
**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 September 30, 2021

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 001-36714

JAGUAR HEALTH, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

46-2956775
(I.R.S. Employer
Identification No.)

200 Pine Street, Suite 400
San Francisco, California 94104
(Address of principal executive offices, zip code)
(415) 371-8300
(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
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.

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class:</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered:</u>
Common Stock, Par Value \$0.0001 Per Share	JAGX	The NASDAQ Capital Market

As of November 12, 2021 there were 46,090,931 shares of voting common stock, par value \$0.0001 per share, outstanding, 2,120,786 shares of non-voting common stock, par value \$0.0001 per share, outstanding (convertible into 673 shares of voting common stock).

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PART I. — FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

**JAGUAR HEALTH, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands, except share and per share data)	September 30, 2021	December 31, 2020
Assets	(unaudited)	
Current assets:		
Cash	\$ 12,375	\$ 8,090
Accounts receivable	2,111	2,098
Accounts receivable - pledged	—	2,434
Other receivable	94	28
Inventory	4,513	2,782
Prepaid expenses and other current assets	4,912	2,360
Total current assets	24,005	17,792
Advances for future capital investment	10,478	—
Property and equipment, net	658	677
Operating lease - right-of-use asset	1,042	—
Intangible assets, net	23,072	24,337
Other assets	—	37
Total assets	<u>\$ 59,255</u>	<u>\$ 42,843</u>
Liabilities, convertible preferred stock and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 3,786	\$ 4,759
Accrued liabilities	6,084	4,493
Warrant liability	3	179
Operating lease liability, current	297	—
Notes payable, net of discount, current	1,781	3,789
Series D perpetual preferred stock: \$0.0001 par value; 977,300 shares authorized at September 30, 2021 and December 31, 2020; zero shares issued and outstanding at September 30, 2021 and December 31, 2020	—	—
Total current liabilities	11,951	13,220
Operating lease liability, net of current portion	826	—
Notes payable, net of current portion (includes hybrid instrument designated at FVO amounting to \$7.5 million and zero as of September 30, 2021 and December 31, 2020, respectively)	24,926	12,421
Total liabilities	37,703	25,641
Commitments and contingencies (See Note 6)		
Stockholders' equity		
Series B-2 convertible preferred stock: \$0.0001 par value, 10,165 shares authorized at September 30, 2021 and December 31, 2020; zero shares issued and outstanding at September 30, 2021 and December 31, 2020	—	—
Series C perpetual preferred stock: 1,011,000 shares authorized at September 30, 2021 and December 31, 2020; zero shares issued and outstanding at September 30, 2021 and December 31, 2020	—	—
Common stock - voting: \$0.0001 par value, 150,000,000 shares authorized at September 30, 2021 and December 31, 2020; 46,090,931 and 38,007,420 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	5	4
Common stock - non-voting: \$0.0001 par value, 50,000,000 shares authorized at September 30, 2021 and December 31, 2020; 2,120,786 shares issued and outstanding at September 30, 2021 and December 31, 2020	—	—
Additional paid-in capital	226,728	184,097
Accumulated deficit	(205,181)	(166,899)
Total stockholders' equity	21,552	17,202
Total liabilities, convertible preferred stock and stockholders' equity	<u>\$ 59,255</u>	<u>\$ 42,843</u>

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

JAGUAR HEALTH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Product revenue	\$ 630	\$ 2,773	\$ 2,255	\$ 6,809
Operating expenses				
Cost of product revenue	617	784	1,864	2,491
Research and development	3,312	1,522	9,597	4,509
Sales and marketing	2,261	1,529	6,596	4,728
General and administrative	3,969	4,313	12,450	11,218
Series 3 warrants inducement expense	—	—	1,462	3,696
ELOC warrants inducement expense	—	—	172	—
Series B convertible preferred stock inducement expense	—	—	—	1,647
Total operating expenses	10,159	8,148	32,141	28,289
Loss from operations	(9,529)	(5,375)	(29,886)	(21,480)
Interest expense	(2,078)	(581)	(5,988)	(1,259)
Loss on extinguishment of debt	—	—	(753)	—
Change in fair value of financial instruments and hybrid instrument designated at FVO	(565)	(2,104)	(1,639)	(2,491)
Other income (expense), net	(20)	194	(16)	190
Loss before income tax	(12,192)	(7,866)	(38,282)	(25,040)
Income tax expense	—	—	—	—
Net loss	(12,192)	(7,866)	(38,282)	(25,040)
Deemed dividend attributable to accretion of Series A redeemable convertible preferred stock	—	(349)	—	(1,332)
Stock dividend attributable to Series C perpetual preferred stock	—	(56)	—	(56)
Deemed dividend attributable to Series 1, Series 2 and Bridge warrant holders	—	—	—	(856)
Net loss attributable to common shareholders	\$ (12,192)	\$ (8,271)	\$ (38,282)	\$ (27,284)
Net loss per share, basic and diluted	\$ (0.27)	\$ (0.62)	\$ (0.87)	\$ (3.09)
Weighted-average common shares outstanding, basic and diluted	45,840,262	13,406,088	44,167,885	8,822,463

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

JAGUAR HEALTH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
IN CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY

(Unaudited)

(In thousands, except share data)	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series B-2 Convertible Preferred Stock		Series C Perpetual Preferred Stock		Common Stock - voting		Common Stock - non-voting		Additional paid-in capital	Accumulated deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balances as of June 30, 2021	—	\$ —	—	\$ —	—	\$ —	—	\$ —	45,773,998	\$ 5	2,120,786	\$ —	\$ 224,769	\$ (192,989)	\$ 31,785
Shares issued in PIPE financing	—	—	—	—	—	—	—	—	309,242	—	—	—	776	—	776
Shares issued to third party for services	—	—	—	—	—	—	—	—	5,666	—	—	—	16	—	16
Shares issued upon exercise of stock options	—	—	—	—	—	—	—	—	1,851	—	—	—	2	—	2
Shares issued on conversion of Napo merger common shares	—	—	—	—	—	—	—	—	124	—	—	—	—	—	—
Fractional shares	—	—	—	—	—	—	—	—	50	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	1,165	—	1,165
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(12,192)	(12,192)
Balances as of September 30, 2021	—	\$ —	—	\$ —	—	\$ —	—	\$ —	46,090,931	\$ 5	2,120,786	\$ —	\$ 226,728	\$ (205,181)	\$ 21,552

(In thousands, except share data)	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series B-2 Convertible Preferred Stock		Series C Perpetual Preferred Stock		Common Stock - voting		Common Stock - non-voting		Additional paid-in capital	Accumulated deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balances as of June 30, 2020	5,524,926	\$ 10,878	—	\$ —	7,534	\$ 916	—	\$ —	10,802,796	\$ 1	40,301,237	\$ 4	\$ 150,887	\$ (150,264)	\$ 1,544
Shares issued on exercise of Series 3 warrants	—	—	—	—	—	—	—	—	2,749,439	—	—	—	5,993	—	5,993
Shares issued on exercise of Series 1 and Series 2 warrants	—	—	—	—	—	—	—	—	384,751	—	—	—	565	—	565
Series A convertible preferred stock redeemed and Series C perpetual preferred issued under the exchange transaction	(5,524,926)	(11,227)	—	—	—	—	842,500	4,717	—	—	—	—	150	—	4,867
Stock dividend attributable to Series C perpetual preferred stock of \$8 per share	—	—	—	—	—	—	7,021	56	—	—	—	—	(56)	—	—
Shares issued to third party for services	—	—	—	—	—	—	—	—	763,158	—	—	—	879	—	879
Shares issued in exchange of CVP Exchange Notes	—	—	—	—	—	—	—	—	1,587,301	—	—	—	1,498	—	1,498
Accretion to redemption value of redeemable preferred stock	—	349	—	—	—	—	—	—	—	—	—	—	(349)	—	(349)
Fractional shares	—	—	—	—	—	—	—	—	6	—	—	—	—	—	—
Shares issued upon exercise of stock options	—	—	—	—	—	—	—	—	185	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	675	—	675
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(7,866)	(7,866)
Balances as of September 30, 2020	—	\$ —	—	\$ —	7,534	\$ 916	849,521	\$ 4,773	16,287,636	\$ 1	40,301,237	\$ 4	\$ 160,242	\$ (158,130)	\$ 7,806

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

JAGUAR HEALTH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
IN CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (continued)

(Unaudited)

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series B-2 Convertible Preferred Stock		Series C Perpetual Preferred Stock		Common Stock - voting		Common Stock - non-voting		Additional paid-in capital	Accumulated deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
(In thousands, except share data)															
Balances as of January 1, 2021	—	\$ —	—	\$ —	—	\$ —	—	\$ —	38,007,420	\$ 4	2,120,786	\$ —	\$ 184,097	\$ (166,899)	\$ 17,202
Shares issued on exercise of Series 1, Series 2, and 2019 Bridge Note Warrants	—	—	—	—	—	—	—	—	1,383,524	—	—	—	2,034	—	2,034
Shares issued in PIPE financing	—	—	—	—	—	—	—	—	725,906	—	—	—	1,751	—	1,751
Shares issued in At the Market offering, net of issuance and offering costs of \$311	—	—	—	—	—	—	—	—	669,850	—	—	—	5,365	—	5,365
Shares issued in registered public offering, net of issuance and offering costs of \$2,550	—	—	—	—	—	—	—	—	4,028,290	1	—	—	23,231	—	23,232
Shares issued in extinguishment of Exchange Note 2	—	—	—	—	—	—	—	—	471,202	—	—	—	2,516	—	2,516
Shares issued on exercise of Series 3 warrants	—	—	—	—	—	—	—	—	206,915	—	—	—	1,776	—	1,776
Shares issued to Iliad in exchange of notes payable and accrued interest	—	—	—	—	—	—	—	—	588,235	—	—	—	2,982	—	2,982
Warrants issued to Oasis for ELOC amendment, net of offering costs of \$48	—	—	—	—	—	—	—	—	—	—	—	—	124	—	124
Shares issued on conversion of Napo merger common shares	—	—	—	—	—	—	—	—	726	—	—	—	—	—	—
Shares issued upon exercise of stock options	—	—	—	—	—	—	—	—	3,147	—	—	—	4	—	4
Shares issued to third party for services	—	—	—	—	—	—	—	—	5,666	—	—	—	16	—	16
Fractional shares	—	—	—	—	—	—	—	—	50	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	2,832	—	2,832
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(38,282)	(38,282)
Balances as of September 30, 2021	—	\$ —	—	\$ —	—	\$ —	—	\$ —	46,090,931	\$ 5	2,120,786	\$ —	\$ 226,728	\$ (205,181)	\$ 21,552

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

JAGUAR HEALTH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
IN CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (continued)

(Unaudited)

(In thousands, except share data)	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series B-2 Convertible Preferred Stock		Series C Perpetual Preferred Stock		Common Stock - voting		Common Stock - non-voting		Additional paid-in capital	Accumulated deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balances as of January 1, 2020	5,524,926	\$ 9,895	1,971	\$ 476	10,165	\$ 1,236	—	\$ —	4,757,683	\$ 1	40,301,237	\$ 4	\$ 142,046	\$ (133,090)	\$ 10,673
Shares issued on exercise of Series 1, Series 2, and 2019 Bridge Note warrants	—	—	—	—	—	—	—	—	182,986	—	—	—	392	—	392
Shares issued on exercise of Series 2 warrants and inducement offer conversion of Series B-1 convertible preferred stock	—	—	—	—	—	—	—	—	416,666	—	—	—	2,341	—	2,341
Shares issued on exercise of Series 1, Series 2, and 2019 Bridge Note warrants, net of issuance costs of \$461; May 2020	—	—	—	—	—	—	—	—	2,890,283	—	—	—	3,788	—	3,788
Shares issued on conversion of Series 1, Series 2, and 2019 Bridge Note warrants; June 2020	—	—	—	—	—	—	—	—	244,104	—	—	—	359	—	359
Shares issued on exercise of Series 3 warrants	—	—	—	—	—	—	—	—	2,749,439	—	—	—	5,993	—	5,993
Shares issued on exercise of Series 1 and Series 2 warrants	—	—	—	—	—	—	—	—	384,751	—	—	—	565	—	565
Issuance of common stock in PIPE financing, net of issuance costs of \$51	—	—	—	—	—	—	—	—	571,427	—	—	—	668	—	668
Shares issued in Underwriter settlement agreement	—	—	—	—	—	—	—	—	33,333	—	—	—	45	—	45
Warrants issued in Underwriter settlement agreement	—	—	—	—	—	—	—	—	—	—	—	—	31	—	31
Underwriter settlement offering cost	—	—	—	—	—	—	—	—	—	—	—	—	(185)	—	(185)
Conversion of Series B-2 convertible preferred stock into common stock	—	—	—	—	(2,631)	(320)	—	—	166,630	—	—	—	320	—	—
Conversion of Series B convertible preferred stock into common stock	—	—	(1,971)	(476)	—	—	—	—	1,474,416	—	—	—	476	—	—
Shares issued to Oasis as consideration under the March 2020 equity purchase agreement	—	—	—	—	—	—	—	—	22,935	—	—	—	33	—	33
Shares issued to Oasis under the March 2020 equity purchase agreement, put option exercise, net of issuance costs of \$13	—	—	—	—	—	—	—	—	17,333	—	—	—	10	—	10
Series A convertible preferred stock redeemed and Series C perpetual preferred issued under the exchange transaction	(5,524,926)	(11,227)	—	—	—	—	842,500	4,717	—	—	—	—	150	—	4,867
Stock dividend attributable to Series C perpetual preferred stock of \$8 per share	—	—	—	—	—	—	7,021	56	—	—	—	—	(56)	—	—
Shares issued to third party for services	—	—	—	—	—	—	—	—	788,158	—	—	—	916	—	916
Shares issued in exchange of CVP Exchange Notes	—	—	—	—	—	—	—	—	1,587,301	—	—	—	1,498	—	1,498
Accretion to redemption value of redeemable preferred stock	—	1,332	—	—	—	—	—	—	—	—	—	—	(1,332)	—	(1,332)
Fractional shares	—	—	—	—	—	—	—	—	6	—	—	—	—	—	—
Shares issued upon exercise of stock options	—	—	—	—	—	—	—	—	185	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	2,184	—	2,184
Net loss	—	—	—	—	—	—	—	—	—	—	—	—	—	(25,040)	(25,040)
Balances as of September 30, 2020	—	\$ —	—	\$ —	7,534	\$ 916	849,521	\$ 4,773	16,287,636	\$ 1	40,301,237	\$ 4	\$ 160,242	\$ (158,130)	\$ 7,806

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

JAGUAR HEALTH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in thousands)	Nine Months Ended	
	September 30, 2021	September 30, 2020
Cash flows from operating activities		
Net loss	\$ (38,282)	\$ (25,040)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt issuance costs, debt discount, and non-cash interest expense	3,633	693
Stock-based compensation	2,832	2,184
Series 3 warrants inducement expense	1,462	3,696
Change in fair value of financial instruments and hybrid instrument designated at FVO	1,639	2,491
Depreciation and amortization expense	1,290	1,296
Loss on extinguishment of debt	753	—
ELOC warrants inducement expense	172	—
Derecognition of debt discount on settlement of receivables secured borrowing	49	—
Amortization of operating lease right-of-use-asset	45	553
Shares issued in exchange for services	16	916
Series B convertible preferred stock inducement expense	—	1,647
Expense on modification of warrants	—	86
Shares and warrants issued in Underwriter settlement agreement	—	76
Shares issued as consideration paid under the Oasis Capital Equity Purchase Agreement	—	33
Loss on recourse obligation on secured borrowing	—	30
Changes in assets and liabilities		
Accounts receivable	2,421	(2,963)
Other receivable	(66)	(1)
Inventory	(1,731)	(90)
Prepaid expenses and other current assets	(1,369)	(1,061)
Other non-current assets	37	88
Operating lease liabilities	36	(337)
Accounts payable	(986)	4
Accrued expenses	2,002	4,482
Total cash used in operating activities	<u>(26,047)</u>	<u>(11,217)</u>
Cash flows from investing activities		
Purchase of equipment	(6)	(7)
Advances for future capital investment	(10,478)	—
Total cash used in investing activity	<u>(10,484)</u>	<u>(7)</u>
Cash flows from financing activities		
Proceeds from issuance of shares in registered public offering, net of issuance and offering costs of \$2,550	23,232	—
Proceeds from issuance of notes payable, net of issuance costs of \$50 in 2021	10,975	350
Proceeds from issuance of shares in At the Market offering, net of issuance and offering costs of \$311	5,365	—
Proceeds from issuance of shares on conversion of Series 1, Series 2, and 2019 Bridge Note warrants, net of issuance and offering costs of \$486 in 2020	2,034	5,676
Repayment of receivables secured borrowing	(1,822)	—
Proceeds from issuance of shares in PIPE financing	1,751	668
Proceeds from issuance of insurance financing	—	776
Repayment of insurance financing	(588)	—
Repayment of notes payable	(100)	(3,140)
Payment of ELOC warrants offering costs	(35)	—
Proceeds from exercise of stock options	4	—
Proceeds from sale of receivables, net of debt discount and issuance costs of \$640	—	4,542
Issuance costs from shares issued on Underwriter settlement agreement	—	(185)
Proceeds from issuance of common stock on conversion of Oasis Capital an Equity Purchase Agreement put options, net of issuance costs of \$13	—	10
Payments of deferred offering costs	—	(7)
Total cash provided by financing activities	<u>40,816</u>	<u>8,690</u>
Net increase (decrease) in cash	<u>4,285</u>	<u>(2,534)</u>
Cash at beginning of period	<u>8,090</u>	<u>3,883</u>
Cash at end of period	<u>\$ 12,375</u>	<u>\$ 1,349</u>

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

JAGUAR HEALTH, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(Unaudited)

	Nine Months Ended	
	September 30, 2021	September 30, 2020
Supplemental schedule of cash flow information		
Cash paid for interest	\$ 21	\$ 343
Supplemental schedule of non-cash financing and investing activities		
Shares issued in exchange of partial settlement of royalty interest	\$ 2,982	\$ —
Shares issued on exercise of Series 3 warrants	\$ 1,776	\$ 5,993
Insurance financing	\$ 1,183	\$ —
Recognition of right-of-use asset and lease liability	\$ 1,087	\$ —
Offering costs included in accounts payable and accrued expenses	\$ (13)	\$ 166
Accretion to redemption value of Series A contingently redeemable convertible preferred stock	\$ —	\$ 1,332
Conversion of Series B-2 convertible preferred stock into common stock	\$ —	\$ 320
Shares issued on exercise of Series B convertible preferred shares	\$ —	\$ 476
Common stock issued as redemption of notes payable and related interest	\$ —	\$ 1,498
Extinguishment of Series A redeemable convertible preferred stock	\$ —	\$ 11,377
Issuance of Series C perpetual preferred stock	\$ —	\$ 4,717
Issuance of Series D perpetual preferred stock	\$ —	\$ 6,359
Deemed dividend attributable to Series 1, Series 2 and Bridge warrant holders	\$ —	\$ 856
Stock dividend attributable to Series C perpetual preferred stock	\$ —	\$ 56
Cash:		
Cash	\$ 12,375	\$ 1,349
Total cash	\$ 12,375	\$ 1,349

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

JAGUAR HEALTH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

Jaguar Health, Inc. (“Jaguar” or the “Company”), formerly known as Jaguar Animal Health, Inc., was incorporated on June 6, 2013 (inception) in Delaware. The Company was a majority-owned subsidiary of Napo Pharmaceuticals, Inc. (“Napo”) until the close of the Company’s initial public offering on May 18, 2015. The Company was formed to develop and commercialize first-in-class gastrointestinal products for companion and production animals and horses. The Company’s first commercial product, Neonorm Calf, was launched in 2014 and Neonorm Foal was launched in the first quarter of 2016. The Company’s activities are subject to significant risks and uncertainties, including failing to secure additional funding in order to timely complete the development and commercialization of products.

On July 31, 2017, Jaguar completed a merger with Napo pursuant to the Agreement and Plan of Merger dated March 31, 2017 by and among Jaguar, Napo, Napo Acquisition Corporation (“Merger Sub”), and Napo’s representative (the “Merger Agreement”). In accordance with the terms of the Merger Agreement, upon the completion of the merger, Merger Sub merged with and into Napo, with Napo surviving as the wholly-owned subsidiary (the “Merger” or “Napo Merger”). Immediately following the Merger, Jaguar changed its name from “Jaguar Animal Health, Inc.” to “Jaguar Health, Inc.” Napo now operates as a wholly-owned subsidiary of Jaguar focused on human health and the ongoing commercialization of crofelemer, a Napo drug product approved by the U.S. Food and Drug Administration (“FDA”) for the symptomatic relief of noninfectious diarrhea in adults with HIV/AIDS on antiretroviral therapy.

On March 15, 2021, the Company established Napo EU S.p.A (“Napo EU”) in Italy as a subsidiary of Napo. Napo EU’s mission is to develop and commercialize novel, plant-based, sustainably derived prescription medicines in Europe (excluding Russia) for people with gastrointestinal distress to provide relief and treatment from various gut disorders, their symptoms, and interventions. The initial focus of Napo EU is on pursuing the accelerated conditional marketing authorization pathway from the European Medicines Agency for crofelemer for an important orphan-designated disease: Intestinal failure with short bowel syndrome (SBS-IF) (Note 14).

The Company manages its operations through two segments – human health and animal health and is headquartered in San Francisco, California.

Nasdaq Communication and Compliance

Minimum Stockholders’ Equity Requirement

On August 17, 2020, the Company received a letter from the Staff of the Listing Qualifications Department (the “Staff”) of The Nasdaq Stock Market LLC (“Nasdaq”) notifying the Company that it no longer complies with Nasdaq Listing Rule 5550(b)(1) due to the Company’s failure to maintain a minimum of \$2.5 million in stockholders’ equity (or meet the alternatives of the market value of listed securities of \$35 million or net income from continuing operations).

On September 9, 2020, the Company received a letter from Nasdaq stating that, based on the Company’s Current Report on Form 8-K filed on September 2, 2020, the Staff has determined that the Company complied with Nasdaq Listing Rule 5550(b)(1). However, if the Company failed to evidence compliance with Nasdaq Listing Rule 5550(b)(1) upon filing its next periodic report, the Company may be subject to delisting.

Minimum Bid Price Requirement

On September 11, 2020, the Company received written notice from Nasdaq indicating that, based upon the Company’s continued non-compliance with the minimum \$1.00 bid price requirement for continued listing on The Nasdaq Capital Market (the “Rule”), as set forth in Nasdaq Listing Rule 5550(a)(2), as of September 11, 2020, and notwithstanding the Company’s compliance with the quantitative criteria necessary to obtain a second 180-day period within which to evidence compliance with the Rule, as set forth in Nasdaq Listing Rule 5810(c)(3)(A), Nasdaq

determined to delist the Company's securities from Nasdaq unless the Company timely requested a hearing before the Nasdaq Hearings Panel (the "Hearings Panel").

On October 22, 2020, the hearing was held with the Hearings Panel. On October 28, 2020, the Company received formal notice that the Hearings Panel granted the Company an extension through December 23, 2020, to evidence compliance with the Rule. In order to comply with the Rule, the Company must have a closing bid price of at least \$1.00 per share for a minimum of ten consecutive business days by December 23, 2020.

As the Company consistently reached a closing bid price of above \$1.00 in 2021, on January 21, 2021, the Company received a letter from the Nasdaq Office of General Counsel that the Company has regained compliance with the bid price and warrant concerns, as required by the Hearings Panel decision dated October 28, 2020. Accordingly, the Hearings Panel has determined to continue the listing of the Company's securities on Nasdaq and is closing this matter.

Liquidity and Going Concern

The Company, since its inception, has incurred recurring operating losses and negative cash flows from operations and has an accumulated deficit of \$205.2 million as of September 30, 2021. The Company expects to incur substantial losses and negative cash flows in future periods. Further, the Company's future operations, including the operations of substantially owned Italian subsidiary, Napo EU S.p.A., which include the satisfaction of current obligations, are dependent on the success of the Company's ongoing development and commercialization efforts, as well as securing additional financing and generating positive cash flows from operations. There is no assurance that the Company will have adequate cash balances to maintain its operations.

Although the Company plans to refinance its operations and cash flow needs through equity and/or debt financing, collaboration arrangements with either entities, license royalty agreements, as well as revenue from future product sales, the Company does not believe its current cash balances are sufficient to fund its operating plan through one year from the issuance of these unaudited condensed consolidated financial statements. The Company has an immediate need to raise cash. There can be no assurance that additional funding will be available to the Company on acceptable terms, or on a timely basis, if at all, or that the Company will generate sufficient cash from operations to adequately fund operating needs. If the Company is unable to obtain an adequate level of financing needed for the long-term development and commercialization of our products, the Company will need to curtail planned activities and reduce costs. Doing so will likely have an adverse effect on our ability to execute our business plan; accordingly, there is substantial doubt about the ability of the Company to continue in existence as a going concern. The accompanying unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Reverse Stock Split

On September 3, 2021, the Company filed the Certificate of Fifth Amendment to its Third Amended and Restated Certificate of Incorporation with the Secretary of State of Delaware to effect a 1-for-3 reverse stock split of the Company's issued and outstanding shares of voting common stock, effective September 8, 2021. The reverse split has been retrospectively reflected in all voting common stock, warrants, and common stock option shares disclosed in these condensed consolidated financial statements. The non-voting common stock and the convertible preferred stock were excluded from the reverse split.

2. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and on a basis consistent with the annual consolidated financial statements, and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary for a fair presentation of the periods presented. These interim financial results are not necessarily indicative of the results to be expected for the year ending

December 31, 2021, or for any other future annual or interim period. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Annual Report on Form 10-K for the year ended December 31, 2020. The condensed consolidated balance sheet at December 31, 2020 has been derived from the audited consolidated financial statements at that date, but does not include all disclosures, including notes, required by U.S. GAAP for complete financial statements.

There has been no material change to the Company's significant accounting policies during the three and nine months ended September 30, 2021, as compared to the significant accounting policies described in Note 2 of the "Notes to Consolidated Financial Statements" in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2020 which was filed to SEC on March 31, 2021.

Except as noted above, the unaudited 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 financial position as of September 30, 2021, results of operations for the three and nine months ended September 30, 2021 and 2020, changes in convertible preferred stock and stockholders' equity for the three and nine months ended September 30, 2021 and 2020, and cash flows for the nine months ended September 30, 2021 and 2020. The interim results are not necessarily indicative of the results for any future interim periods or for the entire year.

Principles of Consolidation

The unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. GAAP and applicable rules and regulations of the Securities and Exchange Commission ("SEC") and include the accounts of the Company and its wholly-owned subsidiary. All inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires the Company's management to make judgments, assumptions and estimates that affect the amounts reported in its unaudited condensed consolidated financial statements and the accompanying notes. The accounting policies that reflect the Company's more significant estimates and judgments and that the Company believes are the most critical to aid in fully understanding and evaluating its reported financial results are the valuation of stock options, valuation of hybrid instruments designated at fair value option ("FVO"), valuation of warrant liabilities, acquired in-process research and development ("IPR&D"), and useful lives assigned to long-lived assets; valuation adjustments for excess and obsolete inventory; allowance for doubtful accounts; deferred taxes and valuation allowances on deferred tax assets; evaluation and measurement of contingencies; and recognition of revenue, including estimates for product returns. Those estimates could change, and as a result, actual results could differ materially from those estimates.

In March 2020, the World Health Organization declared the COVID-19 outbreak to be a pandemic. During the period ended September 30, 2021, the Company's financial results were not significantly affected by the COVID-19 outbreak. The Company has considered all information available as of the date of issuance of these financial statements and the Company is not aware of any specific events or circumstances that would require an update to its estimates or judgments, or a revision to the carrying value of its assets or liabilities. These estimates may change as new events occur and additional information becomes available. The extent to which the COVID-19 outbreak affects the Company's future financial results and operations will depend on future developments which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the outbreak, and current or future domestic and international actions to contain and treat it.

Cash and Restricted Cash

Our cash on deposit may exceed United States federally insured limits at certain times during the year. We maintain cash accounts with certain major financial institutions in the United States. Restricted cash represents cash not available to us for immediate and general use.

Accounts Receivable

Accounts receivable is recorded net of allowances for discounts for prompt payment and credit losses. Accounts receivable is written off when it has been outstanding for two years or earlier when collection efforts have ceased. Prior to that, the Company estimates an allowance for credit losses by considering factors such as historical experience, credit quality, the age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. The corresponding expense for the credit loss allowance is reflected in the general and administrative expenses. The credit loss allowance was immaterial as of September 30, 2021 and 2020.

Concentrations

Cash is the financial instrument that potentially subjects the Company to a concentration of credit risk as cash is deposited with a bank and cash balances are generally in excess of Federal Deposit Insurance Corporation insurance limits.

For the three and nine months ended September 30, 2021 and 2020, substantially all of the Company's revenue was derived from the sale of Mytesi. In looking at sales by the Company to distributors whose net revenue percentage of total net revenue was equal to or greater than 10%, for the three and nine months ended September 30, 2021, the Company earned Mytesi revenue primarily from three and two pharmaceutical distributors located in the United States, respectively. For the three and nine months ended September 30, 2020, the Company earned Mytesi revenue primarily from one pharmaceutical distributor in the United States. Revenue earned from each as a percentage of total revenue is as follows:

	Three Months Ended September 30, (unaudited)		Nine Months Ended September 30, (unaudited)	
	2021	2020	2021	2020
Customer 1	63 %	100 %	79 %	100 %
Customer 2	17 %	— %	12 %	— %
Customer 3	16 %	— %	— %	— %

The Company is subject to credit risk from its accounts receivable related to its sales. The Company generally does not perform evaluations of customers' financial condition and generally does not require collateral. As of September 30, 2021 and December 31, 2020, the Company's significant customers and their related accounts receivable balance as a percentage of total accounts receivable were as follows:

	September 30, 2021 (unaudited)	December 31, 2020
Customer 1	71 %	95 %
Customer 2	11 %	— %
Customer 3	17 %	— %

The Company is subject to concentration risk from its suppliers. The Company sources raw material used to produce the active pharmaceutical ingredient ("API") in Mytesi from two suppliers and is dependent on a single third-party contract manufacturer for the supply of API in Mytesi and a single third-party contract manufacturer as well for the supply of finished products for commercialization.

Fair Value

The Company's financial instruments include accounts receivable, accounts payable, accrued liabilities, warrant liabilities, equity-linked financial instruments and debt. The recorded carrying amounts of accounts receivable, accounts payable and accrued liabilities reflect their fair value due to their short-term nature. Other financial liabilities are initially recorded at fair value, and subsequently measured at either fair value or amortized cost using the effective interest method. See Note 3 for the fair value measurements.

Fair Value Option

ASC 825-10, *Financial Instruments*, provides FVO election that allows companies an irrevocable election to use fair value as the initial and subsequent accounting measurement attribute for certain financial assets and liabilities. ASC 825-10 permits entities to elect to measure eligible financial assets and liabilities at fair value on an ongoing basis. Unrealized gains and losses on items for which the FVO has been elected are reported in earnings. The decision to elect the FVO is determined on an instrument-by-instrument basis, must be applied to an entire instrument and is irrevocable once elected. Assets and liabilities measured at fair value pursuant to ASC 825-10 are required to be reported separately from those instruments measured using another accounting method. In accordance with the options presented in ASC 825-10, the Company elected to present the aggregate of fair value and non-fair-value amounts in the same line item in the condensed consolidated balance sheets and parenthetically disclose the amount measured at fair value in the aggregate amount.

Inventory

Inventory is stated at the lower of cost or net realizable value. Cost is determined using the first-in, first-out method. Cost is initially recorded at the invoiced amount of raw materials or API, including the sum of qualified expenditures and charges in bringing the inventory to its existing condition and location. The Company calculates inventory valuation adjustments when conditions indicate that net realizable value is less than cost due to physical deterioration, usage, obsolescence, reductions in estimated future demand or reduction in selling price. Inventory write-downs are measured as the difference between the cost of inventory and net realizable value.

Property and Equipment

Land is stated at cost, reflecting the fair value of the property at July 31, 2017, the date of the Napo merger. Equipment is stated at cost, net of accumulated depreciation. Equipment begins to be depreciated when it is placed into service. Depreciation is calculated using the straight-line method over estimated useful lives ranging between 3 to 10 years.

Expenditures for repairs and maintenance of assets are charged to expense as incurred. Costs of major additions and betterments are capitalized and depreciated on a straight-line basis over their estimated useful lives. Upon retirement or sale, the cost and related accumulated depreciation of assets disposed of are removed from the accounts and any resulting gain or loss is included in the unaudited condensed consolidated statements of operations.

Long-lived Assets

The Company regularly reviews the carrying value and estimated lives of all of its long-lived assets, including property and equipment, to determine whether indicators of impairment may exist that warrant adjustments to carrying values or estimated useful lives. The determinants used for this evaluation include management's estimate of the asset's ability to generate positive income from operations and positive cash flow in future periods as well as the strategic significance of the assets to the Company's business objectives.

Definite-lived intangible assets are amortized on a straight-line basis over the estimated periods benefited, and are reviewed when impairment indicators are identified.

Indefinite-lived Intangible Assets

Acquired IPR&D are intangible assets acquired in the July 2017 Napo merger. Under ASC 805, IPR&D are initially recognized at fair value and classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. During the development period, these assets will not be amortized as charges to earnings; instead, these assets will be tested for impairment on an annual basis or more frequently if impairment indicators are identified. An impairment loss is measured based on the excess of the carrying amount over the asset's fair value. The Company recorded no impairment in the three and nine months ended September 30, 2021 and 2020.

Leases

The Company accounts for its leases in accordance with ASC 842, *Leases*.

At the inception of an arrangement, the Company determines whether the arrangement is or contains a lease based on the unique facts and circumstances present. Operating lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected lease term. Because the interest rate implicit in lease contracts is typically not readily determinable, the Company utilizes its incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received.

Operating Lease

The Company had a non-cancelable operating lease with CA-Mission Street Limited Partnership for its offices in San Francisco, California, through September 30, 2020. The lease agreement called for monthly base rents between \$38,000 and \$41,000 over the term of the lease. The lease agreement was not renewed upon expiration.

The Company entered into a sublease agreement with Peacock Construction Inc. (“Peacock”), a California corporation, for office space located in San Francisco, California. The term of the sublease began on August 31, 2020 and expired on May 31, 2021. The rent under the sublease is \$15,000 per month beginning October 1, 2020, which includes operating expenses and taxes. On October 1, 2020, the Company transitioned its operations from its existing premises to the sublease premises, which the Company expects will serve as its principal administrative headquarters. The Company elected not to apply the recognition requirements to short-term leases, and instead recognize the lease payments in profit or loss on a straight-line basis over the lease term. As a result, there was no right-of-use asset and lease liability recognized related to the sublease.

In April 2021, the Company entered into an office lease agreement with M & E, LLC, a California Limited Liability Company, to lease approximately 10,526 square feet of office space located in San Francisco, California, inclusive of office space currently covered under the sublease agreement with Peacock. The term of the lease began on September 1, 2021 and will expire on August 31, 2024, unless earlier terminated. The base rent under the lease will be \$42,000 monthly for the first 12 months, \$43,000 monthly for the next 12 months and \$45,000 for the last twelve months.

Research and Development Expense

Research and development expense consists of expenses incurred in performing research and development activities including related salaries, clinical trials and related drug and non-drug product costs, contract services and other outside service expenses. Research and development expense is charged to operating expense in the period incurred.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers* (“ASC 606”).

The Company’s policy typically permits returns if the product is damaged, defective, or otherwise cannot be used when received by the customer if the product has expired. Returns are accepted for product that will expire within nine months or that have expired up to one year after their expiration dates. Estimates for expected returns of expired products are based primarily on an ongoing analysis of our historical return patterns.

The Company recognizes revenue in accordance with the core principle of ASC 606 or when there is a transfer of control of promised goods or services to customers in an amount that reflects the consideration that the Company expects to be entitled to in exchange for those goods or services.

The Company recognizes the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the Company otherwise would have recognized is one year or less.

The Company does not adjust the amount of consideration for the effects of a significant financing component if, at contract inception, the expected period between the transfer of promised goods or services and customer payment is one year or less.

The Company has elected to treat shipping and handling activities as fulfillment costs.

Additionally, the Company elected to record revenue net of sales and other similar taxes.

Contracts – Cardinal Health

Effective January 16, 2019, the Company engaged Cardinal Health as its exclusive third-party logistics distribution agent for commercial sales of the Company's Mytesi product and to perform certain other services which include, without limitation, storage, distribution, returns, customer support, financial support, Electronic Data Interchange ("EDI") and system access support (the "Exclusive Distribution Agreement").

In addition to the terms and conditions of the Exclusive Distribution Agreement, Cardinal Health's purchase of products, and assumption of title therein, is set forth in the Title Model Addendum. The Title Model Addendum states that upon receipt of product at the 3PL Facility (Cardinal Health in La Vergne, Tennessee) from the Company, title and risk of loss for the Mytesi product purchased by Cardinal Health (excluding consigned inventory) shall pass to Cardinal Health, and title and risk of loss for consigned inventory shall remain with the Company until purchased by Cardinal Health in accordance with the Title Model Addendum. The Company considers Cardinal Health the Company's exclusive customer for Mytesi products per the Exclusive Distribution Agreement.

The Company's Neonorm and botanical extract products are primarily sold to distributors, who then sell the products to the end customers. Since 2014, the Company has entered into several distribution agreements with established distributors such as Animart, Vedco, VPI, RJ Matthews, Covetrus, and Stockmen Supply to distribute the Company's products in the United States, Japan, and China. The distribution agreements and the related purchase order together meet the contract existence criteria under ASC 606-10-25-1. The Company sells directly to its customers without the use of an agent.

As of September 3, 2021, the Company ended its engagement with Cardinal Health as its exclusive third-party logistics distribution agent for commercial sales, fully implementing its Specialty Pharmacies model.

Performance obligations

For animal products sold by the Company, the single performance obligation identified above is the Company's promise to transfer the Company's animal products to distributors based on specified payment and shipping terms in the arrangement. Product warranties are assurance type warranties that do not represent a performance obligation. For the Company's human product, Mytesi, the single performance obligation identified above is the Company's promise to transfer Mytesi to Cardinal Health, the Company's exclusive distributor for the product, based on specified payment and shipping terms as outlined in the Exclusive Distribution Agreement.

Transaction price

For contracts with Cardinal Health, for the Company, the transaction price is the amount of consideration to which the Company expects to collect in exchange for transferring the promised goods or services. The transaction price of Mytesi and Neonorm is the Wholesaler Acquisition Cost ("WAC"), net of discounts, returns, and price adjustments.

Allocate transaction price

For contracts with Cardinal Health, for the Company, the entire transaction price is allocated to the single performance obligation contained in each contract.

Revenue recognition

For contracts with Cardinal Health, for the Company, a single performance obligation is satisfied at a point in time, upon the free on board (“FOB”) terms of each contract when control, including title and all risks, has transferred to the customer.

Disaggregation of Product Revenue

Human

Sales of Mytesi are recognized as revenue at a point in time when the products are delivered to the wholesaler. Net revenue from the sale of Mytesi were \$406,000 and \$2.8 million for the three months ended September 30, 2021 and 2020, respectively. Net revenue from the sale of Mytesi were \$1.8 million and \$6.7 million for the nine months ended September 30, 2021 and 2020, respectively.

Animal

The Company recognized Neonorm revenues of \$15,000 and \$13,000 for the three months ended September 30, 2021 and 2020, respectively. Revenues from the sale of Neonorm were \$54,000 and \$61,000 for the nine months ended September 30, 2021 and 2020, respectively. Revenues are recognized at a point in time upon shipment, which is when title and control is transferred to the buyer. Sales of Neonorm Calf and Foal to distributors are made under agreements that may provide distributor price adjustments and rights of return under certain circumstances.

Contracts – Specialty Pharmacies

Effective October 1, 2020, the Company engaged a private company as its third-party logistics distribution agent for commercial sales of the Company’s Mytesi product. Under the Specialty Product Distribution Agreement, the Company shall supply the products to the private company’s specialty pharmacies, through a designated wholesaler, in such amounts as may be ordered. There is no minimum purchase or inventory requirement. The specialty pharmacies were authorized distributors of record for all National Drug Codes (“NDCs”) of Mytesi.

Effective April 20, 2021, the Company engaged another private company as an authorized specialty pharmacy provider of Mytesi. Under the Specialty Pharmacy Distribution and Services Agreement, the private company shall sell and dispense the Mytesi directly ordered from the Company at the agreed price to patients within the territories identified in the agreement.

The two contracts with the two specialty pharmacies were combined into one portfolio of contract as they share similar characteristics.

Performance obligations

The single performance obligation identified above is the Company’s promise to transfer Mytesi to specialty pharmacies, based on specified payment and shipping terms as outlined in the agreements.

Transaction price

For contracts with the specialty pharmacies, for the Company, the transaction price is the amount of consideration to which the Company expects to collect in exchange for transferring the promised goods or services. The transaction price of Mytesi is the WAC, net of estimated discounts, returns, and price adjustments.

Allocate transaction price

For contracts with the specialty pharmacies, for the Company, the entire transaction price is allocated to the single performance obligation contained in each contract.

Revenue recognition

For contracts with the specialty pharmacies, for the Company, a single performance obligation is satisfied at a point in time, upon the free on board (“FOB”) terms of each contract when control, including title and all risks, has transferred to the customer.

Disaggregation of Product Revenue

Sales of Mytesi are recognized as revenue at a point in time when products are delivered to the specialty pharmacies. Net revenue from the sale of Mytesi to the specialty pharmacies were \$209,000 and zero for the three months ended September 30, 2021 and 2020, respectively. Net revenue from the sale of Mytesi to the specialty pharmacies were \$434,000 and zero for the nine months ended September 30, 2021 and 2020, respectively.

Collaboration Revenue

Revenue recognition for collaboration agreements requires significant judgment. The Company’s assessments and estimates are based on contractual terms, historical experience and general industry practice. Revisions in these values or estimations have the effect of increasing or decreasing collaboration revenue in the period of revision.

On September 24, 2018, the Company entered into a Distribution, License and Supply Agreement (“License Agreement”) with Knight Therapeutics (“Knight”). The License Agreement has a term of 15 years (with automatic renewals) and provides Knight with an exclusive right to commercialize current and future Jaguar human health products (including cofelemer, Lechlemer, and any product containing a proanthocyanidin or with an anti-secretory mechanism) in Canada and Israel. Knight forfeited its right of first negotiation for expansion to Latin America. Under the License Agreement, Knight is responsible for applying for and obtaining necessary regulatory approvals in the territory of Canada and Israel, as well as marketing, sales and distribution of the licensed products. Knight will pay a transfer price for all licensed products, and upon achievement of certain regulatory and sales milestones, the Company may receive payments from Knight in an aggregate amount of up to approximately \$18 million payable throughout the initial 15-year term of the agreement. The Company did not have any license revenues for the three and nine months ended September 30, 2021 and 2020.

Modifications to Liability-classified Instruments

In accounting for debt modifications and exchange transactions, it is the Company’s policy to first determine whether it qualifies as a troubled debt restructuring (“TDR”) pursuant to the guidance provided in ASC 470-60. A debt modification or exchange transaction that is not within the scope of the ASC 470-60 is accounted for under ASC 470-50 to determine if the transaction is a mere modification or an extinguishment.

The Company amended the terms of its October 2020 Purchase Agreement and Exchange Note 2 in the nine months ended September 30, 2021 (see Note 7). The Company did not modify any liability-classified instrument in the three months ended September 30, 2021. The Company also amended the terms of its Exchange Note 1, Exchange Note 2, and March 2020 Purchase Agreement in the three months and nine months ended September 30, 2020 (see Note 7).

Modifications to Equity-classified Instruments

In accounting for modifications of equity-classified warrants, it is the Company’s policy to determine the impact by analogy to the share-based compensation guidance of ASC 718, *Compensation - Stock Compensation* (“ASC 718”). The model for a modified share-based payment award that is classified as equity and remains classified in equity after the modification is addressed in ASC 718-20-35-3. Pursuant to that guidance, the incremental fair value from the

modification is recognized as an expense in the statements of operations to the extent the modified instrument has a higher fair value; however, in certain circumstances, such as when an entire class of warrants is modified, the measured increase in fair value may be more appropriately recorded as a deemed dividend, depending upon the nature of the warrant modification.

The Company modified certain equity-classified warrants in the nine months ended September 30, 2020 (see Note 8). The Company did not modify any equity-classified warrants in the three months ended September 30, 2020 and in the three and nine months ended September 30, 2021.

In accounting for amendments to preferred stock, it is the Company's policy to measure the impact by analogy to ASC 470-50 in determining if such an amendment is an extinguishment or a modification. If the amendment results in an extinguishment, the Company follows the SEC staff guidance in ASC 260-10-S99-2 and ASC 470-20. If the amendment results in a modification, the Company follows the model in either ASC 718 or ASC 470-50, depending on the nature of the amendment.

The Company modified the terms of its Series B convertible preferred stock in the nine months ended September 30, 2020 (see Note 9). The Company did not modify any preferred stock in the three months ended September 30, 2020 and in the three and nine months ended September 30, 2021.

Stock-based Compensation

The Company's stock incentive plans (see Note 11) provide for the grant of stock options, restricted stock and restricted stock unit awards. The Company measures stock awards granted to employees, non-employees and directors at fair value on the date of grant and recognizes the corresponding compensation expense of the awards, net of estimated forfeiture over the requisite service periods, which correspond to the vesting periods of the awards. The Company issues stock awards with only service-based vesting conditions, and records compensation expense for these awards using the straight-line method.

The Company uses the grant date fair market value of its common stock to determine the grant date fair value of options granted to employees, non-employees and directors.

Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company has adopted the provisions of ASC 740, *Income Taxes Related to Uncertain Tax Positions*. Under these provisions, tax positions are evaluated in a two-step process. The Company first determines whether it is more-likely-than-not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold, it is then measured to determine the amount of benefit to be recognized in the financial statements. The tax position is measured as the largest amount of benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement.

Comprehensive Loss

For all periods presented, the comprehensive loss was equal to the net loss; therefore, a separate statement of comprehensive loss is not included in the accompanying unaudited condensed consolidated financial statements.

Basic and Diluted Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss attributable to common stockholders for the year by the weighted-average number of common shares outstanding during the year. Diluted net loss per share is computed by dividing the net loss attributable to common stockholders for the year by the weighted-average number of common shares, including potential dilutive shares of common stock assuming the dilutive effect of potential dilutive securities. For periods in which the Company reports a net loss, diluted net loss per common share is the same as basic net loss per common share, because the impact of the potential dilutive shares of common stock would be anti-dilutive to the calculation of net loss per common share. Diluted net loss per common share is the same as basic net loss per common share for the three and nine months ended September 30, 2021 and 2020.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): *Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. The standard also removes certain exceptions to the general principles in Topic 740 and clarifies and amends existing guidance to improve consistent application. The Company adopted the standard on January 1, 2021. The adoption of this standard did not have a material effect on the Company's unaudited condensed consolidated financial statements and related disclosures.

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*. The main objective of the standard is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this standard replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The update is effective for the Company beginning January 1, 2023 with early adoption permitted. The Company is still evaluating the impact of the adoption of this standard.

In August 2020, the FASB issued ASU 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40): *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. The pronouncement is effective for the Company beginning January 1, 2022 with early adoption permitted. The Company is still evaluating the impact of the adoption of this standard.

In May 2021, the FASB issued ASU 2021-04, *Issuer's Accounting for Certain Modification or Exchanges of Freestanding Equity-Classified Written Call Options* – a consensus of the FASB Emerging Issues Task Force. The ASU provides a principles-based framework to determine whether an issue should recognize the modification or exchange as an adjustment to equity or an expense. The amendments in the update are effective for all entities for fiscal years beginning January 1, 2022, including interim periods within those fiscal years with early adoption permitted. The Company is still evaluating the impact of the adoption of this standard.

Reclassification of Prior Period Presentation

Certain prior period amounts of cash flows from financing activities in the unaudited condensed consolidated statements of cash flows have been reclassified within the same category of cash flow activity to be consistent with the current period presentation. There were no reclassifications to other categories of cash flow activity and that the reclassification did not impact the profit or loss during the prior period.

3. Fair Value Measurements

ASC 820, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value as follows:

- Level 1 – Observable inputs such as quoted prices (unadjusted) for identical instruments in active markets.
- Level 2 – Observable inputs such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-derived valuations whose significant inputs are observable.
- Level 3 – Unobservable inputs that reflect the reporting entity’s own assumptions.

The following tables set forth the fair value of the Company’s financial instruments that were measured at fair value on a recurring basis as of September 30, 2021 and December 31, 2020.

(in thousands)	September 30, 2021 (unaudited)			
	Level 1	Level 2	Level 3	Total
Warrant liability	\$ —	\$ —	\$ 3	\$ 3
Streeterville note	—	—	7,502	7,502
Total fair value	\$ —	\$ —	\$ 7,505	\$ 7,505

(in thousands)	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Warrant liability	\$ —	\$ —	\$ 179	\$ 179
Total fair value	\$ —	\$ —	\$ 179	\$ 179

The change in the estimated fair value of Level 3 liabilities is summarized below:

(in thousands)	Nine Months Ended September 30, 2021 (unaudited)	
	Warrant liability	Streeterville note
Beginning fair value of Level 3 liability	\$ 179	\$ —
Additions	1,462	6,000
Exercises	(1,775)	—
Change in fair value	137	1,502
Ending fair value of Level 3 liability	\$ 3	\$ 7,502

Warrant Liability

The warrants associated with the Level 3 warrant liability were the November 2016 Series A Warrants and the October 2018 Underwriter Warrants, which, at September 30, 2021, were valued at zero and \$3,000, respectively, in the Company’s unaudited condensed consolidated balance sheet. The warrants associated with the Level 3 warrant liability activity for the year ended December 31, 2020 were the November 2016 Series A Warrants, the October 2018 Underwriter Warrants and the May 2020 Series 3 Warrants, which, at December 31, 2020 were valued at zero, \$4,000, and \$175,000, respectively in the Company’s consolidated balance sheet.

The November 2016 Series A Warrants

The Series A warrant valuation of zero at September 30, 2021 was computed using the Black-Scholes-Merton pricing model using a stock price of \$2.27, a strike price of \$2,363 per share, an expected term of 0.66 years, volatility of 170% and a risk-free discount rate of 0.09%. The Series A warrant valuation of zero at December 31, 2020 was computed using the Black-Scholes-Merton pricing model using a stock price of \$2.45, a strike price of \$2,363 per share, an expected term of 1.41 years, volatility of 148% and a risk-free discount rate of 0.13%. The change in fair value of the warrants for the three and nine months ended September 30, 2021 was zero.

The October 2018 Underwriter Warrants

The October 2018 Underwriter Warrants valuation of \$3,000 at September 30, 2021 was computed using the Black-Scholes-Merton pricing model using a stock price of \$2.27, a strike price of \$158 per share, an expected term of 2.01 years, volatility of 174% and a risk-free discount rate of 0.28%. The October 2018 Underwriter Warrants valuation of \$4,000 at December 31, 2020 was computed using the Black-Scholes-Merton pricing model using a stock price of \$2.45, a strike price of \$158 per share, an expected term of 2.76 years, volatility of 156% and a risk-free discount rate of 0.17%. The change in the fair value of the warrants of \$4,000 and \$1,000 for the three and nine months ended September 30, 2021, were recorded as a gain in the change in fair value of financial instruments in the unaudited condensed consolidated statements of operations.

The May 2020 Series 3 Warrants

There were no outstanding May 2020 Series 3 Warrants as of September 30, 2021. The May 2020 Series 3 Warrants valuation of \$175,000 at December 31, 2020 was computed using the Black-Scholes-Merton pricing model using a stock price of \$2.45, a strike price of \$0.00 per share, an expected term of 4.89 years, volatility of 142% and a risk-free discount rate of 0.36%. In January 2021, an investor received 135,416 Series 3 Warrants for the exercise of 135,416 2019 Bridge Note Warrants in accordance with the May 2020 Modification of the 2019 Bridge Note Warrants and Inducement Offer. The fair value of these Series 3 Warrants was \$1.5 million on the issuance date. For the nine months ended September 30, 2021, certain holders of the Series 3 Warrants agreed to exercise total of 206,915 shares for a 1-for-1 exchange of common shares in an Alternate Cashless Exercise. The aggregate fair value of the common stock issued upon the exercise of the Series 3 Warrants as of the exercise date was \$1.8 million. The net increase in the fair value of the warrants of zero and \$138,000 for the three and nine months ended September 30, 2021, respectively, was recorded as a loss in the change in fair value of financial instruments in the unaudited condensed consolidated statements of operations.

Streeterville Note

The fair value of the Streeterville Note at January 13, 2021, date of issuance and as of September 30, 2021 amounting to \$6.0 million and \$7.5 million, respectively, were based on the weighted average discounted expected future cash flows representing the terms of the note, discounting them to their present value equivalents. This was classified as Level 3 fair values in the fair value hierarchy due to the use of unobservable inputs, including the Company's own credit risk.

The Company determined and performed the valuations of the Streeterville Note with the assistance of an independent valuation service provider. On a quarterly basis, the Company considers the main Level 3 inputs used derived as follows:

- Discount rate for the Streeterville note was determined using a comparison of various effective yields on bonds as of the valuation date.
- Market indications for vouchers, which affect the Return Bonus from the sale of Tropical Disease Priority Review Voucher ("TDPRV").

- Weighted probability of cash outflows was estimated based on the entity's knowledge of the business and how the current economic environment is likely to impact the timing of the cash outflows, attributed to the different repayment features of the note.

The following table summarizes the quantitative information about the significant unobservable inputs used in Level 3 fair value measurement:

Unobservable Inputs	Range of Inputs (probability-weighted average)		Relationship of unobservable inputs to fair value
	2021	2020	
Risk Adjusted Discount Rate	6.54% - 21.07% (21.07%)	N/A	If discount rate is adjusted to total of additional 100 basis points (bps), fair value would have decreased by \$329,000. If discount rate is adjusted to total deduction of 100 bps, fair value would have increased by \$329,000.
Sales Proceeds: Amount of comparable TDPV	\$67.5 million to \$350.0 million (\$100.0 million)	N/A	If expected cash flows by management considered the lowest amount of market indications for vouchers, FV would have decreased by \$1.2 million. If expected cash flows by management considered the highest amount of market indications for vouchers, FV would have increased by \$9.1 million.
Range of Probability for Timing of Cash Flows: Variations of the terms and conditions of the timing of cash flows, including settlement of the note principal, interest, penalties, and acceleration clause.	0.35% - 46.06%	N/A	If expected cash flows by management considered the scenario with the least amount of indicated value, FV would have decreased by \$226,000. If expected cash flows by management considered the scenario with the greatest amount of indicated value, FV would have increased by \$2.2 million.

Fair Value Option

Beginning January 1, 2021, the Company elected to apply the FVO accounting to selected financial instruments to align the measurement attributes of those instruments under U.S. GAAP and to simplify the accounting model applied to those financial instruments. The Company elected to apply FVO accounting to the entire class of hybrid instruments, including structured notes, of which there are assessed embedded derivatives that would be eligible for bifurcation. Changes in the fair value of FVO assets and liabilities as well as the mark-to-market adjustment on the entire class of hybrid instruments, including derivatives and the net realized gains or losses on these instruments are reported in the change in fair value of financial instruments in the unaudited condensed consolidated statements of operations.

As of September 30, 2021, the Company did not note any fair value movement on FVO liabilities attributable to any instrument-specific credit risk, which is recorded in other comprehensive income (loss).

Hybrid Instruments

The Company elected to apply FVO accounting to all of the hybrid instruments issued, including structured notes. The valuation of the hybrid instruments is predominantly driven by the derivative features embedded within the instruments. The Company determined and performed the valuations of the hybrid instruments with the assistance of an independent valuation service provider. The valuation methodology utilized is consistent with the income approach for estimating the fair value of the interest-bearing portion of the instrument and the related derivatives. Cash flows of the hybrid instruments in their entirety, including the embedded derivatives, are discounted at an appropriate rate for the applicable duration of the instrument. Interest on the interest-bearing portion of the instrument that is held to maturity is aggregated as gain (loss) on instruments designated at fair value and related derivatives in the change in fair value of financial instruments and hybrid instruments designated at FVO of the unaudited condensed consolidated statements of operations.

The following table summarizes the fair value and unpaid principal balance for items the Company accounts for under FVO:

(in thousands)	Fair value	Unpaid Principal Balance	Fair Value Over (Under) Unpaid Principal Balance
At September 30, 2021 (unaudited)			
Hybrid Instrument:			
Streeterville note	\$ 7,502	\$ 6,000	\$ 1,502

4. Balance Sheet Components

Advances for Future Capital Investment

In September 2021, the Company injected \$10.5 million cash to Dragon SPAC S.p.A. (the “SPAC”) using the funds from the recent registered direct offering which will be used to fund the SPAC’s contemplated business combination with Napo EU and the activities of the combined entity resulting from the merger.

The advances bear no interest and the proceeds were controlled and kept by the SPAC in an escrow account. If the merger does not take place, the cash will be repaid net of legal and advisory fees. However, the merger became effective November 3, 2021 and the SPAC issued 883,000 ordinary shares, each reserved to the exercise of warrants pursuant to the warrant agreement approved by the SPAC (“Warrant Regulation”) (see Note 14). As a result, the SPAC became a substantially owned subsidiary, with a new legal name, Napo E.U. S.p.A, at the same time, the related advances will be converted to investment at a stand-alone level, and will be eliminated at the consolidated level.

Inventory

Inventory at September 30, 2021 and December 31, 2020 consisted of the following:

(in thousands)	September 30, 2021 (unaudited)	December 31, 2020
Raw Material	\$ 1,206	\$ 1,321
Work in Process	2,202	1,026
Finished Goods	1,105	435
Inventory	<u>\$ 4,513</u>	<u>\$ 2,782</u>

Property and Equipment, net

Property and equipment at September 30, 2021 and December 31, 2020 consisted of the following:

<u>(in thousands)</u>	<u>September 30,</u> <u>2021</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2020</u>
Land	\$ 396	\$ 396
Lab equipment	424	418
Clinical equipment	65	65
Software	63	63
Total property and equipment at cost	948	942
Accumulated depreciation	(290)	(265)
Property and equipment, net	<u>\$ 658</u>	<u>\$ 677</u>

Depreciation and amortization expense was \$8,000 and \$25,000 in the three and nine months ended September 30, 2021, respectively. Depreciation and amortization expense was \$11,000 and \$31,000 in the three and nine months ended September 30, 2020, respectively.

Intangible Assets, net

Intangible assets at September 30, 2021 and December 31, 2020 consisted of the following:

<u>(in thousands)</u>	<u>September 30,</u> <u>2021</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2020</u>
Developed technology	\$ 25,000	\$ 25,000
Accumulated developed technology amortization	(6,944)	(5,694)
Developed technology, net	18,056	19,306
In-process research and development	4,800	4,800
In process research and development, net	4,800	4,800
Trademarks	300	300
Accumulated trademark amortization	(84)	(69)
Trademarks, net	216	231
Total intangible assets, net	<u>\$ 23,072</u>	<u>\$ 24,337</u>

Amortization expense was \$422,000 and \$1.3 million for the three and nine months ended September 30, 2021. Amortization expense was \$422,000 and \$1.3 million for the three and nine months ended September 30, 2020.

The following table summarized the Company's estimated future amortization expense of intangible assets with finite lives as of September 30, 2021:

<u>(in thousands)</u>	<u>Amounts</u>
Remainder of 2021	\$ 422
2022	1,687
2023	1,687
2024	1,687
2025	1,687
Thereafter	11,102
	<u>\$ 18,272</u>

5. Related Party Transactions

Management Services Agreement

In March 2018, concurrent with the issuance of the Company's Series A Convertible Preferred Stock to Sagard Capital Partners, L.P. ("Sagard Capital"), the Company entered into a Management Services Agreement with Sagard Capital. Under the agreement, Sagard Capital was to provide consulting and management advisory service to the Company from March 2018 through March 2021. These services include assistance with strategic planning regarding the Company's commercial strategy, research and due diligence regarding human resource activities, and strategic advice in financial matters. In consideration for such services, the Company paid Sagard Capital an annual fee of \$450,000, with total fees over the term of the agreement not to exceed \$1.4 million. On September 1, 2020, in concurrence with other transactions by and between the Company, Chicago Venture Partners, L.P. ("CVP" or "Chicago Venture Partners") and its affiliates, and Sagard Capital, the Company and Iliad Research and Trading, L.P. ("Iliad"), a Utah limited partnership affiliated with CVP, agreed to issue 2,289,474 shares of the Company's Common Stock to Sagard Capital pursuant to the Stock Plan Agreement for termination of the Management Services Agreement in lieu of payment of \$1.1 million in accrued consulting and management fees. For the nine months ended September 30, 2021 and 2020, total fees incurred were zero and \$225,000, respectively. As of September 30, 2021 and December 31, 2020, the Company had a balance of zero due to Sagard Capital.

Letter of Credit

On March 24, 2020, the Company entered into a letter of credit agreement with Dr. Charles Conte, the brother of Lisa Conte, the Company's President, CEO and member of the Company's board of directors ("BOD"), pursuant to which the Company replaced then existing letter of credit in the amount of \$475,000 entered into on August 28, 2018 by the Company with CA-Mission Street Partnership to satisfy the letter of credit requirement in the Company's office lease agreement with a new letter of credit in the amount of \$475,000. In consideration of the new letter of credit, the Company paid Dr. Conte an amount equal to \$10,000 per month and agreed to reimburse up to \$7,500 for reasonable out-of-pocket expenses incurred. No fees were incurred for the nine months ended September 30, 2021 and 2020. In October 2020, CA-Mission Street Partnership released the letter of credit agreement with Dr. Conte pursuant to the expiration and termination of the office lease agreement between the Company and CA-Mission Street Partnership on September 30, 2020. In October 2020, the Company paid Dr. Conte a prorated amount due through the effective date of the release of the letter of credit of \$7,000. As of September 30, 2021 and December 31, 2020, the Company had zero balance due to Dr. Conte.

BOD Cash Compensation

Effective May 2021, the Company's BOD received cash compensation based on the Director Compensation Program for 2021 which will be paid quarterly. For the three and nine months ended September 30, 2021, the Company paid approximately \$35,000 cash compensation to its directors.

6. Commitments and Contingencies

Commitments

Leases

On August 28, 2018, the Company entered into an office lease extension agreement for approximately 6,311 square feet of office space in San Francisco, CA. The term of the lease began on September 1, 2018 and expired on September 30, 2020. An existing shareholder provided a standby letter of credit in the amount of \$475,000 to the lessor as collateral for the full performance by the Company of all of its obligations under the lease. In consideration of the Letter of Credit, the Company issued the shareholder a five-year warrant (see Note 8) to purchase 9,580 shares of the Company's voting common stock.

On August 31, 2020, the Company entered into an office sublease of approximately 5,263 square feet of office space in San Francisco. The term of the sublease expired on May 31, 2021. The rent sublease is \$15,000 per month beginning on October 1, 2020, which includes operating expenses and taxes. The Company recognizes rent expense on a straight-line basis over the non-cancelable lease period. Rent expense, included in general and administrative expenses in the unaudited condensed consolidated statements of operations, was zero and \$60,000 for the three and nine months ended September 30, 2021, respectively. As of September 30, 2021, there were no remaining commitment under the lease.

On April 6, 2021, the Company entered into an office lease agreement of approximately 10,526 square feet of office space in San Francisco, inclusive of office space covered under the previous sublease agreement. The term of the lease began on September 1, 2021 and will expire on August 31, 2024, unless terminated earlier. The lease had an early occupancy provision which entitled the Company to use a portion of the leased premises on June 1, 2021, free of rent obligation. In addition, the Company has the option to extend the lease for one three-year period after the expiration date. This option was not included as part of the lease term as the Company was not reasonably certain to exercise it, hence the lease term only includes the noncancellable period of three years plus the period of early occupancy.

The base rent under the lease were \$42,000 monthly for the first 12 months, \$43,000 monthly for the next 12 months and \$45,000 for the last twelve months. The lease agreement only contained one lease component, that is, the lease of the office space. Non-lease components such as payment of building operating costs and share in real property taxes were accounted for separately and were not considered as part of the total lease payments. The lease was classified as an operating lease.

The table below provided additional details of the office space lease presented in the condensed consolidated balance sheet as of September 30, 2021:

Operating lease - right-of-use asset	\$ 1,042
Operating lease liability, current	297
Operating lease liability, net of current portion	826
Total	<u>\$ 1,123</u>
Weighted-average remaining life (years)	<u>2.92</u>
Weighted-average discount rate	<u>21.10%</u>

Lease cost included in the general and administrative expenses in the unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2021 was approximately \$103,000 and \$123,000, respectively.

The following table summarizes the undiscounted cash payment obligations for the operating lease liability as of September 30, 2021:

Remainder of 2021	\$ 126
2022	510
2023	526
2024	357
Total undiscounted operating lease payments	<u>1,519</u>
Imputed interest expenses	<u>(396)</u>
Total operating lease liability	<u>1,123</u>
Less: Operating lease liability, current	297
Operating lease liability, net of current portion	<u>\$ 826</u>

Purchase Commitment

On September 3, 2020, the Company entered into a manufacturing and supply agreement (the “Agreement”) with Glenmark Life Sciences Limited (“Glenmark”), pursuant to which Glenmark will continue to serve as the Company’s manufacturer of crofelemer for use in Mytesi, the Company’s human prescription drug product approved by the U.S. Food and Drug Administration, and for other crofelemer-based products manufactured by the Company or its affiliates for human or animal use. The term of the Agreement is approximately 2.5 years (i.e., until March 31, 2023) and may be extended for successive two-year renewal terms upon mutual agreement between the parties thereto. Pursuant to the terms of the Agreement, Glenmark will supply crofelemer to the Company. The Agreement contains provisions regarding the rights and responsibilities of the parties with respect to manufacturing specifications, forecasting and ordering, delivery arrangements, payment terms, confidentiality and indemnification, as well as other customary provisions. The Agreement includes a commitment for the purchase from Glenmark of a minimum quantity of 300 kilograms of crofelemer per year, pro-rated for partial years, where the Company may be obligated to pay any shortfall. Either party may terminate the Agreement for any reason with 12 months prior written notice to the other party. In addition, either party may terminate the Agreement upon written notice as a result of a material breach of the Agreement that remains uncured for a period of 90 days. If the Company terminates the Agreement as a result of a material breach caused by Glenmark, the Company will not be obligated to pay for any minimum quantity shortfall.

Master Services Agreement (“MSA”)

On June 24, 2019, the Company entered into an MSA for clinical research organization services (the “2019 MSA”) and a service order under such 2019 MSA with Integrium, LLC (“Integrium”). The service order supports the Company’s study to evaluate the effect of Mytesi on gastrointestinal microbiome in people living with HIV. The 2019 MSA will terminate upon the satisfactory performance of all services to be provided thereunder unless earlier terminated by the parties. As of September 30, 2021, there are no remaining commitment under the 2019 MSA.

On October 5, 2020, the Company entered into another MSA for clinical research organization services (the “2020 MSA”) and a service order under such 2020 MSA with Integrium. The service order covers the Company’s planned upcoming pivotal Phase 3 clinical trial for cancer-therapy related diarrhea. As consideration for its services, the Company will pay Integrium a total amount of up to approximately \$12.4 million that will be paid over the term of the engagement and based on the achievement of certain milestones. The 2020 MSA will terminate upon the satisfactory performance of all services to be provided thereunder unless earlier terminated by the parties. As of September 30, 2021, the remaining commitment under the 2020 MSA is \$10.6 million.

Asset Transfer and Transition Commitment

On September 25, 2017, the Company entered into the Termination, Asset Transfer and Transition Agreement dated September 22, 2017 with Glenmark. As a result of the agreement, the Company now controls commercial rights for Mytesi for all indications, territories and patient populations globally, and also holds commercial rights to the existing regulatory approvals for crofelemer in Brazil, Ecuador, Zimbabwe and Botswana. In exchange, the Company agrees to pay Glenmark 25% of any payment it receives from a third party to whom the Company grants a license or sublicense or with whom the Company partners in respect of, or sells or otherwise transfers any of the transferred assets, subject to certain exclusions, until Glenmark has received a total of \$7.0 million. No payments have been made to date.

Revenue Sharing Commitment Update

On December 14, 2017, the Company announced its entry into a collaboration agreement with Seed Mena Businessmen Services LLC (“SEED”) for Equilevia™, the Company’s non-prescription, personalized, premium product for total gut health in equine athletes. According to the terms of the Agreement, the Company will pay SEED 15% of total revenue generated from any clients or partners introduced to the Company by SEED in the form of fees, commissions, payments or revenue received by the Company or its business associates or partners, and the agreed-upon revenue percentage increases to 20% after the first million dollars of revenue. In return, SEED will provide the Company access to its existing United Arab Emirates (“UAE”) network and contacts and assist the Company with any legal or

financial requirements. The agreement became effective on December 13, 2017 and will continue indefinitely until terminated by either party pursuant to the terms of the Agreement. No payments have been made to date.

Legal Proceedings

On July 20, 2017, a putative class action complaint was filed in the United States District Court, Northern District of California, Civil Action No. 3:17-cv-04102, by Tony Plant (the “Plaintiff”) on behalf of shareholders of the Company who held shares on April 12, 2017 and were entitled to vote at the 2017 Special Shareholders Meeting, against the Company and certain individuals who were directors as of the date of the vote (collectively, the “Defendants”), in a matter captioned *Tony Plant v. Jaguar Animal Health, Inc., et al.* (Jaguar Health, Inc. was formerly known as Jaguar Animal Health, Inc.), making claims arising under Section 14(a) and Section 20(a) of the Exchange Act and Rule 14a-9, 17 C.F.R. § 240.14a-9, promulgated thereunder by the SEC. The claims alleged false and misleading information provided to investors in the Joint Proxy Statement/Prospectus on Form S-4 (File No. 333-217364) declared effective by the Commission on July 6, 2017 related to the solicitation of votes from shareholders to approve the merger and certain transactions related thereto.

By order dated September 20, 2018, the court dismissed the lawsuit for failure to state a claim. Plaintiff was entitled to amend that complaint within 20 days from the date of dismissal. On October 10, 2018, Plaintiff filed a second amended complaint to focus on the Company’s commercial strategy in support of Equilevia and the related disclosure statements in the Form S-4 described above. On November 6, 2018, the Defendants moved to dismiss the second amended complaint. The court denied the Defendants’ motion to dismiss on June 28, 2019. The Company answered the second amended complaint on August 2, 2019; the answer denied the material allegations of the second amended complaint. Following the completion of document discovery, the parties engaged in a mediation that resulted in an agreement in principle to settle the litigation on a class-wide basis for \$2.6 million, subject to court approval. Plaintiff filed a motion for preliminary approval of the proposed settlement on December 30, 2020. The court preliminarily approved the proposed settlement, and authorized Plaintiff to provide settlement class members with notice of the proposed settlement, in an order dated February 2, 2021.

On May 27, 2021, the final settlement approval hearing was held. The court gave the final approval to the proposed settlement and the entire settlement consideration will be provided by the Company’s director and officer liability insurance carrier. Under the loss recovery model in ASC 450 and in reference to ASC 410, the ultimate net income effect of the recognized loss and the insurance proceeds directly related to the recognized loss is zero.

As of September 30, 2021 and December 31, 2020, the Company concluded not to record any loss contingency and insurance recovery.

Settlement of Underwriter Fee

In August 2018, the Company entered into an agreement with an underwriter pursuant to which the underwriter would aid the Company in identifying certain financing transactions, in exchange for a percentage fee of any such financing and warrants. In the first quarter of 2020, the Company and the underwriter agreed on a final settlement for the underwriter services comprised of a cash payment, warrants and common stock. The cash payment amount totalled \$387,000, of which \$202,000 had been paid in 2019, and \$185,000 was paid in 2020. The total warrant issuance payment consisted of the Company issuing 365 equity-classified warrants to the underwriter in 2018 and, in 2020, issuing an additional 33,593 equity-classified warrants (see Note 8) to the underwriter to purchase shares of common stock at an exercise price of \$7.50 per share. The common stock issuance payment consisted of the Company issuing 33,333 shares of the Company’s common stock to the underwriter with a value of \$45,000 in 2020. The Company classified the cash payments, warrant and common stock issuance payments as issuance costs in the unaudited condensed consolidated statements of changes in convertible preferred stock and stockholders’ equity.

Severance Agreements

In June 2020, the Company entered into certain agreements relating to the payment of severance and other benefits to executive officers of the Company, the severance agreements provide for compensation and benefits if the executive officer is subject to (a) a termination of employment by the Company without cause or (b) a good reason termination, within three months following a change in control.

Contingencies

From time to time, the Company may be involved in legal proceedings (other than those noted above) arising in the ordinary course of business. The Company believes there is no litigation pending that could have, individually or in the aggregate, a material adverse effect on the financial position, results of operations or cash flows.

7. Debt

Notes payable at September 30, 2021 and December 31, 2020 consisted of the following:

<u>(in thousands)</u>	<u>September 30, 2021</u> <u>(unaudited)</u>	<u>December 31, 2020</u>
Royalty Interest	\$ 37,000	\$ 30,000
Streeterville Note	7,502	—
Insurance Financing	690	95
Tempesta Note	350	450
Oasis Secured Borrowing	—	1,822
Exchange Note 2	—	1,525
	<u>45,542</u>	<u>33,892</u>
Less: unamortized discount and debt issuance costs	(18,835)	(17,682)
Note payable, net of discount	<u>\$ 26,707</u>	<u>\$ 16,210</u>
Notes payable - non-current, net	<u>\$ 24,926</u>	<u>\$ 12,421</u>
Notes payable - current, net	<u>\$ 1,781</u>	<u>\$ 3,789</u>

Future maturities of the notes payable not designated at FVO as of September 30, 2021 are as follows:

<u>(in thousands)</u>	<u>Amounts</u>
As of September 30,	
2022	\$ 1,780
2023	11,084
2024	14,897
2025	4,165
2026	6,114
	<u>38,040</u>
Less: unamortized discount and debt issuance costs	(18,836)
Total	<u>\$ 19,204</u>

Future maturities are based on contractual minimum payments. Timing of maturities may fluctuate based on future revenue.

Sale of Future Royalty Interest

March 2020 Purchase Agreement

In March 2020, the Company entered into a royalty interest purchase agreement (the “March 2020 Purchase Agreement”) with Iliad, pursuant to which the Company sold to Iliad a royalty interest entitling Iliad to receive \$500,000 of future royalties on sales of Mytesi and certain up-front license fees and milestone payments from licensees and/or distributors (the “Royalty Repayment Amount”) for an aggregate purchase price of \$350,000.

Until such time as the Royalty Repayment Amount has been paid in full, the Company will pay Iliad ten percent (10%) of the Company’s Net Sales on Included Products and ten percent (10%) of worldwide revenues related to upfront licensing fees and milestone payments from licensees and/or distributors, but specifically excluding licensing fees and/or milestone payments that are reimbursements of clinical trial expenses (the “Royalty Payments”). Beginning on the six-month anniversary of the Purchase Price Date and continuing until the 12-month anniversary of the Purchase Price Date, the monthly Royalty Payment shall be the greater of (a) \$25,000, and (b) the actual Royalty Payment amount Iliad is entitled to for such month. Beginning on the 12-month anniversary of the Purchase Price Date and continuing until the Revenue Repayment Amount has been paid in full, the monthly Royalty Payment shall be the greater of (a) \$44,000 and (b) the actual Royalty Payment amount Iliad is entitled to for such month.

The Royalty Interest amount of \$500,000 is classified as debt, net of a \$150,000 discount, at initial recognition. Under ASC 470-10-35-3, royalty payments to Iliad will be amortized under the interest method per ASC 835-30. Because there is no set interest rate, and because the royalty payments are variable, the discount rate is variable. After each royalty payment, the Company will use a prospective method to determine a new discount rate based on the revised estimate of remaining cash flows. The new rate is the discount rate that equates the present value of the revised estimate of remaining cash flows with the carrying amount of the debt, and it will be used to recognize interest expense for the remaining periods. At issuance, based on projected cash outflows from future revenue streams, the discount rate was 105%.

On July 10, 2020, the Company and Iliad entered into an amendment to the March 2020 Purchase Agreement to which the parties agreed that no royalty payments or other payment will be due prior to December 10, 2020. The Royalty Payments shall resume as of December 10, 2020, which Royalty Payment will cover Net Sales on Included Products and licensing fees and milestone payments for the month of November. In consideration of the amendment, the balance of the Royalty Repayment Amount as of July 10, 2020 was increased by 10%. All other terms remain unchanged. This amendment resulted in the Company accounting for the transaction as a TDR, under which the carrying amount of the debt remained unchanged but interest expense is computed using a new effective rate that equates the present value of future cash payments specified by the new terms with the carrying amount of the debt. Subsequent to March 2020, the Company had paid \$283,000 of the \$500,000 Royalty Interest Amount.

In November 2020, the Company and Iliad entered into an exchange agreement pursuant to which the Company issued 438,324 shares of common stock in exchange for the outstanding balance of the debt as of November 16, 2020. The exchange agreement was accounted for as a TDR.

As of December 31, 2020, the carrying amount of the debt was zero.

October 2020 Purchase Agreement

On October 8, 2020, the Company entered into another royalty interest purchase agreement (the “October 2020 Purchase Agreement”) with Iliad, pursuant to which the Company sold to Iliad a royalty interest entitling Iliad to receive \$12.0 million of future royalties on sales of Mytesi and certain up-front license fees and milestone payments from licensees and/or distributors (the “Royalty Repayment Amount”) for an aggregate purchase price of \$6.0 million.

Until such time as the Royalty Repayment Amount has been paid in full, the Company will pay Iliad 10% of the Company’s net sales on included products and 10% of worldwide revenues related to upfront licensing fees and milestone payments from licensees and/or distributors, but specifically excluding licensing fees and/or milestone

payments that are reimbursements of clinical trial expenses (the “Royalty Payments”). Beginning on the six-month anniversary of the delivery of the October 2020 Purchase Agreement to the Company (the “Purchase Price Date”) and continuing until the 12-month anniversary of the Purchase Price Date, the monthly Royalty Payment shall be the greater of (a) \$250,000, and (b) the actual Royalty Payment amount Iliad is entitled to for such month. Beginning on the 12-month anniversary of the Purchase Price Date and continuing until 18-month anniversary of the Purchase Price Date, the monthly Royalty Payment shall be the greater of (a) \$400,000 and (b) the actual Royalty Payment amount Iliad is entitled to for such month. Beginning on the 18-month anniversary of the Purchase Price Date and continuing until 24-month anniversary of the Purchase Price Date, the monthly Royalty Payment shall be the greater of (a) \$600,000 and (b) the actual Royalty Payment amount Iliad is entitled to for such month. Beginning on the 24-month anniversary of the Purchase Price Date and continuing until the Royalty Repayment Amount has been paid in full, the monthly Royalty Payment shall be the greater of (a) \$750,000, and (b) the actual Royalty Payment amount Iliad is entitled to for such month.

The Royalty Interest amount of \$12.0 million was classified as debt, net of a \$6.0 million discount, at initial recognition. Under ASC 470-10-35-3, royalty payments to Iliad will be amortized under the interest method per ASC 835-30. Because there is no set interest rate, and because the royalty payments are variable, the discount rate is variable. After each royalty payment, the Company will use a prospective method to determine a new discount rate based on the revised estimate of remaining cash flows. The new rate is the discount rate that equates the present value of the revised estimate of remaining cash flows with the carrying amount of the debt, and it will be used to recognize interest expense for the remaining periods. At issuance, based on projected cash outflows from future revenue streams, the discount rate was 34.51%.

Pursuant to the October 2020 Purchase Agreement, if the weekly volume weighted average price (“VWAP”) of the Company’s common stock is not equal or greater than the minimum VWAP of \$0.9105 at least twice during each calendar month during the six-month period beginning on November 1, 2020, then the Royalty Repayment Amount will be automatically be increased by \$6.0 million at the end of such six-month period. During the observation period starting November 1, 2020, the Company’s weekly VWAP failed to reach the minimum VWAP of \$0.9105 and on November 13, 2020, the Company concluded that the contingent clause has been met, warranting an additional \$6.0 million Royalty Repayment Amount, to be added to the outstanding balance commencing on May 10, 2021 for the purpose of cash interest calculation. The change in the Royalty Repayment Amount was accounted for as a debt modification and resulted in a new discount rate of 45.42%.

On April 13, 2021, the Company entered into an exchange agreement with Iliad, pursuant to which the parties agreed to partition \$3.0 million from the original outstanding balance of the royalty interest. The parties further agreed to exchange the partitioned royalty for 588,235 shares of the Company’s common stock. The exchange consisted of Iliad surrendering the partitioned royalty in exchange for the exchange shares. The exchange agreement was accounted for as a modification and resulted in a new discount rate of 77.09%. As of September 30, 2021, the forecasted future revenues changed which resulted to a new discount rate of 74.59%.

Interest expense for the three and nine months ended September 30, 2021 was \$990,000 and \$3.0 million, respectively. As of September 30, 2021 and December 31, 2020, the carrying value of the debt is \$5.5 million and \$6.3 million, respectively.

December 2020 Purchase Agreement

On December 22, 2020, the Company entered into a royalty interest purchase agreement (the “December 2020 Purchase Agreement”) with Irving Park Capital, LLC (“Irving”), a company affiliated with CVP, pursuant to which the Company sold to Irving a royalty interest entitling Irving to receive \$12.0 million of future royalties on sales of Mytesi and certain up-front license fees and milestone payments from licensees and/or distributors (the “Royalty Repayment Amount”) for an aggregate purchase price of \$6.0 million.

Until such time as the Royalty Repayment Amount has been paid in full, the Company will pay Irving 10% of the Company’s Net Sales on Included Products and 10% of worldwide revenues related to upfront licensing fees and milestone payments from licensees and/or distributors, but specifically excluding licensing fees and/or milestone

payments that are reimbursements of clinical trial expenses (the “Royalty Payments”). Beginning on the payment start date of March 8, 2024 and continuing until the 12-month anniversary of the Purchase Price Date, the monthly Royalty Payment shall be the greater of (a) \$750,000, and (b) the actual Royalty Payment amount Irving is entitled to for such month.

The Royalty Interest amount of \$12.0 million is classified as debt, net of a \$6.0 million discount, at initial recognition. Under ASC 470-10-35-3, royalty payments to Irving will be amortized under the interest method per ASC 835-30. Because there is no set interest rate, and because the royalty payments are variable, the discount rate is variable. After each royalty payment, the Company will use a prospective method to determine a new discount rate based on the revised estimate of remaining cash flows. The new rate is the discount rate that equates the present value of the revised estimate of remaining cash flows with the carrying amount of the debt, and it will be used to recognize interest expense for the remaining periods. At issuance, based on projected cash outflows from future revenue streams, the discount rate was 23.70%. As of September 30, 2021, the forecasted future revenues changed which resulted to a new discount rate of 23.28%.

Interest expense for the three and nine months ended September 30, 2021 was \$732,000 and \$2.1 million, respectively. As of September 30, 2021 and December 31, 2020, the carrying value of the debt is \$7.1 million and \$6.0 million, respectively.

March 2021 Purchase Agreement

On March 8, 2021, the Company entered into a purchase agreement (the “March 2021 Purchase Agreement”) with Streeterville Capital, LLC (“Streeterville”), a company affiliated with CVP, pursuant to which the Company sold a royalty interest entitling Streeterville to \$10.0 million and any interest, fees, and charges as royalty repayment amount for an aggregate purchase price of \$5.0 million. Interest will accrue on the royalty repayment amount at a rate of 5% per annum, compounding quarterly, and will increase to 10% per annum, compounding quarterly on the 12-month anniversary of the closing date.

The Company will be obligated to make minimum royalty payments on a monthly basis beginning at the earlier of (a) 36 months following the closing date or (b) 30 days following the satisfaction of all existing royalties to Streeterville, and its affiliates namely Iliad and Irving, but not earlier than 18 months following the closing date in an amount equal to the greater of (i) \$250,000 beginning on the royalty payment start date and continuing until either the royalty repayment amount has been paid in full or the 6-month anniversary of the royalty payment start date, \$400,000 beginning on the 6-month anniversary of the royalty payment start date and continuing until either the royalty repayment amount has been paid in full or the 12-month anniversary of the royalty payment start date, \$600,000 beginning on the 12-month anniversary of the royalty payment start date and continuing until either the royalty repayment amount has been paid in full or the 18-month anniversary of the royalty payment start date, \$750,000 beginning on the 18-month anniversary of the royalty payment start date and continuing until the royalty repayment amount has been paid in full, and (ii) 10% of the Company’s net sales on included products, 10% of worldwide revenues related to upfront licensing fees and milestone payments from licensees and/or distributors but specifically excluding licensing fees and/or milestone payments that are reimbursements of clinical trial expenses or associated with the license of Included Products from the Company to Napo EU, including but not limited to the upfront fee payable by Napo EU to Napo for included products and Crofelemer for other indications; and 50% of royalties collected from licenses of the included products to third parties.

The Royalty Interest amount of \$10.0 million is classified as debt, net of a \$5.0 million discount, at initial recognition. Under ASC 470-10-35-3, royalty payments to Streeterville will be amortized under the interest method per ASC 835-30. Because there is no set interest rate, and because the royalty payments are variable, the discount rate is variable. After each royalty payment, the Company will use a prospective method to determine a new discount rate based on the revised estimate of remaining cash flows. The new rate is the discount rate that equates the present value of the revised estimate of remaining cash flows with the carrying amount of the debt, and it will be used to recognize interest expense for the remaining periods. At issuance, based on projected cash outflows from future revenue streams, the discount rate was 19.36%. As of September 30, 2021, the forecasted future revenues changed which resulted to a new discount of 19.14%.

Interest expense for the three and nine months ended September 30, 2021 was \$391,000 and \$827,000, respectively. As of September 30, 2021, the carrying value of the debt is \$5.6 million.

Streeterville Note

On January 13, 2021, the Company issued a secured promissory note to Streeterville in the original principal amount of \$6.2 million for an aggregate purchase price of \$6.0 million. The Company will use the proceeds to fund development of the Company's NP-300 (lechlemer) drug product candidate for the indication of the symptomatic relief of diarrhea from cholera and general corporate purposes, including the Company's product pipeline activities. The note is due after four years and bears interest at 3.25% per annum. Interest on the note is payable annually in advance by adding the interest charge for each upcoming year to the outstanding balance on the date each such interest charge is accrued. The Company also paid \$25,000 to cover legal fees, accounting costs, due diligence, monitoring and other transaction costs incurred in connection with the issuance of the note. The first year of prepaid interest and the transaction expenses are included in the original principal amount.

At any time following the occurrence of a trial failure which refers to any of the following: (i) the Company abandons the clinical trial with lechlemer for an indication for the symptomatic relief of infectious diarrhea for cholera; (ii) the Company fails to start the Phase 1 clinical trial of lechlemer for the symptomatic relief of infectious diarrhea for cholera by July 1, 2022; or (iii) the Company fails to meet all primary endpoints in the pivotal trials of Lechlemer for the symptomatic relief of infectious diarrhea for cholera with statistical significance, Streeterville may elect to increase the outstanding balance as of the date of the trial failure by 25% without acceleration (the "Trial Failure Effect"). If Streeterville elects to apply the Trial Failure Effect, it reserves the right to declare the outstanding balance immediately due and payable at any time. As of September 30, 2021, no trial failure occurred.

Streeterville is entitled to a maximum of 18% and a minimum of 1% of the gross proceeds received by the Company from the sale of TDPRV (the "Return Bonus"). The Return Bonus percentage is reduced pro rata based on the percentage of the original principal balance of the note that has been repaid as of the date of the sale of the TDPRV. Even if the note has been paid in full at the time of the sale of the TDPRV, the Company is still obliged to pay Streeterville a Return Bonus of 1%. If Streeterville applies the Trial Failure Effect, the Return Bonus will automatically be reduced to 1%. If the TDPRV has not been sold as of the day immediately preceding the maturity date of the note, the Return Bonus percentage will be fixed as of such date. As of September 30, 2021, the Company has not sold any TDPRV.

Beginning on the earlier of (a) 6 months after January 2021, and (b) initiation of human trials with lechlemer for symptomatic relief of infectious diarrhea for cholera, the Company may pay all or any portion of the outstanding balance earlier than it is due. In the event the Company elects to prepay all or any portion of the outstanding balance, it shall pay to Streeterville 112.5% of the portion of the outstanding balance the Company elects to prepay. The Company may not prepay the note without the Streeterville's consent on the date the last patient is enrolled in a pivotal trial.

After Streeterville becomes aware of the occurrence of any default, Streeterville may accelerate the note, with the outstanding balance becoming immediately due and payable in cash at the Mandatory Default Amount (i.e., the outstanding balance following the application of the Default Effect). Streeterville reserves the right to declare the outstanding balance immediately due and payable at any time following the default. Default Effect means multiplying the outstanding balance as of the date of default by 5% or 15% for each occurrence of default, capped at an aggregate of 25%, and then adding the resulting product to the outstanding balance. The percentage to be used depends on whether the default is viewed as minor or major as defined in the agreement. Furthermore, interest accrues on the outstanding balance beginning on the date of default at an interest rate equal to the lesser of 18% per annum or the maximum rate permitted under applicable law. As of September 30, 2021, no default has occurred.

In connection with the note issuance, the Company has entered into a security agreement with Streeterville, pursuant to which Streeterville will receive a first priority security interest in all existing and future lechlemer technology, and any TDPRV and the sale proceeds therefrom that may be granted to the Company by the FDA in connection with the development of lechlemer for the cholera indication. The Company also agreed, with certain exceptions, not to grant any lien on any of the collateral securing the note and not to grant any license under any of the

intellectual property relating to such collateral. The grant of security interest has become effective upon the receipt of the Salix Waiver on April 6, 2021 in observance to the requirement of the settlement agreement previously entered by the Company with Salix Pharmaceuticals, Inc.

The Company irrevocably elected to initially and subsequently apply the FVO accounting to the entire note. The fair value at transaction date was equal to the cash proceeds received of \$6.0 million. The transaction expense of \$25,000 was recognized in profit and loss as incurred. The Company used the valuation report from an independent valuation service provided to measure the reporting date fair value of the note. At September 30, 2021, the fair value was determined to be \$7.5 million. For the three and nine months ended September 30, 2021, the net increase in the fair value of \$569,000 and \$1.5 million, respectively, were recorded as loss included in the change in fair value of financial instruments and hybrid instrument designated at FVO in the unaudited condensed consolidated statements of operations.

Insurance Financing

Insurance Premium Financing

In May 2020, the Company entered into a financing agreement for \$873,000 for a portion of the Company's annual insurance premiums. The balance is due in monthly installments over nine months with an annual interest rate of 4.15%. The financing balance was zero and \$95,000 at September 30, 2021 and December 31, 2020, respectively.

March 2021 First Insurance Financing

In March 2021, the Company entered into a premium finance agreement for \$98,000 with First Insurance Funding ("First Insurance") representing the unpaid balance of the total premiums, taxes, and fees of \$115,000 with an annual interest rate of 4.6%. The total finance charge was \$2,000. Payment of principal and interest is due in equal monthly installments over ten months. The Company granted and assigned First Insurance a first priority lien on and security interest in the financed policies and any additional premium required under the financed policies. Interest expense for the three and nine months ended September 30, 2021 was \$1,000. The financing balance was \$39,000 at September 30, 2021.

May 2021 First Insurance Financing

In May 2021, the Company entered into another premium finance agreement for \$1.1 million with First Insurance representing the unpaid balance of the total premiums, taxes, and fees of \$1.4 million with an annual interest rate of 4.15%. The total finance charge was \$21,000. Payment of principal and interest is due in equal monthly installments over ten months. Interest expense for the three and nine months ended September 30, 2021 was \$6,000 and \$7,000, respectively. The financing balance was \$651,000 at September 30, 2021.

2019 Tempesta Note

In October 2019, the Company entered into a License Termination and Settlement Agreement with Dr. Michael Tempesta, pursuant to which certain royalty payment disputes between the Company and Tempesta were settled. Per the terms of the Agreement, Tempesta received \$50,000 in cash, an unsecured promissory note issued by the Company in the aggregate principal amount of \$550,000 and 40,000 shares of the Company's common stock in exchange for the cessation of all royalty payments by the Company to Dr. Tempesta under the License Agreements. The \$550,000 promissory note bears interest at the rate of 2.5% per annum and matures on March 1, 2025. The promissory note provides for the Company to make semi-annual payments equal to \$50,000 plus accrued interest beginning on March 1, 2020 until the Note is paid in full. Interest expense for the three and nine months ended September 30, 2021 was \$3,000 and \$8,000, respectively. At September 30, 2021 and December 31, 2020, the net carrying value of the note was \$350,000 and \$450,000, respectively.

Oasis Secured Borrowing

The Purchase Agreement

In May 2020, the Company, entered into a one-year Accounts Receivable Purchase Agreement (the “Purchase Agreement”) with Oasis Capital (“Oasis”), pursuant to which Oasis may from time to time at its discretion purchase accounts receivable of the Company on a recourse basis, at a purchase price equal to 37.5% of the face amount of the first purchase, and at a purchase price equal to 42.5% for subsequent purchased accounts (“Purchase Price”). With respect to purchased accounts, in the event that Oasis receives more than an amount equal to the sum of (i) the face amount of such purchased account multiplied by 0.0545 and (ii) the Purchase Price (such amount, the “Threshold Price”) from collection on such purchased accounts, then Oasis will return any such excess overage amount (the “Overage”) to the Company, as applicable, within five days after Oasis’s receipt thereof.

In the event Oasis does not receive at least the Threshold Price for a purchased account on or before such account becomes due and payable, the Company will, at Oasis’s election, be obligated to either (i) pay the difference between the Threshold Price and the amount received by Oasis for such account (the “Shortfall”) within 30 days thereof, or (ii) assign or transfer to Oasis additional accounts receivable with a Purchase Price equal to (A) the Shortfall plus (B) an amount equal to 25% of the Shortfall (the “Additional Amount”).

The initial term of the Purchase Agreement is one year, which will automatically renew for successive one-year periods unless notice of non-renewal is provided by the Company at least 30 days prior to the expiration of a term. Notwithstanding the foregoing, either Oasis or the Company may terminate the Purchase Agreement on 60 days prior written notice. Under the Purchase Agreement, Oasis is entitled to a transaction fee of \$25,000 and may be entitled to additional transaction fees to the extent Oasis acquires additional accounts receivable under the Purchase Agreement, which fees will not exceed \$5,000 per transaction.

Per the Purchase Agreement, the Company will service and administer the purchased accounts receivable for Oasis. Oasis appointed the Company to be its agent and servicer for monitoring and collecting the accounts receivable subject to the terms of the Purchase Agreement. The Company will perform its duties in a commercially reasonable manner and agrees that Company will not commence any legal action with respect to such servicing and collection efforts and shall not terminate, discharge, discount or write off any accounts receivable without Oasis’s prior written consent.

The Company, having determined that it did not meet the criteria per ASC 860-10-40-5 to account for the transactions under the Purchase Agreement as sales, accounts for such transactions as secured borrowings in accordance with ASC 860-30, “Transfers – Secured Borrowings and Collateral.”

During 2020, the Company made the required payments to Oasis for the first five sale with total payments equalling to \$8.0 million and the related notes payable were extinguished.

In December 2020, for its sixth sale under the terms of the Purchase Agreement, the Company received cash proceeds of \$1.6 million from Oasis (the “Tranche #6 Secured Note”). Oasis purchased accounts receivable with a carrying value of \$2.2 million, or gross accounts receivable of \$3.8 million net of chargebacks and discounts of \$1.6 million. The purchase was effectuated pursuant to an amended Assignment Agreement, effective December 3, 2020, between the Company and Oasis. The Maturity Date, by which date Oasis must collect the \$1.8 million Threshold Price, was February 10, 2021.

The Company recorded the sale to Oasis as a short-term secured borrowing with a principal amount of \$1.6 million, or \$1.8 million net of a \$213,000 discount. Though there was no stated interest rate, the effective interest rate at issuance was 128.4%. The Tranche #6 Secured Note had a maturity date of February 10, 2021, or earlier if the Threshold amount was received by Oasis prior to that date (payment of the Threshold amount is the maturity date). Accordingly, during the term of the Tranche #6 Secured Note, the effective interest rate is variable, dependent on the amount of any principal payment and payment dates. The secured borrowing gross balance remaining to be paid is \$1.8 million as of December 31, 2020.

In February 2021, the Company made its final required payment to Oasis under Tranche #6 Secured Note, with total payments equaling the \$1.8 million Threshold amount plus the transaction fee, and the Tranche #6 Secured Note was extinguished.

Exchange Note 2

In May 2019, CVP and the Company agreed to exchange two Napo convertible notes for a single CVP Note (“Exchange Note 1”). Per agreement, in consideration of the extension of the maturity date of Exchange Note 1 from December 31, 2019 to December 31, 2020, the Company issued a note (“Exchange Note 2”) with a principal balance of \$2.3 million. The maturity date of Exchange Note 2 is December 31, 2020, with an interest rate of 10%. Between September 2020 and November 2020, the Company and CVP entered into a series of note exchange agreements pursuant to which the Company made prepayments of principal and related accrued interest of an aggregate amount of \$5.0 million, in lieu of making cash payments to CVP on Exchange Note 1, by issuing a total of 6,740,573 shares of the Company’s common stock to CVP. The series of exchanges was accounted for as an extinguishment which resulted in a loss of \$560,000. As of December 31, 2020, the carrying value of Exchange Note 1 was zero.

In September 2020, the Company and CVP also entered into a global amendment agreement, pursuant to which the maturity date of Exchange Note 2 is extended to December 31, 2021. In consideration of CVP’s grant of extension, together with the related fees and other accommodation set forth, principal debt was increased by 5% of the outstanding balance of Exchange Note 2, which was \$2.6 million as of the global amendment date. The global amendment requires redemption of Series D Perpetual Preferred Stock prior to payment of principal of Exchange Note 2. The Company determined the incremental value of cash flows amounting to \$228,000 with the assistance of an independent valuation service provider, based on weighted probability assumptions of various settlement conditions and penalties stipulated in the contract therein. The global amendment agreement was accounted for as a modification; hence a new effective rate was determined at the date of modification that equated the revised cash flows to the carrying amount of the note.

Pursuant to the global amendment agreement, the Company issued 842,500 shares of Series D Perpetual Preferred Stock. The Series D Perpetual Preferred shares were redeemable upon the option or discretion of the Company. The Series D Perpetual Preferred stockholders were entitled to receive 8% cumulative stock dividends, to be payable in arrears on a monthly basis for 24 consecutive months. Dividends payable on the Series D perpetual preferred shares shall be payable through the Company’s issuance of Series D Perpetual Preferred share by delivering to each record holder the calculated number of payment-in-kind (“PIK”) dividend shares. The Series D Perpetual Preferred shares were classified as liability and were measured at fair value using the income approach, which considered the weighted probability of discounted cash flows at various scenarios of redemption and perpetual holding of the shares. The Company determined the fair value of \$6.4 million at contract inception date with the assistance of an independent valuation service provider to be based on discounted cash flows representing the settlement value of the shares and cumulative dividends issued using an effective borrowing rate of 12% to 15% adjusted for counterparty and a maturity date of September 30, 2021. In consideration of the global amendment agreement, no principal payment shall be made to the Exchange Note 2 until the redemption of Series D Perpetual Preferred shares. Due to the restrictive nature of the timing of cash outflows in response to the settlement of the Exchange Note 2, Series D Perpetual Preferred shares were implicitly deemed to be mandatorily redeemable upon the ultimate settlement of the outstanding balance of Exchange Note 2. The shares were redeemable at \$8.00 per share on or before December 31, 2024, the date in which contractual cash outflows of the Exchange Note 2 require the entire settlement or redemption of the Series D Perpetual Preferred shares. In December 2020, the Company entered into a series of exchange agreements with a stockholder pursuant to which the Company agreed to issue a total of 5,296,623 shares of common stock in exchange for redeeming 859,348 shares of Series D Perpetual Preferred Stock. The series of exchanges was accounted for as an extinguishment which resulted to a loss amounting to \$1.3 million. This is included in loss on extinguishment of debt and conversion of Series D Perpetual Preferred Stock on the statement of operations as of December 31, 2020. As of September 30, 2021 and December 31, 2020, there were no Series D Perpetual Preferred shares outstanding.

In December 2020, the Company and CVP entered into a note exchange agreement to which the Company made a prepayment of principal amounting to \$1.0 million, in lieu of making cash payments to CVP on Exchange Note

2, by issuing 416,666 shares of the Company's common stock to CVP on December 31, 2020. The exchange agreement was accounted for as a modification.

In January 2021, the Company and CVP entered into another note exchange agreement to which the Company made a prepayment of the remaining outstanding balance of Exchange Note 2 amounting to \$1.8 million, in lieu of making cash payments to CVP by issuing 471,202 shares of the Company's common stock to CVP on January 4, 2021. The exchange was accounted for as debt extinguishment which resulted in a loss of \$753,000.

As of September 30, 2021 and December 31, 2020, the carrying value of Exchange Note 2, net of discount, was zero and \$1.4 million, respectively.

8. Warrants

The following table summarizes information about warrants outstanding and exercisable into shares of the Company's common stock as of September 30, 2021 and December 31, 2020:

	September 30, 2021 (unaudited)	December 31, 2020
Warrants outstanding, beginning balance	2,401,818	6,473,964
Issuances	168,750	7,349,426
Exercises	(2,007,117)	(11,421,464)
Expirations and cancellations	—	(108)
Warrants outstanding, ending balance	<u>563,451</u>	<u>2,401,818</u>

May 2020 Series 3 Warrants

In May 2020, concurrent with the May 2020 modification of the exercise price of the Series 1, Series 2 and Bridge Note Warrants and inducement offer, the Company issued unregistered Series 3 Warrants to purchase 2,890,284 shares of common stock. The Series 3 Warrants had an exercise price of \$1.59 per share and are exercisable beginning the earlier of (i) six months from their May 22, 2020 issuance date and (ii) receipt of the requisite Stockholder Approval (defined below), and expire five years thereafter. In addition to the fixed settlement method at \$1.59 per warrant share, the Series 3 Warrants had two contingent settlement methods: (i) if at the time of exercise there is no effective registration statement, then the holders of the 2,890,284 warrants may exercise the warrants in a "cashless exercise," under which the holders will receive the aggregate warrants less the number of warrants equal to the exercise price; or (ii) a cashless exercise feature wherein, regardless if there is an effective registration agreement, following the requisite Stockholder Approval, each such Series 3 Warrant will be exercisable into one share of common stock for no consideration (the "Alternate Cashless Exercise").

The Series 3 Warrants were initially valued at \$3.7 million using the Black-Scholes-Merton option pricing model as follows: probability-weighted exercise price of \$0.15 per share, stock price of \$1.32 per share, expected life of 5.50 years, volatility of 141%, and a risk-free rate of 0.34%. The Series 3 Warrants were classified as liabilities in the Company's condensed consolidated balance sheets.

A Special Meeting of Stockholders was held on July 21, 2020, whereupon a proposal to approve the "Alternate Cashless Exercise" settlement method for the Series 3 Warrants was approved. In 2020, certain holders of the Series 3 Warrants agreed to exercise a total of 2,818,784 shares for a 1-for-1 exchange of common shares in an Alternate Cashless Exercise. The aggregate fair value of the common stock issued upon the exercise of the Series 3 Warrants as of the exercise date was \$6.1 million.

On January 8, 2021, in accordance with the May 2020 Modification of the 2019 Bridge Note Warrants and Inducement Offer, an investor received 135,416 Series 3 Warrants for the exercise of 135,416 2019 Bridge Note Warrants on the same date.

During the nine months ended September 30, 2021, certain holders of the Series 3 Warrants agreed to exercise a total of 206,915 shares for a 1-for-1 exchange of common shares in an Alternate Cashless Exercise. The aggregate fair value of the common stock issued upon the exercise of the Series 3 Warrants as of the exercise date was \$1.8 million.

A total of zero and 71,500 Series 3 Warrants were outstanding as of September 30, 2021 and December 31, 2020, respectively.

October 2018 Underwriter Warrants

In October 2018, in consideration of services provided leading up to the Company's October 2018 public offering, the Company issued warrants to various service providers to purchase an aggregate of 5,713 shares of common stock at an exercise price of \$157.50 per common share. The warrants were classified as liabilities pursuant to ASC 815-40 as there was potential cash settlement.

April 2020 Underwriter Warrants

In April 2020, in consideration of the settlement of a dispute regarding underwriting fees (see Note 6), the Company issued warrants to purchase 33,592 shares of common stock at an exercise price of \$7.50 per common share. The warrants were valued at \$32,000 using the Black-Scholes-Merton option pricing model as follows: exercise price of \$7.50 per share, stock price of \$1.35 per share, expected life of 4.25 years, volatility of 141%, and a risk-free rate of 0.29%. The warrants were equity classified in the unaudited condensed consolidated statements of changes in convertible preferred stock and stockholders' equity.

March 2019 Ladenburg Warrants

In March 2019, in consideration of services provided in the Company's March 2019 public offering of 6,339 common shares, the Company issued to Ladenburg Thalmann & Co. warrants to purchase an aggregate of 253 shares of common stock at an exercise price of \$52.50 per common share. The warrants were valued at \$13,000 using the Black-Scholes-Merton option pricing model as follows: exercise price of \$52.50 per share, stock price of \$56.70 per share, expected life of 5 years, volatility of 146%, and a risk-free rate of 2.21%. The warrants were equity classified in the unaudited condensed consolidated statements of changes in convertible preferred stock and stockholders' equity.

March 2019 LOC Warrant

In March 2019, in consideration of a letter of credit cancellation related to the Company's office lease, the Company issued a warrant to purchase warrant shares equal to a fixed principal amount divided by a variable exercise price. The warrants were initially classified as liabilities pursuant to ASC 480-10 due to their debt-like nature. On July 23, 2019, upon the exercise price of the warrants becoming fixed, the warrants became exercisable into 15,250 shares of the Company's common stock and were reclassified to additional paid-in-capital with a fair value of \$71,000.

2019 Bridge Note Warrants

Between March 18, 2019 and June 26, 2019, concurrent to the Company entering into Promissory Notes of \$5.1 million, the Company issued twenty-one warrants to purchase warrant shares equal to a fixed principal amount divided by a variable exercise price. The warrants for all twenty-one Bridge Notes Warrants were initially liability classified pursuant to ASC 480-10 due to their debt-like nature. On July 23, 2019, upon the exercise price of the warrants becoming fixed, the warrants became exercisable into 927,083 shares of the Company's common stock and were reclassified to additional paid-in-capital with a fair value of \$4.3 million, calculated using the Black-Scholes-Merton pricing model using a stock price of \$5.19, a strike price of \$6.00 per share, an average expected term of 4.80 years, volatility of 146% and a risk-free discount rate of 1.76%.

February 2020 Modification of Certain 2019 Bridge Note Warrants

In February 2020, the Company entered into a warrant exercise agreement with a holder of its Bridge Note Warrants, pursuant to which the holder agreed to exercise 83,333 Bridge Notes Warrants in consideration of the Company lowering the exercise price of the 83,333 warrants from \$6.00 to \$2.08. Upon exercise of the warrants, the Company received cash proceeds of \$173,000 and, in turn, issued 83,333 common shares. It is the Company's policy to determine the impact of modifications to equity-classified warrants by analogy to the share-based compensation guidance per ASC 718, *Compensation – Stock Compensation*. Pursuant to that guidance, and due to the modification being applicable only to a single holder of the Bridge Note Warrants, the incremental increase of \$9,000 in fair value of the modified warrants was recorded as an expense in the unaudited condensed consolidated statements of operations for the nine months ended September 30, 2020.

May 2020 Modification of the 2019 Bridge Note Warrants and Inducement Offer

In May 2020, the Company reduced the exercise price of all outstanding 2019 Bridge Note Warrants from \$6.00 per share to \$1.47 per share. The Company determined the impact of this modification to be an increase in the fair value of the warrants of \$166,000. Because the modification applied to the entire class of Bridge Warrant holders, the increase in fair value represented a deemed dividend to the entire class of Bridge Warrant holders. The modification did not result in the reclassification of the equity-classified Bridge Note Warrants from additional paid-in-capital to liability classification.

In May 2020, concurrent with the reduction of the exercise price of the Bridge Note Warrants, the Company entered into a warrant exercise inducement offer with certain holders of the Bridge Note Warrants, pursuant to which such holders agreed to exercise for cash Bridge Notes Warrants to purchase 31,250 shares of common stock, in exchange for the Company's issuing to the exercising holders new unregistered Series 3 Warrants to purchase 31,250 shares of common stock.

During the nine months ended September 30, 2021, an aggregate of 443,748 shares of common stock were issued upon the exercise of the Bridge Note Warrants for total proceeds of \$652,000.

A total of 190,622 and 634,370, 2019 Bridge Notes Warrants were outstanding as of September 30, 2021 and December 31, 2020, respectively.

July 2019 Series 1 Warrants

In July 2019, the Company entered into an underwriting agreement, relating to a public offering, which was comprised of (1) 962,166 Class A Units, priced at \$6.00 per unit, with each unit consisting of (i) one share of the Company's voting common stock, (ii) one Series 1 warrant to purchase one share of common stock, and (iii) one Series 2 warrant to purchase one share of common stock, and (2) 10,787 Class B Units, priced at a price of \$1,000 per unit, with each unit consisting of (i) one share of Series B convertible preferred stock, convertible into 166 shares of common stock, (ii) 166 Series 1 Warrants and (iii) 166 Series 2 Warrants.

The Series 1 Warrants had an exercise price of \$6.00 and expire on the earlier of (a) 5 years from the date of issuance and (b) 30 calendar days following the public announcement of Positive Interim Results related to the diarrhea results from the HALT-D investigator-initiated trial, if and only if certain trading benchmarks are achieved during such 30 calendar day period.

In the offering, the Company sold (i) 962,166 Class A Units, which included Series 1 warrants to purchase 962,166 shares of the Company's common stock and (ii) 10,787 Class B Units, which included Series 1 warrants to purchase 1,797,833 shares of the Company's common stock. In total, 2,760,000 Series 1 warrants were issued, with an initial valuation of \$5.0 million computed using the Black-Scholes-Merton pricing model using a stock price of \$5.19, a strike price of \$6.00, an expected term of 5.0 years, volatility of 109% and a risk-free discount rate of 1.83%. Upon issuance, the Series 1 warrants were classified in additional paid-in-capital.

September 2019 Modification of the July 2019 Series 1 Warrants

In September 2019, the Company reduced the exercise price of all 2,760,000 Series 1 Warrants from \$6.00 to \$4.20. The Company determined the impact of this modification to be an increase in the fair value of the warrants of \$522,000. Because the modification applied to the entire class of Series 1 Warrant holders, the increase in fair value represented a deemed dividend to the entire class of Series 1 Warrant holders. The modification did not result in the reclassification of the equity-classified Series 1 warrants from additional paid-in-capital to liability classification.

February 2020 Modification of the July 2019 Series 1 Warrants

In February 2020, the Company entered into a warrant exercise agreement with a holder of its Series 1 Warrants, pursuant to which the holder agreed to exercise 69,340 Series 1 Warrants in consideration of the Company lowering the exercise price of the 69,340 warrants from \$6.00 to \$2.08. Upon exercise of the warrants, the Company received cash proceeds of \$144,000 and, in turn, issued 69,340 common shares. It is the Company's policy to determine the impact of modifications to equity-classified warrants by analogy to share-based compensation guidance per ASC 718, *Compensation – Stock Compensation*. Pursuant to that guidance, and due to the modification being applicable only to a single holder of the Series 1 Warrants, the incremental increase of \$6,000 in fair value of the modified warrants was recorded as an expense in the unaudited condensed consolidated statements of operations for the nine months ended September 30, 2020.

May 2020 Modification of the July 2019 Series 1 Warrants and Inducement Offer

In May 2020, the Company reduced the exercise price of all outstanding Series 1 Warrants from \$4.20 per share to \$1.47 per share. The Company determined the impact of this modification to be an increase in the fair value of the warrants of \$284,000. Because the modification applied to the entire class of Series 1 Warrant holders, the increase in fair value represented a deemed dividend to the entire class of Series 1 Warrant holders. The modification did not result in the reclassification of the equity-classified Series 1 Warrants from additional paid-in-capital to liability classification.

In May 2020, concurrent with the reduction of the exercise price of the Series 1 Warrants, the Company entered into a warrant exercise inducement offer with certain holders of the Series 1 Warrants, pursuant to which such holders agreed to exercise for cash Series 1 Warrants to purchase 1,524,013 shares of common stock, in exchange for the Company's issuing to the exercising holders new unregistered Series 3 Warrants to purchase 1,524,013 shares of common stock.

During the nine months ended September 30, 2021, an aggregate of 464,058 shares of common stock were issued upon the exercise of the Series 1 Warrants for total proceeds of \$682,000.

A total of 145,396 and 609,445 Series 1 Warrants were outstanding as of September 30, 2021 and December 31, 2020, respectively.

July 2019 Series 2 Warrants

The Series 2 Warrants have an exercise price of \$6.00 and expire on the first date on the earlier of (a) 5 years from the date of issuance and (b) 30 calendar days following the public announcement by the Company that a pivotal phase 3 clinical trial using crofelemer (Mytesi, or the same or similar product with a different name) for the treatment of cancer therapy-related diarrhea in humans has met its primary endpoint in accordance with the protocol, if and only if certain trading benchmarks are achieved during such 30 calendar day period. In addition, each Series 2 Warrant has an embedded call option that allows the Company to redeem any unexercised warrants if certain contingencies are met.

In the July 2019 offering, the Company sold (i) 962,166 Class A Units, which included Series 2 warrants to purchase 962,166 shares of the Company's common stock and (ii) 10,787 Class B Units, which included Series 2 warrants to purchase 1,797,833 shares of the Company's common stock. In total, 2,760,000 Series 2 warrants were issued, with an initial valuation of \$5.0 million computed using the Black-Scholes-Merton pricing model using a stock

price of \$5.19, a strike price of \$6.00, an expected term of 5.0 years, volatility of 109% and a risk-free discount rate of 1.83%. Upon issuance, the Series 2 Warrants were classified in additional paid-in-capital.

March 5, 2020 Modification of the July 2019 Series 2 Warrants

On March 5, 2020, the Company entered into a warrant exercise agreement with a holder of its Series 2 Warrants, pursuant to which the holder agreed to exercise 30,313 Series 2 Warrants in consideration of the Company lowering the exercise price of the 30,313 warrants from \$6.00 to \$1.82. Upon exercise of the warrants, the Company received cash proceeds of \$55,000 and, in turn, issued 30,313 common shares. It is the Company's policy to determine the impact of modifications to equity-classified warrants by analogy to share-based compensation guidance per ASC 718, *Compensation – Stock Compensation*. Pursuant to that guidance, and due to the modification being applicable only to a single holder of the Series 2 Warrants, the incremental increase of \$6,000 in fair value of the modified warrants was recorded as an expense in the unaudited condensed consolidated statements of operations for the nine months ended September 30, 2020.

March 23, 2020 Modification of the July 2019 Series 2 Warrants

On March 23, 2020, the Company entered into a Warrant Exercise and Preferred Stock Amendment Agreement (see Note 9) with a holder of its Series 2 Warrants, pursuant to which the holder agreed to exercise in cash its Series 2 Warrants to purchase an aggregate of 416,666 shares of common stock, in consideration of the Company reducing the Series 2 Warrant exercise price from \$6.00 to \$1.57 per share, for gross proceeds to the Company of approximately \$653,000, or \$628,000 net of \$25,000 of issuance costs. The Company determined the impact of this modification to be an increase in the fair value of the warrants of \$65,000. Because the modification applied to a sole holder of Series 2 Warrants, the \$65,000 increase in fair value was recorded as an expense in the unaudited condensed consolidated statements of operations for the nine months ended September 30, 2020. The modification did not result in the reclassification of the equity-classified Series 2 Warrants from additional paid-in-capital to liability classification, and as of September 30, 2020, all 2,760,000 Series 2 Warrants have been exercised.

May 2020 Modification of the July 2019 Series 2 Warrants and Inducement Offer

In May 2020, the Company reduced the exercise price of all outstanding Series 2 Warrants from \$6.00 per share to \$1.47 per share. The Company determined the impact of this modification to be an increase in the fair value of the warrants of \$406,000. Because the modification applied to the entire class of Series 2 Warrant holders, the increase in fair value represented a deemed dividend to the entire class of Series 2 Warrant holders. The modification did not result in the reclassification of the equity-classified Series 2 Warrants from additional paid-in-capital to liability classification.

In May 2020, concurrent with the reduction of the exercise price of the Series 2 Warrants, the Company entered into a warrant exercise inducement offer with certain holders of the Series 2 Warrants, pursuant to which such holders agreed to exercise for cash Series 2 Warrants to purchase 1,344,520 shares of common stock, in exchange for the Company's issuing to the exercising holders new unregistered Series 3 Warrants to purchase 1,335,020 shares of common stock.

During the nine months ended September 30, 2021, an aggregate of 475,725 shares of common stock were issued upon the exercise of the Series 2 Warrants for total proceeds of \$700,000.

A total of 133,730 and 609,455 Series 2 Warrants were outstanding as of September 30, 2021 and December 31, 2020, respectively.

December 2019 PIPE Financing Warrants

In December 2019, the Company entered into a securities purchase agreement with certain investors pursuant to which the Company, in a Private Placement, sold (i) an aggregate of 833,333 unregistered shares of the Company's common stock, and (ii) warrants to purchase up to an aggregate of approximately 416,664 shares of common stock, for

an aggregate purchase price of \$1.5 million (see Note 10). The warrants have an exercise price of \$2.34 per share and became exercisable on June 24, 2020 (6 months after their issuance date) and have a five-year term.

The warrants were valued at \$686,000 using the Black-Scholes option pricing model as follows: exercise price of \$2.34 per share, stock price of \$1.86 per share, expected life of five years, volatility of 143%, and a risk-free rate of 2.42%. As the common stock and warrants were issued in a unit structure, the aggregate proceeds of \$1.5 million were allocated to the two securities using the relative fair value method, resulting in the common stock and warrants being allocated \$1.0 million and \$465,000, respectively. The warrants were classified in additional paid-in-capital.

During January 2021, an aggregate of 416,664 shares of common stock was issued upon the exercise of the December 2019 PIPE Financing Warrants for total proceeds of \$975,000. As of September 30, 2021, all December 2019 PIPE Financing Warrants have been exercised.

April 2021 ELOC Warrants

On April 7, 2021, in consideration for Oasis Capital's entry into the March 2020 ELOC amendment, the Company issued Oasis Capital a common stock purchase warrant ("ELOC Warrants") exercisable for 33,333 shares of common stock with an exercise price per share equal to \$5.61 on the date of the amendment. The warrants were valued at \$172,000 using the Black-Scholes option pricing model as follows: exercise price of \$5.61 per share, stock price of \$5.61 per share, expected life of five years, volatility of 156%, and a risk-free rate of 0.87%. The warrants were classified in additional paid-in-capital.

9. Preferred Stock

At September 30, 2021 and December 31, 2020, preferred stock consisted of the following:

<u>(in thousands, except share and per share data)</u> <u>Series</u>	<u>Shares Authorized</u>	<u>Issued and Outstanding</u>	<u>Carrying Value</u>	<u>Liquidation Preference per Share</u>
B-2	10,165	—	\$ —	\$ —
C	1,011,000	—	—	8.00
Total	1,021,165	—	\$ —	

Series A Convertible Preferred Stock

In March 2018, the Company entered into a stock purchase agreement with Sagard Capital pursuant to which the Company, in a private placement, agreed to issue and sell to Sagard Capital 5,524,926 shares of the Company's Series A Convertible Preferred Stock, \$0.0001 par value per share, for gross proceeds of \$9.2 million, or \$9.0 million net of issuance costs. The preferred stock was convertible into approximately 157,855 shares of common stock at the option of the holder at an effective conversion price of \$582.75 per share. Subject to certain limited exceptions, the shares of preferred stock could not be offered, pledged or sold by Sagard Capital for one year from the date of issuance. The conversion price was subject to certain adjustments in the event of any stock dividend, stock split, reverse stock split, combination or other similar recapitalization. The preferred stock was classified outside of stockholders' equity in accordance with authoritative guidance for the classification and measurement of potentially redeemable securities.

In September 2020, the Company and Sagard Capital entered into an exchange agreement, by which the remaining Series A Convertible Preferred shares were exchanged for (i) 842,500 shares of the Company's Series C Perpetual Preferred shares, and (ii) 842,500 shares of the Company's Series D Perpetual Preferred shares, all issued to Iliad. The exchange agreement was entered into to effect a share-for-share exchange transaction. The Series A Convertible Preferred shares were cancelled upon surrender, and the Company issued Iliad the Series C and Series D Perpetual Preferred shares. The exchange agreement was treated as an extinguishment of the Series A Convertible Preferred Stock. As of the exchange date, the related extinguishment required recording derecognition of the Series A accreted value and recording Series C and Series D at fair value.

In September 2020, the Company filed a certificate with the Secretary of State of Delaware effecting the retirement and cancellation of the Series A Convertible Preferred Stock. As of December 31, 2020, there were no Series A Convertible Preferred shares authorized or outstanding.

Series B Convertible Preferred Stock

In July 2019, the Company entered into an underwriting agreement relating to the public offering comprised of (1) 962,166 Class A Units, priced at a public offering price of \$6.00 per unit, with each unit consisting of (i) one share of the Company's voting common stock, (ii) one Series 1 warrant to purchase one share of Common Stock and (2) 10,787 Class B Units, priced at a public offering price of \$1,000 per unit, with each Class B unit consisting of (i) one share of Series B Convertible Preferred Stock with a stated value of \$1,000 and convertible into 166 shares of Common Stock, (ii) 166 Series 1 Warrants and (iii) 166 Series 2 Warrants, at a public offering price of \$1,000 per Class B Unit.

The Company sold 10,787 Class B Units, comprised of 10,787 shares of Series B Convertible Preferred Stock, Series 1 warrants to purchase 1,797,833 shares of common stock and Series 2 warrants to purchase 1,797,833 shares of common stock. The total gross proceeds to the Company from the offering of the Class B Units were \$10.8 million of which \$4.2 million was allocated to the Series B Convertible Preferred Stock, \$3.3 million to the Series 1 Warrants and \$3.3 million to the Series 2 Warrants. Issuance costs of \$1.6 million were allocated to the Class B Units.

Holders of the Series B shares were entitled to participate equally and ratably with the holders of shares of common stock in all dividends paid and distributions made to the holders of the common stock as if, immediately prior to each record date of the common stock, the shares of Series B then outstanding were converted into shares of common stock. With certain exceptions, the shares of Series B Convertible Preferred Stock had no voting rights. However, as long as any shares of Series B Convertible Preferred Stock remain outstanding, the Company shall not, without the affirmative vote of holders of a majority of the then outstanding shares of Series B Convertible Preferred Stock, (a) alter or change adversely the powers, preferences or rights given to the Series B Convertible Preferred Stock or alter or amend the Series B Certificate of Designation or (b) enter into any agreement with respect to any of the foregoing. Each share of Series B Convertible Preferred Stock is convertible at any time at the holder's option into 166 shares of common stock, which conversion ratio will be subject to adjustment for stock splits, stock dividends, distributions, subdivisions and combinations and other similar transactions.

In July 2019, the effective conversion price per share was less than the fair value of the underlying common stock. As a result, the Company determined that there was a Beneficial Conversion Feature of \$4.2 million. Because the Company's Series B Convertible Preferred Stock does not have a stated conversion date and was immediately convertible at the issuance date, the Company recorded a deemed dividend charge of \$4.2 million for the accretion of the discount on the Series B Convertible Preferred Stock. During 2019, certain investors converted 8,816 Series B Convertible Preferred shares into 1,469,333 shares of the Company's common shares at the stated conversion ratio. The preferred stock has been classified in stockholders' equity in accordance with authoritative guidance.

In March 2020, the Company entered into a Warrant Exercise and Preferred Stock Amendment Agreement ("Amendment Agreement") with a Ionic Ventures of its Series 2 Warrants, pursuant to which the holder agreed to exercise in cash its Series 2 Warrants to purchase an aggregate of 416,666 shares of common stock, in consideration of the Company reducing the warrant exercise price from \$6.00 to \$1.57 per share, for gross proceeds to the Company of approximately \$653,000 (see Note 8). As a further inducement to enter into the Amendment Agreement, the Company agreed to reduce the conversion price of the Company's Series B Convertible Preferred Stock from \$6.00 to \$1.34, resulting in the application of accounting for modification of preferred stock instruments under ASC 260-10-S99-2 where the difference between the fair value of the consideration transferred and the net carrying amount of the convertible preferred stock is treated as a dividend and must be deducted from net income in arriving at income available to common stockholders. Because the reduction to the conversion price was an inducement, the Company applied the guidance in ASC 470-20, resulting in the recording of an inducement charge of \$1.6 million in the unaudited condensed consolidated statement of operations for the nine months ended September 30, 2020.

In September 2020, the Company filed a certificate with the Secretary of State of Delaware effecting the retirement and cancellation of the Series B Convertible Preferred Stock. As of December 31, 2020, there were no Series B Convertible Preferred shares authorized or outstanding.

Series B-2 Convertible Preferred Stock

In December 2019, the Company entered into an exchange agreement with Oasis Capital, pursuant to which Oasis Capital gave up (i) its remaining unexercised Prepaid Forward contracts exercisable for 412,074 shares of the Company's common stock and (ii) 231,709 common shares held as an investment by Oasis Capital, in exchange for 10,165 shares of the Company's newly authorized Series B-2 Convertible Preferred Stock.

Holder of the Series B-2 Convertible Preferred Stock are entitled to receive dividends on shares of Series B-2 Convertible Preferred Stock equal (on an as-if-converted-to-Common-Stock basis) to and in the same form as dividends actually paid on shares of the Common Stock when, as and if such dividends are paid on shares of the Common Stock. No other dividends shall be paid on shares of the Series B-2 Convertible Preferred Stock.

The shares of Series B-2 Convertible Preferred Stock have no voting rights. However, as long as any shares of Series B-2 Convertible Preferred Stock remain outstanding, the Company shall not, without the affirmative vote of holders of a majority of the then outstanding shares of Series B-2 Convertible Preferred Stock, (a) alter or change adversely the powers, preferences or rights given to the Series B-2 Convertible Preferred Stock or alter or amend the Series B-2 Certificate of Designation or (b) enter into any agreement with respect to any of the foregoing.

Upon any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the Holders of the Series B-2 Convertible Preferred Stock were entitled to receive out of the assets, whether capital or surplus, of the Company the same amount that a holder of common stock would receive if the Series B-2 Convertible Preferred Stock were fully converted to Common Stock which amounts shall be paid *pari passu* with all holders of common stock.

Each share of Series B-2 Convertible Preferred Stock is convertible at any time at the holder's option into 63 shares of Common Stock, as determined by dividing the \$153.90 stated value of each Series B-2 Convertible Preferred Share by the \$2.43 conversion price (\$153.90 divided by \$2.43 = 63 conversion ratio), and which conversion ratio is subject to adjustment for stock splits, stock dividends, distributions, subdivisions and combinations and other similar transactions as specified in the Series B-2 Certificate of Designation. The Series B-2 Convertible Preferred Stock was classified in stockholders' equity in accordance with authoritative guidance.

In January 2020, a holder of the Series B-2 Convertible Preferred Stock converted 2,631 preferred shares into 166,630 shares of common stock. In October 2020, the Company entered into an exchange agreement with Oasis Capital pursuant to which the Company agreed to issue 166,728 shares of common stock in exchange for 975 shares of the Series B-2 Convertible Preferred Stock. The exchange agreement was accounted for as a modification. In December 2020, an investor converted the remaining 6,559 Series B-2 Convertible Preferred Stock into a total of 415,403 shares of the Company's common stock.

As of September 30, 2021 and December 31, 2020, there were no Series B-2 Convertible Preferred shares outstanding.

Series C Perpetual Preferred Stock

In September 2020, the Company entered into an exchange agreement with Iliad to issue 842,500 shares of the Company's Series C Perpetual Preferred Stock at \$0.0001 par value per share, for a non-cash exchange of equity instruments. The exchange agreement was contemporaneously entered with the issuance of Series D Perpetual Preferred shares, in exchange of remaining Series A Convertible Preferred shares totaling 5,524,926 shares, and accreted value of \$11.2 million as of the exchange date. An amendment agreement of the Exchange Note 2 was also entered into, with issuance value of \$2.3 million and carrying value of \$2.6 million as of the exchange date, to extend maturity from December 31, 2020 to December 31, 2021, in consideration of 5% increase in the outstanding balance.

Holders of the Series C Perpetual Preferred Stock were not entitled to voting rights. However, as long as any Series C Perpetual Preferred share is outstanding, the Company is restricted to alter, change, or enter into an agreement to alter or change adversely the powers, preferences, or rights given to the shareholders.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company or deemed liquidation event, the holders of Series C Perpetual Preferred shares then outstanding would be entitled to be paid in cash out of the assets of the Company before any payment shall be made to the holders of common stock or shares of any series or class of preferred or other capital stock then outstanding that by its terms is junior to the Series C Perpetual Preferred shares in respect of the preferences as to distributions and payments upon such liquidation event by reason of their ownership, an amount per share of Series C equal to one times the Series C original issue price.

The Series C Perpetual Preferred shares were redeemable upon the option or discretion of the Company.

The Series C Perpetual Preferred shares were entitled to receive 10% cumulative stock dividends, to be payable in arrears on a monthly basis for 24 consecutive months. Dividends payable on the Series C Perpetual Preferred shares shall be payable through the Company's issuance of Series C Perpetual Preferred share by delivering to each record holder the calculated number of PIK dividend shares.

The Series C Perpetual Preferred shares were initially measured at fair value using the income approach, which considered the weighted probability of discounted cash flows at various scenarios of redemption by the Company or liquidation event and perpetual holding of the shares. As of the date of exchange, total fair value of the Series C Perpetual Preferred shares amounted to \$4.7 million. Subsequently, the carrying amount of Series C Perpetual Preferred shares increased as the PIK dividend shares were recognized.

The preferred stock has been classified as permanent stockholders' equity in accordance with authoritative guidance for the classification and measurement of perpetual shares without mandatory redemption period because the redemption option was ultimately in the control of the Company.

In October 2020, the Company entered into an exchange agreement with Iliad pursuant to which the Company agreed to issue a total of 83,333 shares of common stock and pre-funded warrants to purchase 2,352,563 shares of common stock in exchange for 285,000 shares of Series C Perpetual Preferred Stock. The pre-funded warrants were exercisable immediately and could be exercised at any time until all of the pre-funded warrants were exercised in full. The nominal exercise price of each pre-funded warrant was \$0.0003. In December 2020, the Company also entered into a series of exchange agreements with Iliad pursuant to which the Company agreed to issue a total of 2,734,626 shares of common stock in exchange for 573,810 shares of Series C Perpetual Preferred Stock. The series of exchanges were viewed as singular transaction, hence combined for purposes of accounting for the subsequent amendments. The series of exchanges was accounted for as an extinguishment which resulted in a \$2.5 million deemed dividend, recorded against additional paid-in capital, for the difference between the fair value of the shares of common stock and pre-funded warrants transferred and the carrying amount of the Series C Perpetual Preferred Stock. As of December 31, 2020, Iliad had exercised all pre-funded warrants for \$1,000.

As of September 30, 2021 and December 31, 2020, there were no Series C Perpetual Preferred shares outstanding.

10. Stockholders' Equity

As of September 30, 2021 and December 31, 2020, the Company had reserved shares of common stock, on an as-if converted basis, for issuance as follows:

	September 30, 2021 (unaudited)	December 31, 2020
Options issued and outstanding	2,301,513	1,485,518
Inducement options issued and outstanding	156,204	38,293
Options available for grant under stock option plans	1,162,238	198,866
Restricted stock unit awards issued and outstanding	1,871	1,871
Warrants issued and outstanding	563,451	2,401,818
Total	<u>4,185,277</u>	<u>4,126,366</u>

Common Stock

The holders of common stock are entitled to one vote for each share of common stock held. The common stockholders are also entitled to receive dividends whenever funds and assets are legally available and when declared by the Board of Directors.

The holders of non-voting common stock are not entitled to vote, except on an as converted basis with respect to any change of control of the Company that is submitted to the stockholders of the Company for approval. Shares of the Company's non-voting common stock have the same rights to dividends and other distributions and are convertible into shares of the Company's common stock on a one-for-one basis.

The Company is authorized to issue a total number of 204,475,074 shares, of which 150,000,000 shares are common stock, 50,000,000 are non-voting common stock and 4,475,074 are preferred stock.

Reverse Stock Split

On December 22, 2020, the Company obtained approval through a special shareholders meeting held on December 9, 2020 to effect a reverse split of the Company's issued and outstanding voting common stock at a ratio not less than 1-for-2 and not greater than 1-for-20.

On September 3, 2021, the reverse stock split became effective. Upon effectivity, every three shares of the Company's issued and outstanding common stock immediately prior to the effective time shall automatically be reclassified into one share of common stock without any change in the par value. The reverse stock split reduces the number of shares of common stock issuable upon the conversion of the Company's outstanding non-voting common stock and the exercise or vesting of its outstanding stock options and warrants in proportion to the ratio of the reverse stock split and causes a proportionate increase in the conversion and exercise prices of such non-voting common stock, stock options and warrants. In addition, the number of shares reserved for issuance under the Company's equity compensation plans immediately prior to the effective time will be reduced proportionately. The reverse stock split did not change the total number of authorized shares of common stock or preferred stock.

March 2020 ELOC (Equity Line of Credit)

In March 2020, the Company entered into an equity purchase agreement (the "March 2020 ELOC") with Oasis Capital, which provides that Oasis Capital is committed to purchase up to an aggregate of \$2.0 million shares of the Company's common stock over the 36-month term of the March 2020 ELOC.

Pursuant to the terms and conditions of the March 2020 ELOC, on any trading day selected by the Company (such date the "Put Date"), after the SEC has declared effective the registration statement registering the sale of the

shares of common stock that may be issued to Oasis Capital under the March 2020 ELOC, the Company has the right, in its sole discretion, to present to Oasis Capital with a purchase notice (each a “Put Notice”), directing Oasis Capital to purchase up to the lesser of (i) 66,666 shares of common stock or (ii) 20% of the average trading volume of common stock in the 10 trading days immediately preceding the date of such Put Notice, at a per share price equal to \$1.31 (each an “Option 1 Put”), provided that the aggregate of all Option 1 Puts and Option 2 Puts (described below) does not exceed \$2.0 million.

In addition, on any date on which Oasis Capital receives shares of common stock in connection with a Put Notice (the “Clearing Date”), the Company also has the right, in its sole discretion, to present to Oasis Capital with a Put Notice (each an “Option 2 Put”) directing Oasis Capital to purchase an amount of common stock equal to the lesser of (i) such amount that equals 10% of the daily trading volume of the common stock on the date of such Put Notice and (ii) \$200,000, provided that the aggregate amount of the Option 1 Put and Option 2 Put on any Put Date or Clearing Date does not exceed \$500,000 and the aggregate amount of all Option 1 Puts and Option 2 Puts does not exceed \$2.0 million. The purchase price per share pursuant to such Option 2 Put is equal to \$1.31. The threshold price and the purchase price will be adjusted for any reorganization, recapitalization, non-cash dividend, stock split, reverse stock split or other similar transaction occurring during the period used to compute the threshold price or the purchase price.

On April 15, 2020, the SEC declared effective the registration statement registering the sale of the shares of common stock issued to Oasis Capital under the March 2020 ELOC. The Company will control the timing and amount of sales of common stock to Oasis Capital. Oasis Capital has no right to require any sales by the Company but is obligated to make purchases from the Company as directed by the Company in accordance with the March 2020 ELOC.

In connection with the equity line, the Company agreed to pay Oasis Capital a commitment fee and in April 2020, in settlement of the commitment fee, the Company issued to Oasis Capital 22,935 shares of common stock. At issuance, the 22,935 shares of common stock had a fair value of \$33,027, and were expensed as an issuance cost in the Company’s unaudited condensed consolidated statements of operations.

Per the terms of the equity purchase agreement, the Option Put 1 and Option Put 2 may be exercised only at a price that is always above the trading price of the underlying common stock at the exercise date, thereby rendering any exercise by the Company being out-of-the-money. At inception of the equity line on March 24, 2020, the Put Options were classified as derivative assets with a fair value of zero, and upon an effective registration statement on April 15, 2020, were reclassified to stockholders’ equity with a fair value of zero.

In April 2020, the Company exercised a single Put Option Put 1 under which the Company sold 17,333 common shares to Oasis for gross proceeds of \$22,627. As of September 30, 2021 and December 31, 2020, the Company had not exercised any further put options to require Oasis Capital to purchase common stock under the equity purchase agreement.

On April 7, 2021, the Company entered into an amendment to the March 2020 ELOC with Oasis Capital, pursuant to which the parties agreed to increase (i) the purchase price from \$1.31 to \$9.00 and (ii) the threshold price from \$1.50 to \$10.35. In consideration for Oasis Capital’s entry into the amendment, the Company issued Oasis Capital a common stock purchase warrant (“ELOC Warrants”) exercisable for 33,333 shares of common stock with an exercise price per share equal to \$5.61 on the date of the amendment.

March 2020 PIPE Financing

In March 2020, Company entered into a securities purchase agreement (the “March 2020 PIPE Financing”) with certain investors, pursuant to which the Company agreed to issue and sell to the investors in a private placement an aggregate of 571,427 shares of the Company’s common stock, for an aggregate purchase price of approximately \$720,000, or \$668,000 net of \$52,000 of issuance costs.

At the Market Offering (“ATM”)

On October 5, 2020, the Company entered into an ATM Agreement with Ladenburg, pursuant to which the Company may offer and sell, from time to time through Ladenburg, shares of common stock, subject to the terms and conditions of the ATM Agreement. The ATM Agreement will terminate upon the earlier of (i) October 5, 2022 and (ii) termination of the ATM Agreement as permitted therein. In 2020, the Company sold 1,271,639 shares of common stock under the ATM Agreement resulting in net proceeds of approximately \$1.3 million after commissions and expenses of approximately \$40,000.

During January and February 2021, the Company issued an aggregate of 669,850 shares under the ATM Agreement for total net proceeds of \$5.4 million after commissions and expenses of approximately \$311,000.

As of September 30, 2021, all shares under the ATM Agreement have been issued.

PoC Capital Registered Direct Offering

On October 6, 2020, the Company entered into a Stock Plan Agreement for payment of contracted research fees (the “SPA”) with PoC Capital, LLC (“PoC”), pursuant to which the Company issued to PoC an aggregate of 444,444 shares of the Company’s common stock as consideration for PoC’s assumption of \$400,000 in payment obligations of the Company under the service order with Integrium for the Company’s planned upcoming pivotal Phase 3 clinical trial for cancer-therapy related diarrhea, for an effective offering price of \$0.90 per share.

Securities Purchase Agreement

On January 13, 2021, the Company entered into a securities purchase agreement, pursuant to which the Company agreed to issue and sell, in a registered public offering an aggregate of 1,479,290 shares of common stock at an offering price of \$10.14 per share for gross proceeds of approximately \$15.0 million before deducting \$1.6 million placement agent fee and related offering expenses. The offering closed on January 15, 2021.

On April 29, 2021, the Company entered into another securities purchase agreement, pursuant to which the Company agreed to issue and sell, in a registered public offering through Ladenburg as the placement agent, an aggregate of 2,549,000 shares of common stock at an offering price of \$4.23 per share for gross proceeds of approximately \$10.8 million before deducting placement agent fees and related offering expenses of \$948,000.

Subscription Agreement

On June 1, 2021, the Company entered into a subscription agreement with the SPAC and its sponsor, pursuant to which the SPAC agreed to issue and sell, in a private placement by the SPAC directly to the Company, units of the SPAC, with each unit consisting of one ordinary share of the SPAC and a warrant to purchase a share, for gross proceeds of approximately €8.8 million (corresponding, as at June 1, 2021, to \$10.8 million). The SPAC is an Italy special purpose acquisition company formed for the purpose of entering into a business combination with Napo EU, with the aim of developing the pharmaceutical activities of the SPAC/Napo EU combined entity in Europe. Each warrant will entitle the holder thereof to purchase one share at an exercise price of €10 per share at any time prior to the earlier of (i) the 10-year anniversary of the consummation of the business combination and (ii) the five-year anniversary of the listing of the combined entity on a public exchange.

On November 3, 2021 and the SPAC issued 883,000 ordinary shares, each reserved to the exercise of warrants pursuant to the warrant agreement approved by the SPAC (see Note 14). As a result, the SPAC became a substantially owned subsidiary, at the same time, the related advances will be converted to investment at a stand-alone level, and will be eliminated at the consolidated level.

September 2021 PIPE Financing

On September 13, 2021, the Company entered into a securities purchase agreement (the “September 2021 PIPE Financing”) with certain investors, pursuant to which the Company agreed to issue and sell to the investors in a private

placement an aggregate of 309,242 unregistered shares of the Company's common stock for an aggregate purchase price of approximately \$776,197 or \$2.51 per share.

11. Stock-based Compensation

2013 Equity Incentive Plan

Effective November 1, 2013, the Company's BOD and sole stockholder adopted the Jaguar Health, Inc. 2013 Equity Incentive Plan (the "2013 Plan"). The 2013 Plan allows the Company's BOD to grant stock options, restricted stock awards and restricted stock unit awards to employees, officers, directors and consultants of the Company. Following the effective date of the IPO and after effectiveness of any grants under the 2013 Plan that were contingent on the IPO, no additional stock awards will be granted under the 2013 Plan. Outstanding grants continue to be exercisable; however, any unissued shares under the plan and any forfeitures of outstanding options do not rollover to the 2014 Stock Incentive Plan. There were 123 option shares outstanding at September 30, 2021 and December 31, 2020.

2014 Stock Incentive Plan

Effective May 12, 2015, the Company adopted the Jaguar Health, Inc. 2014 Stock Incentive Plan ("2014 Plan"). The 2014 Plan provides for the grant of options, restricted stock and restricted stock units to eligible employees, directors and consultants to purchase the Company's common stock. The term of an incentive stock option may not exceed 10 years, except that with respect to any participant who owns more than 10% of the voting power of all classes or our outstanding stock, the term must not exceed 5 years. The 2014 Plan that provides for automatic share increases on the first day of each fiscal year in the amount of 2% of the outstanding number of shares of the Company's common stock on the last day of the preceding calendar year. The 2014 Plan replaced the 2013 Plan except that all outstanding options under the 2013 Plan remain outstanding until exercised, canceled or expired.

As of September 30, 2021, there were 2,301,390 options outstanding and 1,151,755 options available for grant. As of December 31, 2020, there were 1,485,395 options outstanding and 70,472 options available for grant.

2020 New Employee Inducement Award Plan

Effective June 16, 2020, the Company adopted the Jaguar Health, Inc. New Employee Inducement Award Plan ("2020 Inducement Award Plan") and, subject to the adjustment provisions of the Inducement Award Plan, reserved 166,666 shares of the Company's common stock for issuance pursuant to equity awards granted under the Inducement Award Plan. The term of an incentive stock option may not exceed 10 years, except that with respect to any participant who owns more than 10% of the voting power of all classes or our outstanding stock, the term must not exceed 5 years. The 2020 Inducement Award Plan provides for the grant of nonstatutory stock options, restricted stock units, restricted stock, and performance shares. The 2020 Inducement Award Plan was adopted without stockholder approval pursuant to Rule 5635(c)(4) of the Nasdaq Listing Rules. The terms and conditions of the 2020 Inducement Award Plan are substantially similar to the Company's 2014 Stock Incentive Plan, but with such other terms and conditions intended to comply with the Nasdaq inducement award rules. In accordance with Rule 5635(c)(4) of the Nasdaq Listing Rules, the only persons eligible to receive grants of equity awards under the Inducement Award Plan are individuals who were not previously an employee or director of the Company, or following a bona fide period of non-employment, as an inducement material to such persons entering into employment with the Company.

As of September 30, 2021, there were 156,183 options outstanding and 10,483 options available for grant. As of December 31, 2020, there were 38,272 options outstanding and 128,394 options available for grant.

Stock Options and Restricted Stock Units (“RSUs”)

The following table summarizes incentive plan activity for the nine months ended September 30, 2021 (unaudited):

(in thousands, except share and per share data)	Shares Available for Grant	Stock Options Outstanding	RSUs Outstanding	Weighted Average Stock Option Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value*
Outstanding at December 31, 2020	198,866	1,523,790	1,871	\$ 12.68	8.71	\$ 364
Additional shares authorized	1,900,425	—	—	—		—
Options granted	(960,552)	960,552	—	5.60		—
Options exercised	—	(3,147)	—	1.34		—
Options canceled	23,499	(23,499)	—	14.71		—
Outstanding at September 30, 2021	<u>1,162,238</u>	<u>2,457,696</u>	<u>1,871</u>	<u>\$ 9.84</u>	<u>8.60</u>	<u>\$ 319</u>
Exercisable at September 30, 2021		<u>1,230,844</u>		<u>\$ 14.78</u>	<u>8.07</u>	<u>\$ 165</u>
Vested and expected to vest at September 30, 2021		<u>2,283,327</u>		<u>\$ 10.20</u>	<u>8.54</u>	<u>\$ 300</u>

*Fair market value of JAGX common stock on September 30, 2021 was \$2.27 per share.

The intrinsic value is calculated as the difference between the exercise price of the underlying options and the fair market value of the Company's common stock for options that were in-the-money.

The number of options exercised during the nine months ended September 30, 2021 and 2020 were 3,147 and 185 respectively.

The weighted average grant date fair value of stock options granted was \$5.25 and \$1.18 per share during the nine months ended September 30, 2021 and 2020, respectively.

The number of options that vested in the nine months ended September 30, 2021 and 2020 was 495,023 and 355,013, respectively. The grant date weighted average fair value of options that vested in the nine months ended September 30, 2021 and 2020 was \$4.55 and \$6.34, respectively.

Stock-Based Compensation

The following table summarizes stock-based compensation expense related to stock options, inducement stock options and RSUs for the three and nine months ended September 30, 2021 and 2020, and are included in the unaudited condensed consolidated statements of operations as follows:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(unaudited)		(unaudited)	
Research and development expense	\$ 404	\$ 175	\$ 935	\$ 580
Sales and marketing expense	88	54	208	167
General and administrative expense	673	446	1,689	1,437
Total	<u>\$ 1,165</u>	<u>\$ 675</u>	<u>\$ 2,832</u>	<u>\$ 2,184</u>

As of September 30, 2021, the Company had \$4.7 million of unrecognized stock-based compensation expense for options, inducement options and restricted stock units outstanding, which is expected to be recognized over a weighted-average period of 1.96 years.

The fair value of options granted during the nine months ended September 30, 2021 and 2020, respectively, were calculated using the range of assumptions set forth below:

	Nine Months Ended September 30,	
	2021	2020
	(unaudited)	
Volatility	163.8 - 164.0 %	150.1 - 172.4 %
Expected term (years)	5.0	1.0 - 5.0
Risk-free interest rate	0.5 - 1.0 %	0.1 - 0.5 %
Expected dividend yield	—	—

401(k) Plan

The Company sponsors a 401(k) defined contribution plan covering all employees. There were no employer contributions to the plan from plan inception through September 30, 2021.

12. Net Loss Per Share

The following table presents the calculation of basic and diluted net loss per share of common stock for the periods indicated:

(In thousands, except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(unaudited)		(unaudited)	
Net loss attributable to common shareholders (basic and diluted)	\$ (12,192)	\$ (8,271)	\$ (38,282)	\$ (27,284)
Shares used to compute net loss per common share, basic and diluted	45,840,262	13,406,088	44,167,885	8,822,463
Net loss per share attributable to common shareholders, basic and diluted	\$ (0.27)	\$ (0.62)	\$ (0.87)	\$ (3.09)

Basic net loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing net loss by the weighted-average number of common shares and common share equivalents outstanding for the period. Common stock equivalents are only included when their effect is dilutive. The Company's potentially dilutive securities which include stock options, convertible preferred stock, RSUs and common stock warrants have been excluded from the computation of diluted net loss per share as they would be anti-dilutive. For all periods presented, there is no difference in the number of shares used to compute basic and diluted shares outstanding due to the Company's net loss position.

The following outstanding common stock equivalents have been excluded from diluted net loss per common share for the nine months ended September 30, 2021 and 2020 because their inclusion would be anti-dilutive.

	Nine Months Ended September 30,	
	2021	2020
	(unaudited)	
Options issued and outstanding	2,301,513	1,494,369
Inducement options issued and outstanding	156,204	11,131
Restricted stock units issued and outstanding	1,871	1,871
Warrants issued and outstanding	563,451	2,446,845
Series B-2 convertible preferred stock	—	474,642
Total	3,023,039	4,428,858

13. Segment Information

The Company has two reportable segments-human health and animal health. The animal health segment is focused on developing and commercializing prescription and non-prescription products for companion and production animals. The human health segment is focused on developing and commercializing of human products and the ongoing commercialization of Mytesi, which is approved by the U.S. FDA for the symptomatic relief of non-infectious diarrhea in adults with HIV/AIDS on antiretroviral therapy. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The Company's reportable segments net revenues and net loss for the three and nine months ended September 30, 2021 and 2020 consisted of the following:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(unaudited)		(unaudited)	
Revenue from external customers				
Human Health	\$ 615	\$ 2,760	\$ 2,200	\$ 6,748
Animal Health	15	13	55	61
Consolidated Totals	<u>\$ 630</u>	<u>\$ 2,773</u>	<u>\$ 2,255</u>	<u>\$ 6,809</u>
Segment net loss				
Human Health	\$ (5,698)	\$ (1,912)	\$ (16,393)	\$ (6,721)
Animal Health	(6,494)	(5,954)	(21,889)	(18,319)
Consolidated Totals	<u>\$ (12,192)</u>	<u>\$ (7,866)</u>	<u>\$ (38,282)</u>	<u>\$ (25,040)</u>

The Company's reportable segments assets consisted of the following:

(in thousands)	September 30, 2021	December 31, 2020
	(unaudited)	
Segment assets		
Human Health	\$ 44,926	\$ 34,201
Animal Health	115,476	79,760
Total	<u>\$ 160,402</u>	<u>\$ 113,961</u>

The reconciliation of segments assets to the consolidated assets is as follows:

(in thousands)	September 30, 2021	December 31, 2020
	(unaudited)	
Total assets for reportable segments	\$ 160,402	\$ 113,961
Less: Investment in subsidiary	(29,241)	(29,241)
Less: Intercompany loan	(71,906)	(41,877)
Consolidated Totals	<u>\$ 59,255</u>	<u>\$ 42,843</u>

14. Subsequent Events

Napo EU and SPAC Merger

On November 3, 2021, the merger between Napo EU and the SPAC became effective. Upon close, SPAC became a controlled subsidiary of the Company and will be a consolidated entity. As a result of the transaction, the advances for future capital investment amounting to \$10.5 million was converted to investment at stand-alone level, and eliminated at the consolidated level. Further, Napo EU was incorporated into the SPAC with the SPAC as the surviving

entity. The SPAC took over by operation of law all the assets, rights, reasons and actions as well as liabilities, obligations and commitments of Napo EU.

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

The following discussion and analysis of financial condition and results of operations should be read together with the condensed consolidated financial statements and the related notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q, and with our audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K as of and for the year ended December 31, 2020 which was filed to SEC on March 31, 2021.

The discussion and analysis below includes certain forward-looking statements related to our research and development and commercialization of our products in the U.S., our future financial condition and results of operations and potential for profitability, the sufficiency of our cash resources, our ability to obtain additional equity or debt financing or other means of accelerating the payment of accounts receivable, if needed, possible partnering or other strategic opportunities for the development of our products, as well as other statements related to the progress and timing of product development, present or future licensing, collaborative or financing arrangements or that otherwise relate to future periods, which are all forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. These statements represent, among other things, the expectations, beliefs, plans and objectives of management and/or assumptions underlying our judgments concerning the future financial performance and other matters discussed in this document. The words “may,” “will,” “should,” “plan,” “believe,” “estimate,” “intend,” “anticipate,” “project,” and “expect” and similar expressions are intended to connote forward-looking statements. All forward-looking statements involve certain risks, uncertainties and other factors described in our Annual Report on Form 10-K, that could cause our actual commercialization efforts, financial condition and results of operations, and business prospects and opportunities to differ materially from those expressed in, or implied by, those forward-looking statements. We caution investors not to place significant reliance on the forward-looking statements contained in this report. These statements, like all statements in this report, speak only as of the date of this report (unless another date is indicated), and we undertake no obligation to update or revise forward-looking statements.

Overview

We are a commercial stage pharmaceuticals company focused on developing novel, plant-based, non opioid, and sustainably derived prescription medicines for people and animals with gastrointestinal distress, specifically chronic, debilitating diarrhea. Our wholly-owned subsidiary, Napo Pharmaceuticals, Inc. (“Napo”), focuses on developing and commercializing proprietary human gastrointestinal pharmaceuticals for the global marketplace from plants used traditionally in rainforest areas. Our Mytesi (“crofelemer”) product is approved by the U.S. Food and Drug Administration for the symptomatic relief of noninfectious diarrhea in adults with HIV/AIDS on antiretroviral therapy. Napo's substantially owned Italian subsidiary, Napo EU S.p.A., focuses on expanding crofelemer access in Europe.

Jaguar was founded in San Francisco, California as a Delaware corporation on June 6, 2013. Napo formed Jaguar to develop and commercialize animal health products. Effective as of December 31, 2013, Jaguar was a wholly-owned subsidiary of Napo, and Jaguar was a majority-owned subsidiary of Napo until the close of the Company's initial public offering on May 18, 2015. On July 31, 2017, the merger of Jaguar Animal Health, Inc. and Napo became effective, at which point Jaguar Animal Health's name changed to Jaguar Health, Inc. and Napo began operating as a wholly-owned subsidiary of Jaguar focused on human health and the ongoing commercialization of, and development of follow-on indications for, Mytesi. Most of the activities of the Company are now focused on the commercialization of Mytesi and development of follow-on indications for crofelemer and a second-generation anti-secretory product, lechlemer. In the field of animal health, we have limited activities which are focused on developing and commercializing first-in-class gastrointestinal products for dogs, dairy calves, foals, and equine athletes.

We believe Jaguar is poised to realize a number of synergistic, value adding benefits—an expanded pipeline of potential blockbuster human follow-on indications, a second-generation anti-secretory agent, as well as a pipeline of

important animal indications for crofelemer —upon which to build global partnerships. As previously announced, Jaguar, through Napo, now holds extensive global rights for Mytesi, and crofelemer manufacturing is being conducted at a multimillion-dollar, FDA-compliant commercial manufacturing facility. Additionally, several of the drug product candidates in Jaguar's crofelemer pipeline are backed by what we believe are strong Phase 2 and proof of concept evidence from completed human clinical trials.

Crofelemer is a novel, first-in-class anti-secretory agent which has a basic normalizing effect locally on the gut, and this mechanism of action has the potential to benefit multiple disorders. Crofelemer is in development for multiple possible follow-on indications, including cancer therapy-related diarrhea (“CTD”); orphan-drug indications for symptomatic relief of diarrhea in infants and children with congenital diarrheal disorders (“CDD”) and for adult and pediatric patients for short bowel syndrome with intestinal failure with “SB-IFS”; supportive care for diarrhea relief in inflammatory bowel diseases (“IBD”); diarrhea-predominant irritable bowel syndrome (“IBS-D”); and for idiopathic/functional diarrhea. In addition, a second-generation anti-secretory agent, lechlemer, is in development for cholera. Crofelemer previously received orphan-drug designation for SBS in the U.S.

Financial Operations Overview

On a consolidated basis, we have not yet generated enough revenue to date to achieve break even or positive cash flows, and we expect to continue to incur significant research and development and other expenses. Our net loss was \$38.3 million and \$25.0 million for the nine months ended September 30, 2021 and 2020, respectively. As of September 30, 2021, we had a total stockholders' equity of \$21.6 million, an accumulated deficit of \$205.2 million, and cash of \$12.4 million. We expect to continue to incur losses and experience increased expenditures for the foreseeable future as we expand our product development activities, seek necessary approvals for our product candidates, conduct species-specific formulation studies for our non-prescription products, establish API manufacturing capabilities and begin additional commercialization activities.

Revenues

Our product and collaboration revenue consist of the following:

- Revenues from the sale of our human drug Mytesi, which is sold through distributors and wholesalers and specialty pharmacies.
- Revenues from the sale of our animal products branded as Neonorm Calf and Neonorm Foal. Our Neonorm and botanical extract products are primarily sold to distributors, who then sell the products to the end customers.
- Our policy typically permits returns if the product is damaged, defective, or otherwise cannot be used when received by the customer if the product has expired. Returns are accepted for product that will expire within six months or that have expired up to one year after their expiration dates. Estimates for expected returns of expired products are based primarily on an ongoing analysis of our historical return patterns.

See “Results of Operations” below for more detailed discussion on revenues.

Cost of Revenue

Cost of revenue consists of direct drug substance and drug product materials expense, direct labor, distribution fees, royalties and other related expenses associated with the sale of our products.

Research and Development Expense

Research and development expenses consist primarily of clinical and contract manufacturing expense, personnel and related benefits expense, stock-based compensation expense, employee travel expense, and reforestation expenses. Clinical and contract manufacturing expense consists primarily of costs to conduct stability, safety and

efficacy studies, and manufacturing startup at an outsourced API provider in Italy. It also includes expenses with a third-party provider for the transfer of the Mytesi manufacturing process, and the related feasibility and validation activities.

We typically use our employee and infrastructure resources across multiple development programs. We track outsourced development costs by prescription drug product candidate and non-prescription product and we track personnel or other internal costs related to development to specific programs or development compounds.

The timing and amount of our research and development expenses will depend largely upon the outcomes of current and future trials for our prescription drug product candidates as well as the related regulatory requirements, the outcomes of current and future species-specific formulation studies for our non-prescription products, manufacturing costs and any costs associated with the advancement of our line extension programs. We cannot determine with certainty the duration and completion costs of the current or future development activities.

The duration, costs and timing of trials, formulation studies and development of our prescription drug and non-prescription products will depend on a variety of factors, including:

- the scope, rate of progress, and expense of our ongoing, as well as any additional clinical trials, formulation studies and other research and development activities;
- future clinical trial and formulation study results;
- potential changes in government regulations; and
- the timing and receipt of any regulatory approvals.

A change in the outcome of any of these variables with respect to the development of a prescription drug product candidate or non-prescription product could mean a significant change in the costs and timing associated with our development activities.

We expect research and development expense to increase due to the start-up costs associated with our clinical trials for other indications.

Sales and Marketing Expense

Sales and marketing expenses consist of personnel and related benefits expense, stock-based compensation expense, direct sales and marketing expense, employee travel expense, and management consulting expense. We currently incur sales and marketing expenses to promote Mytesi. We do not have significant marketing or promotional expenses related to Neonorm Calf or Neonorm Foal in the nine months ended September 30, 2021 and 2020.

We expect sales and marketing expense to increase going forward as we focus on expanding our market access activities and commercial partnerships for the development of follow-on indications of Mytesi and crofelemer.

General and Administrative Expense

General and administrative expenses consist of personnel and related benefits expense, stock-based compensation expense, employee travel expense, legal and accounting fees, rent and facilities expense, and management consulting expense.

In the near term, we expect general and administrative expense to remain flat as we focus on our pipeline development and market access expansion. This will include efforts to grow the business.

Interest Expense

Interest expense consists primarily of non-cash and cash interest costs related to our borrowings.

Critical Accounting Policies and Significant Judgments and Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”), requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures in the consolidated financial statements. Critical accounting policies are those accounting policies that may be material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change, and that have a material impact on financial condition or operating performance. While we base our estimates and judgments on our experience and on various other factors that we believe to be reasonable under the circumstances, actual results may differ from these estimates under different assumptions or conditions. Our significant account policies are described in Note 2 of the condensed consolidated financial statements. Our critical accounting policies and estimates were described in Part II, Item 7, Critical Accounting Policies and Estimates, in our Annual Report on Form 10-K for the year ended December 31, 2020.

Results of Operations

Comparison of the Nine Months Ended September 30, 2021 and 2020

The following table summarizes the Company’s results of operations with respect to the items set forth in such table for the nine months ended September 30, 2021 and 2020 together with the change in such items in dollars and as a percentage.

(in thousands)	Nine Months Ended September 30,		Variance	Variance %
	2021	2020		
Product revenue	\$ 2,255	\$ 6,809	\$ (4,554)	(66.9)%
Total revenue	2,255	6,809	(4,554)	(66.9)%
Operating Expenses				
Cost of product revenue	1,864	2,491	(627)	(25.2)%
Research and development	9,597	4,509	5,088	112.8 %
Sales and marketing	6,596	4,728	1,868	39.5 %
General and administrative	12,450	11,218	1,232	11.0 %
Series 3 warrants inducement expense	1,462	3,696	(2,234)	(60.4)%
ELOC warrants inducement expense	172	—	172	100.0 %
Series B convertible preferred stock inducement expense	—	1,647	(1,647)	(100.0)%
Total operating expenses	32,141	28,289	3,852	13.6 %
Loss from operations	(29,886)	(21,480)	(8,406)	39.1 %
Interest expense	(5,988)	(1,259)	(4,729)	375.6 %
Loss on extinguishment of debt	(753)	—	(753)	100.0 %
Change in fair value of financial instruments and hybrid instrument designated at FVO	(1,639)	(2,491)	852	(34.2)%
Other expense, net	(16)	190	(206)	(108.4)%
Loss before income tax	(38,282)	(25,040)	(13,242)	52.9 %
Income tax expense	—	—	—	100.0 %
Net loss	(38,282)	(25,040)	(13,242)	52.9 %
Deemed dividend attributable to accretion of Series A redeemable convertible preferred stock	—	(1,332)	1,332	(100)%
Stock dividend attributable to Series C perpetual preferred stock	—	(56)	56	(100)%
Deemed dividend attributable to Series 1, Series 2 and Bridge warrant holders	—	(856)	856	(100)%
Net loss attributable to common shareholders	\$ (38,282)	\$ (27,284)	\$ (10,998)	40.3 %

Revenue

Gross product sales equal the number of bottles sold multiplied by WAC. Due to the Company's arrangements, including elements of variable consideration, gross product sales are reduced in order to reflect the expected consideration to arrive at net product sales. Deductions to reduce gross product sales to net product sales in the nine months ended September 30, 2021 and 2020 were as follows:

(in thousands)	Nine Months Ended September 30,		Variance	Variance %
	2021	2020		
Gross product sales				
Mytesi	\$ 12,665	\$ 13,895	\$ (1,230)	(8.9)%
Neonorm	54	61	(7)	(11.5)%
Total gross product sales	12,719	13,956	(1,237)	(8.9)%
Medicaid rebates	(2,900)	(1,248)	(1,652)	132.4 %
Sales discounts	(5,932)	(4,307)	(1,625)	37.7 %
Sales returns	(104)	(203)	99	(48.8)%
Wholesaler fee	(1,528)	(1,389)	(139)	10.0 %
Net product sales	\$ 2,255	\$ 6,809	\$ (4,554)	(66.9)%

Our gross product revenues were \$12.7 million and \$14.0 million for the nine months ended September 30, 2021 and 2020, respectively. These periods reflect revenue from the sale of our human drug Mytesi and our animal products branded as Neonorm Calf and Neonorm Foal.

Human

Sales of Mytesi are recognized as revenue when the products are delivered to the wholesalers and to specialty pharmacies. Our gross revenues from the sale of Mytesi were \$12.7 million and \$13.9 million in the nine months ended September 30, 2021 and 2020, respectively. The decrease of about \$1.2 million is largely due to the transition from Title model to the Specialty Pharmacy distribution networks.

Sales discounts and sales returns were \$6.0 million and \$4.5 million for the nine months ended September 30, 2021 and 2020, respectively, an increase of \$1.5 million. Medicaid and AIDS Drug Assistance Program ("ADAP") rebates accounted for \$2.9 million and \$1.2 million for the nine months ended September 30, 2021 and 2020, respectively, an increase of \$1.7 million. The increases in sales discounts and rebates are primarily due to the WAC increase implemented by the Company in April 2020 which resulted in higher government rebates from Medicaid, ADAP, public health services programs, and includes approximately \$800,000 in chargebacks from the State of California.

Animal

Our Neonorm product revenues were \$54,000 and \$61,000 for the nine months ended September 30, 2021 and 2020, respectively. Sales and marketing expenses for Neonorm products are not significant during 2021 and none during the same period in 2020.

Cost of Product Revenue

(in thousands)	Nine Months Ended September 30,		Variance	Variance %
	2021	2020		
Cost of Product Revenue				
Material cost	\$ 797	\$ 1,412	\$ (615)	(43.6)%
Direct labor	788	501	287	57.3 %
Distribution fees	168	331	(163)	(49.2)%
Other	111	247	(136)	(55.1)%
Total	<u>\$ 1,864</u>	<u>\$ 2,491</u>	<u>\$ (627)</u>	<u>(25.2)%</u>

Cost of product revenue decreased \$627,000 from \$2.5 million in the nine months ended September 30, 2020 to \$1.9 million for the same period in 2021. The decrease in the cost of product revenue period over period was largely attributable to lower sales resulting in less cost of materials for bottles sold and to non-recurring write-off of non-conforming inventory in the nine months ended September 30, 2020. There was no write-off in the nine months ended September 30, 2021.

Research and Development

The following table presents the components of research and development (“R&D”) expense for the nine months ended September 30, 2021 and 2020 together with the change in such components in dollars and as a percentage:

(in thousands)	Nine Months Ended September 30,		Variance	Variance %
	2021	2020		
Research and Development:				
Clinical and contract manufacturing	\$ 3,303	\$ 1,002	\$ 2,301	229.6 %
Personnel and related benefits	2,827	1,270	1,557	122.6 %
Stock-based compensation	935	580	355	61.2 %
Materials expense and tree planting	284	57	227	398.2 %
Travel, other expenses	10	42	(32)	(76.2)%
Other	2,238	1,558	680	43.6 %
Total	<u>\$ 9,597</u>	<u>\$ 4,509</u>	<u>\$ 5,088</u>	<u>112.8 %</u>

The change in R&D expense of \$5.1 million in the nine months ended September 30, 2021 compared to the same period in 2020 was largely due to:

- Clinical and contract manufacturing expenses increased \$2.3 million from \$1.0 million in the nine months ended September 30, 2020 to \$3.3 million in the same period in 2021 largely due to increased clinical trial activities related to the start-up of CTD and other indications, additional CMC manufacturing, consulting and contractors expenses, and cholera/lechlemer research expenses.
- Personnel and related benefits increased \$1.6 million from \$1.3 million in the nine months ended September 30, 2020 to \$2.8 million in the same period in 2021 due to the addition of eleven new hires, salary increases in April 2021 and an increase in bonus.
- Stock-based compensation increased \$355,000 from \$580,000 in the nine months ended September 30, 2020 to \$935,000 in the same period in 2021 primarily due to new options and RSUs granted during the period.
- Other expenses consisting of consulting, formulation and regulatory fees increased \$680,000 from \$1.6 million in the nine months ended September 30, 2020 to \$2.2 million in the same period in 2021.

Consulting expenses increased due to increase in clinical trial consultants while direct R&D testing costs also increased due to an increase in R&D work.

Sales and Marketing

The following table presents the components of sales and marketing (“S&M”) expense for the nine months ended September 30, 2021 and 2020 together with the change in such components in dollars and as a percentage:

(in thousands)	Nine Months Ended September 30,		Variance	Variance %
	2021	2020		
<i>Sales and Marketing:</i>				
Personnel and related benefits	\$ 2,887	\$ 2,485	\$ 402	16.2 %
Direct marketing fees and expense	2,544	1,467	1,077	73.4 %
Stock-based compensation	208	167	41	24.6 %
Other	957	609	348	57.1 %
Total	<u>\$ 6,596</u>	<u>\$ 4,728</u>	<u>\$ 1,868</u>	<u>39.5 %</u>

The change in S&M expense of \$1.9 million in the nine months ended September 30, 2021 compared to the same period in 2020 was largely due to:

- Personnel and related benefits increased \$402,000 from \$2.5 million in the nine months ended September 30, 2020 to \$2.9 million in the same period in 2021 due to the addition of four new personnel within Commercial Operations, increase in bonus, and salary increases in April 2021.
- Direct marketing fees and expenses increased \$1.1 million from \$1.5 million in the nine months ended September 30, 2020 to \$2.5 million in the same period in 2021 due to increased patient access programs and other Mytesi marketing initiatives.
- Other expenses increased \$348,000 from \$609,000 in the nine months ended September 30, 2020 to \$957,000 in the same period in 2021 largely due to additional marketing consulting costs.

General and Administrative

The following table presents the components of general and administrative (“G&A”) expense for the nine months ended September 30, 2021 and 2020 together with the change in such components in dollars and as a percentage:

(in thousands)	Nine Months Ended September 30,		Variance	Variance %
	2021	2020		
<i>General and Administrative:</i>				
Personnel and related benefits	\$ 2,469	\$ 1,366	\$ 1,103	80.7 %
Public company expense	2,045	803	1,242	154.7 %
Stock-based compensation	1,689	1,437	252	17.5 %
Legal services	1,532	1,882	(350)	(18.6)%
Audit, tax and accounting services	828	399	429	107.5 %
Third-party consulting services	560	747	(187)	(25.0)%
Rent and lease expense	191	632	(441)	(69.8)%
Travel, other expenses	84	31	53	171.0 %
Other	3,052	3,921	(869)	(22.2)%
Total	<u>\$ 12,450</u>	<u>\$ 11,218</u>	<u>\$ 1,232</u>	<u>11.0 %</u>

The change in G&A expenses of \$1.2 million in the nine months ended September 30, 2021 compared to the same period in 2020 was largely due to:

- Personnel and related benefits increased \$1.1 million from \$1.4 million in the nine months ended September 30, 2020 to \$2.5 million in the same period in 2021, due to new hires and increase in bonus.
- Public company expense increased \$1.2 million from \$803,000 in the nine months ended September 30, 2020 to \$2.0 million in the same period in 2021, largely attributable to the investor relations and communications consulting expenses, and expenses for the annual shareholder meeting.
- Audit, tax and accounting services fees increased \$429,000 from \$399,000 in the nine months ended September 30, 2020 to \$828,000 in the same period in 2021 mostly due to the increased audit fees related to complex debt and equity transactions.
- Stock-based compensation increased \$252,000 from \$1.4 million in the nine months ended September 30, 2020 to \$1.7 million in the same period in 2021 primarily due to higher expense incurred for options granted with immediate vesting to existing employees.
- Rent and lease expense decreased \$441,000 from \$632,000 in the nine months ended September 30, 2020 to \$191,000 in the same period in 2021 as a result of the transfer to a lower-cost facility and the occupancy of less space.
- Legal services decreased \$350,000 from \$1.9 million in the nine months ended September 30, 2020 to \$1.5 million in the same period in 2021 primarily due to a decrease in fees related to legal proceedings and other regulatory filings.
- Third-party consulting services decreased \$187,000 from \$747,000 in the nine months ended September 30, 2020 to \$560,000 in the same period in 2021 primarily due to switch to full-time employees instead of consultants in the finance department.
- Other expenses decreased \$869,000 from \$3.9 million in the nine months ended September 30, 2020 to \$3.1 million in the same period in 2021 due to the non-recurring trial delay penalty incurred in the nine months ended September 30, 2020.

Series 3 Warrants Inducement Expense

The decrease in the Series 3 Warrants inducement expense of \$2.2 million is due to the following:

- In January 2021, the Company issued 135,416 Series 3 Warrants to a certain investor for the exercise of 135,416 Bridge Note Warrants in accordance with the May 2020 Modification of the 2019 Bridge Note Warrants and Inducement Offer. These Series 3 Warrants were valued at \$1.5 million using the Black-Scholes-Merton option pricing model on the issuance date.
- In May 2020, concurrent with the May 2020 modification of the exercise price of the Series 1, Series 2 and Bridge Warrants and inducement offer, the Company issued unregistered Series 3 warrants to purchase 2,890,284 shares of common stock. These Series 3 warrants were valued at \$3.7 million using the Black-Scholes-Merton option pricing model on the issuance date.

ELOC Warrants Inducement Expense

In April 2021, in consideration for Oasis Capital's entry into the amendment to the March 2020 Equity Line of Credit, the Company issued Oasis Capital a common stock purchase warrant exercisable for 33,333 shares of common stock with an exercise price per share equal to \$5.61 on the date of the amendment. These warrants were valued at \$172,000 on the issuance date.

Series B Convertible Preferred Stock Inducement Expense

On March 24, 2020, the Company entered into a Warrant Exercise and Preferred Stock Amendment Agreement with a holder of its Series 2 warrants previously issued in the Company's registered public offering on July 23, 2019, pursuant to which the holder agreed to exercise in cash its warrants to purchase an aggregate of 416,666 shares of common stock, at a reduced exercise price of \$1.57 per share for gross proceeds to the Company of approximately \$653,000. As a further inducement to enter into the Amendment Agreement, the Company agreed to reduce the conversion price of the Company's Series B Convertible Preferred Stock from \$6.00 to \$1.34. The modification of the conversion price of the Series B Convertible Preferred shares was qualitatively considered an extinguishment and the Company followed the guidance in ASC 260-10-S99-2 and recorded an expense of \$1.6 million and derecognizing the Series B Convertible Preferred shares.

Interest Expense

Interest expense increased \$4.7 million from \$1.3 million in the nine months ended September 30, 2020 to \$6.0 million for the same period in 2021 primarily due to interest expense incurred on royalty interest agreements and Exchange Note 2.

Loss on Extinguishment of Debt

The increase in the loss on extinguishment of debt from zero in the nine months ended September 30, 2020 to \$753,000 in the same period in 2021 is due to the \$753,000 extinguishment loss from the exchange of the outstanding balance of Exchange Note 2 for shares of the Company's common stock.

Change in Fair Value of Financial Instruments and Hybrid Instrument Designated at FVO

Change in fair value of financial instrument and hybrid instrument designated at FVO decreased \$852,000 from a loss of \$2.5 million in the nine months ended September 30, 2020 to a loss of \$1.6 million for the same period in 2021 primarily due to fair value adjustments in liability classified warrants and notes payable designated at FVO.

Comparison of the Three Months Ended September 30, 2021 and 2020

The following table summarizes the Company's results of operations with respect to the items set forth in such table for the three months ended September 30, 2021 and 2020 together with the change in such items in dollars and as a percentage.

(in thousands)	Three Months Ended September 30,		Variance	Variance %
	2021	2020		
Product revenue	\$ 630	\$ 2,773	\$ (2,143)	(77.3)%
Operating expenses				
Cost of product revenue	617	784	(167)	(21.3)%
Research and development	3,312	1,522	1,790	117.6 %
Sales and marketing	2,261	1,529	732	47.9 %
General and administrative	3,969	4,313	(344)	(8.0)%
Total operating expenses	10,159	8,148	2,011	24.7 %
Loss from operations	(9,529)	(5,375)	(4,154)	77.3 %
Interest expense	(2,078)	(581)	(1,497)	257.7 %
Other income (expense), net	(20)	194	(214)	(110.3)%
Change in fair value of financial instruments and hybrid instrument designated at FVO	(565)	(2,104)	1,539	(73.1)%
Loss before income tax	(12,192)	(7,866)	(4,326)	55.0 %
Income tax expense	—	—	—	100.0 %
Net loss and comprehensive loss	(12,192)	(7,866)	(4,326)	55.0 %
Deemed dividend attributable to accretion of Series A redeemable convertible preferred stock	—	(349)	349	(100)%
Stock dividend attributable to Series C perpetual preferred stock	—	(56)	56	(100)%
Net loss attributable to common shareholders	\$ (12,192)	\$ (8,271)	\$ (3,921)	47.4 %

Revenue

Gross product sales equal the number of bottles sold multiplied by WAC. Due to the Company's arrangements, including elements of variable consideration, gross product sales are reduced in order to reflect the expected consideration to arrive at net product sales. Deductions to reduce gross product sales to net product sales in the three months ended September 30, 2021 and 2020 were as follows:

(in thousands)	Three Months Ended September 30,		Variance	Variance %
	2021	2020		
Gross product sales				
Mytesi	\$ 3,184	\$ 6,303	\$ (3,119)	(49.5)%
Neonorm	15	13	2	15.4 %
Total gross product sales	3,199	6,316	(3,117)	(49.4)%
Medicaid rebates	(449)	(588)	139	(23.6)%
Sales discounts	(1,599)	(2,218)	619	(27.9)%
Sales returns	(36)	(107)	71	(66.4)%
Wholesaler fees	(485)	(630)	145	(23.0)%
Net product sales	\$ 630	\$ 2,773	\$ (2,143)	(77.3)%

Our gross product revenues were \$3.2 million and \$6.3 million for the three months ended September 30, 2021 and 2020, respectively. These periods reflect revenue from the sale of our human drug Mytesi and our animal products branded as Neonorm Calf and Neonorm Foal.

Human

Sales of Mytesi are recognized as revenue when the products are delivered to the wholesalers and specialty pharmacies. Our gross revenues from the sale of Mytesi were \$3.2 million and \$6.3 million in the three months ended September 30, 2021 and 2020, respectively. The decrease of \$3.1 million or 49.5% in sales of Mytesi is largely due to the transition from Title Model to Specialty Pharmacy distribution networks.

Sales discounts and sales returns were \$1.6 million and \$2.3 million for the three months ended September 30, 2021 and 2020, respectively, a decrease of \$690,000 attributed largely to the estimated allowance for chargebacks and rebates on sales. Medicaid and ADAP rebates were \$449,000 and \$588,000 for the three months ended September 30, 2021 and 2020, respectively, a decrease of \$139,000. Wholesaler fee decreased \$145,000 from \$630,000 in the three months ended September 30, 2020 to \$485,000 in the same period in 2021 due to the transition from a Title Model to selling directly through the Specialty Pharmacy distribution networks.

Animal

Our Neonorm product revenues were \$15,000 and \$13,000 for the three months ended September 30, 2021 and 2020, respectively. Sales and marketing expenses for Neonorm products are not significant during 2021 and none during the same period in 2020.

Cost of Product Revenue

(in thousands)	Three Months Ended September 30,		Variance	Variance %
	2021	2020		
<i>Cost of Product Revenue</i>				
Material cost	\$ 208	\$ 402	\$ (194)	(48.3)%
Direct labor	275	154	121	78.6 %
Distribution fees	92	193	(101)	(52.3)%
Other	42	35	7	20.0 %
Total	<u>\$ 617</u>	<u>\$ 784</u>	<u>\$ (167)</u>	<u>(21.3)%</u>

Cost of product revenue decreased \$167,000 from \$784,000 in the three months ended September 30, 2020 to \$617,000 for the same period in 2021. The decrease in the cost of product revenue over the period was largely attributable to the decrease in sales.

Research and Development

The following table presents the components of R&D expense for the three months ended September 30, 2021 and 2020 together with the change in such components in dollars and as a percentage:

(in thousands)	Three Months Ended September 30,		Variance	Variance %
	2021	2020		
<i>Research and Development:</i>				
Clinical and contract manufacturing	\$ 1,257	\$ 398	\$ 859	215.8 %
Personnel and related benefits	958	458	500	109.2 %
Stock-based compensation	404	175	229	130.9 %
Materials expense and tree planting	116	10	106	1,060.0 %
Travel, other expenses	6	1	5	500.0 %
Other	571	480	91	19.0 %
Total	<u>\$ 3,312</u>	<u>\$ 1,522</u>	<u>\$ 1,790</u>	<u>117.6 %</u>

The change in R&D expense of \$1.8 million the three months ended September 30, 2021 compared the same period in 2020 was largely due to:

- Clinical and contract manufacturing expense increased \$859,000 from \$398,000 in the three months ended September 30, 2020 to \$1.3 million in the same period in 2021 primarily due to increased clinical trial activities related to the start-up of CTD and other indications.
- Personnel and related benefits increased \$500,000 from \$458,000 in the three months ended September 30, 2020 to \$1.0 million in the same period in 2021 due to the addition of eleven new hires and salary increases.
- Stock-based compensation increased \$229,000 from \$175,000 in the three months ended September 30, 2020 to \$404,000 in the same period in 2021 primarily due to higher expense incurred for options granted with immediate vesting to existing employees.

Sales and Marketing

The following table presents the components of S&M expense for the three months ended September 30, 2021 and 2020 together with the change in such components in dollars and as a percentage:

(in thousands)	Three Months Ended September 30,		Variance	Variance %
	2021	2020		
Sales and Marketing:				
Personnel and related benefits	\$ 1,006	\$ 812	\$ 194	23.9 %
Direct marketing fees and expense	698	512	186	36.3 %
Stock-based compensation	88	54	34	63.0 %
Other	469	151	318	210.6 %
Total	\$ 2,261	\$ 1,529	\$ 732	47.9 %

The change in S&M expense of \$732,000 in the three months ended September 30, 2021 compared to the same period in 2020 was largely due to:

- Personnel and related benefits increased \$194,000 from \$812,000 in the three months ended September 30, 2020 to \$1.0 million in the same period in 2021 due to the addition of two new personnel within Commercial Operations.
- Direct marketing fees and expenses increased \$186,000 from \$512,000 million in the three months ended September 30, 2020 to \$698,000 in the same period in 2021 due to increased patient access programs and other Mytesi marketing initiatives.
- Other expenses increased \$318,000 from \$151,000 in the three months ended September 30, 2020 to \$469,000 in the same period in 2021 largely due to additional marketing consulting costs.

General and Administrative

The following table presents the components of G&A expense for the three months ended September 30, 2021 and 2020 together with the change in such components in dollars and as a percentage:

(in thousands)	Three Months Ended September 30,		Variance	Variance %
	2021	2020		
<i>General and Administrative:</i>				
Personnel and related benefits	\$ 706	\$ 452	\$ 254	56.2 %
Stock-based compensation	673	446	227	50.9 %
Public company expense	564	384	180	46.9 %
Legal services	461	497	(36)	(7.2)%
Third-party consulting services	187	171	16	9.4 %
Audit, tax and accounting services	129	127	2	1.6 %
Rent and lease expense	92	220	(128)	(58.2)%
Travel, other expenses	69	5	64	1,280.0 %
Other	1,088	2,011	(923)	(45.9)%
Total	\$ 3,969	\$ 4,313	\$ (344)	(8.0)%

The change in G&A expenses of \$344,000 in the three months ended September 30, 2021 compared to the same period in 2020 was largely due to:

- Personnel and related benefits increased \$254,000 from \$452,000 in the three months ended September 30, 2020 to \$706,000 in the same period in 2021 due to the addition of 3 new employees, and salary increases.
- Stock-based compensation expense increased \$227,000 from \$446,000 in the three months ended September 30, 2020 to \$673,000 in the same period in 2021 due to the new options grants in the period.
- Public company expense increased \$180,000 from \$384,000 for the three months ended September 30, 2020 to \$564,000 in the same period in 2021 largely attributable to the investor relations and communications consulting expenses, and expenses for the annual shareholder meeting
- Other expenses decreased \$923,000 from \$2.0 million in the nine months ended September 30, 2020 to \$1.1 million in the same period in 2021 due to less inducement expenses.

Interest Expense

Interest expense increased \$1.5 million from \$581,000 in the three months ended September 30, 2020 to \$2.1 million for the same period in 2021 primarily due to additional interest expense incurred on royalty interest agreements.

Change in Fair Value of Financial Instruments and Hybrid Instrument Designated at FVO

Change in fair value of financial instrument and hybrid instrument designated at FVO decreased \$1.5 million from a loss of \$2.1 million in the three months ended September 30, 2020 to a loss of \$565,000 for the same period in 2021 primarily due to fair value adjustments in liability classified warrants and notes payable designated at FVO.

Liquidity and Capital Resources

Sources of Liquidity

We have incurred net losses since our inception. For the nine months ended September 30, 2021 and 2020, we had net losses of \$38.3 million and \$25.0 million, respectively. We expect to incur additional losses in the near-term future. At September 30, 2021, we had an accumulated deficit of \$205.2 million. To date, we have generated only limited revenue, and we may never achieve revenue sufficient to offset our expenses.

We had cash of \$12.4 million as of September 30, 2021. We do not believe our current capital is sufficient to fund our operating plan through one year from the issuance of these unaudited condensed consolidated financial statements.

We have funded our operations primarily through the issuance of equity and debt financing, in addition to sales of our commercial products. Cash provided by financing activities in the nine months ended September 30, 2021 were as follows:

- During January 2021, an aggregate of 416,664 shares of common stock was issued upon the exercise of the December 2019 PIPE Financing Warrants for total proceeds of \$975,000.
- On January 13, 2021, the Company entered into a securities purchase agreement, pursuant to which the Company agreed to issue and sell, in a registered public offering an aggregate of 1,479,290 shares of common stock, at an offering price of \$10.14 per share for net proceeds of approximately \$13.5 million.
- On January 19, 2021, the Company entered into a note purchase agreement with Streeterville Capital, LLC (“Streeterville”), pursuant to which the Company issued a secured promissory note in the aggregate principal amount of \$6.2 million for an aggregate purchase price of \$6.0 million.
- During January and February 2021, the Company issued an aggregate of 669,850 shares under the ATM Agreement for total net proceeds of \$5.4 million.
- On March 8, 2021, the Company entered into a Royalty Purchase Agreement with Streeterville, pursuant to which the Company sold a royalty interest entitling Streeterville to \$10.0 million and any interest, fees, and charges as royalty repayment amount for an aggregate purchase price of \$5.0 million. Interest will accrue on the royalty repayment amount at a rate of 5% per annum, compounding quarterly, and will increase to 10% per annum, compounding quarterly on the 12-month anniversary of the closing date.
- Between January to March 2021, an aggregate of 1,383,524 shares of common stock were issued upon the exercise of Series 1, Series 2 and Bridge Note Warrants for total proceeds of \$2.0 million.
- On April 29, 2021, the Company entered into a securities purchase agreement, pursuant to which the Company agreed to issue and sell, in a registered public offering an aggregate of 2,549,000 shares of common stock at an offering price of \$4.23 per share for gross proceeds of approximately \$10.8 million before deducting placement agent fees and related offering expenses of \$948,000.
- On September 13, 2021, the Company entered into a securities purchase agreement (the “September 2021 PIPE Financing”) with certain investors, pursuant to which the Company agreed to issue and sell to the investors in a private placement an aggregate of 309,242 unregistered shares of the Company’s common stock for an aggregate purchase price of approximately \$776,000 or \$2.51 per share.

We expect our expenditures will continue to increase as we continue our efforts to develop our products and continue the development of our pipeline in the near term. We do not believe our current capital is sufficient to fund our operating plan through one year from the issuance of these unaudited condensed consolidated financial statements. We may seek additional capital due to favorable market conditions or strategic considerations even if we believe we have

sufficient funds for our current or future operating plans. We may also not be successful in entering into partnerships that include payment of upfront licensing fees for our products and product candidates for markets outside the United States, where appropriate. If we do not generate upfront fees from any anticipated arrangements, it would have a negative effect on our operating plan. We still plan to finance our operations and capital funding needs through equity and/or debt financing as well as revenue from future product sales. However, there can be no assurance that additional funding will be available to us on acceptable terms on a timely basis, if at all, or that we will generate sufficient cash from operations to adequately fund operating needs or ultimately achieve profitability. If we are unable to obtain an adequate level of financing needed for the long-term development and commercialization of our products, we will need to curtail planned activities and reduce costs. Doing so will likely have an adverse effect on our ability to execute our business plan. These matters raise substantial doubt about the ability of the Company to continue in existence as a going concern within one year after issuance date of the unaudited condensed consolidated financial statements.

Cash Flows for the Nine Months Ended September 30, 2021 Compared to the Nine Months Ended September 30, 2020

The following table shows a summary of cash flows for the nine months ended September 30, 2021 and 2020:

(in thousands)	Nine Months Ended September 30,	
	2021	2020
Total cash used in operating activities	\$ (26,047)	\$ (11,217)
Total cash used in investing activities	(10,484)	(7)
Total cash provided by financing activities	40,816	8,690
Net increase (decrease) in cash	\$ 4,285	\$ (2,534)

Cash Used in Operating Activities

During the nine months ended September 30, 2021, net cash used in operating activities of \$26.0 million resulted from our net loss of \$38.3 million adjusted by the amortization of debt discounts and debt issuance costs of \$3.6 million, stock-based compensation of \$2.8 million, change in fair value of financial instrument and hybrid instrument designated at FVO of \$1.6 million, Series 3 Warrants inducement expense of \$1.5 million, depreciation and amortization expenses of \$1.3 million, loss on extinguishment of debt of \$753,000, ELOC Warrants inducement expense of \$172,000, derecognition of debt discount on the settlement of receivables secured borrowing of \$49,000, amortization of operating lease right-of-use asset of \$45,000, shares issued as payment for services amounting to \$16,000, and changes in operating assets and liabilities of \$344,000.

During the nine months ended September 30, 2020, net cash used in operating activities of \$11.2 million resulted from our net loss of \$25.0 million adjusted by \$3.7 million charge for Series 3 warrants issued as an inducement to exercise equity-classified Series 1, Series 2 and Bridge warrants, a change in fair value of financial instruments and hybrid instrument designated at FVO of \$2.5 million, stock-based compensation of \$2.2 million, inducement charge of \$1.6 million on the modification of Series B convertible preferred shares, depreciation and amortization expenses of \$1.3 million, payments for shares and warrants issued amounting to \$1.0 million, amortization of debt discounts and debt issuance costs of \$693,000, amortization of operating lease right-of-use asset of \$553,000, expense on modification of warrants of \$86,000, loss on assignment of receivables of \$30,000, and changes in operating assets and liabilities of \$122,000.

Cash Used in Investing Activity

During the nine months ended September 30, 2021, cash used in investing activity was \$10.5 million which consisted of \$10.5 million advances for future capital investment and \$6,000 cash used to purchase property and equipment.

During the nine months ended September 30, 2020, cash used in investing activity was \$7,000 which consisted of cash used to purchase property and equipment.

Cash Provided by Financing Activities

During the nine months ended September 30, 2021, net cash provided by financing activities of \$40.8 million consisted of \$23.2 million in net proceeds received from shares issued in registered public offering, \$11.0 million in net proceeds received from issuance of notes payable, \$5.4 million in net proceeds from shares issued in an At the Market offering, \$2.0 million in net proceeds received from shares issued on conversion of Series 1, Series 2, and 2019 Bridge Note Warrants, \$1.8 million in net proceeds received from shares issued in PIPE financing, \$4,000 in net proceeds from exercise of stock options, offset by \$1.8 million repayment of receivables secured borrowing, \$588,000 repayment of insurance financing, \$100,000 in principal payments of the notes payable and \$35,000 payment of ELOC warrants offering costs.

During the nine months ended September 30, 2020, net cash provided by financing activities of \$8.7 million consisted of \$5.7 million in net proceeds received from shares issued on conversion of Series 1, Series 2, and 2019 Bridge Note warrants, \$4.5 million received from borrowings secured by the Company's trade receivables, \$776,000 in insurance premium financings, \$668,000 in net proceeds received from shares of common stock issued via a PIPE financing, \$350,000 in net proceeds received from issuance of a note payable, and \$10,000 in net proceeds received from issuance of other shares of common stock, offset by \$3.1 million in principal payments of the note payable and secured borrowings, \$185,000 in issuance costs from shares issued as part of the underwriter settlement agreement, and \$7,000 payment of deferred offering costs.

Off-Balance Sheet Arrangements

We have entered into a Subscription Agreement with SPAC, advancing an amount of \$10.5 million for future capital increase for a planned business combination. On November 3, 2021, the merger between Napo EU and the SPAC became effective, and the SPAC became a controlled subsidiary (see Note 14).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, Chief Executive Officer and Principal Financial and Accounting Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2021. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure 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 SEC'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 that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Principal Financial and Accounting Officer, as appropriate, to allow timely decisions regarding required disclosure. Based on this evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of September 30, 2021. This conclusion was based on the material weaknesses in our internal control over financial reporting as further described below.

Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected and corrected on a timely basis.

In connection with the preparation of our annual financial statements for the year ended December 31, 2020, we identified material weaknesses in our internal control over financial reporting related to our financial statement close process and policies. We did not have adequate policies and procedures in place to ensure the timely, effective review of assumptions used in measuring the fair value of certain financial instruments. We did not have sufficient resources with appropriate knowledge, experience and/or training commensurate with our financial reporting requirements to assist us in our timely and efficient preparation and review over our financial reporting. This material weakness has not been remediated as of September 30, 2021.

In connection with preparation of our interim financial statements for the three months ended September 30, 2021, we identified a material weakness in our internal control over financial reporting related to our financial statement preparation and review process. The primary factors contributing to the material weaknesses were as follows:

- We did not have adequate policies and procedures in place to ensure the timely and effective preparation and review of the financial statements.
- We did not have sufficient resources with appropriate knowledge, experience and/or training commensurate with our financial reporting requirements to assist us in our timely and efficient preparation and review over our financial reporting.

Remediation Efforts to Address Material Weaknesses

To remediate the material weaknesses described above, management will add controls to further enhance and revise the design of the existing controls including:

- Establishing policies and procedures to ensure timely review, by qualified personnel, of assumptions used in measuring fair value of certain financial instruments.
- Reassessing the design and operation of internal controls over financial reporting and review procedures over the preparation of our financial statements.
- Hiring permanent accounting personnel and used consultants to provide support during our quarterly and annual preparation, review, and reporting of our financial statements.
- Maintaining adequate internal qualified personnel to properly supervise and review the information provided by the outside consulting technical experts to ensure certain significant complex transactions and technical matters were properly accounted for.

We cannot assure you that the planned measures in response to these material weaknesses will be sufficient to remediate such material weaknesses or to avoid potential future material weaknesses.

Internal Control over Financial Reporting

Based on their evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Principal Financial and Accounting Officer have concluded that, as of such date, our disclosure controls and procedures were not effective due to the existence of material weaknesses in the design of our internal controls over financial reporting relating (i) to staff turnover in our accounting department, and (ii) to inadequate policies and procedures in place to ensure the timely and effective preparation and review of the financial statements.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. We plan to enhance existing controls and design and implement new controls applicable to staff, to ensure that our staff is accurately trained to properly understand and review financial transactions. We plan to devote significant time and attention to remediate the above material weaknesses as soon as reasonably possible. As we continue to evaluate our controls, we will make the necessary changes to improve the overall design and operation of our controls. We believe these actions will be sufficient to remediate the identified material weaknesses and strengthen our internal control over financial reporting; however, there can be no guarantee that such remediation will be sufficient. We will continue to monitor the effectiveness of our controls and will make any further changes management determines appropriate.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. — OTHER INFORMATION

Item 1. Legal Proceedings

May 2020 Letter from the Committee on Oversight and Reform of the U.S. House of Representatives

On May 4, 2020, Jaguar Health, Inc. received a letter from the Committee on Oversight and Reform of the U.S. House of Representatives (the “Committee”) regarding the list price adjustment of Mytesi. Among other things, the Committee expressed an interest in understanding whether the price adjustment was connected to the Company’s expectation that it could market crofelemer to treat coronavirus patients given the Company’s submission of a request to the U.S. Food and Drug Administration for Emergency Use Authorization (“EUA”) for crofelemer for the symptomatic relief of diarrhea and other gastrointestinal symptoms in patients with COVID-19 and for patients with COVID-19 who have diarrhea associated with certain antiviral treatments, which submission was denied by the FDA on April 7, 2020 as previously disclosed.

The Company intends to cooperate with the Committee’s inquiry and has prepared a public statement regarding the price adjustment, which is available on the Company’s website at <https://jaguarhealth.gcs-web.com/company-statement>. In its statement, the Company explains that the decision to adjust the price for crofelemer was made in December 2019 as part of expanding the Company’s comprehensive patient access program, and had the Company received EUA, it would have deferred the price adjustment until after the emergency use period ended.

Other than as described above, there are currently no claims or actions pending against us, the ultimate disposition of which could have a material adverse effect on our results of operations, financial condition or cash flows.

Item 1A. Risk Factors

The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding other statements in this Quarterly Report on Form 10-Q, including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our unaudited condensed consolidated financial statements and related notes, before making a decision to invest in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risk and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. If any of the events or circumstances described in the following risk factors actually occur, our business, operating results, financial condition, cash flows, and prospects could be materially and adversely affected. In that event, the market price of our common stock could decline, and you could lose part or all of your investment.

The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause the Company’s actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company’s business, financial condition, operating results, and stock price.

Because of the following factors, as well as other factors affecting the Company’s financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Our royalty interests require us to make minimum royalty payments, even if we do not sell a sufficient amount of products to cover such payments, which may strain our cash resources.

Since March 2020, we have sold royalty interests to certain lenders that entitle such lenders to receive future royalties on sales of our products. These royalty interests require us to make minimum royalty payments beginning 2021, even if we do not sell a sufficient amount of product to cover such payments, which may strain our cash resources. The

total minimum royalty payments will be zero in 2021, \$6.0 million in 2022, \$18.0 million in 2023, \$13.9 million in 2024, \$7.1 million in 2025, and \$3.9 million in 2026.

The reverse split of our common stock effected on September 8, 2021 could decrease our total market capitalization and may increase the volatility of our stock price.

At a special meeting of our stockholders on December 9, 2020 and reconvened on December 22, 2020, our stockholders approved a reverse split of our outstanding common stock at a ratio in the range of 1-for-2 to 1-for-20. Following such special meeting, our board of directors approved a 1-for-3 reverse split of our issued and outstanding shares of common stock. We filed with the Secretary of State of the State of Delaware a Certificate of Amendment to our Certificate of Incorporation to effect the reverse stock split. The reverse stock split was effective as of 12:01 am Eastern Time on September 8, 2021, and our common stock began trading on a split-adjusted basis on The Nasdaq Capital Market on September 8, 2021.

There can be no assurance that the total market capitalization of our common stock after the reverse stock split will be equal to or greater than the total market capitalization before the reverse stock split or that the per share market price of our common stock following the reverse stock split will increase in proportion to the reduction in the number of shares of common stock outstanding before the reverse stock split. Furthermore, a decline in the market price of our common stock after the reverse stock split may result in a greater percentage decline than would occur in the absence of a reverse stock split, and the liquidity of our common stock could be adversely affected following such a reverse stock split.

The reverse stock split increased the Company's authorized but unissued shares of common stock, which could negatively impact a potential investor.

Because the number of authorized shares of the Company's common stock was not reduced proportionately, the reverse stock split increased our board of directors' ability to issue authorized and unissued shares without further stockholder action. The issuance of additional shares of common stock or securities exercisable or convertible into common stock may have a dilutive effect on earnings per share and relative voting power and may cause a decline in the trading price of the common stock. The Company could use the shares that are available for future issuance in equity financing transactions, or to oppose a hostile takeover attempt or delay or prevent changes in control or changes in or removal of management, including transactions that are favored by a majority of the stockholders or in which the stockholders might otherwise receive a premium for their shares over then-current market prices or benefit in some other manner.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On September 1, 2021, pursuant to a letter agreement dated September 1, 2021, the Company agreed to issue 14,000 shares of the Company's common stock to Corporate Profile LLC as partial consideration for investor relations services, which shares are issuable in three tranches: 4,000 shares were issued on September 22, 2021, 5,000 shares will be issued on December 1, 2021 and 5,000 shares will be issued on April 1, 2022.

The offers, sales, and issuances of the securities described above were deemed to be exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act, Regulation D or Regulation S promulgated thereunder as transactions by an issuer not involving a public offering. The recipients of securities in each of these transactions acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in these transactions. Each of the recipients of securities in these transactions was an accredited or sophisticated person and had adequate access, through employment, business or other relationships, to information about us.

Other than equity securities issued in transactions disclosed above and on our Current Report on Form 8-K filed with the SEC on September 17, 2021, there were no unregistered sales of equity securities during the period.

Item 3. Defaults upon senior securities

None.

Item 4. Mine safety disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
3.1	Certificate of Fifth Amendment of the Third Amended and Restated Certificate of Incorporation of Jaguar Health, Inc. (incorporated by reference to Exhibit 3.1 to the Form 8-K of Jaguar Health, Inc. filed September 3, 2021, File No. 001-36714).
10.1#	License Agreement, dated August 18, 2021, by and between Napo Pharmaceuticals, Inc. and Napo EU S.p.A. (incorporated by reference to Exhibit 10.1 to the Form 8-K of Jaguar Health, Inc. filed August 24, 2021, File No. 001-36714).
10.2	Securities Purchase Agreement, dated September 13, 2021, by and between Jaguar Health, Inc. and the investors named therein (incorporated by reference to Exhibit 10.1 to the Form 8-K of Jaguar Health, Inc. filed September 17, 2021, File No. 001-36714).
31.1*	Principal Executive Officer’s Certification Pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
31.2*	Principal Financial Officer’s Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification Pursuant to 18 U.S.C. § 1350 (Section 906 of Sarbanes-Oxley Act of 2002).
32.2**	Certification Pursuant to 18 U.S.C. § 1350 (Section 906 of Sarbanes-Oxley Act of 2002).
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Filed herewith.

** In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 34 47986, the certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10 Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”) or deemed to be incorporated by reference into any filing under the Exchange Act or the Securities Act of 1933 except to the extent that the registrant specifically incorporates it by reference.

Portions of this exhibit have been omitted pursuant to Item 601 of Regulation S-K promulgated under the Securities Act because the information (i) is not material and (ii) would be competitively harmful if publicly disclosed.

SIGNATURE

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

Date: November 17, 2021

JAGUAR HEALTH, INC.

By: /s/ Carol R. Lizak
Principal Financial and Accounting Officer

**PRINCIPAL EXECUTIVE OFFICER'S CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Lisa A. Conte, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Jaguar Health, Inc. for the quarter ended September 30, 2021;
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: November 17, 2021

/s/ Lisa A. Conte

Lisa A. Conte
President and Chief Executive Officer
(Principal Executive Officer)

**PRINCIPAL FINANCIAL OFFICER'S CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Carol Lizak, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Jaguar Health, Inc. for the quarter ended September 30, 2021;
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: November 17, 2021

/s/ Carol Lizak

Carol Lizak
Principal Financial and Accounting Officer

**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 Jaguar Health, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 17, 2021

/s/ Lisa A. Conte

Lisa A. Conte

President and Chief Executive Officer
(Principal Executive Officer)

**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 Jaguar Health, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 17, 2021

/s/ Carol Lizak

Carol Lizak
Principal Financial and Accounting Officer
