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 June 30, 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 24,956,887 shares of common stock, par value $0.0001 of Sonnet BioTherapeutics Holdings, Inc. issued and outstanding as of August 10, 2021.

Sonnet BioTherapeutics Holdings, Inc. and Subsidiaries

INDEX

PART I

ITEM 1: FINANCIAL STATEMENTS

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

	June 30, 2021	September 30, 2020
Assets		
Current assets:		
Cash	$ 6,038,190	$ 7,349,903
Prepaid expenses and other current assets	934,213	287,738
Total current assets	6,972,403	7,637,641
Property and equipment, net	58,644	67,889
Operating lease right-of-use asset	144,787	205,919
Other assets	—	82,959
Total assets	$ 7,175,834	$ 7,994,408
Liabilities and stockholders' equity		
Current liabilities:		
Related-party notes	$ 748	$ 21,184
Accounts payable	2,150,791	2,057,559
Accrued expenses	2,508,956	2,063,678
Operating lease liability	91,239	82,060
Deferred income	1,000,000	500,000
Total current liabilities	5,751,734	4,724,481
Note payable	—	124,878
Operating lease liability	55,464	125,132
Total liabilities	5,807,198	4,974,491
Commitments and contingencies (Note 8)		
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; 24,757,847 and 14,724,105 issued and outstanding at June 30, 2021 and September 30, 2020, respectively	2,475	1,472
Additional paid-in capital	56,103,306	39,723,702
Accumulated deficit	(54,737,145)	(36,705,257)
Total stockholders' equity	1,368,636	3,019,917
Total liabilities and stockholders' equity	$ 7,175,834	$ 7,994,408

See accompanying notes to unaudited interim consolidated financial statements

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2021	2020	2021	2020
Operating expenses:				
Research and development	$ 3,887,261	$ 2,455,822	$ 11,598,835	$ 5,166,485
Acquired in-process research and development	—	6,826,495	—	6,826,495
General and administrative	2,352,268	2,484,148	6,541,717	4,753,428
Loss from operations	(6,239,529)	(11,766,465)	(18,140,552)	(16,746,408)
Interest (income) expense	—	(3,798)	—	10,344
Foreign exchange loss	(1,513)	(8,787)	(16,837)	(8,787)
Other income	125,501	—	125,501	—
Net loss	$ (6,115,541)	$ (11,779,050)	$ (18,031,888)	$ (16,744,851)
Share information:				
Net loss per share, basic and diluted	$ (0.27)	$ (1.05)	$ (0.93)	$ (2.23)

Weighted average shares outstanding, basic and diluted	22,502,202	11,263,559	19,482,287	7,518,091

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, 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)
Sale of common stock, net of issuance costs	4,021,561	402	10,178,225	—	10,178,627
Share-based compensation	—	—	370,055	—	370,055
Net loss	—	—	—	(6,039,107)	(6,039,107)
Balance at March 31, 2021	21,197,290	2,119	50,641,794	(48,621,604)	2,022,309
Sale of common stock, net of issuance costs	3,432,677	343	5,143,869	—	5,144,212
Issuance of common stock on vesting of restricted stock units	127,880	13	(13)	—	—
Share-based compensation	—	—	317,656	—	317,656
Net loss	—	—	—	(6,115,541)	(6,115,541)
Balance at June 30, 2021	24,757,847	$ 2,475	$ 56,103,306	$ (54,737,145)	$ 1,368,636

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, 2019	5,547,643	$ 555	$ 9,594,100	$ (12,440,142)	$ (2,845,487)
Sale of common stock, net of issuance costs	128,313	13	2,715,017	—	2,715,030
Issuance of common stock to settle related-party notes	8,526	1	199,999	—	200,000
Net loss	—	—	—	(2,469,054)	(2,469,054)
Balance at December 31, 2019	5,684,482	569	12,509,116	(14,909,196)	(2,399,511)
Sale of common stock, net of issuance costs	57,762	5	1,354,995	—	1,355,000
Net loss	—	—	—	(2,496,747)	(2,496,747)
Balance at March 31, 2020	5,742,244	574	13,864,111	(17,405,943)	(3,541,258)
Sale of common stock and warrants	2,152,360	215	14,999,785	—	15,000,000
Issuance of common stock to affect the Relief acquisition	757,933	76	6,700,052	—	6,700,128
Issuance of common stock in connection with Merger (Note 3)	547,639	55	(6,000,055)	—	(6,000,000)
Net loss	—	—	—	(11,779,050)	(11,779,050)
Balance at June 30, 2020	9,200,176	$ 920	$ 29,563,893	$ (29,184,993)	$ 379,820

See accompanying notes to unaudited interim consolidated financial statements

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

	Nine Months Ended June 30,	
	2021	2020
Cash flows from operating activities:		
Net loss	$ (18,031,888)	$ (16,744,851)
Adjustments to reconcile net loss to net cash used in operating activities:		
Acquired in-process research and development	—	6,826,495
Depreciation	9,245	5,212
Amortization of operating lease right-of-use asset	61,132	30,873
Share-based compensation	1,057,766	—
Non-cash interest	623	—
Forgiveness of note payable	(125,501)	—
Change in operating assets and liabilities:		

Prepaid expenses and other current assets	(646,475)	(361,555)
Other assets	82,959	(82,957)
Accounts payable	93,232	532,991
Accrued expenses	445,278	(248,146)
Deferred income	500,000	—
Operating lease liability	(60,489)	(30,078)
Net cash used in operating activities	(16,614,118)	(10,072,016)
Cash flows from investing activities:		
Purchases of property and equipment	—	(76,183)
Net cash used in investing activities	—	(76,183)
Cash flows from financing activities:		
Proceeds from the issuance of common stock and warrants, net of issuance costs	15,322,839	19,070,030
Proceeds from the exercise of warrants	2	—
Payment to affect the Merger	—	(6,000,000)
Proceeds from the receipt of loan	—	124,375
Proceeds received from related-party notes	—	55,000
Repayments of related-party notes	(20,436)	(46,461)
Cash received in the Relief acquisition	—	16,194
Net cash provided by financing activities	15,302,405	13,219,138
Net (decrease) increase in cash	(1,311,713)	3,070,939
Cash, beginning of period	7,349,903	35,653
Cash, end of period	$ 6,038,190	$ 3,106,592
Supplemental disclosure of non-cash investing and financing activities:		
Net settlement of warrants	$ 243	$ —
Issuance of common stock on vesting of restricted stock units	$ 13	$ —
Issuance of common stock to settle related-party notes	$ —	$ 200,000
Issuance of common stock for the Relief acquisition	$ —	$ 6,700,128
Right of use asset and liability recorded upon adoption of ASC 842	$ —	$ 255,938

See accompanying notes to unaudited interim consolidated financial statements

1. Organization and description of business

Description of business

Sonnet BioTherapeutics, Inc. ("Sonnet") was incorporated as a New Jersey corporation on April 6, 2015. 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 with SON-1010 and is preparing an Investigational New Drug ("IND") application for submission to the FDA with the goal of initiating a Phase 1 clinical trial during the second half of 2021 and having initial top line clinical safety data available 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. Sonnet is advancing SON-080 in target indications of Chemotherapy-Induced Peripheral Neuropathy ("CIPN") and Diabetic Peripheral Neuropathy ("DPN"). Sonnet intends to file an IND for a U.S. Phase 1b/2a pilot-scale efficacy study with SON-080 in CIPN during the second half of 2021 that could yield initial top line clinical safety data during the first half of 2022. Pursuant to a license agreement the Company entered with New Life in May 2021, Sonnet and New Life will be jointly responsible for leading the development program for SON-080 in DPN with the objective of initiating an ex-US Phase 1b/2a pilot-scale efficacy study during the second half of 2021 or first half of 2022 that could yield initial top line clinical safety data as early as the first half of 2022. Regarding Sonnet's lead bispecific candidate, SON-1210, which combines Interleukins 12 and 15 ("IL-15") covalently linked to the F_HAB construct, Sonnet intends to file an IND to begin human clinic testing during the first half of 2022.

On April 1, 2020, Sonnet completed its merger (the "Merger") with publicly-held Chanticleer Holdings, Inc. ("Chanticleer") in accordance with the terms of the Plan of Merger dated October 10, 2019, as amended by Amendment No. 1 on February 7, 2020 (the "Merger Agreement"). Immediately prior to the Merger, Chanticleer spun-off its restaurant operations to a spin-off entity and no assets or liabilities of the restaurant business remained after the spin-off. After the Merger, Chanticleer changed its name to Sonnet BioTherapeutics Holdings, Inc. ("Sonnet Holdings" or the "Company") and is focused on advancing Sonnet's pipeline of oncology candidates and the strategic expansion of Sonnet's technology platform into other human disease.

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. 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 $6.0 million at June 30, 2021 will fund the Company's projected operations into October 2021. 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 filed a registration statement on Form S-1 on July 22, 2021, as subsequently amended, registering an aggregate of $34.5 million of shares of common stock (or common stock equivalent) to be sold in a firm commitment underwritten public offering and has engaged BTIG, LLC ("BTIG") to act as the sole book-running manager in such offering. As of the date of this report, the offering has not priced, and no assurance can be given that the offering will price or close, and for any particular amount of proceeds and at any particular offering price.

The Company entered into an At-the-Market Sales Agreement with BTIG on February 5, 2021 (the "Sales Agreement"). Pursuant to the Sales Agreement, the Company had the ability to offer and sell, from time to time, through BTIG, as sales agent and/or principal, shares of its common stock, having an aggregate offering price of up to $15,875,000, subject to certain limitations set forth in the Sales Agreement. Through June 30, 2021 the Company sold an aggregate of 7,454,238 shares under the Sales Agreement for gross proceeds of $15.9 million and net proceeds of $15.3 million, thus reaching the maximum amount able to be sold under the Sales Agreement.

On May 2, 2021, the Company entered into a License Agreement with New Life Therapeutics PTE, LTD. (See Note 8).

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 product 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 June 30, 2021 and its results of operations and cash flows for the three and nine months ended June 30, 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 Holdings as of and for the year ended September 30, 2020 included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2020.

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 consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are periodically reviewed, and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Significant estimates include the recording of prepayments and accruals related to research and development.

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 statement of operations. As of June 30, 2021, the property and equipment balance was comprised of leasehold improvements and computer equipment associated with the Princeton office lease discussed in Note 7.

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 or sales of product at certain agreed-upon amounts, 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 current liabilities. On May 2, 2021, the Company entered into a License Agreement (the "New Life Agreement") with New Life Therapeutics PTE, LTD ("New Life"). See Note 9 for further discussion of the Company's revenue recognition associated with the New Life Agreement.

f. 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 and nine months ended June 30, 2021 are the Series B warrants and certain warrants issued to the spin-off entity with exercise prices of $0.0001 and $0.01 per share, respectively.

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:

	June 30, 2021	June 30, 2020
Warrants	105,812	105,812
Legacy Chanticleer warrants	17,760	20,180
Series A warrants	—	3,300,066
Series C warrants	11,329,463	—
Unvested restricted stock	363,268	—
	11,816,303	3,426,058

g. Recent accounting pronouncements

Recently Announced

In December 2019, the FASB issued ASU 2019-12, "Income Taxes Topic 740-Simplifying the Accounting for Income Taxes" ("ASU 2019-12"), 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. This guidance is effective for fiscal years beginning after December 15, 2020, including interim periods therein, and early adoption is permitted. The Company is currently evaluating the new standard, but adoption is not expected to have a material impact on its financial condition, results of operations, cash flows, and financial statement disclosures.

Recently Adopted

In August 2018, the FASB issued ASU 2018-13, "Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurements" ("ASU 2018-13"), which changes the fair value measurement disclosure requirements of ASC 820. The goal of the ASU is to improve the effectiveness of ASC 820's disclosure requirements. The adoption of ASU 2018-13 on October 1, 2019, did not have a material impact on the consolidated financial statements.

3. Merger with Chanticleer

Sonnet merged with Chanticleer Holdings on April 1, 2020. The Merger was accounted for as a reverse recapitalization with Sonnet as the accounting acquirer. Legacy Chanticleer shareholders were issued 547,639 shares of common stock. Merger consideration paid by Sonnet to Chanticleer Holdings included $6.0 million of cash and issuance of warrants to the spin-off entity. Sonnet reflected the $6.0 million cash paid to the spin-off entity as a decrease to additional paid-in capital.

4. Relief Acquisition

In August 2019, the Company executed a Share Exchange Agreement with Relief Holdings, in which the Company agreed to acquire the outstanding shares of Relief. The Company issued 757,933 shares of common stock upon closing of the transaction on April 1, 2020.

For accounting purposes, the Company determined that the acquisition of Relief did not meet the definition of a business and was accounted for as an asset acquisition since substantially all of the fair value of the assets acquired was concentrated in a single identified intangible asset, atexakin alfa.

Fair value of common stock issued:	$ 6,700,128
Assets acquired:	
Cash	$ 16,194
Prepaid expenses and other current assets	29,311
In-process research and development (IPPR&D)	6,826,495
Total assets acquired	6,872,000
Liabilities assumed:	
Accounts payable	45,757
Accrued expenses	126,115
Total liabilities assumed	171,872
Net assets acquired	$ 6,700,128

The Company expensed the acquired IPR&D as of the acquisition date since further development and regulatory approval are required.

5. Accrued Expenses

Accrued expenses consisted of the following:

	June 30, 2021	September 30, 2020
Compensation and benefits	$ 846,488	$ 1,065,398
Research and development	1,460,781	519,159
Professional fees	191,568	479,121
Other	10,119	—

	$ 2,508,956	$ 2,063,678

6. Debt

Related-party notes

During the nine months ended June 30, 2020, the Company issued unsecured notes payable to various related parties resulting in cash proceeds of $5,000. These notes are payable on demand and payments of $20,436 and $46,461 were made during the nine months ended June 30, 2021 and 2020, respectively. The interest on these notes was de minimis during each of those periods.

In October 2019, the Company issued 8,526 shares of common stock to settle $0.2 million of related party notes.

PPP Loan

On March 27, 2020, the U.S. federal government enacted the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). The CARES Act includes a provision for a Paycheck Protection Program ("PPP"), administered by the U.S. Small Business Administration ("SBA") and further amended by the Paycheck Protection Program Flexibility Act of 2020 ("PPP Flexibility Act"), which was enacted on June 5, 2020.

In May 2020, the Company received a PPP Loan of $0.1 million. The application for these funds required the Company to certify in good faith that current economic uncertainty made the loan request necessary to support the ongoing operations of the Company. The Company was also required to certify that the loan funds would be used to retain workers and maintain payroll or make mortgage payments, lease payments, and utility payments. The PPP Loan had a two-year term and bore interest at a rate of 1.0% per year.

Under the terms of the CARES Act, the Company could apply for and be granted forgiveness for all or a portion of the PPP Loan. Such forgiveness, if any, would be determined, subject to limitations, based on the use of loan proceeds for payroll costs, rent and utility costs and provided that only a portion of the use of proceeds are for non-payroll costs. The unforgiven portion of the PPP Loan could be repaid by the Company at any time prior to maturity with no prepayment penalty. The Company's PPP Loan and the related interest were forgiven in full in June 2021. Forgiveness of the PPP Loan is included in other income within the Company's consolidated statement of operations for the three and nine months ended June 30, 2021.

7. Leases

The Company adopted ASC 842, "Leases" ("ASC 842"), on October 1, 2019. Through September 30, 2019, the Company's leases consisted of leased office space under various operating leases with terms of one year or less. These leases qualified as short-term leases and as such, there was no cumulative impact from the adoption of ASC 842.

In December 2019, the Company entered a 36-month lease for office space in Princeton, New Jersey, which commenced February 1, 2020. At that time, the Company terminated its existing month-to-month leases for office space.

The components of lease expense for the nine months ended June 30, 2021 are as follows:

Lease expense	
Operating lease expense	$ 76,617
Short-term lease expense	12,555
Total lease cost	$ 89,172

At June 30, 2021, the weighted-average remaining lease term was 1.58 years and the weighted average discount rate was 12%.

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flow from operating lease	$ 75,974

Future minimum lease payments under non-cancellable leases at June 30, 2021 are as follows:

Fiscal year	
2021 (excluding the nine months ended June 30, 2021)	$ 25,537
2022	103,440
2023	34,695
Total undiscounted lease payments	163,672
Less: imputed interest	(16,969)
Total lease liabilities	$ 146,703

8. 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 the Company 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 interleukin-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.

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.

9. License and Collaboration Agreement

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 interleukin-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 may exercise 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 is non-exclusive and will expire 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 is exclusive and will also expire on December 31, 2021. If these options are exercised, the terms of the CIPN Field and the territory expansion will be negotiated by the parties.

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 (and the CIPN Field, if applicable) 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 (and the CIPN Field, if applicable) 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 (or CIPN Field, if applicable).

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 granted by the Company to New Life and the Company granted New Life the right to give back the rights with respect to Products in the DPN Field and/or the CIPN Field (if applicable) 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.

The Company has deferred the entire $1.0 million of transaction price as of June 30, 2021.

10. Stockholders' Equity

Common stock

During the nine months ended June 30, 2021, the Company sold common stock of7,454,238 shares under the at-the-market sales agreement discussed in Note 1 for gross proceeds of an aggregate of $15.9 million and net proceeds of $15.3 million. In addition, the Company issued 127,880 shares of common stock upon the vesting of restricted stock units.

Prior to the Merger, during the six months ended March 31, 2020, the Company sold 186,075 shares of common stock and issued warrants to purchase 93,038 shares of common stock with an exercise price of $29.32 per share for net proceeds of $4.1 million. In addition, the Company issued 8,526 shares of common stock upon conversion of outstanding promissory notes with an outstanding principal balance of $0.2 million at the time of conversion.

Upon consummation of the Merger, the Company issued 547,639 common shares and 206,371 warrants to legacy Chanticleer shareholders. The warrants are to purchase shares of common stock with exercise prices ranging from $0.01 per share to $1,820 per share and a weighted average exercise price of $26.60 per share.

On April 1, 2020, the Company sold 1,699,232 shares of common stock to new investors for net proceeds of $1.5 million in a private placement. The new investors also received 3,300,066 Series A warrants with an exercise price of $5.3976 and 2,247,726 Series B warrants with an exercise price of $0.0001. An advisor for the private placement was issued 453,128 shares of common stock.

The Company issued 757,933 shares to acquire the nets assets of Relief (see Note 4).

Common stock warrants

As of June 30, 2021, the following equity-classified warrants and related terms were outstanding:

	Warrants Outstanding		Exercise Price	Expiration Date
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	11,329,463	$	3.19	October 16, 2025
	11,495,408			

During the nine months ended June 30, 2021, the Series B warrant holders exercised 23,863 warrants for proceeds of $2. An additional 2,242,427 of Series B warrants were net share settled, resulting in the issuance of 2,242,339 shares of common stock.

During the nine months ended June 30, 2021, the Chanticleer warrants to purchase 186,161 shares of common stock with an exercise price of $0.01 per share were net share settled, resulting in the issuance of 185,422 shares of common stock.

11. 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 June 30, 2021 was 687,029. The Plan increases the amount of shares issuable under the Plan by four percent of the outstanding shares of common stock at each January 1, each year. Shares issued under the Plan that are forfeited, cancelled, returned to the Company or surrendered in payment or partial payment of the exercise price and/or taxes withheld with respect to the exercise thereof, are not counted against the maximum share limitations. 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. 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 statements of operations.

	Three Months Ended June 30, 2021	Nine Months Ended June 30, 2021
Research and development	$ 105,712	$ 317,101
General and administrative	211,944	740,665
	$ 317,656	$ 1,057,766

The following table summarizes RSU activity under the Plan:

	RSU	Weighted Average Grant Date Fair Value
Unvested balance at September 30, 2020	653,845	$ 3.63
Granted	47,000	$ 2.38
Vested	(326,920)	$ 3.63
Forfeited	(10,657)	$ 3.63
Unvested balance at June 30, 2021	363,268	$ 3.47

As of June 30, 2021, total unrecognized compensation expense relating to unvested RSUs granted was $1.1 million, which is expected to be recognized over one year.

12. Subsequent Event

The Company has evaluated subsequent events and there are no items requiring disclosure except the following:

The Company filed a registration statement on Form S-1 on July 22, 2021, as subsequently amended, registering an aggregate of $34.5 million of shares of common stock (or common stock equivalent) to be sold in a firm commitment underwritten public offering and has engaged BTIG, LLC ("BTIG") to act as the sole book-running manager in such offering. As of the date of this report, the offering has not priced, and no assurance can be given that the offering will price or close, and for any particular amount of proceeds and at any particular offering price.

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 Holdings," "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 F_HAB™ (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. F_HAB development candidates are produced in a mammalian cell culture, which enables glycosylation, thereby reducing the risk of immunogenicity. We believe our F_HAB 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.

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 with SON-1010 and is preparing an Investigational New Drug ("IND") application for submission to the FDA with the goal of initiating a Phase 1 clinical trial during the second half of 2021 and having initial top line clinical safety data available 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. Sonnet is advancing SON-080 in target indications of Chemotherapy-Induced Peripheral Neuropathy ("CIPN") and Diabetic Peripheral Neuropathy ("DPN"). Sonnet intends to file an IND for a U.S. Phase 1b/2a pilot-scale efficacy study with SON-080 in CIPN during the second half of 2021 that could yield initial top line clinical safety data during the first half of 2022. Pursuant to a license agreement the Company entered with New Life in May 2021, Sonnet and New Life will be jointly responsible for leading the development program for SON-080 in DPN with the objective of initiating an ex-US Phase 1b/2a pilot-scale efficacy study during the second half of 2021 or first half of 2022 that could yield initial top line clinical safety data as early as the first half of 2022. Regarding Sonnet's lead bispecific candidate, SON-1210, which combines Interleukins 12 and 15 ("IL-15") covalently linked to the F_HAB construct, Sonnet intends to

file an IND to begin human clinic testing during the first half of 2022.

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 $18.0 million and $16.7 million for the nine months ended June 30, 2021 and 2020, respectively. As of June 30, 2021, we had cash of $6.0 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. As a result of the Merger, as described below, 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.

Recent Events

New Life Therapeutics License Agreement

On May 2, 2021, we entered into a License Agreement (the "Agreement") with New Life Therapeutics PTE, LTD., a company organized under the laws of Singapore ("New Life"). Pursuant to the Agreement, we granted New Life an exclusive license (with the right to sublicense) to develop and commercialize pharmaceutical preparations containing a specific recombinant human interleukin-6, SON-080 (or any derivatives, fragments or conjugates thereof) (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 may exercise 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 is non-exclusive and will expire 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 is exclusive and will also expire on December 31, 2021. We are excluded from developing, using, selling or otherwise commercializing any Compounds or Products for use in the DPN Field in the Exclusive Territory during the term of the Agreement.

We retain all rights to manufacture Compounds and Products anywhere in the world. We and New Life shall enter into a follow-on supply agreement pursuant to which we shall supply to New Life Products for development and commercialization thereof in the DPN Field (and the CIPN Field, if applicable) in the Exclusive Territory on terms to be negotiated by the parties.

Pursuant to the terms of the Agreement, New Life will bear the cost of, and be responsible for, among other things, conducting clinical studies and additional non-clinical studies (if any, subject to both parties' approval), preparing and filing applications for regulatory approval and undertaking other developmental and regulatory activities for and commercializing Products in the DPN Field (and the CIPN Field, if applicable) in the Exclusive Territory. New Life will own and maintain all regulatory filings and approvals for Products in the Exclusive Territory.

New Life paid the Company a $500,000 non-refundable upfront cash payment in August 2020 upon executing a letter of intent to negotiate this license agreement and a $500,000 non-refundable upfront cash payment in June 2021 in connection with the execution of the Agreement, and is obligated to pay a deferred license fee of an additional $1,000,000 at the time of the satisfaction of certain milestones as well as potential additional milestone payments to us totaling up to $19,000,000 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 us tiered double digit royalties ranging from 12% to 30% based on annual net sales of Products in the 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 (or CIPN Field, if applicable). In the event New Life (i) files for an initial public offering or (ii) is subject to a Change of Control, the royalty obligations may be converted to equity subject to mutual agreement of the parties.

In addition, New Life shall pay to us a percentage, in the double digits, of all revenue received through sublicensing of each Product, subject to certain exclusions.

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 granted by the Company to New Life and the Company granted New Life the right to give back the rights with respect to Products in the DPN Field and/or the CIPN Field (if applicable) 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.

Merger

On April 1, 2020, Chanticleer Holdings, Inc ("Chanticleer"), now known as Sonnet BioTherapeutics Holdings, Inc, completed its merger transaction (the "Merger") with Sonnet BioTherapeutics, Inc. ("Sonnet"), in accordance with the terms of the Agreement and Plan of Merger, dated as of October 10, 2019, as amended on February 7, 2020 (the "Merger Agreement"). Chanticleer shares of common stock traded on the Nasdaq Capital Market through close of Business on Tuesday, March 31, 2020 under the ticker symbol "BURG". We commenced trading on the Nasdaq capital Market, under the ticker symbol "SONN" on April 2, 2020.

Immediately following the Merger, Sonnet became a wholly-owned subsidiary of Sonnet Holdings. For accounting purposes, Sonnet is considered to be the acquiring company and the Merger has been accounted for as a reverse acquisition and recapitalization with Sonnet being treated as the accounting acquirer. As such, the financial information prior to the Merger relate solely to Sonnet. Subsequent to the Merger, the consolidated financial statements relate to the consolidated entities of the Company.

Relief Acquisition

In August 2019, Sonnet executed a Share Exchange Agreement with Relief Therapeutics Holdings SA ("Relief Holdings"), in which Sonnet agreed to acquire the outstanding shares of Relief Therapeutics SA ("Relief"), a wholly-owned subsidiary of Relief Holdings, by issuing common stock of Sonnet. Sonnet assumed the development of Relief's asset, atexakin alfa, together with its proprietary experimental drugs. The acquisition of Relief closed on April 1, 2020 and Relief is now a wholly-owned subsidiary of Sonnet.

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. To date, many countries around the world have imposed quarantines and restrictions on travel and mass gatherings to slow the spread of COVID-19 and have 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, although our CIPN program with SON-080 continues to progress forward, the COVID-19 pandemic has impacted workflow at our contract research partners such that we now estimate delays pushing a trial initiation into 2021 from our previous plan of late 2020.

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.

Components of Results of Operations

Operating Expenses

Research and Development Expenses

Research and development expenses consist primarily of costs incurred in connection with the discovery and development of the Company's product candidates. The Company expenses 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 the Company's product candidates, including under agreements with third parties, such as consultants and clinical research organizations;
- the cost of manufacturing drug products for use in the Company's 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 loss

Foreign exchange 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 June 30, 2021 and 2020

The following table summarizes the Company's results of operations for the three months ended June 30, 2021 and 2020:

	Three Months Ended June 30,		
	2021	2020	Change
Operating expenses			
Research and development	$ 3,887,261	$ 2,455,822	$ 1,431,439
Acquired in-process research and development	—	6,826,495	(6,826,495)
General and administrative	2,352,268	2,484,148	(131,880)
Loss from operations	(6,239,529)	(11,766,465)	5,526,936
Interest expense	—	(3,798)	3,798
Foreign exchange loss	(1,513)	(8,787)	7,274
Other income	125,501	—	125,501
Net loss	$ (6,115,541)	$ (11,779,050)	$ 5,663,509

Research and Development Expenses

Research and development expenses were $3.9 million for the three months ended June 30, 2021, compared to $2.5 million for the three months ended June 30, 2020. The increase of $1.4 million was primarily due to increased expenditures for the development of the cell line for IL12-FHAB and IL12-FHAB-IL15 and increased costs for research and development activities due to the acquisition of Relief and an increase in payroll and share-based compensation expense as we expanded our operations.

Acquired In-process Research and Development

In connection with the acquisition of Relief in April 2020, the intellectual property acquired related to atexakin alfa was immediately expensed since future development and regulatory approval is required.

General and Administrative Expenses

General and administrative expenses were $2.4 million for the three months ended June 30, 2021, compared to $2.5 million for the three months ended June 30, 2020. The decrease of $0.1 million was primarily due to a $0.9 million decrease in professional fees and transaction related fees associated with the closing of the Merger, offset by an increase in payroll and share-based compensation expense of $0.7 million to support our expanded operations.

Other Income

Other income of $0.1 million was recognized in connection with forgiveness of the Company's PPP loan in June of 2021.

Comparison of the nine months ended June 30, 2021 and 2020

The following table summarizes the Company's results of operations for the nine months ended June 30, 2021 and 2020:

	Nine Months Ended June 30,		
	2021	2020	Change
Operating expenses			
Research and development	$ 11,598,835	$ 5,166,485	$ 6,432,350
Acquired in-process research and development	—	6,826,495	(6,826,495)
General and administrative	6,541,717	4,753,428	1,788,289
Loss from operations	(18,140,552)	(16,746,408)	(1,394,144)
Interest income	—	10,344	(10,344)
Foreign exchange loss	(16,837)	(8,787)	(8,050)
Other income	125,501	—	125,501
Net loss	$ (18,031,888)	$ (16,744,851)	$ (1,287,037)

Research and Development Expenses

Research and development expenses were $11.6 million for the nine months ended June 30, 2021, compared to $5.2 million for the nine months ended June 30, 2020. The increase of $6.4 million was primarily due to increased expenditures for the development of the cell line for IL12-FHAB and IL12-FHAB-IL15 and increased costs for research and development activities due to the acquisition of Relief and an increase in payroll and share-based compensation expense as we expanded our operations.

Acquired In-process Research and Development

In connection with the acquisition of Relief in April 2020, the intellectual property acquired related to atexakin alfa was immediately expensed since future development and regulatory approval is required.

General and Administrative Expenses

General and administrative expenses were $6.5 million for the nine months ended June 30, 2021, compared to $4.8 million for the nine months ended June 30, 2020. The

increase of $1.8 million was primarily due to an increase in insurance expenses related to directors and officer's insurance and an increase in payroll and share-based compensation expense as we expanded our operations to support our overall business objectives, primarily offset by a $1.0 million decrease in professional fees and transaction related fees associated with the closing of the Merger.

Other Income

Other income of $0.1 million was recognized in connection with forgiveness of the Company's PPP loan in June of 2021.

Liquidity and Capital Resources

Since inception, we have not generated significant revenue from any sources, including from product sales, and have incurred recurring losses and negative cash flows from operations. We have funded operations to date primarily with proceeds from sales of common stock, warrants and proceeds from the issuance of convertible debt. Although we entered into the Agreement with New Life, all of the potential proceeds from the Agreement, except for the upfront payment that is due within 30 days of the execution of the Agreement, are contingent on various milestones or other criteria being achieved. The following table summarizes the Company's sources and uses of cash for each of the periods presented:

	Nine Months Ended June 30,	
	2021	2020
Net cash used in operating activities	$ (16,614,118)	$ (10,072,016)
Net cash used in investing activities	—	(76,183)
Net cash provided by financing activities	15,302,405	13,219,138
Net (decrease) increase in cash	$ (1,311,713)	$ 3,070,939

Operating Activities

During the nine months ended June 30, 2021, we used $16.6 million of cash in operating activities which was primarily attributable to our net loss of $18.0 million. This amount was offset by $1.1 million in share-based compensation expense.

During the nine months ended June 30, 2020, we used $10.1 million of cash in operating activities. Cash used in operating activities reflected our net loss of $16.7 million, $0.2 million net increase in operating assets and liabilities primarily due to cash outflows for research and development activities, offset by an add back for a non-cash charge for acquired in-process research and development of $6.8 million.

Investing Activities

During the nine months ended June 30, 2020, we purchased $76 thousand of office furniture and computer equipment. No purchases of equipment were made during the nine months ended June 30, 2021.

Financing Activities

During the nine months ended June 30, 2021, we received net proceeds of $15.3 million from the sale of common stock under our at-the market facility.

During the nine months ended June 30, 2020, net cash provided by financing activities was $13.2 million, consisting primarily of $19.1 million of net proceeds from the sale of common stock and warrants, partially offset by a $6.0 million payment to the spin-off entity in connection with the Merger.

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 the 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 the 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 the Company 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.

The Company believes its cash of $6.0 million at June 30, 2021 will fund the Company's projected operations into October 2021. The Company will need to raise significant additional capital in the near term to fund its continuing operations.

The Company filed a registration statement on Form S-1 on July 22, 2021, as subsequently amended, registering an aggregate of $34.5 million of shares of common stock (or common stock equivalent) to be sold in a firm commitment underwritten public offering and has engaged BTIG, LLC ("BTIG") to act as the sole book-running manager in such offering. As of the date of this report, the offering has not priced, and no assurance can be given that the offering will price or close, and for any particular amount of proceeds and at any particular offering price.

The Company entered into an At-the-Market Sales Agreement with BTIG on February 5, 2021 (the "Sales Agreement"). Pursuant to the Sales Agreement, the Company had the ability to offer and sell, from time to time, through BTIG, as sales agent and/or principal, shares of its common stock, having an aggregate offering price of up to $15,875,000, subject to certain limitations set forth in the Sales Agreement. Through June 30, 2021 the Company sold an aggregate of 7,454,238 shares under the Sales Agreement for gross proceeds of $15.9 million and net proceeds of $15.3 million, thus reaching the maximum amount able to be sold under the Sales Agreement.

Contractual Obligations and Commitments

The following table summarizes the Company's contractual obligations as of June 30, 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)	$ 102,956	$ 60,716	$ —	$ —	$ 163,672
Debt Obligations (2)	$ 748	$ —			$ 748
Total	$ 103,704	$ 60,716	$ —	$ —	$ 164,420

(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 cancelable 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-cancelable 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 the Company's 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 financial statements.

Research and development expenses

Research and development expense consist primarily of costs incurred in connection with the development of the 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 June 30, 2021, we did not make any material adjustments to our prior estimates of accrued research and development expenses.

Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We do not engage in off-balance sheet financing arrangements. In addition, we do not engage in trading activities involving non-exchange traded contracts. We therefore believe that we are not materially exposed to any financing, liquidity, market or credit risk that could arise if it had engaged in these relationships.

Recently Issued Accounting Pronouncements

A description of recently issued accounting pronouncements that may potentially impact the 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 June 30, 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 June 30, 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 June 30, 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 June 30, 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, 2020 filed with the Securities and Exchange Commission on December 17, 2020 and the updates set forth below.

The price of our common stock has been and could remain volatile, including recently, and the market price of our common stock may decrease.

The market price of our common stock has historically experienced and may continue to experience significant volatility. From April 2020 through May 14, 2021, the market price of the Company's common stock has fluctuated from a high of $16.20 per share in April 2020, to a low of $1.00 per share in July 2021. Market prices for securities of life sciences companies have historically been particularly volatile. The factors that may cause the market price of our common stock to fluctuate include, but are not limited to:

- our ability to complete required clinical trials of our products and obtain approval from the FDA or other regulatory agents in different jurisdictions;
- progress, or lack of progress, in developing and commercializing our products;
- favorable or unfavorable decisions about our products from government regulators, insurance companies or other third-party payors;
- our ability to recruit and retain qualified regulatory and research and development personnel;
- changes in investors' and securities analysts' perception of the business risks and conditions of our business;
- changes in our relationship with key collaborators;
- changes in the market valuation or earnings of our competitors or companies viewed as similar to us;
- changes in key personnel;
- depth of the trading market in our common stock;
- changes in our capital structure, such as future issuances of securities or the incurrence of additional debt;
- the granting or exercise of employee stock options or other equity awards;

- realization of any of the risks described under this section titled “Risk Factors”; and
- general market and economic conditions.

In addition, the equity markets have experienced significant price and volume fluctuations that have affected the market prices for the securities of newly public companies for a number of reasons, including reasons that may be unrelated to our business or operating performance. These broad market fluctuations may result in a material decline in the market price of our common stock and you may not be able to sell your shares at prices you deem acceptable. In the past, following periods of volatility in the equity markets, securities class action lawsuits have been instituted against public companies. Such litigation, if instituted against us, could result in substantial cost and the diversion of management attention.

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

None.

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 August 16, 2021.

SONNET BIOTHERAPEUTICS HOLDINGS, INC.

Date: August 16, 2021

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 June 30, 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: August 16, 2021

/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 June 30, 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: August 16, 2021

/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 June 30, 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.

August 16, 2021

/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 June 30, 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.

August 16, 2021

/s/ Jay Cross

Jay Cross
Chief Financial Officer
(Principal Financial Officer)