMULATIVE REMEDIES. Holder's rights and remedies under this Note, the Purchase Agreement and the Security Agreement shall be cumulative. No exercise by Holder of one right or remedy shall be deemed an election, and no waiver by Holder of any Event of Default shall be deemed a continuing waiver of such Event of Default or the waiver of any other Event of Default.

9. OTHER INDEBTEDNESS. Without the prior written consent of the Holder, no Indebtedness of the Payor shall be senior in any respect to the Indebtedness represented by this Note. "***Indebtedness***" means obligations with respect to principal, accrued and unpaid interest, penalties, premiums and any other fees, expenses and breakage costs on and other payment obligations arising under any (a) indebtedness for borrowed money, (b) indebtedness issued in exchange for or in substitution for borrowed money, (c) obligations evidenced by any note, bond, debenture, guarantee or other debt security or similar instrument or contract for borrowed money and (d) guarantees of the types of obligations described in paragraphs (a) though (c) above which are presently due, or which are or may become due in the future.

10. MISCELLANEOUS

(a) Governing Law. The terms of this Note shall be construed in accordance with the laws of the State of New York, as applied to contracts entered into by New York residents within the State of New York, and to be performed entirely within the State of New York.

(b) Exclusive Jurisdiction. All actions and proceedings arising out of, or relating to, this Agreement shall be heard and determined in any state or federal court sitting in the State of New York, County of New York. The undersigned, by execution and delivery of this Agreement, expressly and irrevocably consent and submit to the personal jurisdiction of any of such courts in any such action or proceeding; and (ii) waive any claim or defense in any such action or proceeding based on any alleged lack of personal jurisdiction, improper venue or forum non conveniens or any similar basis.

(c) Successors and Assigns; Assignment. The terms and conditions of this Note shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. The Payor may not assign this Note or delegate any of its obligations hereunder without the written consent of the Holder. Subject to Section 5 hereof, the Holder may assign this Note and its rights hereunder without the consent of the Payor, subject to compliance with Section 4 of the Purchase Agreement.

(d) Titles and Subtitles. The titles and subtitles used in this Note are used for convenience only and are not to be considered in construing or interpreting the Note.

(e) Notices. All notices required or permitted hereunder by the Holder of this Note to Payor shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the principal offices of the Payor, to the attention of the Chief Executive Officer or the Chief Financial Officer, (b) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (c) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery. Any refusal of delivery of a notice by Payor shall be deemed to have been delivered.

(f) Amendment; Modification; Waiver. No term of this Note may be amended, modified or waived without the written consent of the Payor and Holder. Further, while the terms of any waiver granted by ASX in respect of this Note, the Purchase Agreement or the Security Agreement remains applicable to the Payor, any variation to the terms of this Note which is not a minor change or which is inconsistent with the terms of any relevant waiver granted by ASX to the Payor must be approved by the Payor's ordinary securityholders.

(g) Counterparts. This Note may be executed in two or more counterparts, each of which shall be deemed and original, but all of which together shall constitute one and the same instrument.

[Signature page follows]

IN WITNESS WHEREOF, the parties have executed this **CONVERTIBLE PROMISSORY NOTE** as of the date first written above.

GI DYNAMICS, INC.

By: /s/ Scott Schorer
Name: Scott Schorer
Title: President & CEO

AGREED TO AND ACCEPTED:

CRYSTAL AMBER FUND LIMITED

By: /s/ Kevin Smith
Name: Kevin Smith
Title: Alternative Director
Crystal Amber Asset Management (Guernsey) Limited as Investment Manager of Crystal Amber Fund Limited

Exhibit 31.1

CERTIFICATION PURSUANT
TO RULES 13a-14(a) OR 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Scott W. Schorer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of GI Dynamics, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2017

/s/ SCOTT W. SCHORER

Scott W. Schorer
Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATION PURSUANT
TO RULES 13a-14(a) OR 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, James Murphy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of GI Dynamics, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2017

/s/ JAMES MURPHY
James Murphy
Chief Financial Officer
(principal accounting and financial officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of GI Dynamics, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott W. Schorer, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ SCOTT W. SCHORER

Scott W. Schorer
Chief Executive Officer
(principal executive officer)
August 14, 2017

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of GI Dynamics, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James Murphy, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to my knowledge that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JAMES MURPHY

James Murphy
Chief Financial Officer
(principal accounting and financial officer)
August 14, 2017

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.