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

FORM 10-Q

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

For the quarterly period ended December 31, 2021

☐ 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 001-35570

SONNET BIOTHERAPEUTICS HOLDINGS, INC.
(Exact name of registrant as specified in the charter)

Delaware	**20-2932652**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

100 Overlook Center, Suite 102, Princeton, NJ 08540
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(609) 375-2227**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	SONN	The Nasdaq Stock Market LLC

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, a 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 registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards 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

There were 60,250,637 shares of common stock, par value $0.0001 per share of Sonnet BioTherapeutics Holdings, Inc. issued and outstanding as of February 3, 2022.

Sonnet BioTherapeutics Holdings, Inc. and Subsidiaries

PART I

ITEM 1: FINANCIAL STATEMENTS

Sonnet BioTherapeutics Holdings, Inc.
Consolidated Balance Sheets
(unaudited)

	December 31, 2021	September 30, 2021
Assets		
Current assets:		
Cash	$ 19,409,718	$ 27,622,067
Prepaid expenses and other current assets	1,174,027	1,189,474
Total current assets	20,583,745	28,811,541
Property and equipment, net	55,844	59,056
Operating lease right-of-use asset	100,978	123,213
Total assets	$ 20,740,567	$ 28,993,810
Liabilities and stockholders' equity		
Current liabilities:		
Related-party notes	$ 748	$ 748
Accounts payable	2,112,287	3,781,299
Accrued expenses	1,747,116	2,310,410
Operating lease liability	97,902	94,520
Deferred income	386,575	516,374
Total current liabilities	4,344,628	6,703,351
Operating lease liability	4,998	30,612
Total liabilities	4,349,626	6,733,963
Commitments and contingencies (Note 4)		
Stockholders' equity:		
Preferred stock; $0.0001 par value: 5,000,000 shares authorized. No shares issued or outstanding	—	—
Common stock; $0.0001 par value: 125,000,000 shares authorized; 60,250,637 issued and outstanding at December 31, 2021 and September 30, 2021	6,025	6,025
Additional paid-in capital	84,275,115	83,943,040
Accumulated deficit	(67,890,199)	(61,689,218)
Total stockholders' equity	16,390,941	22,259,847
Total liabilities and stockholders' equity	$ 20,740,567	$ 28,993,810

See accompanying notes to unaudited interim consolidated financial statements

Sonnet BioTherapeutics Holdings, Inc.
Consolidated Statements of Operations
(unaudited)

	Three Months Ended December 31,	
	2021	2020
Collaboration revenue	$ 129,799	$ —
Operating expenses:		
Research and development	4,265,866	3,866,007
General and administrative	2,078,885	1,997,986
Total operating expenses	6,344,751	5,863,993
Loss from operations	(6,214,952)	(5,863,993)
Foreign exchange gain (loss)	13,971	(13,247)
Net loss	$ (6,200,981)	$ (5,877,240)
Per share information:		
Net loss per share, basic and diluted	$ (0.10)	$ (0.34)
Weighted average shares outstanding, basic and diluted	60,293,010	17,218,485

See accompanying notes to unaudited interim consolidated financial statements

Sonnet BioTherapeutics Holdings, Inc.
Consolidated Statements of Changes in Stockholders' Equity (Deficit)
(unaudited)

	Common stock		Additional paid-in	Accumulated	
	Shares	Amount	capital	deficit	Total
Balance at October 1, 2021	60,250,637	$ 6,025	$ 83,943,040	$ (61,689,218)	$ 22,259,847
Share-based compensation	—	—	332,075	—	332,075
Net loss	—	—	—	(6,200,981)	(6,200,981)
Balance at December 31, 2021	60,250,637	$ 6,025	$ 84,275,115	$ (67,890,199)	$ 16,390,941

	Common stock		Additional paid-in	Accumulated	
	Shares	Amount	capital	deficit	Total
Balance at October 1, 2020	14,724,105	$ 1,472	$ 39,723,702	$ (36,705,257)	$ 3,019,917
Warrant exercises	23,863	2	—	—	2
Net share settlement of warrants	2,427,761	243	(243)	—	—
Share-based compensation	—	—	370,055	—	370,055
Net loss	—	—	—	(5,877,240)	(5,877,240)
Balance at December 31, 2020	17,175,729	$ 1,717	$ 40,093,514	$ (42,582,497)	$ (2,487,266)

See accompanying notes to unaudited interim consolidated financial statements

Sonnet BioTherapeutics Holdings, Inc.
Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended December 31,	
	2021	**2020**
Cash flows from operating activities:		
Net loss	$ (6,200,981)	$ (5,877,240)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,212	3,081
Acquired in-process research and development	120,000	—
Amortization of operating lease right-of-use asset	22,235	19,719
Share-based compensation	332,075	370,055
Non-cash interest	—	316
Change in operating assets and liabilities:		
Prepaid expenses and other current assets	15,447	(63,132)
Accounts payable	(1,669,012)	201,922
Accrued expenses	(563,294)	382,836
Operating lease liability	(22,232)	(19,242)
Deferred income	(129,799)	—
Net cash used in operating activities	(8,092,349)	(4,981,685)
Cash flows from investing activities:		
Purchase of in-process research and development	(120,000)	—
Net cash used in investing activities	(120,000)	—
Cash flows from financing activities:		
Proceeds from the exercise of warrants	—	2
Repayments of related-party notes	—	(20,124)
Net cash used in financing activities	—	(20,122)
Net decrease in cash	(8,212,349)	(5,001,807)
Cash, beginning of period	27,622,067	7,349,903
Cash, end of period	$ 19,409,718	$ 2,348,096

See accompanying notes to unaudited interim consolidated financial statements

Sonnet BioTherapeutics Holdings, Inc.
Notes to Unaudited Interim Consolidated Financial Statements

1. Organization and description of business

Description of business

Sonnet BioTherapeutics, Inc. ("Prior Sonnet") was incorporated as a New Jersey corporation on April 6, 2015. Prior Sonnet completed a merger with publicly-held Chanticleer Holdings, Inc. ("Chanticleer") on April 1, 2020. After the merger, Chanticleer changed its name to Sonnet BioTherapeutics Holdings, Inc. ("Sonnet" or the "Company"). Sonnet is a clinical stage, oncology-focused biotechnology company with a proprietary platform for innovating biologic medicines of single- or bi-specific action. Known as FHAB™ (Fully Human Albumin Binding), the technology utilizes a fully human single chain antibody fragment (scFv) that binds to and "hitch-hikes" on human serum albumin (HSA) for transport to target tissues. Sonnet's lead proprietary asset, SON-1010, is a fully human version of Interleukin 12 ("IL-12"), covalently linked to the F_HAB construct, for which Sonnet intends to pursue clinical development in solid tumor indications, including non-small cell lung cancer and head and neck cancer. Sonnet has completed a nonhuman primate ("NHP") GLP toxicity study and has successfully manufactured drug product for clinical use. Sonnet has submitted an Investigational New Drug ("IND") application to the FDA and intends to submit additional product stability data in the first quarter of 2022. Subject to FDA approval, Sonnet is preparing to initiate a U.S. clinical trial in oncology patients with solid tumors during the first half of 2022. Sonnet is also preparing to initiate an Australian clinical study in healthy volunteers during the first half

of 2022. The Company acquired the global development rights to its most advanced compound, SON-080, a fully human version of Interleukin 6 ("IL-6"), in April 2020 through its acquisition of the outstanding shares of Relief Therapeutics SA. Sonnet is advancing SON-080 in target indications of Chemotherapy-Induced Peripheral Neuropathy ("CIPN") and Diabetic Peripheral Neuropathy ("DPN"). Sonnet intends to file for an ex-US Phase 1b/2a pilot-scale efficacy study with SON-080 in CIPN during the first half of 2022. This study could yield initial top line clinical safety data during the second half of 2022. Pursuant to a license agreement the Company entered with New Life Therapeutics Pte, Ltd. ("New Life") of Singapore in May 2021, Sonnet and New Life will be jointly responsible for developing SON-080 in DPN with the objective of initiating an ex-US pilot-scale efficacy study in the second half of 2022. SON-1210 (IL12-FHAB-IL15), Sonnet's lead bi-specific construct, combines F_HAB with fully human IL-12 and fully human Interleukin 15 ("IL-15"). This compound is being developed for solid tumor indications, including colorectal cancer, and Sonnet expects to initiate the regulatory authorization process in the second half of 2022. In September 2021, the Company created a wholly-owned Australian subsidiary, SonnetBio Pty Ltd, for the purpose of conducting certain clinical trials.

Global pandemic - COVID-19

On March 10, 2020, the World Health Organization characterized the novel COVID-19 virus as a global pandemic. There is significant uncertainty as to the likely effects of this disease which may, among other things, materially impact the Company's planned clinical trials. This pandemic or outbreak could result in difficulty securing clinical trial site locations, clinical research organizations ("CROs"), and/or trial monitors and other critical vendors and consultants supporting the trial. In addition, outbreaks or the perception of an outbreak near a clinical trial site location could impact the Company's ability to enroll patients. These situations, or others associated with COVID-19, could cause delays in the Company's clinical trial plans and could increase expected costs, all of which could have a material adverse effect on the Company's business and its financial condition. In particular, manufacturing of the Company's pipeline products (other than SON-1010) has been delayed by COVID-19 related supply chain issues, specifically supply of raw materials, including media, resins, and analytical kits, compounded by international shipping delays. Although the Company does not have perfect visibility into a resolution of the supply chain issues, the Company anticipates delays of approximately one quarter to its programs for these products. Other than the foregoing, at the current time, the Company is unable to quantify the potential effects of this pandemic on its future operations.

Liquidity

The Company has incurred recurring losses and negative cash flows from operations activities since inception and it expects to generate losses from operations for the foreseeable future primarily due to research and development costs for its potential product candidates. The Company believes its cash of $19.4 million at December 31, 2021 will fund the Company's projected operations into August 2022. Substantial additional financing will be needed by the Company to fund its operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company plans to secure additional capital in the future through equity or debt financings, partnerships, collaborations, or other sources to carry out the Company's planned development activities. If additional capital is not available when required, the Company may need to delay or curtail its operations until such funding is received. Various internal and external factors will affect whether and when the Company's product candidates become approved for marketing and successful commercialization. The regulatory approval and market acceptance of the Company's products candidates, length of time and cost of developing and commercializing these product candidates and/or failure of them at any stage of the approval process will materially affect the Company's financial condition and future operations.

Operations since inception have consisted primarily of organizing the Company, securing financing, developing its technologies through performing research and development and conducting preclinical studies. The Company faces risks associated with companies whose products are in development. These risks include the need for additional financing to complete its research and development, achieving its research and development objectives, defending its intellectual property rights, recruiting and retaining skilled personnel, and dependence on key members of management.

2. Summary of Significant Accounting Policies

a. Basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information as found in the Accounting Standard Codification ("ASC") and Accounting Standards Updates ("ASUs") of the Financial Accounting Standards Board ("FASB"). In the opinion of management, the accompanying unaudited interim consolidated financial statements include all normal and recurring adjustments (which consist primarily of accruals, estimates and assumptions that impact the unaudited interim financial statements) considered necessary to present fairly the Company's financial position as of December 31, 2021 and its results of operations and cash flows for the three months ended December 31, 2021 and 2020. The unaudited interim consolidated financial statements presented herein do not contain the required disclosures under U.S. GAAP for annual financial statements and should be read in conjunction with the annual audited financial statements and related notes of Sonnet as of and for the year ended September 30, 2021 included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2021.

b. Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

c. Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Significant estimates and assumptions reflected in these consolidated financial statements include the accrual of research and development expenses. Estimates and assumptions are periodically reviewed in-light of changes in circumstances, facts and experience. Changes in estimates are recorded in the period in which they become known. Actual results could differ from management's estimates.

d. Property and equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Expenditures for repairs and maintenance that do not extend the estimated useful life or improve an asset are expensed as incurred. Upon retirement or sale, the cost and related accumulated depreciation and amortization of assets disposed of are removed from the accounts, and any resulting gain or loss is included in the consolidated statement of operations.

e. Collaboration revenue

Collaboration arrangements may contain multiple components, which may include (i) licenses; (ii) research and development activities; and (iii) the manufacturing and supply of certain materials. Payments pursuant to these arrangements may include non-refundable payments, upfront payments, milestone payments upon the achievement of

significant regulatory and development events, sales milestones and royalties on product sales. The amount of variable consideration is constrained until it is probable that the revenue is not at a significant risk of reversal in a future period.

In determining the appropriate amount of revenue to be recognized as the Company fulfills its obligations under a collaboration arrangement, the Company performs the following steps: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations, including whether they are capable of being distinct; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue as the Company satisfies each performance obligation.

The Company applies significant judgment when evaluating whether contractual obligations represent distinct performance obligations, allocating transaction price to performance obligations within a contract, determining when performance obligations have been met, and assessing the recognition of variable consideration. When consideration is received prior to the Company completing its performance obligation under the terms of a contract, a contract liability is recorded as deferred income. Deferred income expected to be recognized as revenue within the twelve months following the balance sheet date is classified as a current liability. In May 2021, the Company entered into a License Agreement (the "New Life Agreement") with New Life Therapeutics Pte, Ltd. ("New Life"). See Note 5 for further discussion of the New Life Agreement.

f. Research and development expense

Research and development expenses include all direct and indirect costs associated with the development of the Company's biopharmaceutical products. These expenses include personnel costs, consulting fees, and payments to third parties for research, development, and manufacturing services. These costs are charged to expense as incurred.

At the end of the reporting period, the Company compares payments made to third-party service providers to the estimated progress toward completion of the related project, based on the measure of progress as defined in the contract. Factors the Company considers in preparing the estimates include costs incurred by the service provider, milestones achieved, and other criteria related to the efforts of its service providers. Such estimates are subject to change as additional information becomes available. Depending on the timing of payment to the service providers and the progress that the Company estimates has been made as a result of the service provided, the Company will record a prepaid expense or accrued liability relating to these costs. Upfront milestone payments made to third parties who perform research and development services on the Company's behalf are expensed as services are rendered. Contingent development or regulatory milestone payments are recognized upon the related resolution of such contingencies.

g. Net loss per share

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during each period (and potential shares of common stock that are exercisable for little or no consideration). Included in basic weighted-average number of shares of common stock outstanding during the three months ended December 31, 2021 and 2020 are the Series B warrants with an exercise price of $0.0001 per share.

Diluted loss per share includes the effect, if any, from the potential exercise or conversion of securities such as common stock warrants and stock options which would result in the issuance of incremental shares of common stock. For diluted net loss per share, the weighted-average number of shares of common stock is the same for basic net loss per share due to the fact that when a net loss exists, dilutive securities are not included in the calculation as the impact is anti-dilutive.

The following potentially dilutive securities have been excluded from the computation of diluted weighted-average shares of common stock outstanding as they would be anti-dilutive:

	December 31,	
	2021	**2020**
Common stock warrants	39,588,234	—
Underwriter warrants	705,882	—
Private warrants	105,812	105,812
Chanticleer warrants	17,760	17,760
Series C warrants	11,329,461	11,329,461
Unvested restricted stock	1,013,953	653,845
	52,761,102	12,106,878

h. Recent accounting pronouncements

Recently announced

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260), Debt-Modifications and Extinguishments (Subtopic 470-50), Compensation-Stock Compensation (Topic 718), and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*. The amendments in ASU 2021-04 provide guidance to clarify and reduce diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. The guidance is effective for fiscal years beginning after December 15, 2021, including interim periods therein, and early adoption is permitted. The Company is currently evaluating the impact of the adoption of this principle on its consolidated financial statements.

Recently adopted

In December 2019, the FASB issued ASU 2019-12, *Income Taxes Topic 740 - Simplifying the Accounting for Income Taxes*, which intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application of Topic 740. The adoption of ASU 2019-12 on October 1, 2021 did not have any impact on the consolidated financial statements.

3. Accrued Expenses

Accrued expenses consisted of the following:

	December 31, 2021	**September 30, 2021**
Compensation and benefits	$ 656,737	$ 989,315
Research and development	728,746	1,031,329

Professional fees	349,860	286,688
Other	11,773	3,078
	$ 1,747,116	$ 2,310,410

4. Commitments and Contingencies

Legal proceedings

From time to time, the Company is a party to various lawsuits, claims, and other legal proceedings that arise in the ordinary course of its business. While the outcomes of these matters are uncertain, management does not expect that the ultimate costs to resolve these matters will have a material adverse effect on the Company's financial position, results of operations, or cash flows.

License agreements

The Company has entered into a Discovery Collaboration Agreement (the "Collaboration Agreement") with XOMA (US) LLC ("XOMA"), pursuant to which XOMA granted to Sonnet a non-exclusive, non-transferrable license and/or right to use certain materials, technologies and related information related to discovery, optimization and development of antibodies and related proteins and to develop and commercialize products thereunder. The Company is obligated to make contingent milestone payments to XOMA totaling $3.8 million on a product-by-product basis upon the achievement of certain development and approval milestones related to a product. The Company has also agreed to pay XOMA low single-digit royalties on net sales of products sold by the Company. Royalties on each product are payable on a country-by-country basis until the later of (i) a specified period of time after the first commercial sale, and (ii) the date of expiration of the last valid claim in the last-to-expire of the issued patents covered by the Collaboration Agreement.

The Company has entered into a License Agreement (the "ARES License Agreement") with Ares Trading, a wholly-owned subsidiary of Merck KGaA ("ARES"). Under the terms of the ARES License Agreement, ARES has granted the Company a sublicensable, exclusive, worldwide, royalty-bearing license on proprietary patents to research, develop, use and commercialize products using atexakin alfa ("Atexakin"), a low dose formulation of human IL-6 in peripheral neuropathies and vascular complications. Pursuant to the ARES License Agreement, the Company will pay ARES high single-digit royalties on net sales of products sold by the Company. Royalties are payable on a product-by-product and country-by-country basis until the later of (i) a specified period of time after the first commercial sale in such country, and (ii) the last date on which such product is covered by a valid claim in such country.

Research and development agreement

In December 2021, the Company entered into a Research and Development Agreement (the "Navigo Agreement") with Navigo Proteins GmbH ("Navigo"), pursuant to which Navigo will perform specified evaluation and development procedures to evaluate certain materials to determine their commercial potential. Under the terms of the Navigo Agreement, the Company granted Navigo a royalty-free, non-exclusive, worldwide, non-sublicensable, non-transferable right and license to use certain technology to perform the evaluation and development activities, and Navigo granted the Company (i) an exclusive, worldwide, perpetual, irrevocable, sublicensable, transferable, royalty-free right and license to research, develop, use, sell, have sold, distribute, import or otherwise commercially exploit certain materials, and (ii) a non-exclusive, worldwide, perpetual, sublicensable, non-transferable right and license to make or have made such materials. The Company paid a $0.1 million technology access fee which was recorded as acquired in-process research and development and included in research and development expenses in the consolidated statement of operations for the three months ended December 31, 2021. The Company is obligated to make contingent milestone payments to Navigo totaling up to $1.0 million upon the achievement of certain evaluation and development milestones as outlined in the Navigo Agreement.

Employment agreements

The Company has entered into employment contracts with its officers and certain employees that provide for severance and continuation of benefits in the event of termination of employment either by the Company without cause or by the employee for good reason, both as defined in the contract. In addition, in the event of termination of employment following a change in control, as defined, either by the Company without cause or by the employee for good reason, any unvested portion of the employee's initial stock option grant becomes immediately vested.

5. Collaboration Revenue

Under the New Life Agreement, the Company granted New Life an exclusive license (with the right to sublicense) to develop and commercialize pharmaceutical preparations containing a specific recombinant human IL-6, SON-080 (the "Compound") (such preparations, the "Products") for the prevention, treatment or palliation of diabetic peripheral neuropathy in humans (the "DPN Field") in Malaysia, Singapore, Indonesia, Thailand, Philippines, Vietnam, Brunei, Myanmar, Lao PDR and Cambodia (the "Exclusive Territory"). New Life had the option to expand (1) the field of the exclusive license to include the prevention, treatment or palliation of chemotherapy-induced peripheral neuropathy in humans (the "CIPN Field"), which option was non-exclusive and expired on December 31, 2021; and/or (2) the territorial scope of the license to include the People's Republic of China, Hong Kong and/or India, which option was exclusive and expired on December 31, 2021.

The Company will retain all rights to manufacture Compounds and Products anywhere in the world. The Company and New Life shall enter into a follow-on supply agreement pursuant to which the Company shall supply to New Life Products for development and commercialization thereof in the DPN Field in the Exclusive Territory on terms to be negotiated by the parties. The Company will also assist in transferring certain preclinical and clinical development know-how that is instrumental in New Life's ability to benefit from the license.

New Life will bear the cost of, and be responsible for, among other things, conducting clinical studies and additional non-clinical studies and other developmental and regulatory activities for and commercializing Products in the DPN Field in the Exclusive Territory.

New Life paid the Company a $0.5 million non-refundable upfront cash payment in August 2020 upon executing a letter of intent to negotiate a license agreement and a $0.5 million non-refundable upfront cash payment in June 2021 in connection with the execution of the New Life Agreement. New Life is also obligated to pay a non-refundable deferred license fee of an additional $1.0 million at the time of the satisfaction of certain milestones, as well as potential additional milestone payments to the Company of up to $19.0 million subject to the achievement of certain development and commercialization milestones. In addition, during the Royalty Term (as defined below), New Life is obligated to pay the Company tiered double-digit royalties ranging from 12% to 30% based on annual net sales of Products in the Exclusive Territory. The "Royalty Term" means, on a Product-by-Product and a country-by-country basis in the Exclusive Territory, the period commencing on the date of the first commercial sale (subject to certain conditions) of such Product in such country in the Exclusive Territory and continuing until New Life ceases commercialization of such Product in the DIPN Field.

The New Life Agreement will remain in effect on a Product-by-Product, country-by-country basis and will expire upon the expiration of the Royalty Term for the last-to-expire Product in the last-to-expire country, subject to (i) each party's early termination rights including for material breach or insolvency or bankruptcy of the other party and (ii) the Company's Buy Back Right and New Life's Give Back Right (as defined below).

In addition, New Life granted to the Company an exclusive option to buy back the rights (the "Buy Back Right") granted by the Company to New Life and the Company granted New Life the right to give back the rights (the "Give Back Right") with respect to Products in the DPN Field in one or more countries in the Exclusive Territory on terms to be agreed upon, which options will expire upon the initiation of a Phase III Trial for the applicable Product.

Revenue recognition

The Company first assessed the New Life Agreement under ASC 808, *Collaborative Arrangements* ("ASC 808") to determine whether the New Life Agreement or units of accounts within the New Life Agreement represent a collaborative arrangement based on the risks and rewards and activities of the parties. The Company concluded that New Life represented a customer and applied relevant guidance from ASC 606, *Revenue from Contracts with Customers* ("ASC 606") to evaluate the appropriate accounting under the New Life Agreement. In accordance with this guidance, the Company identified the following obligations under the arrangement: (i) license to develop, market, import, use and commercialize the Product in the Field in the Exclusive Territory (the "License"); and (ii) transfer of know-how and clinical development and regulatory activities ("R&D Activities"). The options to expand the CIPN Field and territory as well as the future supply agreement represent optional purchases, which are accounted for as separate contracts unless they convey a material right to the customer. The Company evaluated these separate contracts and did not identify any material right to be present. The Company determined that License and the R&D services are not distinct from each other and therefore combined these material promises into a single performance obligation.

The Company determined the initial transaction price of the single performance obligation to be $1.0 million, as the future development and commercialization milestones, which represent variable consideration, are subject to constraint at inception. At the end of each subsequent reporting period, the Company will reevaluate the probability of achievement of the future development and commercialization milestones subject to constraint and, if necessary, will adjust its estimate of the overall transaction price. Any such adjustments will be recorded on a cumulative catch-up basis. For the sales-based royalties, the Company will recognize revenue when the related sales occur.

Collaboration revenue from the single performance obligation is being recognized over the estimated performance of the R&D services. The Company recognized $0.1 million of revenue for the three months ended December 31, 2021.

6. Stockholders' Equity

Common stock warrants

As of December 31, 2021, the following equity-classified warrants and related terms were outstanding:

	Warrants Outstanding		Exercise Price	Expiration Date
Common stock warrants	39,588,234	$	0.85	August 24, 2026
Underwriter warrants	705,882	$	1.0625	August 19, 2026
Private warrants	105,812	$	29.32	October 1, 2022 - March 10, 2023
Chanticleer warrants	17,760	$	58.50 - $91.00	April 30, 2027 - December 17, 2028
Series B warrants	42,373	$	0.0001	April 16, 2025
Series C warrants	11,329,461	$	3.19	October 16, 2025
	51,789,522			

7. Share-Based Compensation

In April 2020, the Company adopted the 2020 Omnibus Equity Incentive Plan (the "Plan"). The total number of shares authorized under the Plan as of December 31, 2021 was 650,686, all but one of which has been granted at December 31, 2021. On January 1, 2022, the total number of shares authorized under the Plan increased to 2,410,026. The Plan increases the amount of shares issuable under the Plan by four percent of the outstanding shares of common stock at January 1, each year. The Plan permits the granting of share-based awards, including stock options, restricted stock units and awards, stock appreciation rights and other types of awards as deemed appropriate, in each case, in accordance with the terms of the Plan. The terms of the awards are determined by the Company's Board of Directors.

Restricted stock units

In July of 2020, 653,846 restricted stock units ("RSUs") were granted, 50% of which vested on April 2, 2021 and the remaining 50% vest on April 2, 2022 In March of 2021, an additional 47,000 RSUs were granted, 50% of which vest on March 25, 2022 and the remaining 50% vest on March 25, 2023 In December of 2021, 650,685 RSUs were granted, 100% of which vest on January 1, 2023. Any unvested RSUs will be forfeited upon termination of services. The fair value of an RSU is equal to the fair market value of the Company's common stock on the date of grant. RSU expense is amortized straight-line over the vesting period.

The Company recorded share-based compensation expense associated with the RSUs in its accompanying consolidated statements of operations as follows:

	Three Months Ended December 31,			
	2021		2020	
Research and development	$	169,176	$	105,694
General and administrative		162,899		264,361
	$	332,075	$	370,055

The following table summarizes RSU activity under the Plan:

	RSU		Weighted Average Grant Date Fair Value
Unvested balance at September 30, 2021	363,268	$	3.47
Granted	650,685	$	0.50
Unvested balance at December 31, 2021	1,013,953	$	1.57

As of December 31, 2021, total unrecognized compensation expense relating to unvested RSUs granted was $0.7 million, which is expected to be recognized over a weighted-average period of less than one year.

8. Subsequent Events

The Company has evaluated subsequent events from the balance sheet date through the date the unaudited interim consolidated financial statements were available to be issued.

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our financial statements and the related notes and the other financial information included elsewhere in this Quarterly Report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Quarterly Report, particularly those under "Risk Factors."

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, assumptions, estimates, intentions and future performance, and involve known and unknown risks, uncertainties and other factors, which may be beyond our control, and which may cause our actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be forward-looking statements. You can identify these forward-looking statements through our use of words such as "may," "can," "anticipate," "assume," "should," "indicate," "would," "believe," "contemplate," "expect," "seek," "estimate," "continue," "plan," "point to," "project," "predict," "could," "intend," "target," "potential" and other similar words and expressions of the future.

There are a number of important factors that could cause the actual results to differ materially from those expressed in any forward-looking statement made by us. These factors include, but are not limited to:

- our lack of operating history and history of operating losses;
- our need for significant additional capital and our ability to satisfy our capital needs;
- our ability to complete required clinical trials of our products and obtain approval from the FDA or other regulatory agents in different jurisdictions;
- the potential impact of the recent COVID-19 pandemic on our operations, including on our clinical development plans and timelines;
- our ability to maintain or protect the validity of our patents and other intellectual property;
- our ability to retain key executive members;
- our ability to internally develop new inventions and intellectual property;
- interpretations of current laws and the passages of future laws;
- acceptance of our business model by investors;
- the accuracy of our estimates regarding expenses and capital requirements; and
- our ability to adequately support growth.

The foregoing does not represent an exhaustive list of matters that may be covered by the forward-looking statements contained herein or risk factors that we are faced with that may cause our actual results to differ from those anticipate in our forward-looking statements. Please see "Risk Factors" for additional risks which could adversely impact our business and financial performance.

All forward-looking statements are expressly qualified in their entirety by this cautionary notice. You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this report or the date of the document incorporated by reference into this report. We have no obligation, and expressly disclaim any obligation, to update, revise or correct any of the forward-looking statements, whether as a result of new information, future events or otherwise. We have expressed our expectations, beliefs and projections in good faith and we believe they have a reasonable basis. However, we cannot assure you that our expectations, beliefs or projections will result or be achieved or accomplished.

Overview

Sonnet BioTherapeutics Holdings, Inc. ("Sonnet," "we," "us," "our" or the "Company"), is a clinical stage, oncology-focused biotechnology company with a proprietary platform for innovating biologic medicines of single- or bi-specific action. Known as FHAB™ (Fully Human Albumin Binding), the technology utilizes a fully human single chain antibody fragment that binds to and "hitch-hikes" on human serum albumin for transport to target tissues. We designed the construct to improve drug accumulation in specific tissues, as well as to extend the duration of activity in the body. FHAB development candidates are produced in a mammalian cell culture, which enables glycosylation, thereby reducing the risk of immunogenicity. We believe our FHAB technology, for which we received a U.S. patent in June 2021, is a distinguishing feature of our biopharmaceutical platform that is well suited for future drug development across a range of human disease areas, including in oncology, autoimmune, pathogenic, inflammatory, and hematological conditions.

Our current internal pipeline development activities are focused on cytokines, a class of cell signaling peptides that, among other important functions, serve as potent immunomodulatory agents. Working both independently and synergistically, specific cytokines have shown the ability to modulate the activation and maturation of immune cells that fight cancer and pathogens. However, because they do not preferentially accumulate in specific tissues and are quickly eliminated from the body, the conventional approach to achieving a treatment effect with cytokine therapy typically requires the administration of high and frequent doses. This can result in a reduced treatment effect accompanied by the potential for systemic toxicity, which poses challenges to the therapeutic application of this class of drugs.

Our lead proprietary asset, SON-1010, is a fully human version of Interleukin 12 ("IL-12"), covalently linked to the F_HAB construct, for which we intend to pursue clinical development in solid tumor indications, including non-small cell lung cancer and head and neck cancer. We have completed a nonhuman primate ("NHP") GLP toxicity study and have successfully manufactured drug product for clinical use. We have submitted an Investigational New Drug ("IND") application to the FDA and intend to submit additional product stability data in the first quarter of 2022. Subject to FDA approval, we are preparing to initiate a U.S. clinical trial in oncology patients with solid tumors during the first half of 2022. We are also preparing to initiate an Australian clinical study in healthy volunteers during the first half of 2022. We acquired the global development rights to its most advanced compound, SON-080, a fully human version of Interleukin 6 ("IL-6"), in April 2020 through our acquisition of the outstanding shares of Relief Therapeutics SA. Sonnet is advancing SON-080 in target indications of Chemotherapy-Induced Peripheral Neuropathy ("CIPN") and Diabetic Peripheral Neuropathy ("DPN"). We intend to file for an ex-US Phase 1b/2a pilot-scale efficacy study with SON-080 in CIPN during the first half of 2022. This study could yield initial top line clinical safety data during the second half of 2022. Pursuant to a license agreement we entered with New Life Therapeutics Pte, Ltd. ("New Life") of Singapore in May 2021, we and New Life will be jointly responsible for developing SON-080 in DPN with the objective of initiating an ex-US pilot-scale efficacy study in the second half of 2022. SON-1210 ("IL12-FHAB-IL15"), our lead bi-specific construct, combines F_HAB with fully human IL-12 and fully human Interleukin 15 ("IL-15"). This compound is being developed for solid

tumor indications, including colorectal cancer, and we expect to initiate the regulatory authorization process in the second half of 2022. In September 2021, we created a wholly-owned Australian subsidiary, SonnetBio Pty Ltd, for the purpose of conducting certain clinical trials.

We have incurred recurring operating losses and negative cash flows since inception. Our ability to generate product or licensing revenue sufficient to achieve profitability will depend heavily on the successful development and eventual commercialization of one or more of our current or future product candidates. Our net losses were $6.2 million and $5.9 million for the three months ended December 31, 2021 and 2020, respectively. As of December 31, 2021, we had cash of $19.4 million. We expect to continue to incur significant expenses and increasing operating losses for at least the next several years. We expect that our expenses and capital requirements will increase substantially in connection with our ongoing activities, particularly if and as we:

- conduct additional clinical trials for product candidates;

- continue to discover and develop additional product candidates;
- acquire or in-license other product candidates and technologies;
- maintain, expand and protect our intellectual property portfolio;
- hire additional clinical, scientific and commercial personnel;
- establish a commercial manufacturing source and secure supply chain capacity sufficient to provide commercial quantities of any product candidates for which we may obtain regulatory approval;
- seek regulatory approval for product candidates that successfully complete clinical trials;
- establish a sales, marketing and distribution infrastructure to commercialize any products for which we may obtain regulatory approval; and
- add operational, financial and management information systems and personnel, including personnel to support our product development and planned future commercialization efforts, as well as to support our operation as a public reporting company.

We will not generate revenue from product sales, if any, unless and until we receive licensing revenue and/or successfully complete clinical development and obtain regulatory approval for our product candidates. If we obtain regulatory approval for any of our product candidates and do not enter into a commercialization partnership, we expect to incur significant expenses related to developing our internal commercialization capability to support product sales, marketing and distribution. We will continue to incur significant costs associated with operating as a public company.

As a result, we will need substantial additional funding to support our continuing operations and pursue our growth strategy. Until such time as we can generate significant revenue from product sales, if ever, we expect to finance our operations through the sale of equity, debt financings or other capital sources, which may include collaborations with other companies or other strategic transactions. We may not be able to raise additional funds or enter into such other agreements or arrangements when needed on favorable terms, or at all. If we fail to raise capital or enter into such agreements as and when needed, we may have to significantly delay, reduce or eliminate the development and commercialization of one or more of our product candidates or delay our pursuit of potential in-licenses or acquisitions.

Because of the numerous risks and uncertainties associated with product development, we are unable to predict the timing or amount of increased expenses or when or if we will be able to achieve or maintain profitability. Even if we are able to generate product sales, we may not become profitable. If we fail to become profitable or are unable to sustain profitability on a continuing basis, then we may be unable to continue our operations at planned levels and be forced to reduce or terminate operations.

Since our inception in 2015, we have devoted substantially all of our efforts and financial resources to organizing and staffing the Company, business planning, raising capital, acquiring or discovering product candidates and securing related intellectual property rights and conducting discovery, research and development activities for product candidates. We do not have any products approved for sale and have not generated any revenue from product sales. We have funded our operations to date primarily with proceeds from sales of common stock, warrants and proceeds from the issuance of convertible debt.

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus, COVID-19, was reported to have surfaced in Wuhan, China and on March 11, 2020 was declared a pandemic by the World Health Organization. Many countries around the world imposed quarantines and restrictions on travel and mass gatherings to slow the spread of COVID-19 and closed non-essential businesses. As countries and state and local jurisdictions continue to put restrictions in place, our ability to continue to operate our business may also be limited. Such events may result in a period of business, supply and drug product manufacturing disruption, and in reduced operations, any of which could materially affect our business, financial condition and results of operations.

This pandemic or outbreak could result in difficulty securing clinical trial site locations, CROs, and/or trial monitors and other critical vendors and consultants supporting the trial. In addition, outbreaks or the perception of an outbreak near a clinical trial site location could impact our ability to enroll patients. These situations, or others associated with COVID-19, could cause delays in our clinical trial plans and could increase expected costs, all of which could have a material adverse effect on our business and its financial condition.

In particular, manufacturing of our pipeline products (other than SON-1010) has been delayed by COVID-19 related supply chain issues, specifically supply of raw materials, including media, resins, and analytical kits, compounded by international shipping delays. Although we do not have perfect visibility into a resolution of the supply chain issues, we anticipate delays of approximately one quarter to our programs for these products.

While the potential economic impact brought by, and the duration of, COVID-19 may be difficult to assess or predict, a widespread pandemic could result in significant disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. In addition, a recession or market correction resulting from the spread of COVID-19 could materially affect our business and the value of our common shares.

The COVID-19 outbreak may also affect the ability of our staff and the parties we work with to carry out our non-clinical, clinical, and drug manufacturing activities. We rely or may in the future rely on clinical sites, investigators and other study staff, consultants, independent contractors, contract research organizations and other third-party service providers to assist us in managing, monitoring and otherwise carrying out our nonclinical studies and clinical trials. We also rely or may in the future rely on consultants, independent contractors, contract manufacturing organizations, and other third-party service providers to assist us in managing, monitoring and otherwise carrying out our API production, formulation, and drug manufacturing activities. COVID-19 may affect the ability of any of these external people, organizations, or companies to devote sufficient time and resources to our programs or to travel to perform work for us.

Potential negative impacts of the COVID-19 outbreak on the conduct of current or future clinical studies include delays in gaining feedback from regulatory agencies, starting new clinical studies, and recruiting subjects to studies that are enrolling. The potential negative impacts also include inability to have study visits at study sites, incomplete collection of safety and efficacy data, and higher rates of drop-out of subjects from ongoing studies, delays in site entry of study data into the data base, delays in monitoring of study data because of restricted physical access to study sites, delays in site responses to queries, delays in data-base lock, delays in data analyses, delays in time to top-line data, and delays in completing study reports. New or worsening COVID-19 disruptions or restrictions could have the potential to further negatively impact our non-clinical studies, clinical trials, and drug manufacturing activities. At the current time, we are unable to quantify the potential effects of this pandemic on future operations.

Components of Results of Operations

Collaboration Revenue

Collaboration revenue is currently earned from the license arrangement entered into with New Life in May 2021, which granted New Life rights to an exclusive license (with the right to sublicense) to develop and commercialize pharmaceutical Products containing the Compound for the DPN Field in the Exclusive Territory. We identified the License and R&D Activities as obligations under the arrangement. We determined that the License and the R&D Activities are not distinct from each other and, therefore, combined these material promises into a single performance obligation. Under this agreement, we received upfront cash payments totaling $1.0 million, which were fully allocated to the single performance obligation and are being recognized over the estimated performance period of R&D services.

Operating Expenses

Research and Development Expenses

Research and development expenses consist primarily of costs incurred in connection with the discovery and development of our product candidates. We expense research and development costs as incurred and such costs include:

- employee-related expenses, including salaries, share-based compensation and related benefits, for employees engaged in research and development functions;
- expenses incurred in connection with the preclinical and clinical development of our product candidates, including under agreements with third parties, such as consultants and clinical research organizations;
- the cost of manufacturing drug products for use in our preclinical studies and clinical trials, including under agreements with third parties, such as consultants and contract manufacturing organizations;
- facilities, depreciation and other expenses, which include direct or allocated expenses for rent and maintenance of facilities and insurance;
- costs related to compliance with regulatory requirements; and
- payments made under third-party licensing agreements.

We recognize external development costs based on an evaluation of the progress to completion of specific tasks using information provided by our service providers. This process involves reviewing open contracts and purchase orders, communicating with their personnel to identify services that have been performed on our behalf, and estimating the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of actual costs. Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are recorded as prepaid expenses. Such amounts are recognized as an expense when the goods have been delivered or the services have been performed.

Our direct research and development expenses consist primarily of external costs, such as fees paid to outside consultants, CROs, CMOs and research laboratories in connection with preclinical development, process development, manufacturing and clinical development activities. Our direct research and development expenses also include fees incurred under third-party license agreements. We do not allocate employee costs and costs associated with discovery efforts, laboratory supplies and facilities, including depreciation or other indirect costs, to specific product candidates because these costs are deployed across multiple programs and as such, are not separately classified. We use internal resources primarily to conduct its research and discovery as well as for managing preclinical development, process development, manufacturing and clinical development activities. These employees work across multiple programs and therefore, we do not track its costs by product candidate.

We expect our research and development expense will increase for the foreseeable future as we attempt to advance development of our product candidates. The successful development of our product candidates is highly uncertain. At this time, we cannot reasonably estimate or know the nature, timing and costs of the efforts that will be necessary to complete the remainder of the development of our current pipeline or any future product candidates we may develop due to the numerous risks and uncertainties associated with clinical development, including risk and uncertainties related to:

- the timing and progress of preclinical and clinical development activities;
- the number and scope of preclinical and clinical programs that we decide to pursue;
- our ability to maintain our current research and development programs and to establish new ones;
- establishing an appropriate safety profile with investigational new drug-enabling studies;
- successful patient enrollment in, and the initiation and completion of, clinical trials;

- the successful completion of clinical trials with safety, tolerability and efficacy profiles that are satisfactory to the FDA or any comparable foreign regulatory authority;
- the receipt of regulatory approvals from applicable regulatory authorities;
- the timing, receipt and terms of any marketing approvals from applicable regulatory authorities;
- our ability to establish new licensing or collaboration arrangements;
- establishing agreements with third-party manufacturers for clinical supply for our clinical trials and commercial manufacturing, if any of our product candidates is approved;

- development and timely delivery of clinical-grade and commercial-grade drug formulations that can be used in our clinical trials and for commercial launch;
- obtaining, maintaining, defending and enforcing patent claims and other intellectual property rights;
- launching commercial sales of product candidates, if approved, whether alone or in collaboration with others;
- maintaining a continued acceptable safety profile of the product candidates following approval; and
- the potential impact of COVID-19 on operations which may affect among other things, the timing of clinical trials, availability of raw materials, and the ability to access and secure testing facilities.

A change in the outcome of any of these variables with respect to the development of our product candidates could significantly change the costs and timing associated with the development of that product candidate. We may never succeed in obtaining regulatory approval for any of our product candidates.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related costs for personnel, including share-based compensation, in executive, finance and administrative functions. General and administrative expenses also include direct and allocated facility-related costs as well as professional fees for legal, patent, consulting, accounting, and audit services.

Our general and administrative expenses will increase in the future as we increase our headcount to support continued research activities and development of product candidates. We will continue to incur increased accounting, audit, legal, regulatory, compliance and director and officer insurance costs as well as investor and public relations expenses associated with being a public company.

Foreign Exchange Gain (Loss)

Foreign exchange gain (loss) consists of exchange rate changes on transactions denominated in currencies other than the U.S. dollar.

Results of Operations

Comparison of the three months ended December 31, 2021 and 2020

The following table summarizes our results of operations for the three months ended December 31, 2021 and 2020:

	Three Months Ended December 31,		
	2021	2020	Change
Collaboration revenue	$ 129,799	$ —	$ 129,799
Operating expenses			
Research and development	4,265,866	3,866,007	399,859
General and administrative	2,078,885	1,997,986	80,899
Total operating expenses	6,344,751	5,863,993	480,758
Loss from operations	(6,214,952)	(5,863,993)	(350,959)
Foreign exchange gain (loss)	13,971	(13,247)	27,218
Net loss	$ (6,200,981)	$ (5,877,240)	$ (323,741)

Collaboration Revenue

We recognized $0.1 million of revenue related to the New Life Agreement during the three months ended December 31, 2021.

Research and Development Expenses

Research and development expenses were $4.3 million for the three months ended December 31, 2021, compared to $3.9 million for the three months ended December 31, 2020. The increase of $0.4 million was primarily due to the development of the cell lines for IL12-FHAB, IL12-FHAB-IL15 and SON-080, and an increase in payroll and share-based compensation expense as we continue to expand our operations.

General and Administrative Expenses

General and administrative expenses were $2.1 million for the three months ended December 31, 2021, compared to $2.0 million for the three months ended December 31, 2020. The increase relates to an increase in consulting fees.

Liquidity and Capital Resources

As of December 31, 2021, our accumulated deficit was $67.9 million. We have funded operations to date primarily with proceeds from sales of common stock, warrants and proceeds from the issuance of convertible debt. We will likely offer additional securities for sale during our fiscal year 2022 or thereafter in response to market conditions or other circumstances if we believe such a plan of financing is required to advance our business plans and is in the best interests of our stockholders. There is no certainty that equity or debt financing will be available in the future or that it will be at acceptable terms and at this time, it is not possible to predict the outcome of these matters.

We have incurred significant net losses of $6.2 million and $5.9 million for the three months ended December 31, 2021 and 2020, respectively. We expect to continue to incur significant operational expenses and net losses in the upcoming 12 months and beyond. Our net losses may fluctuate significantly from quarter to quarter and year to year, depending on the stage and complexity of our R&D studies and related expenditures, the receipt of additional payments on the licensing of our technology, if any, and the receipt of payments under any current or future collaborations we may enter into.

We have evaluated whether there are conditions or events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern. We believe our cash of $19.4 million at December 31, 2021 will fund our projected operations into August 2022. Substantial additional financing will be needed by us to fund our operations. These factors raise substantial doubt about our ability to continue as a going concern.

The following table summarizes our sources and uses of cash for each of the periods presented:

	Three Months Ended December 31,	
	2021	2020
Net cash used in operating activities	$ (8,092,349)	$ (4,981,685)
Net cash used in investing activities	(120,000)	—
Net cash used in financing activities	—	(20,122)
Net decrease in cash	$ (8,212,349)	$ (5,001,807)

Operating Activities

During the three months ended December 31, 2021, we used $8.1 million of cash in operating activities which was primarily attributable to our net loss of $6.2 million and a $2.2 million decrease in accounts payable and accrued expenses, primarily related to research and development efforts. This amount was offset by $0.3 million in share-based compensation expense and $0.1 million acquired in-process research and development.

During the three months ended December 31, 2020, we used $5.0 million of cash in operating activities. Cash used in operating activities reflected our net loss of $5.9 million. This amount was offset by $0.4 million in share-based compensation expense and a $0.6 million increase in accounts payable and accrued expenses, primarily related to increased research and development efforts.

Operating Activities

During the three months ended December 31, 2021, we used $0.1 million for the purchase of acquired in-process research and development.

Financing Activities

During the three months ended December 31, 2020, we made repayments of related-party notes of $20 thousand.

Funding Requirements

We expect our expenses to increase substantially in connection with our ongoing activities, particularly as we advance preclinical activities and clinical trials of product candidates in development. In addition, we expect to incur additional costs associated with operating as a public company. The timing and amount of our operating expenditures will depend largely on:

- the scope, number, initiation, progress, timing, costs, design, duration, any potential delays, and results of clinical trials and nonclinical studies for our current or future product candidates;
- the clinical development plans we establish for these product candidates;
- the number and characteristics of product candidates and programs that we develop or may in-license;
- the outcome, timing and cost of regulatory reviews, approvals or other actions to meet regulatory requirements established by the FDA and comparable foreign regulatory authorities, including the potential for the FDA or comparable foreign regulatory authorities to require that we perform more studies for our product candidates than those that we currently expect;
- our ability to obtain marketing approval for product candidates;

- the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights covering our product candidates;
- our ability to maintain, expand and defend the scope of our intellectual property portfolio, including the cost of defending intellectual property disputes, including patent infringement actions brought by third parties against us or our product candidates;
- the cost and timing of completion of commercial-scale outsourced manufacturing activities with respect to product candidates;
- our ability to establish and maintain licensing, collaboration or similar arrangements on favorable terms and whether and to what extent we retain development or commercialization responsibilities under any new licensing, collaboration or similar arrangement;
- the cost of establishing sales, marketing and distribution capabilities for any product candidates for which we may receive regulatory approval in regions where we choose to commercialize our products on our own;
- the success of any other business, product or technology that we acquire or in which we invest;
- the costs of acquiring, licensing or investing in businesses, product candidates and technologies;
- our need and ability to hire additional management and scientific and medical personnel;
- the costs to operate as a public company in the United States, including the need to implement additional financial and reporting systems and other internal systems and infrastructure for our business;
- market acceptance of our product candidates, to the extent any are approved for commercial sale;
- the effect of competing technological and market developments; and
- the potential impact of the COVID-19 pandemic on our clinical trials and operations

Until such time, if ever, as we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaborations, strategic alliances, and marketing, distribution or licensing arrangements with third parties. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interest of us may be materially diluted, and the terms of such securities could include liquidation or other preferences that adversely affect the rights of our stockholders. Debt financing and preferred equity financing, if available, may involve agreements that include restrictive covenants that limit our ability to take specified actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise funds through collaborations, strategic

alliances or marketing, distribution or licensing arrangements with third parties, we may have to relinquish valuable rights to technologies, future revenue streams, research programs or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings or other arrangements when needed, we may be required to delay, reduce or eliminate product development or future commercialization efforts, sell off assets, or grant rights to develop and market product candidates that we would otherwise prefer to develop and market.

Contractual Obligations and Commitments

The following table summarizes the Company's contractual obligations as of December 31, 2021 and the effects that such obligations are expected to have on its liquidity and cash flows in future periods:

	Less than 1 Year	1 to 3 Years	4 to 5 Years	More than 5 Years	Total
Operating Lease (1)	$ 103,924	$ 8,674	$ —	$ —	$ 112,598
Debt Obligations (2)	$ 748	$ —	$ —	$ —	$ 748
Total	$ 104,672	$ 8,674	$ —	$ —	$ 113,346

(1) Reflects obligations pursuant to the Company's office lease in Princeton, New Jersey.

(2) Reflects unsecured notes payable issued to certain related parties.

In addition to the contracts with payment commitments that we have reflected in the table above, we have entered into other contracts in the normal course of business with certain CROs, CMOs and other third-parties for preclinical research studies and testing, clinical trials and manufacturing services. These contracts do not contain any minimum purchase commitments and are cancellable upon prior notice and as a result, are not included in the table of contractual obligations and commitments above. Payments due upon cancellation consist only of payments for services provided and expenses incurred, including non-cancellable obligations to our service providers, up to the date of cancellation.

Critical Accounting Policies

Our management's discussion and analysis of financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, and expenses and the disclosure of contingent assets and liabilities in our financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to the accrual for research and development expenses. We base our estimates on historical experience, known trends and events, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are described in more detail in the notes to the interim consolidated financial statements included elsewhere in this Form 10-Q, we believe that the following accounting policies are those most critical to the judgments and estimates used in the preparation of the consolidated financial statements.

Research and development expenses

Research and development expenses consist primarily of costs incurred in connection with the development of our product candidates. We expense research and development costs as incurred.

At the end of each reporting period, we compare payments made to third-party service providers to the estimated progress toward completion of the applicable research or development objectives. Such estimates are subject to change as additional information becomes available. Depending on the timing of payments to the service providers and the progress that we estimate has been made as a result of the service provided, we may record net prepaid or accrued expense relating to these costs. As of December 31, 2021, we did not make any material adjustments to our prior estimates of accrued research and development expenses.

Recently Issued Accounting Pronouncements

A description of recently issued accounting pronouncements that may potentially impact our financial position and results of operations is disclosed in Note 2 to the interim consolidated financial statements included elsewhere in this Form 10-Q.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We evaluated, under the supervision and with the participation of the principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended ("Exchange Act")) as of December 31, 2021, the end of the period covered by this report on Form 10-Q. Based on this evaluation, our Chairman, President and Chief Executive Officer (principal executive officer) and our Chief Financial Officer (principal financial officer) have concluded that our disclosure controls and procedures were effective at the reasonable assurance level at December 31, 2021.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

We are subject to various legal proceedings from time to time in the ordinary course of business, which may not be required to be disclosed under this Item 1. For the three-month period ending December 31, 2021 covered by this Quarterly Report, there have been no reportable legal proceedings or material developments to previously reported legal proceedings.

ITEM 1A: RISK FACTORS

As a smaller reporting company, we are not required to provide the information required by this item. However, we direct you to the risk factors included in the Risk Factors section in our Annual Report on Form 10-K for the year ended September 30, 2021 filed with the Securities and Exchange Commission on December 17, 2021.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None noted.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5: OTHER INFORMATION

In December 2021, the Company entered into a Research and Development Agreement (the "Navigo Agreement") with Navigo Proteins GmbH ("Navigo"), pursuant to which Navigo will perform specified evaluation and development procedures to evaluate certain materials to determine their commercial potential. Under the terms of the Navigo Agreement, the Company granted Navigo a royalty-free, non-exclusive, worldwide, non-sublicensable, non-transferable right and license to use certain technology to perform the evaluation and development activities, and Navigo granted the Company (i) an exclusive, worldwide, perpetual, irrevocable, sublicensable, transferable, royalty-free right and license to research, develop, use, sell, have sold, distribute, import or otherwise commercially exploit certain materials, and (ii) a non-exclusive, worldwide, perpetual, sublicensable, non-transferable right and license to make or have made such materials. The Company paid a $0.1 million technology access fee which was recorded as acquired in-process research and development and included in research and development expenses in the consolidated statement of operations for the three months ended December 31, 2021. The Company is obligated to make contingent milestone payments to Navigo totaling up to $1.0 million upon the achievement of certain evaluation and development milestones as outlined in the Navigo Agreement.

ITEM 6: EXHIBITS

Exhibit No.	Description
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32.1**	Certification of Principal Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b).
32.2**	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b).
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase 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 Exhibits 101).

* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

** Furnished, not filed.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on February 8, 2022.

SONNET BIOTHERAPEUTICS HOLDINGS, INC.

Date: February 8, 2022

By: */s/ Pankaj Mohan*

Pankaj Mohan
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Jay Cross

Jay Cross
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Pankaj Mohan, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended December 31, 2021 of Sonnet BioTherapeutics Holdings, Inc.;

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 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 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: February 8, 2022

/s/ Pankaj Mohan
Pankaj Mohan
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Jay Cross, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended December 31, 2021 of Sonnet BioTherapeutics Holdings, Inc.;

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 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 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: February 8, 2022

/s/ Jay Cross

Jay Cross
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

I, Pankaj Mohan, certify that:

1. I am the Chief Executive Officer of Sonnet BioTherapeutics Holdings, Inc. (the "Issuer").

2. Attached to this certification is the Quarterly Report on Form 10-Q for the quarter ended December 31, 2021 (the "Report") filed by the Issuer with the Securities Exchange Commission pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), which contains financial statements.

3. I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

   - The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

   - The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

February 8, 2022

/s/ Pankaj Mohan

Pankaj Mohan
Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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

I, Jay Cross, certify that:

1. I am the Chief Financial Officer of Sonnet BioTherapeutics Holdings, Inc. (the "Issuer").

2. Attached to this certification is the Quarterly Report on Form 10-Q for the quarter year ended December 31, 2021(the "Report") filed by the Issuer with the Securities Exchange Commission pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), which contains financial statements.

3. I hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

   - The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

   - The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

February 8, 2022

/s/ Jay Cross

Jay Cross
Chief Financial Officer
(Principal Financial Officer)