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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2022

Commission File Number: **001-40739**

DERMATA THERAPEUTICS, INC.

(Exact name of registrant as specified in the charter)

Delaware	**86-3218736**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

3525 Del Mar Heights Rd., #322, San Diego, CA 92130
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **858-800-2543**

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, $0.0001 Par Value	DRMA	The Nasdaq Capital Market
Common Stock Purchase Warrants	DRMAW	The Nasdaq Capital Market

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 12,102,214 shares of common stock, par value $0.0001 of Dermata Therapeutics, Inc. issued and outstanding as of November 10, 2022.

DERMATA THERAPEUTICS, INC.
(FORMERLY DERMATA THERAPEUTICS, LLC)
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Part I

Item 1: Financial Statements

DERMATA THERAPEUTICS, INC.
(FORMERLY DERMATA THERAPEUTICS, LLC)
Balance Sheets

	September 30, 2022	December 31, 2021
	(unaudited)	
Assets:		
Cash and cash equivalents	$ 8,066,822	$ 10,798,806
Prepaid expenses and other current assets	908,067	825,134
Total assets	$ 8,974,889	$ 11,623,940
Liabilities and Stockholders' Equity:		
Liabilities:		
Accounts payable	$ 483,741	$ 515,245
Accrued and other current liabilities	1,020,581	1,001,591
Total liabilities	1,504,322	1,516,836
Commitments and Contingencies (see Note 10)		
Stockholders' Equity:		
Common Stock, par value $0.0001, 250,000,000 shares authorized and 12,102,214 shares issued and outstanding as of September 30, 2022; and 90,000,000 shares authorized and 8,328,629 shares issued and outstanding as of December 31, 2021, respectively	1,210	833
Additional paid-in capital	51,392,942	46,088,546
Accumulated deficit	(43,923,585)	(35,982,275)
Total stockholders' equity	7,470,567	10,107,104
Total liabilities and stockholders' equity	$ 8,974,889	$ 11,623,940

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

DERMATA THERAPEUTICS, INC.
(FORMERLY DERMATA THERAPEUTICS, LLC)
Statements of Operations
(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2022	2021	2022	2021
Operating expenses:				
Research and development	$ 1,553,295	$ 799,779	$ 4,761,686	$ 2,347,564
General and administrative	892,777	912,490	3,201,111	2,956,444
Total operating expenses	2,446,072	1,712,269	7,962,797	5,304,008
Loss from operations	(2,446,072)	(1,712,269)	(7,962,797)	(5,304,008)
Other income and expenses:				
Interest (income) expense, net	(21,486)	651	(21,486)	45,613
Net loss	$ (2,424,586)	$ (1,712,920)	$ (7,941,311)	$ (5,349,621)
Deemed dividend upon the redemption of 5,221,156 shares of Series 1c preferred stock (see Note 6)	$ -	$ 269,038	$ -	$ 269,038
Deemed dividend upon the amendment of terms of the Series 1d convertible preferred stock (see Note 6)	$ -	$ 2,293,199	$ -	$ 2,293,199
Net loss attributable to common stockholders	$ (2,424,586)	$ (4,275,157)	$ (7,941,311)	$ (7,911,858)
Net loss per share of common stock, basic and diluted	$ (0.20)	$ (0.86)	$ (0.75)	$ (2.69)
Weighted-average basic and diluted common units/shares	12,276,394	4,980,306	10,622,277	2,945,351

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

DERMATA THERAPEUTICS, INC.
(FORMERLY DERMATA THERAPEUTICS, LLC)
Statements of Stockholder's Equity
Unaudited

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Par Value			
Balance at December 31, 2021	8,328,629	$ 833	$ 46,088,546	$ (35,982,275)	$ 10,107,104
Stock-based compensation	-	-	531,566	-	531,566
Net loss	-	-	-	(2,786,151)	(2,786,151)
Balance at March 31, 2022	8,328,629	$ 833	$ 46,620,112	$ (38,768,426)	$ 7,852,519
Issuance of common stock and warrants, net of issuance costs	898,585	90	4,276,275	-	4,276,365
Issuance of common stock upon exercise of pre-funded warrants	875,000	87	-	-	87
Issuance of restricted stock unit awards	-	-	55,625	-	55,625
Stock-based compensation	-	-	205,947	-	205,947
Net loss	-	-	-	(2,730,573)	(2,730,573)
Balance at June 30, 2022	10,102,214	$ 1,010	$ 51,157,959	$ (41,498,999)	$ 9,659,970
Issuance of common stock upon exercise of pre-funded warrants	2,000,000	200	-	-	200
Issuance of restricted stock unit awards	-	-	55,625	-	55,625
Stock-based compensation	-	-	179,358	-	179,358
Net loss	-	-	-	(2,424,586)	(2,424,586)
Balance at September 30, 2022	12,102,214	$ 1,210	$ 51,392,942	$ (43,923,585)	$ 7,470,567

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

DERMATA THERAPEUTICS, INC.
(FORMERLY DERMATA THERAPEUTICS, LLC)
Statements of Stockholder's Equity (Deficit)
Unaudited

	Class A Common		Class B Common		Series 1 Preferred		Series 1a Preferred		Series 1a Warrants		Series 1b Preferred	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount
Balance at December 31, 2020	508,777	$ 10,430	1,767,477	$ 2,342,853	6,906,244	$ 6,833,877	5,018,750	$ 4,380,081	1,419,228	$ 723,431	6,500,000	$ 4,119,595
Series 1d Preferred Units issued	-	-	-	-	-	-	-	-	-	-	-	-
Class B Common Units forfeited	-	-	(22,494)	-	-	-	-	-	-	-	-	-
Conversion of Common Units to Common Stock	(508,777)	$(10,430)	(1,744,983)	$(2,342,853)	-	-	-	-	-	-	-	-
Conversion of Preferred Units to Preferred Stock	-	-	-	-	(6,906,244)	$(6,833,877)	(5,018,750)	$(4,380,081)	-	-	(6,500,000)	$(4,119,595)
Conversion of Warrant Units to Preferred Stock Warrants	-	-	-	-	-	-	-	-	(1,419,228)	$(723,431)	-	-
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2021	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	-	-	-	-
Balance at June 30, 2021	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Redemption of Series 1c preferred shares	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of Preferred Stock to Common Stock	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of Preferred Stock Warrants to Common Stock Warrants	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of Convertible Debt to Common Stock	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of Common Stock and warrants, net issuance costs	-	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	-	-	-	-
Balance at September 30, 2021	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -

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

DERMATA THERAPEUTICS, INC.
(FORMERLY DERMATA THERAPEUTICS, LLC)
Statements of Stockholder's and Member's Equity (Deficit) Continued
Unaudited

	Series 1c Preferred		Series 1d Preferred		Preferred Stock		Preferred Stock Warrants		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Units	Amount	Units	Amount	Shares	Par Value	Shares	Par Value	Shares	Par Value			
Balance at December 31, 2020	46,553,188	$ 6,491,592	-	-	-	-	-	-	-	-	-	$ (28,079,798)	$ (3,177,939)
Series 1d Preferred Units issued	-	-	6,065,989	$ 5,034,801	-	-	-	-	-	-	-	-	$ 5,034,801
Class B Common Units forfeited	-	-	-	-	-	-	-	-	-	-	-	-	$ -
Conversion of Common Units to Common Stock	-	-	-	-	-	-	-	-	1,911,009	$ 191	2,353,092	-	$ -
Conversion of Preferred Units to Preferred Stock	(46,553,188)	$(6,491,592)	(6,065,989)	$(5,034,801)	71,044,171	$ 7,104	-	-	-	-	26,852,842	-	$ -
Conversion of Warrant Units to Preferred Stock Warrants	-	-	-	-	-	-	1,419,228	$ 142	-	-	723,289	-	$ -
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	1,160,049	-	$ 1,160,049
Net loss	-	-	-	-	-	-	-	-	-	-	-	$ (2,304,908)	$ (2,304,908)
Balance at March 31, 2021	-	$ -	-	$ -	71,044,171	$ 7,104	1,419,228	$ 142	1,911,009	$ 191	31,089,272	$ (30,384,706)	$ 712,003
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	113,987	-	$ 113,987
Net loss	-	-	-	-	-	-	-	-	-	-	-	$ (1,331,792)	$ (1,331,792)
Balance at June 30, 2021	-	$ -	-	$ -	71,044,171	$ 7,104	1,419,228	$ 142	1,911,009	$ 191	31,203,259	$ (31,716,498)	$ (505,802)
Redemption of Series 1c preferred shares	-	-	-	-	(5,221,156)	$ (522)	-	-	-	-	(999,478)	-	$ (1,000,000)
Conversion of Preferred Stock to Common Stock	-	-	-	-	(65,823,015)	$(6,582)	-	-	3,813,973	$ 381	6,200	-	$ -
Conversion of Preferred Stock Warrants to Common Stock Warrants	-	-	-	-	-	-	(1,419,228)	$ (142)	-	-	142	-	$ -
Conversion of Convertible Debt to Common Stock	-	-	-	-	-	-	-	-	32,219	$ 3	180,430	-	$ 180,434
Issuance of Common Stock and warrants, net issuance costs	-	-	-	-	-	-	-	-	2,571,428	$ 257	15,385,932	-	$15,386,189
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	142,655	-	$ 142,655
Net loss	-	-	-	-	-	-	-	-	-	-	-	$ (1,712,920)	$ (1,712,920)
Balance at September 30, 2021	-	$ -	-	$ -	-	$ -	-	$ -	8,328,629	$ 833	45,919,140	$ (33,429,418)	$12,490,555

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

DERMATA THERAPEUTICS, INC.
(FORMERLY DERMATA THERAPEUTICS, LLC)
Statements of Cash Flows
(unaudited)

	For the nine months ended September 30,	
	2022	**2021**
Cash flows from operating activities:		
Net loss	$ (7,941,311)	$ (5,349,621)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	709,435	1,416,691
Amortization of debt discount costs	-	14,126
Increase/(decrease) in cash resulting from changes in:		
Prepaid expenses and other current assets	(82,933)	(1,007,393)
Accounts payable	(31,504)	665,587
Accrued and other current liabilities	337,677	371,127
Net cash used in operating activities:	(7,008,636)	(3,889,483)
Cash flows from financing activities:		
Proceeds from issuance of common stock and warrants, net of issuance costs	4,276,365	15,386,189
Proceeds from issuances of common stock upon exercises of pre-funded warrants	287	-
Redemption of Series 1c preferred stock	-	(1,000,000)
Payments on debt	-	(556,482)
Net proceeds from issuance of convertible subordinated promissory notes	-	1,562,717
Proceeds from issuance of Series 1d preferred units	-	570,000
Net cash provided by financing activities:	4,276,652	15,962,424
Net increase (decrease) in cash and cash equivalents	(2,731,984)	12,072,941
Cash and cash equivalents at beginning of period	10,798,806	530,400
Cash and cash equivalents at end of period	$ 8,066,822	$ 12,603,341
Supplemental disclosures:		
Cash paid for interest	$ -	$ 1,420
Cash paid for taxes	$ 800	$ 1,400
Non-cash financing activities:		
Conversion of common and preferred units and warrants to common and preferred stock and warrants	$ -	$ 29,936,660
Conversion of convertible subordinated promissory notes to Series 1d preferred units	$ -	$ 4,464,801
Deemed dividend upon amendment to the terms of the Series 1d convertible preferred stock	$ -	$ 2,293,199
Conversion of convertible subordinated promissory notes and accrued interest to common shares at IPO	$ -	$ 180,434
Conversion of preferred stock to common stock at IPO	$ -	$ 6,582

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

DERMATA THERAPEUTICS, INC.
(FORMERLY DERMATA THERAPEUTICS, LLC)
Notes to Financial Statements
(unaudited)

1. Organization and Basis of Presentation

Dermata Therapeutics, Inc., (the "Company"), was formed in December 2014 as a Delaware limited liability company ("LLC") under the name Dermata Therapeutics, LLC. On March 24, 2021, the Company converted from an LLC to a Delaware C-corporation and changed its name to Dermata Therapeutics, Inc. Any references in these Notes to Financial Statements to equity securities as "units" refer to pre-conversion equity securities and any references to "shares" or "stock" in these Notes to Financial Statements refer to post-conversion equity securities. The Company is a clinical-stage biotechnology company focused on the treatment of medical and aesthetic skin conditions and diseases.

Initial Public Offering

On August 17, 2021, the Company completed its initial public offering ("IPO"), in which it sold2,571,428 shares of its common stock together with2,571,428 warrants to purchase one share of common stock with an exercise price of $7.00 per share, at a combined offering price of $7.00. Additionally, the underwriters exercised their option to purchase an additional 385,714 warrants to purchase common stock with an exercise price of $7.00 per share. The Company received net cash proceeds of approximately $15.4 million from the IPO after deducting underwriters' discounts and offering expenses of approximately $2.6 million.

Each of the following occurred in connection with the completion of the IPO in August 2021:

- The sale of 2,571,428 shares of common stock along with2,957,142 warrants to purchase common stock.
- The conversion of 65,823,015 shares of convertible preferred stock into an aggregate of3,813,973 shares of common stock.
- The conversion of $175,000 principal amount of outstanding convertible promissory notes and accrued interest of $5,434 into 32,219 shares of common stock.
- The conversion of 1,419,228 Series 1a preferred warrants into 69,212 warrants exercisable into common stock.

Each purchaser in the IPO received one share of common stock and one warrant to purchase one share of common stock at a combined offering price of $7.00. Each warrant to purchase common stock entitles the holder to purchase one share of common stock, are immediately exercisable, and expire five years from the date of issuance. The Company evaluated the terms of the warrants issued and determined that they should be classified as equity instruments.

The Company's shares of common stock and warrants are listed on the Nasdaq Stock Market LLC under the symbols "DRMA," and "DRMAW," respectively, and both began trading in August 2021.

After the IPO, there were no shares of preferred stock or preferred stock warrants outstanding. Prior to the IPO, the Company had1,911,009 shares of common stock outstanding after giving effect for the Company's reverse stock split in July 2021.

Reverse Stock Split

On July 1, 2021, the Company effected a reverse split of shares of the Company's common stock at a ratio of 1-for-20.5 pursuant to an amendment to the Company's certificate of incorporation approved by the Company's board of directors and stockholders. The par value was not adjusted as a result of the reverse split. All issued and outstanding common stock shares and per share amounts contained in the financial statements have been retroactively adjusted to reflect this reverse stock split for all periods presented, and the conversion ratios for the Company's outstanding preferred stock was adjusted accordingly. See Note 6 – Equity Securities for additional information.

Liquidity and Going Concern Uncertainty

Since its inception, the Company has devoted substantially all of its resources to research and development activities and has not generated any revenue or commercialized any product candidates. As of September 30, 2022, cash and cash equivalents totaled $8.1 million and the Company had an accumulated deficit of $43.9 million. For the nine months ended September 30, 2022 and the year ended December 31, 2021, the Company used cash of $7.0 million and $5.7 million, respectively, in operations. The Company's cash balances are expected to fund operations into the third quarter of 2023. The Company anticipates that it will continue to incur net losses for the foreseeable future. These factors raise substantial doubt about the Company's ability to continue as a going concern for the one-year period following the date that these financial statements were issued.

Historically, the Company's principal sources of cash have included proceeds from the issuance of common and preferred equity units and proceeds from the issuance of debt. The Company's principal uses of cash have included cash used in operations and payments for license rights. The Company expects that the principal uses of cash in the future will be for continuing operations, funding of research and development, conducting preclinical studies and clinical trials, and general working capital requirements. The Company expects that as research and development expenses continue to grow, it will need to raise additional capital to sustain operations and research and development. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

Management's Plan to Continue as a Going Concern

To continue as a going concern, the Company will need, among other things, to raise additional capital resources. Until the Company can generate significant cash from operations, management's plans to obtain such resources for the Company include proceeds from offerings of the Company's equity securities or debt, or transactions involving product development, technology licensing or collaboration. Management can provide no assurance that any sources of a sufficient amount of financing or collaboration agreements will be available to the Company on favorable terms, if at all. Additionally, the COVID-19 pandemic continues to evolve and has already disrupted global financial markets. The Company's ability to raise additional capital may be adversely impacted by potential worsening of global economic conditions and the recent disruptions to, and volatility in, the credit and financial markets in the United States and worldwide resulting from the pandemic. If the disruption persists or deepens, the Company could experience an inability to access additional capital.

The Company has raised additional capital through the initial public offering of its common stock and warrants and through a private placement financing; however, management's current plans do not alleviate substantial doubt about the Company's ability to continue as a going concern.

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, since they are interim statements, the accompanying financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments (consisting of normal recurring adjustments) that are necessary for a fair statement of the financial position, results of operations, cash flows, and stockholders' equity for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ materially from those estimates.

2. Summary of Significant Accounting Policies

Use of Estimates

The Company's financial statements are prepared in accordance with GAAP. The preparation of the Company's financial statements requires management to make estimates and assumptions that impact the reported amounts of assets, liabilities, and expenses and disclosure of contingent assets and liabilities in the financial statements and accompanying notes. On an ongoing basis, management evaluates these estimates and judgments, including those related to accrued research and development expenses, stock-based compensation, and the estimated fair values of equity instruments. Management evaluates its estimates on an ongoing basis. The Company bases its estimates on various assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Segment Information

Operating segments are defined as components of an enterprise about which separate discrete information is available for evaluation by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company and the Company's chief operating decision maker view the Company's operations and manage its business in one operating segment, which is the business of developing and commercializing pharmaceuticals. The Company operates in only one segment.

Deferred Financing Costs

The Company capitalizes certain legal, accounting, and other fees and costs that are directly attributable to in-process equity financings as deferred offering costs until such financings are completed. Upon the completion of an equity financing, these costs are recorded as a reduction of additional paid-in capital of the related offering. Upon the completion of the IPO in August 2021, approximately $2.6 million of offering costs related to the IPO were reclassified to additional paid-in capital. As of December 31, 2021, the Company had deferred financing costs of $0.06 million and as of September 30, 2022, the Company had no deferred financing costs.

Cash and Cash Equivalents

The Company deposits its cash with reputable financial institutions that are insured by the Federal Deposit Insurance Corporation ("FDIC"). This cash is held in checking, cash sweep, and money market accounts. At times, deposits held may exceed the amount of insurance provided by the FDIC. The Company maintains an insured cash sweep account in which cash from its main operating checking account is invested overnight in highly liquid, short-term investments. The Company considers all highly liquid investments with a maturity date of 90 days or less at the date of purchase to be cash equivalents. The Company has not experienced any losses in its cash and cash equivalents and believes they are not exposed to significant credit risk.

Fair Value Measurement

The Company uses a three-tier fair value hierarchy to prioritize the inputs used in the Company's fair value measurements. These tiers include Level 1, defined as observable inputs such as quoted prices in active markets for identical assets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The Company believes the carrying amount of cash and cash equivalents, accounts payable, accrued expenses and debt approximate their estimated fair values due to the short-term maturities of these financial instruments.

Interest Income

Interest income consists of interest income earned on cash equivalents from interest bearing demand accounts.

Patent Costs

Patent costs related to obtaining and maintaining patent protection in both the United States and other countries are expensed as incurred. Patents costs are classified as general and administrative expenses.

Research and Development

Research and development costs consist of expenses incurred in connection with the development of the Company's product candidates. Such expenses include expenses incurred under agreements with contract research organizations, manufacturing and supply scale-up expenses and the cost of acquiring and manufacturing preclinical and clinical trial supply, outsourced laboratory services, including materials and supplies used to support the Company's research and development activities, and payments made for license fees and milestones that have not been demonstrated to have commercial value. Such costs are expensed in the periods in which they are incurred. Upfront payments and milestone payments for licensed technology are expensed as research and development as incurred or when the milestone is achieved or is determined to be probable of being achieved. Advanced payments for goods or services to be received in the future for research and development activities are recorded as prepaid expenses and expensed as the related goods are received or services are performed.

Income Taxes

From inception until March 24, 2021, the Company operated as a limited liability company taxed as a partnership. Therefore, any income tax liability or benefit through that date accrued to the Company's members. Since March 24, 2021, the Company has operated as a C-Corporation and accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes net deferred tax assets to the extent that the Company believes these assets are more likely than not to be realized. In making such a determination, management considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If management determines that the Company would be able to realize its deferred tax assets in the future in excess of their net recorded amount, management would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company records uncertain tax positions on the basis of a two-step process whereby (1) management determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, management recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The Company recognizes interest and penalties related to unrecognized tax benefits within income tax expense. Any accrued interest and penalties are included within the related tax liability.

Stock-Based Compensation

In March 2021, the Company's board of directors and shareholders approved the 2021 Omnibus Equity Incentive Plan ("the 2021 Plan"). For stock options granted under the 2021 Plan, the Company measures and recognizes compensation expense for all stock-based awards made to employees, directors, and non-employees, based on estimated fair values recognized using the straight-line method over the requisite service period. The fair value of options to purchase common stock granted to employees is estimated on the grant date using the Black-Scholes valuation model. The calculation of stock-based compensation expense requires that the Company make certain assumptions and judgments about variables used in the Black-Scholes model, including the expected term of the stock-based award, expected volatility of the underlying common stock, dividend yield, and the risk-free interest rate. Forfeitures are accounted for in the period they occur. Restricted stock units ("RSUs") granted under the 2021 Plan are measured at the grant date fair value of the common stock, with corresponding compensation expense recognized ratably over the requisite service period. Refer to Note 7- Equity Incentive Plan for further discussion.

Comprehensive Loss

Comprehensive loss includes net loss and other comprehensive income (loss) for the periods presented. The Company did not have other comprehensive income (loss) items such as unrealized gains and losses and so for the three and nine months ended September 30, 2022, and September 30, 2021, comprehensive loss was equal to the net loss.

Net Loss Per Common Unit/Share

On March 24, 2021, the Company converted from an LLC to a C-corporation. Upon the conversion, each outstanding common unit and preferred unit was converted into one share of common stock and preferred stock, respectively. Common units had similar rights and characteristics of common stock issued upon the conversion. In calculating net loss per share, the Company retrospectively applied the effects of the conversion to the number of common units outstanding prior to the conversion. Net loss per share for periods prior to the conversion to a C-corporation refers to net loss per common unit.

Basic net loss per unit/share is calculated by dividing net loss attributable to common unitholders or shareholders by the weighted-average number of units or shares outstanding during the period, contingently issuable restricted stock units for which no future service is required as a condition to the delivery of the underlying common stock, and pre-funded warrants because their exercise requires only nominal consideration for the delivery of shares (collectively, "basic shares"), without consideration of common unit or share equivalents. Diluted net loss per unit or share is calculated by adjusting basic shares outstanding for the dilutive effect of common unit or share equivalents outstanding for the period. For purposes of the diluted net loss per unit or share calculation, preferred units or shares, profit interests, and warrants to purchase preferred units or shares are considered to be common unit or share equivalents but are excluded from the calculation of diluted net loss per common unit or share if their effect would be anti-dilutive.

As the Company has reported a net loss for the periods presented, diluted net loss per common unit or share is the same as the basic net loss per common unit or share for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	$ (2,424,586)	$ (1,712,920)	$ (7,941,311)	$ (5,349,621)
Deemed dividend upon redemption of 5,221,156 shares of Series 1c convertible preferred stock	$ -	$ 269,038	$ -	$ 269,038
Deemed dividend upon amendment of the terms to the Series 1d convertible preferred stock	$ -	$ 2,293,199	$ -	$ 2,293,199
Net loss attributable to common stockholders	$ (2,424,586)	$ (4,275,157)	$ (7,941,311)	$ (7,911,858)
Basic and diluted net loss per common unit/share	$ (0.20)	$ (0.86)	$ (0.75)	$ (2.69)
Weighted-average basic and diluted common units/shares	12,276,394	4,980,306	10,622,277	2,945,351

The common unit or share equivalents that are not included in the calculation of diluted net loss per common unit or share but could potentially dilute basic earnings per share in the future are as follows:

	As of September 30,	
	2022	2021
Common stock options	1,056,326	523,199
Common stock warrants	6,993,813	3,091,657
Total potentially dilutive securities	8,050,139	3,614,856

Recent Accounting Pronouncements

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

3. Balance Sheet Details

The following provides certain balance sheet details:

	September 30, 2022	December 31, 2021
Prepaid expenses and other current assets		
Prepaid insurance	$ 806,661	$ 769,416
Prepaid research and development costs	52,100	-
Prepaid other	36,413	-
Interest receivable	12,893	-
Deferred offering costs	-	55,718
Total prepaid expenses and other current assets	$ 908,067	$ 825,134
Accrued and other current liabilities		
Accrued research and development costs	$ 633,293	$ 235,384
Accrued compensation and benefits	317,089	766,207
Accrued legal fees	13,801	-
Accrued board compensation	55,625	-
Accrued other	773	-
Total accrued and other current liabilities	$ 1,020,581	$ 1,001,591

4. Subordinated Convertible Promissory Notes

In July and October 2020, the Company issued an aggregate of $3,000,000 of subordinated convertible promissory notes (the "Notes"). Notes in the amount of $1,145,000 were issued to existing investors who are also related parties (See Note 11 - Related Parties), $1,730,000 were issued to existing investors who are not related parties and notes in the amount of $125,000 were issued to new investors. The Notes bore interest at 4% per annum and were to mature on July 17, 2021. The Notes were subordinated to the Company's long-term debt and were convertible into a qualified Series A financing of at least $ 10 million at a 20% discount to the lowest price per unit paid by investors for that financing. Under authoritative accounting guidance, this contingent beneficial conversion feature was to be measured and recognized when the contingency is resolved. The Notes were recorded upon issuance net of debt discount costs of $28,301. The Company recognized $14,126 of amortized debt discount costs during the nine months ended September 30, 2021.

On January 27, 2021, the Company amended the terms of the Notes to increase the maximum amount of convertible promissory notes to be issued from $3,000,000 to $5,000,000, to allow for the conversion of the convertible promissory notes into shares of common stock upon a Qualified Initial Public Offering with aggregate gross proceeds to the Company of at least $10,000,000 at a 20% discount to the lowest price per share paid by investors for that financing and to extend the maturity date to December 31, 2021. In connection with this amendment, Notes in the amount of $1,255,000 were issued to existing investors who are also related parties (See Note 11 - Related Parties) and $311,000 were issued to existing investors who are not related parties.

In March 2021, the Company further amended the terms of the Notes to allow for the conversion of the Notes into Series 1d Preferred Units at the same price as purchasers of Series 1d Preferred Units. As of March 15, 2021, $4,391,000 of the Notes, along with related interest of $73,801, were converted to 5,379,247 Series 1d Preferred Units. Since the Notes did not convert at a discount, there was no beneficial conversion feature.

The Company considers the above modification of the Notes in March 2021 to be a substantial modification requiring extinguishment accounting under Accounting Standards Codification ("ASC") 470-50-40-10. Based upon an independent valuation of the reacquisition price of the Notes, the difference between the reacquisition price and the net carrying amount of the Notes immediately prior to the modification is not material to the financial statements.

In connection with the Company's IPO in August 2021, the outstanding principal of the Notes and accrued interest totaling $180,434 converted into 32,219 shares of common stock. Upon this conversion, since the conversion contained a 20% discount, the Company measured the beneficial conversion feature and determined that it was not material to the financial statements.

As of December 31, 2021, and September 30, 2022, the Company had no promissory notes outstanding.

5. Long-Term Debt

In February 2017, the Company entered into a Loan and Security Agreement with Silicon Valley Bank ("SVB") whereas SVB agreed to provide term loans to the Company in two tranches. The first tranche of $2,500,000 was drawn in February 2017 and bore interest at a rate of 1.5% above the prime rate, which was 3.25% as of December 31, 2020, with principal and interest payable monthly through February 9, 2021. The second tranche was not utilized.

In connection with the Loan and Security Agreement, SVB also received warrant units to purchase, at any time after February 9, 2017 and prior to February 9, 2027, 187,978 Series 1a Preferred Units or the equivalent Series A Preferred Units had they purchased Series 1a Preferred Units, if Series A Preferred Units are issued, at a price of $1.00 per unit. The estimated fair value of these warrant units of $104,630 (See Note 6 – Equity Securities), as well as costs associated with the term loan, including provision for a final payment of $225,000, were recorded as a discount to outstanding debt and amortized to interest expense utilizing the effective interest method over the underlying term of the loan.

In June 2019, the Company and SVB entered into a First Amendment to the Loan and Security Agreement whereby if the Company did not achieve certain capital milestones by December 1, 2019, term loan principal payments would be deferred from December 21, 2019 through May 1, 2020 with the deferred principal payments being payable in equal monthly installments, in addition to those principal payments already scheduled to be paid, starting on June 1, 2020 and extending through the February 9, 2021 maturity date of the term loan. In addition, if those principal payments were deferred for that six-month period, a non-refundable amendment fee of $100,000 would be due and payable on the earliest to occur of the maturity date, the prepayment of the term loan or the occurrence of an event of default. The capital milestones were not achieved by December 1, 2019 and, therefore, the defined principal repayments were deferred.

The non-refundable amendment fee of $100,000, as well as $12,280 of costs associated with the amendment, were recorded as a discount to outstanding debt and were amortized to interest expense utilizing the effective interest method over the remaining underlying term of the loan.

In January and February 2021, the Company paid the final principal payments of $231,482 under the SVB Loan and Security Agreement. The Company also paid the final payment fee of $225,000 in February 2021 and the amendment fee of $100,000 in March 2021. For the nine months ended September 30, 2021, the Company paid a total of $556,482 to SVB as final payments for its long-term debt.

As of December 31, 2021, and September 30, 2022, the Company had no long-term debt outstanding.

6. Equity Securities

Common Stock and Preferred Stock

On March 24, 2021, the Company entered into a Plan of Conversion ("Conversion") whereby the Company converted from an LLC under the laws of the State of Delaware to a Delaware C-corporation with the name Dermata Therapeutics, Inc. In connection with the Conversion, each fully paid preferred and common unit in the LLC was converted into a like number of shares of preferred and common stock of the Company with a par value of $0.0001 per share. The Shares issued had the same rights, preferences and privileges that had accrued to the pre-converted Units. Any references in these Notes to Financial Statements to equity securities as "units" refer to pre-conversion equity securities and any references to "shares" or "stock" in these Notes to Financial Statements refer to post-conversion equity securities.

On July 1, 2021, the Company effected a reverse split of shares of the Company's common stock at a ratio of 1-for-20.5 pursuant to an amendment to the Company's certificate of incorporation approved by the Company's board of directors and stockholders. The par value was not adjusted as a result of the reverse split. All issued and outstanding common stock share and per share amounts contained in the financial statements have been retroactively adjusted to reflect this reverse split for all periods presented.

On August 17, 2021, the Company completed its IPO, in which it sold 2,571,428 shares of its common stock together with 2,571,428 warrants to purchase one share of common stock with an exercise price of $7.00 per share at a combined offering price of $7.00. Additionally, the underwriters exercised their option to purchase an additional 385,714 warrants with an exercise price of $7.00 per warrant. The Company received net cash proceeds of approximately $15.4 million from the IPO after deducting underwriters' discounts and offering expenses of approximately $2.6 million.

Each of the following occurred in connection with the completion of the IPO in August 2021:

- The sale of 2,571,428 shares of common stock along with 2,957,142 warrants to purchase common stock.
- The conversion of 65,823,015 shares of convertible preferred stock into an aggregate of 3,813,973 shares of common stock.
- The conversion of $175,000 principal amount of outstanding convertible promissory notes and accrued interest of $5,434 into 32,219 shares of common stock.
- The conversion of 1,419,228 Series 1a preferred warrants into 69,212 warrant shares exercisable into common stock.

After the IPO, there were no shares of preferred stock or preferred stock warrants outstanding. Prior to the IPO, the Company had 1,911,009 shares of common stock outstanding after giving effect for the Company's reverse stock split in July 2021.

On April 25, 2022, the Company closed a private placement ("PIPE"), in which it sold 898,585 shares of its common stock together with 2,875,000 pre-funded warrants to purchase one share of common stock with an exercise price of $0.0001 per share ("Pre-funded Warrant"), and 3,773,585 warrants to purchase one share of common stock with an exercise price of $1.325 per share ("PIPE Common Warrant") at a combined offering price of $1.325. The Company received net cash proceeds of approximately $4.3 million from the PIPE after deducting underwriters' discounts and offering expenses of approximately $0.7 million. The PIPE Common Warrant related to this private placement will expire on May 12, 2027. During the quarter ended June 30, 2022, 875,000 of the Pre-funded Warrants were exercised. Further, during the quarter ended September 30, 2022, 2,000,000 of the Pre-funded Warrants were exercised. No Pre-Funded Warrants were outstanding as of September 30, 2022.

The Company's total common stock issued and outstanding was 12,102,214 and 8,328,629 shares as of September 30, 2022, and December 31, 2021, respectively.

Series 1 Preferred Units

From the Company's formation on December 8, 2014 through 2016, the Company issued 6,906,244 Series 1 Preferred Units for net consideration of $6,833,877. The Company's Series 1 Preferred Units were converted to preferred stock during the first quarter of 2021. Additionally, in August 2021, the Company converted all preferred stock into common stock. No Series 1 Preferred Units were outstanding as of December 31, 2021 and September 30, 2022.

Series 1a Preferred Units

In 2016, the Company issued 5,000,000 Series 1a Preferred Units in exchange for cash of $5,000,000 and net of issuance costs of $19,868. Purchasers of the Series 1a Preferred Units also received 1,250,000 Warrant Units to purchase an additional amount of Series 1a Preferred Units. The estimated fair value of the warrant units was recorded as a separate component of members' equity (deficit) in the accompanying balance sheet as of December 31, 2020 with an offset to the Series 1a proceeds. In June 2020, 18,750 of the warrants were exercised for consideration of $18,750, which consideration was received in July 2020. The Company's Series 1a Preferred Units were converted to preferred stock during the first quarter of 2021. Additionally, in August 2021, the Company converted all preferred stock into common stock. No Series 1a Preferred Units were outstanding as of December 31, 2021 and September 30, 2022.

Series 1b Preferred Units

In 2018, the Company issued 6,500,000 Series 1b Preferred Units in exchange for cash of $6,500,000 and net of issuance costs of $40,405. Purchasers of the Series 1b Preferred Units also received 1,268,279 Class B Common Units. The estimated fair value of the Class B Common units has been recorded as a component of members' equity (deficit) in the accompanying balance sheet as of December 31, 2020 with an offset to the Series 1b proceeds. The Company's Series 1b Preferred Units were converted to preferred stock during the first quarter of 2021. Additionally, in August 2021, the Company converted all preferred stock into common stock. No Series 1b Preferred Units were outstanding as of December 31, 2021 and September 30, 2022.

Series 1c Preferred Units

On June 14, 2019, the Company closed participation in a $5,785,000 Series 1c financing from current and new investors. As of December 31, 2019, cash of $5,535,000, including $150,000 from the conversion of a convertible note issued to a Managing Member of the Company for a loan made to the Company, net of issuance costs of $25,857, had been received. The accrued interest on the convertible note in the amount of $1,487 was also converted into Series 1c Preferred Units. The remaining balance of $250,000 committed to the financing was paid in the amounts of $125,000 in May 2020 and $125,000 in June 2020.

In June 2019, 5,221,156 Series 1c Preferred Units were issued in connection with the settlement and license agreement, and in July 2021, the Company redeemed these units/shares in connection with an amendment to the settlement and license agreement. See Note 9 – License Agreements for more information.

The Company's Series 1c Preferred Units were converted to preferred stock during the first quarter of 2021. Additionally, in August 2021, the Company converted all preferred stock into common stock. No Series 1c Preferred Units were outstanding as of December 31, 2021 and September 30, 2022.

Series 1d Preferred Units

In March 2021, the Company issued 686,742 Series 1d Preferred Units at a cost of $0.83 per unit for total proceeds of $570,000. In addition, as described in Note 4 – Subordinated Convertible Promissory Notes, as of March 15, 2021, $4,391,000 of convertible promissory notes, along with related interest of $73,801, were converted into 5,379,247 Series 1d Preferred Units. The outstanding Series 1d Preferred Units were converted to preferred stock during the first quarter of 2021. Additionally, in August 2021, the Company converted all preferred stock into common stock. No Series 1d Preferred Units were outstanding as of December 31, 2021 and September 30, 2022.

Class A Common Units

During 2014 and 2015, the Company issued 508,777 Class A Common Units in exchange for consideration of $10,430. The Class A Common Units outstanding converted to common stock during the first quarter of 2021. No Class A Common Units were outstanding as of December 31, 2021 and September 30, 2022.

Class B Common Units

The Company had 1,767,477 Class B Common Units outstanding as of December 31, 2020. This includes 133,953 Class B Common Units issued for consideration of $2,853 and 1,268,279 Class B Common Units issued in connection with the issuance of the Series 1b Preferred Units, which were assigned an estimated fair value of $2,340,000. The remaining 365,245 Class B Common Units were issued as a profits interest as that term is defined by Revenue Procedure 93-27, 1993-2 C.B. 343, as clarified by Revenue Procedure 2001-43, 2001-2 C.B. 191, with participation thresholds from $0.001 to $0.36. During the first quarter 2020, the Company issued 2,439 Class B Common Units, all of which represented a profits interest. During the first quarter of 2021, 22,494 Class B Common Units were forfeited as a result of employee resignations. The remaining Class B Common Units outstanding converted to common stock during the first quarter of 2021. No Class B Common Units were outstanding as of December 31, 2021 and September 30, 2022.

Liquidation Preference

Prior to the Company's IPO in August 2021, the Company's preferred units were subject to liquidation preferences contained herein. So long as there were no Series A Preferred Units outstanding at the time of a liquidity event, any liquidity event proceeds would have been distributed as follows: First, the Series 1d Preferred Units had a two times preference in liquidation over the Series 1c Preferred Units and then participated with the Series 1c, 1b and 1a Preferred Units once the Series 1c Preferred Unit preferences had been satisfied. Second, proceeds to Series 1c Preferred Unit holders sufficient to cover two times their Series 1c investment; third, proceeds to Series 1, Series 1a, Series 1b, Series 1c, and Series 1d Preferred Unit holders sufficient to cover interest at the rate of 8% per annum on the Series 1 Preferred Units, the Series 1a Preferred Units, the Series 1b Preferred Units, the Series 1c Preferred Units, and Series 1d Preferred Units; fourth, proceeds to the Series 1, Series 1a, Series 1b and Series 1c Preferred Unit holders sufficient to cover the unit value of Series 1 Preferred Units, Series 1a Preferred Units, Series 1b Preferred Units, Series 1c Preferred Units, and Series 1d Preferred Units; fifth, to Class A and Class B Common holders proceeds sufficient to cover their pro-rata portion of distributions made to Series 1, Series 1a, Series 1b, Series 1c, and Series 1d Preferred Unit holders, provided that no Class B Common Units would share in any distribution until after the point at which the amount per Class A Common Unit exceeds the amount of such Class B Common Unit's Participation Threshold; and sixth, a pro-rata distribution of the remaining proceeds to all equity holders. Upon the issuance of Series A Preferred Units, each Series 1 Preferred Unit, each Series 1a Preferred Unit, each Series 1b Preferred Unit, each Series 1c Preferred Unit and each Series 1d Preferred Unit would have automatically converted into the number of Series A Preferred Units equal to the sum of the unit value of the Series 1, Series 1a, Series 1b, Series 1c or Series 1d Preferred Units plus all accumulated preferred return as of the conversion date that would have been due with respect to such Series 1, Series 1a, Series 1b, Series 1c or Series 1d Preferred Units in the case of a liquidity event. As of December 31, 2021 and September 30, 2022, no Series A Preferred Units had been issued, and no preferred stock remained outstanding.

Conversion Rights

Prior to the Company's IPO in August 2021, the Company's preferred units were subject to conversion rights contained herein. Upon the first issuance by the Company of any Series A Preferred Units, each Series 1 Preferred Unit and each Series 1a Preferred Unit and each Series 1b Preferred Unit and each Series 1c Preferred Unit and each Series 1d Preferred Unit would have automatically been converted into the number of Series A Preferred Units equal to the sum of the Unit Value with respect to such Series 1 Preferred Unit or Series 1a Preferred Unit or Series 1b Preferred Unit or Series 1c Preferred Unit or Series 1d Preferred Unit as of the conversion date divided by the product of 0.80 multiplied by the Unit Value of the Series 1 Preferred Units or Series 1a Preferred Units or Series 1b Preferred Units or Series 1c Preferred Units or Series 1d Preferred Unit issued on the conversion date. The Series A Preferred Units issued to the Series 1 Preferred Members and Series 1a Preferred Members and Series 1b Preferred Members and Series 1c Preferred Members and Series 1d Preferred Members upon conversion of such Series 1 Preferred Units and Series 1a Preferred Units and such Series 1b Preferred Units and Series 1c Preferred Units and Series 1d Preferred Units would have had the same rights, privileges and preferences as the other Series A Preferred Units issued by the Company on the conversion date. The Company considered the classification of the Preferred Units and concluded that they were appropriately included as a component of equity since each class of Preferred Units participates in the same form of consideration received upon a change in control. As of December 31, 2021 and September 30, 2022, no preferred units or stock remained outstanding.

Stockholders' Agreements

On March 24, 2021, in connection with the conversion of Dermata Therapeutics, LLC into a Delaware corporation, the Company entered into a Stockholders' Agreement (as amended, the Stockholders' Agreement) with all of its then-existing stockholders, including Proehl Investment Ventures, LLC and Hale Biopharma Ventures, LLC. The Stockholders' Agreement among other things, provided for certain restrictions on transfer of the Company's shares of capital stock, set forth agreements and understandings with respect to how shares of its capital stock held by the stockholders party thereto will have been voted on, or tendered in connection with, an acquisition of the Company and provided for certain voting rights with respect to the election of directors. In addition, pursuant to the Stockholders' Agreement, holders of the Company's Series 1a Preferred Stock were entitled to purchase, at any time prior to March 14, 2026, such number of shares of the Company's Series 1a Preferred Stock as such Series 1a Stockholder shall request, up to an aggregate number of shares of Series 1a Preferred Stock not to exceed the product of 25% and the aggregate number of shares Series 1a Preferred Stock then held by such Series 1a Stockholder (or the Series 1a Preferred Warrant Rights). The shares of Series 1a Preferred Stock purchased pursuant to any Series 1a Preferred Warrant Right had a per share purchase price of $20.50 (subject to appropriate adjustment in the event of any stock dividend, stock split, combination, or other similar recapitalization). Upon the consummation of the Company's IPO of common stock, each Series 1a Preferred Stock Warrant became exercisable for the same number of shares of Common Stock with the same per share exercise price of $20.50 per share (subject to appropriate adjustment in the event of any stock dividend, stock split, combination, or other similar recapitalization). The Stockholders' Agreement would have automatically terminated upon the earliest of (a) immediately prior to the consummation of the Company's initial public offering of common stock, and (b) the consummation of a sale of the Company, subject to certain conditions. The Company completed the IPO of common stock in August 2021, thereby terminating the Stockholders' Agreement.

On June 29, 2021, with effectiveness on July 1, 2021, the Company's board of directors amended its Certificate of Incorporation to adjust the conversion price and certain conversion mechanics of the Company's issued and outstanding Series 1d Preferred Stock, whereby each share of Series 1d Preferred stock would convert into such number of Common Stock as determined by dividing (i) the product of (a) the Original Issue Price for the Series 1d Preferred Stock, multiplied by (b) 1.2, rounded to the nearest whole cent, by (ii) the 80% of the initial public per share offering price in the IPO. The Series 1d conversion shall not be subject to further adjustment for any stock split.

On June 29, 2021, with effectiveness on July 1, 2021, the Company's board of directors approved an amendment to the 2021 Plan to increase the number of shares of Common Stock available for issuances from 593,340 to 1,648,213 shares. Effective January 1, 2022, an evergreen provision contained in the Company's 2021 Omnibus Equity Incentive Plan, or the 2021 Plan, added one percent of common shares outstanding as of December 31, 2021 to the 2021 Plan. This evergreen provision resulted in an increase of 83,286 shares to the 2021 Plan, increasing shares authorized for issuance under the 2021 Plan to1,731,499 as of January 1, 2022.

On June 29, 2021, the Company's board of directors approved a1-for-20.5 reverse split of all outstanding shares of common stock, effected on July 1, 2021 (no fractional shares were issued). Except as otherwise noted, all references to share and per share amounts related to common stock and common units have been restated to reflect the reverse stock split.

On July 12, 2021, the Company's board of directors amended its Certificate of Incorporation to further adjust the conversion price and certain conversion mechanics of the Company's issued and outstanding Series 1d Preferred Stock. The two amendments to the Series 1d Preferred Stock conversion terms were combined for purposes of accounting for the amendments. In order to determine if these amendments resulted in a modification or extinguishment of the Series 1d Preferred Stock, pursuant to the related authoritative guidance, the Company engaged an independent third-party valuation firm to assist with determining the fair value of the Series 1d Preferred Stock immediately before the change in conversion terms, as well as immediately after the change in conversion terms. This resulted in a substantive increase in fair value, and as such, the Company determined the amendments resulted in extinguishment accounting. Accordingly, the Company applied ASC 260, Earnings per Share, and ASC 470, Debt, by analogy to determine the appropriate measurement and presentation. The Company compared the fair value of the Series 1d Preferred Stock, as amended, to its carrying value and recorded the resulting difference of approximately $2.3 million as a deemed dividend for the Series 1d preferred shareholders. The Company recorded the deemed dividend to additional paid-in capital during the quarter ended September 30, 2021. Because the Company is in an accumulated deficit position, the deemed dividend increased the net loss attributable to the common shareholders for the three and nine months ended September 30, 2021.

On July 30, 2021, the Company entered into a Second Amendment to the License and Settlement Agreement (or, the Second License Amendment), whereby, for the settlement of certain disputes arising under the License Agreement, the Company agreed to exchange the shares of Series 1c Preferred Stock owned by Villani, Inc. ("Villani") for an increase of milestone payments and royalty rates due to Villani under the License Agreement. On July 30, 2021, Villani surrendered 5,221,156 shares of Series 1c Preferred Stock to the Company and on August 17, 2021, the Company paid to Villani $1.0 million upon the close of the Company's initial public offering for the redemption of the Series 1c shares. The Company determined that the deemed dividend to Villani for the Series 1c preferred share redemption was the difference between the $1.0 million paid for the shares and the carrying value of the shares of $730,962, resulting in a deemed dividend of $269,038. This deemed dividend of $269,038 was recorded to additional paid-in capital during the quarter ended September 30, 2021. Because the Company is in an accumulated deficit position, the deemed dividend increased the net loss attributable to common shareholders for the three and nine months ended September 30, 2021.

On August 14, 2021, the Company's board of directors approved an amendment to the Company's Certificate of Incorporation to increase the number of shares of Common Stock authorized to 90,000,000.

On July 11, 2022, the Company filed a Certificate of Amendment (the "Certificate of Amendment") to the Company's Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") with the Secretary of State of the State of Delaware to increase the number of authorized shares of the Company's common stock from 90,000,000 shares to 250,000,000 shares. The increase in the number of authorized shares was approved by the holders of a majority of the outstanding shares of common stock of the Company at its annual meeting on July 11, 2022.

Warrants

Warrants issued at IPO

On August 17, 2021, the Company completed its IPO, in which it sold 2,571,428 shares of its common stock together with 2,571,428 warrants to purchase one share of common stock with an exercise price of $7.00 per share at a combined offering price of $7.00. The underwriters exercised their option to purchase an additional 385,714 warrants with an exercise price of $7.00, increasing the number of warrants issued at IPO to 2,957,142. Each warrant is immediately exercisable at the option of the holder and expires five years from the date of issuance.

The Company evaluated the terms of the warrants issued at the IPO and determined that they should be classified as equity instruments based upon accounting guidance provided in ASC 480, Distinguishing Liabilities from Equity, and ASC 815, Derivatives and Hedging. Since the Company determined that the warrants were equity classified, the Company recorded the proceeds from the IPO, net of issuance costs, within common stock at par value and the balance of proceeds to additional paid in capital. The fair value of each warrant on August 17, 2021 was $0.9995 based on the closing trading price on that day.

As of September 30, 2022, the Company had 2,957,142 warrants outstanding resulting from the IPO with an exercise price of $7.00 and which expire August 17, 2026. As of September 30, 2022, the outstanding warrants are exercisable into 2,957,142 shares of common stock whose fair value was $0.52 per share, based on the closing trading price on that day.

Underwriter IPO Warrants

Upon the closing of the Company's IPO in August 2021, the Company issued to the underwriters warrants to purchase 128,571 of shares of common stock at an exercise price equal to 115% of the public offering price, or $8.05 per share, exercisable for a period of five years, or until August 2026. As of September 30, 2022, the Company had 128,571 warrants outstanding resulting from the underwriter IPO warrants with an exercise price of $8.05 and which expire August 17, 2026. As of September 30, 2022, the outstanding warrants are exercisable for 128,571 shares of common stock whose fair value was $0.52 per share, based on the closing trading price on that day.

Warrants issued with Class B Common Units

In March 2021, the Company granted Class B Common Units Profits interests to certain former employees and consultants. In connection with the conversion from an LLC to a C-Corporation, the Company converted 65,303 of vested Units to fully vested Common Stock Warrants with an exercise price of $5.74. These Common Stock Warrants issuances were considered a modification under ASC 718, Stock Compensation, in which the fair value of the Class B Common Units profits interests were measured at the modification date and compared to the fair value of the common stock warrants, with the difference of $279,812 recorded as stock-based compensation expense in the first quarter of 2021.

As of September 30, 2022, the Company had 65,303 common warrants outstanding related to the prior Class B Common Units with an exercise price of $5.74 and which expire December 31, 2024. As of September 30, 2022, the outstanding warrants are exercisable into 65,303 shares of common stock whose fair value was $0.52 per share, based on the closing trading price on that day.

Warrants issued with Series 1a Preferred Units

In connection with the issuance of 5,000,000 Series 1a Preferred Units in November 2016, each Series 1a Preferred Member received Warrant Units to purchase from the Company, at any time after November 15, 2016 and on or prior to November 15, 2021, such number of Series 1a Preferred Units as such Series 1a Preferred Member shall request, up to an aggregate number of Series 1a Preferred Units not to exceed the product of 25% and the aggregate number of Series 1a Preferred Units then held by such Series 1a Preferred Member, which was 1,231,250 units at December 31, 2020. The exercise price for each Warrant Unit was $1.00, subject to adjustment for unit splits and combinations. The warrants had a 5-year term. The Company received total proceeds of $5,000,000 for the Series 1a Preferred Units and warrants which were allocated on a relative fair value basis to the Units and warrants resulting in a relative fair value of $4,381,199 and $618,801, respectively. The estimated fair value of the Series 1a Warrant Units was recorded as a separate component of members' equity (deficit) in the accompanying financial statements as of December 31, 2020. In June 2020, 18,750 of the warrants were exercised for consideration of $18,750, which consideration was received in July 2020.

In connection with the Loan and Security Agreement, SVB also received Warrant Units to purchase, at any time after February 9, 2017 and prior to February 9, 2027, 187,978 Series 1a Preferred Units or the equivalent Series A Preferred Units had they purchased Series 1a Preferred Units, if Series A Preferred Units are issued, at an exercise price of $1.00 per unit. On March 24, 2021, in connection with the conversion from an LLC to a C-Corporation, each warrant to purchase Series 1a Preferred Units in the LLC was automatically converted into a warrant to purchase, upon the same terms and conditions, shares of Series 1a Preferred Stock of the Company.

In July 2021, the Company effected a reverse split of shares of the Company's common stock at a ratio of 1-for-20.5, and the conversion ratio of the preferred stock was adjusted accordingly. In August 2021, in connection with the Company's IPO, the outstanding Series 1a preferred warrants were converted into 69,212 common warrants.

As of September 30, 2022, the Company had 69,212 common warrants outstanding related to the prior Series 1a preferred warrants with an exercise price of $20.50 and which expire November 15, 2026. As of September 30, 2022, the outstanding warrants are exercisable into 69,212 shares of common stock whose fair value was $0.52 per share, based on the closing trading price on that day.

Common and Pre-Funded Warrants issued with PIPE

In April 2022, the Company completed the PIPE, in which it sold 898,585 shares of its common stock together with 2,875,000 Pre-funded Warrants to purchase one share of common stock with an exercise price of $0.0001 per share, and 3,773,585 PIPE Common Warrants to purchase one share of common stock with an exercise price of $1.325 per share, at a combined offering price of $1.325. Each PIPE Common Warrant is immediately exercisable at the option of the holder and expires May 13, 2027.

During the quarter ended June 30, 2022, 875,000 of the Pre-funded Warrants were exercised. During the quarter ended September 30, 2022, the remaining 2,000,000 Pre-funded Warrants were exercised. No additional Pre-funded Warrants are outstanding as of September 30, 2022.

As of September 30, 2022, the Company had 3,773,585 PIPE Common Warrants outstanding with an exercise price of $1.325 and which expire May 13, 2027. As of September 30, 2022, the outstanding PIPE Common Warrants are exercisable into 3,773,585 shares of common stock whose fair value was $0.52 per share, based on the closing trading price on that day.

7. Equity Incentive Plan

Under the Company's 2021 Omnibus Equity Incentive Plan (the "2021 Plan"), the Company may grant options to purchase common stock, restricted stock awards, performance stock awards, incentive bonus awards, other cash-based awards or directly issue shares of common stock to employees, directors, and consultants of the Company. Effective January 1, 2022, an evergreen provision contained in the Company's 2021 Plan increased the total number of shares of common shares issuable under the 2021 Plan in an amount equal to one percent of the Company's common shares outstanding as of December 31, 2021. This evergreen provision resulted in an additional 83,286 common shares issuable pursuant to the 2021 Plan, increasing the total authorized shares available for issuance under the 2021 Plan to 1,731,499 as of January 1, 2022. Stock awards may be granted at an exercise price per share of not less than 100% of the fair market value at the date of grant. Stock awards granted are exercisable over a maximum term of 10 years from the date of grant and generally vest over a period of four years for employees and one year for directors of the Company's board and consultants

As of September 30, 2022, there remain an additional 547,447 shares reserved for issuance under the 2021 Plan.

Fair Value Measurement

The Company uses the Black-Scholes option valuation model, which requires the use of highly subjective assumptions, to determine the fair value of stock-based awards. The fair value of each employee stock option is estimated on the grant date under the fair value method using the Black-Scholes model. The estimated fair value of each stock option is then expensed over the requisite service period, which is generally the vesting period. The assumptions and estimates that the Company uses in the Black-Scholes model are as follows:

- *Fair Value of Common Stock.* The estimated fair value of the common stock underlying the Company's stock option plan was determined by management by considering various factors as discussed below. All options to purchase shares of the Company's common stock are intended to be exercisable at a price per share not less than the per-share fair value of the Company's common stock underlying those options on the date of grant. In the absence of a public trading market for the Company's common stock, before the initial public offering, on each grant date, the Company developed an estimate of the fair value of its common stock based on the information known to the Company on the date of grant, upon a review of any recent events and their potential impact on the estimated fair value per share of the common stock and in part on input from an independent third-party valuation firm. After the Company's initial public offering, the fair value of common stock is measured as the Company's closing price of common stock on the date of grant.

- *Risk-Free Interest Rate.* The Company bases the risk-free interest rate used in the Black-Scholes valuation model on the implied yield available on U.S. Treasury zero-coupon issues with a term equivalent to that of the expected term of the options.

- *Expected Term.* The expected term represents the period that the Company's stock-based awards are expected to be outstanding. Because of the limitations on the sale or transfer of the Company's common stock as a privately held company, the Company does not believe its historical exercise pattern is indicative of the pattern it will experience as a publicly traded company. The Company plans to continue to use the SAB 110 simplified method until it has sufficient trading history as a publicly traded company.

- *Volatility.* The Company determines the price volatility based on the historical volatilities of industry peers as it has limited trading history for its common stock price. Industry peers consist of several public companies in the biotechnology industry with comparable characteristics, including clinical trials progress and therapeutic indications.

- *Dividend Yield.* The expected dividend assumption is based on the Company's current expectations about its anticipated dividend policy. To date, the Company has not declared any dividends to common shareholders, and therefore the Company has used an expected dividend yield of zero.

The following table presents the weighted-average assumptions used for the stock option grants:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Grant date fair value	$ 0.45	$ 4.54	$ 1.46	$ 4.87
Risk-free rate	2.9%	0.98%	1.5%	0.92%
Dividend yield	0.00%	0.00%	0.0%	0.00%
Expected life in years	6.1	5.8	5.4	5.7
Expected volatility	132%	125%	123%	122%

Stock-based Compensation Expense

In general, stock-based compensation is allocated to research and development expense or general and administrative expense according to the classification of cash compensation paid to the employee, director, or consultant to whom the stock award was granted.

On March 24, 2021, in connection with the conversion from an LLC to a C-Corporation, the Company converted 277,448 of Class B Common Units profits interests, for which no consideration had been received, into 277,448 options to purchase common stock at an exercise price of $5.74 to $6.314 per share. The fair value of common stock prior to IPO was determined in part based upon input from an independent third-party valuation firm. The Company considered the conversion of these Class B Common Units profits interests as a modification under ASC 718, Stock Compensation, in which the fair value of the Class B Common Units profits interests was measured at the modification date and compared to the fair value of the common stock options, with the difference of $1,339,993 resulting in incremental stock-based compensation expense. Related to the options, the Company recorded $849,564 of stock-based compensation expense recorded in the first quarter of 2021.

In December 2021, the Company's board of directors authorized a stock option grant in lieu of a cash bonus for the Company's Chairman and Chief Executive Officer. The stock-based compensation expense of $0.4 million related to the stock option grant was booked to the fiscal year ended December 31, 2021; however, the impact to additional paid-in capital was not booked until the first quarter of 2022, when the stock option award was granted.

The following table summarizes the total stock-based compensation expense related to stock options and RSUs included in the Company's statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Research and development	$ 54,907	$ 30,075	$ 163,417	$ 310,046
General and administrative	180,076	112,580	546,018	1,106,645
	$ 234,983	$ 142,655	$ 709,435	$ 1,416,691

Stock Option Award Activity

A summary of the Company's Equity Plan stock option activity is as follows:

	Number of Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)
Balance at December 31, 2021	523,199	$ 5.84	8.8
Options granted	533,127	1.75	-
Options exercised	-	-	-
Options cancelled	-	-	-
Balance at September 30, 2022	1,056,326	$ 3.77	8.5
Options exercisable at September 30, 2022	586,100	$ 4.32	8.6

The aggregate intrinsic value of options exercisable as of September 30, 2022 is calculated as the difference between the exercise price of the underlying options and the closing market price of the Company's common stock on that date, which was $0.52 per share. The intrinsic value of options outstanding and exercisable as of September 30, 2022 was $385.

As of September 30, 2022, total unrecognized compensation cost related to stock options was approximately $1.1 million and the weighted average period over which this cost is expected to be recognized is 2.5 years.

Restricted Stock Unit Award Activity

A summary of the Company's Equity Plan restricted stock unit, or RSU, award activity is as follows:

	Number of RSU's outstanding
Balance at December 31, 2021	-
RSUs granted	127,726
RSUs settled	-
RSUs cancelled	-
Balance at September 30, 2022	127,726

During the three and nine months ended September 30, 2022, the Company issued to certain of the Company's directors80,589 and 127,726 RSUs, respectively, as partial compensation for their services during 2022. The Company recognized stock-based compensation expense of approximately $0.1 million during the three and nine months ended September 30, 2022 related to the restricted stock unit awards. There were no RSUs outstanding during 2021 and there is no unrecognized compensation expense related to outstanding RSUs as of September 30, 2022.

8. 401(k) Plan

The Company sponsors a 401(k) savings plan for all eligible employees. The Company may make discretionary matching contributions to the plan to be allocated to employee accounts based upon employee deferrals and compensation. To date, the Company has not made any matching contributions into the savings plan.

9. License Agreements

On March 31, 2017, the Company entered into a license agreement, as amended (the "License Agreement") with Villani, Inc. whereby Villani has granted the Company an exclusive, sub-licensable, royalty-bearing license (the "License") under the Licensed Patents (as defined in the License Agreement), to formulate, develop, seek regulatory approval for, make or sell products that contain *Spongilla lacustris* (alone or in combination with other active or inactive ingredients) for the treatment of diseases, disorders and conditions of the skin, including but not limited to acne, rosacea, psoriasis, atopic dermatitis, seborrheic dermatitis, actinic keratosis and eczema that were developed using certain licensed know-how ("Licensed Products"). The Company is responsible for the development (including manufacturing, packaging, non-clinical studies, clinical trials and obtaining regulatory approval and commercialization (including marketing, promotion, distribution, etc.)) for all Licensed Products. In partial consideration of the License, the Company forgave its previous outstanding loan to Villani in the amount of $400,000.

The original License Agreement was amended in 2019 and, in consideration of the receipt of certain know-how and patents, the Company issued to Villani 5,221,156 Series 1c Preferred Units equal to 5% of the Company's fully diluted capitalization, valued at $730,962. Pursuant to the amended License Agreement, the Company was required to make future milestone payments to Villani in an aggregate amount of up to $20.25 million upon the achievement of specified development and sales milestones, payable in cash or in equity, at the option of Villani, as well as single-digit royalty payments on net sales.

On July 30, 2021, the Company further amended the License Agreement in the Second Amendment to the License and Settlement Agreement (the "Second Amendment"). In consideration of the Second Amendment, Villani exchanged the 5,221,156 Series 1c Preferred Shares issued to Villani in 2019 for an increase in milestone payments and royalty rates payable pursuant to the License Agreement and the Company paid Villani $ 1 million after the close of the IPO. Pursuant to the Second Amendment, the Company is required to make future milestone payments to Villani in an aggregate amount of up to $40.5 million upon the achievement of specified development and sales milestones, payable in cash or in equity, at the option of Villani, as well as single-digit royalty payments on net sales. The Second Amendment includes customary terms relating to, among others, indemnification, intellectual property protection, confidentiality, remedies, and warranties. See Note 6 – Equity Securities for additional information regarding the Company's redemption of the Series 1c Preferred Shares from Villani.

10. Commitments and Contingencies

Clinical Trials

During 2021, the Company initiated a clinical trial which completed patient enrollment in June 2022; however, the Company had not completed data analysis for the clinical trial by September 30, 2022. Accordingly, the Company anticipates additional research and development expense of $0.1 to $0.2 million to be incurred during the fourth quarter of fiscal year 2022 related to this ongoing clinical trial.

Coronavirus Pandemic

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) pandemic. Significant uncertainties may arise with respect to potential shutdowns of operations or government orders to cease activities due to emergency declarations, inability to operate, employee shortages, or claims for business interruption insurance, etc. Each of these matters may have a significant impact on the future results of the Company.

Supplier Agreement

As a result of Russia's invasion of Ukraine, the United States, the United Kingdom, and the European Union governments, among others, have developed coordinated sanctions and export-control measure packages against Russian individuals and entities. The Company is currently a party to an exclusive supply agreement for the supply of the *Spongilla* raw material used in DMT310 and DMT410. The counterparty to this supply agreement is a Russian entity. The imposition of enhanced export controls and economic sanctions on transactions with Russia and Russian entities by the United States, the United Kingdom, and/or the European Union could prevent the Company from performing under this existing contract or any future contract it may enter or may prevent the Company from remitting payment for raw material purchased from the Company's supplier. The Company has received two shipments of raw material from its supplier during fiscal year 2022 containing additional quantities of *Spongilla* raw material which will provide the Company with sufficient quantities of *Spongilla* to initiate and complete two Phase 3 studies in moderate-to-severe acne and support filing a new drug application for DMT310 in acne upon the successful completion of two Phase 3 studies. Depending on the extent and breadth of new sanctions or export controls that may be imposed against Russia, otherwise or as a result of the impact of the war in Ukraine, it is possible that the Company's ability to obtain additional supply of the *Spongilla* raw material used in DMT310 and DMT410 could be negatively impacted, which could adversely affect its business, results of operations, and financial condition.

Legal Proceedings

In the normal course of business, the Company may be involved in legal proceedings or threatened legal proceedings. The Company is not a party to any legal proceedings or aware of any threatened legal proceedings which are expected to have a material adverse effect on its financial condition, results of operations or liquidity.

11. Related Parties

Prior to the Company converting from an LLC to a C-corporation in March 2021, the Company had two Managing Members. One of the Managing Members remained the Company's majority stockholder upon the close of the Company's IPO and serves as the Company's President, Chief Executive Officer, and Chairman of the Board of Directors. The other Managing Member remained a beneficial owner upon the close of the Company's IPO and serves as the Company's Lead Director of the Board of Directors. Hereinafter these two Managing Members, and their affiliates, are referred to collectively as the Principal Stockholders after the completion of the IPO.

During 2020, the Managing Members and other related parties loaned the Company $1,145,000 as subordinated convertible promissory notes. Additionally, during the first quarter of 2021, the Managing Members and other related parties loaned the Company $1,255,000 as subordinated convertible promissory notes. Refer to Note 4 – Subordinated Convertible Promissory Notes for further discussion.

During the third quarter of 2021, the Company amended the conversion terms of its Series 1d preferred stock, as described in Note 6 – Equity Securities. As a result of the Series 1d preferred stock amendments, the Company presented a deemed dividend of approximately $2.3 million for the year ended December 31, 2021, approximately $1.2 million of which related to Series 1d preferred shares owned by the Company's Principal Stockholders and their affiliates.

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 Quarterly Report 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;
- the expectation that we will incur significant operating losses for the foreseeable future and will need significant additional capital;
- our current and future capital requirements to support our development and commercialization efforts for our product candidates and our ability to satisfy our capital needs;
- our dependence on our product candidates, which are still in various stages of clinical development;
- our ability to acquire sufficient quantities of raw material needed to manufacture our drug product;
- our, or that of our third-party manufacturers, ability to manufacture cGMP quantities of our product candidates as required for pre-clinical and clinical trials and, subsequently, our ability to manufacture commercial quantities of our product candidates;
- our ability to complete required clinical trials for our product candidates and obtain approval from the FDA or other regulatory agencies in different jurisdictions;
- our lack of a sales and marketing organization and our ability to commercialize our product candidates if we obtain regulatory approval;
- our dependence on third parties to manufacture our product candidates;
- our reliance on third-party CROs to conduct our clinical trials;

- our ability to maintain or protect the validity of our intellectual property;
- 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;
- our ability to adequately support organizational and business growth; and
- the continued spread of COVID-19 and the resulting global pandemic and its impact on our preclinical studies and clinical studies.

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

We are a clinical-stage medical dermatology company focused on identifying, developing, and commercializing innovative pharmaceutical product candidates for the treatment of medical and aesthetic skin conditions and diseases we believe represent significant market opportunities.

Dermatological diseases such as acne vulgaris (or acne), psoriasis vulgaris (or psoriasis), papulopustular acne rosacea (or rosacea), hyperhidrosis and various aesthetic skin quality issues, affect millions of people worldwide each year, and may negatively impact their quality of life and emotional well-being. While there are multiple current treatment options for each of these indications on the market, we believe that current therapies come with significant drawbacks, including underwhelming efficacy, cumbersome application regimens, and significant tolerability issues, all of which we believe may lead to poor patient compliance. A majority of these indications are first treated with topical products; however, many patients frequently switch treatments or discontinue treatment altogether due to patient dissatisfaction. This is primarily due to slow and modest response rates, the early onset of negative side effects, onerous application schedules, and long duration of therapy. Given the limitations with current topical therapies, we believe there is a significant opportunity to address the needs of frustrated patients searching for topical products that satisfy their dermatological and lifestyle needs.

Our two product candidates, DMT310 and DMT410, both incorporate our proprietary, multifaceted,*Spongilla* technology to topically treat a variety of dermatological conditions and satisfy the unmet need of patients. Our *Spongilla* technology is derived from a naturally grown freshwater sponge,*Spongilla lacustris* or *Spongilla*, which is processed into a powder that is then mixed with a fluidizing agent immediately prior to application, to form an easily applicable paste. *Spongilla* is a unique freshwater sponge that only grows in commercial quantities in select regions of the world and under specific environmental conditions, all of which give it its distinctive anti-microbial, anti-inflammatory, and mechanical properties. The combination of these environmental conditions, the proprietary harvesting protocols developed with our exclusive supplier, and our post-harvest processing procedures produce a pharmaceutical product candidate that optimizes the mechanical components as well as the chemical components of the sponge to create a product candidate with multiple mechanisms of action for the treatment of inflammatory skin conditions and aesthetic applications.

We believe our *Spongilla* technology platform will enable us to develop and formulate singular and combination products that are able to target the topical delivery of chemical compounds into the dermis for a variety of dermatology indications. We believe the combination of *Spongilla's* mechanical and chemical components (which we believe have demonstrated, *in-vitro*, anti-microbial and anti-inflammatory properties), add to the versatility of our *Spongilla* technology platform's effectiveness as a singular product, in the treatment of a wide variety of medical skin diseases like acne, rosacea, and psoriasis. We also believe the mechanical properties of our *Spongilla* technology allows for the intradermal delivery of a variety of large molecules, like botulinum toxin, monoclonal antibodies, or dermal filler, to target treatment sites, through topical application.

Our lead product candidate, DMT310, is intended to utilize our *Spongilla* technology for once weekly treatment of a variety of skin diseases, with our initial focus being the treatment of acne vulgaris, which has a U.S. market size of approximately 50 million patients. We have shown DMT310's ability to treat the multiple causes of acne in a Phase 2b study where we initially saw a 45% reduction in inflammatory lesions after four treatments, with statistically significant results at all time points for all three primary endpoints (reduction in inflammatory lesions, reduction in non-inflammatory lesions, and improvement in Investigator Global Assessment). Based on the multiple mechanisms of action and anti-inflammatory effect seen with DMT310 acne trial, we moved DMT310 into clinical trials for two additional indications: psoriasis and rosacea. In October 2021, we completed a Phase 1b proof of concept, or POC, trial in psoriasis where we saw encouraging results warranting further investigation. In June 2022, we completed enrollment of a Phase 2 clinical trial of DMT310 for the treatment of rosacea with results expected in December 2022.

DMT310 consists of two grams of powder processed from a naturally grown freshwater sponge, *Spongilla lacustris.* The patient mixes the powder with a fluidizing agent (hydrogen peroxide) immediately prior to application by the patient to form an easy-to-apply paste. The paste is left on the skin for approximately ten to fifteen minutes, after which time it is washed off with water. Due to the unique combination of DMT310's mechanical components and chemical components, and based on our Phase 2 acne data, we believe patients will only need to apply DMT310 once weekly to produce a desired treatment effect. The mechanical components of the *Spongilla* powder consist of many microscopic siliceous, needle-like spicules that, when massaged into the skin, penetrate the stratum corneum (the skin's outermost protective layer) and create microchannels into the dermis where pro-inflammatory cytokines and bacteria reside. We believe that the penetration of the spicules leads to the opening of microchannels, which allow oxygen to enter pilosebaceous glands, helping to kill C. *acnes*, which grow in an anaerobic (without oxygen) environment (*C. acnes* is the bacteria that cause inflammatory lesions in acne patients). The spicules also cause turnover of the top layer of dead skin, thereby increasing collagen production. We believe the newly created microchannels provide a conduit for DMT310's naturally occurring chemical compounds to be delivered to the dermis and pilosebaceous glands, helping to kill the *C. acnes*. In addition to these anti-microbial compounds, DMT310 also appears to have anti-inflammatory chemical compounds, as demonstrated in *in vitro* experiments, that inhibit inflammation through the reduction of *C.acnes* stimulated IL-8 production and by inhibiting IL-17A and IL-17F expression in human cell lines. Also, during *in vitro* studies of DMT310's organic compounds, we observed the inhibition of the lipogenesis of sebocytes, which may translate to a reduction in sebum (an oily and waxy substance produced by the human body's sebaceous glands) production and the oiliness of the skin in patients, which was observed by a number of clinical investigators in our Phase 2 acne studies. We believe the combination of these biological and mechanical effects of the spicules could be important factors in treating multiple inflammatory skin diseases, as seen in our clinical trials.

Our second product candidate utilizing our *Spongilla* technology is DMT410, our combination treatment. DMT410 is intended to consist of one treatment of our proprietary sponge powder followed by one topical application of botulinum toxin for delivery into the dermis. Currently, botulinum toxin is only approved to be delivered to the dermis by intradermal injections, which can be painful for the patient and time-consuming for the physician. However, we believe DMT410's ability to topically deliver botulinum toxin into the dermis could have similar levels of efficacy to existing delivery techniques, with fewer tolerability issues, and a quicker application time, possibly replacing the need for intradermal injections. We first tested DMT410 in a Phase 1 POC trial of axillary hyperhidrosis patients, which saw 80% of patients achieve a reduction in gravimetric sweat production greater than 50% four weeks after a single treatment. With almost 40% of the hyperhidrosis market currently being treated with intradermal injections of botulinum toxin, we believe there is significant opportunity for DMT410. Based on DMT410's ability to effectively deliver botulinum toxin to the dermis as observed in the Phase 1 axillary hyperhidrosis trial, we also conducted a Phase 1 POC trial of DMT410 for the treatment of multiple aesthetic skin conditions, including reduction of pore size, sebum production, and fine lines, among others. In November 2021, we announced top-line results from this trial, where we saw promising data that we believe warrants further investigation of DMT410. We are currently in the process of discussing partnering opportunities with botulinum toxin companies to move the DMT410 program into Phase 2 studies.

We have a limited operating history. Since our inception, our operations have focused on developing DMT310 and DMT410, organizing and staffing our company, raising capital, establishing our supply chain and manufacturing processes, further characterizing the multiple mechanisms of action of our *Spongilla* technology, building an intellectual property portfolio, and conducting non-clinical and clinical trials. We do not have any product candidates approved for marketing and have not generated any revenue from product sales. We have funded our operations primarily through the sale of our equity securities and debt securities. Since inception, we have raised an aggregate of approximately $51.9 million of gross proceeds from the sale of our debt and equity securities, including the securities sold in our IPO.

We have not generated any revenue to date and have incurred significant operating losses. Our net losses were $2.4 million and $7.9 million for the three and nine months ended September 30, 2022, respectively, and as of September 30, 2022, we had an accumulated deficit of $43.9 million. We expect to continue to incur significant expenses and operating losses for the foreseeable future. We anticipate that our expenses will increase significantly in connection with our ongoing activities, as we:

- complete development of DMT310 for the treatment of acne, including non-clinical studies and Phase 3 clinical trials;
- prepare and file for regulatory approval of DMT310 for the treatment of moderate-to-severe acne;
- continue development of DMT310 for the treatment of rosacea, including a Phase 2 clinical trial and Phase 3 clinical trials;
- continue development of DMT310 for the treatment of psoriasis, including a Phase 2 clinical trial and Phase 3 clinical trials;
- identify a botulinum toxin partner for DMT410 for the treatment of aesthetic and medical skin conditions;
- prepare for commercialization of DMT310, if approved, including the hiring of sales and marketing personnel;
- begin to manufacture our product candidates for Phase 2 and Phase 3 trials and commercial sale;
- hire additional research and development and selling, general and administrative personnel;
- maintain, expand, and protect our intellectual property portfolio; and
- incur additional costs associated with operating as a public company.

We will need additional financing to support our operations. We may seek to fund our operations through public or private equity or debt financings or other sources. Adequate additional financing may not be available to us on acceptable terms, or at all. Our failure to raise capital when needed or on favorable terms would have a negative impact on our financial condition and our ability to pursue our business strategy. We will need to generate significant revenues to achieve profitability, and we may never do so.

COVID-19 Update

The COVID-19 pandemic continues to have a major impact in the US and around the world. The availability of vaccines holds promise for the future, though new variants of the virus and potential waning immunity from vaccines may result in continued impact from this pandemic in the future, which could adversely impact our operations. To date, we have managed delays and disruptions without significant impact in planned and ongoing preclinical trials, manufacturing, or shipping. Potential impacts to our business include delays in planned and ongoing preclinical and clinical trials including enrollment of patients, disruptions in time and resources provided by independent clinical investigators, CROs, and other third-party service providers, temporary closures of our facilities, disruptions or restrictions on our employees' ability to travel, and delays in manufacturing and/or shipments to and from third-party suppliers and contract manufacturers for APIs and drug product, including *Spongilla*.

We have taken temporary precautionary measures intended to help minimize the risk of the virus to our employees, including having our employees to work remotely and suspending all non-essential travel worldwide for our employees. We cannot presently predict the scope and severity of the planned and potential shutdowns or disruptions of businesses and government agencies, such as the Securities and Exchange Commission, or the SEC, or FDA.

Critical Accounting Policies and Use of Estimates

We have based our management's discussion and analysis of financial condition and results of operations on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments, including those related to clinical development expenses, stock-based compensation expense, and the fair value of equity instruments which result in deemed dividends. We base our estimates on historical experience and on various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully discussed in Note 2 - Summary of Significant Accounting Policies to our unaudited financial statements contained within this Form 10-Q, we believe that the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our financial statements.

Research and Development Expenses

We rely on third parties to conduct our clinical studies and to provide services, including data management, statistical analysis, and electronic compilation. Once our clinical trials begin, at the end of each reporting period, we will compare the payments made to each service provider to the estimated progress towards completion of the related project. Factors that we will consider in preparing these estimates include the number of patients enrolled in studies, milestones achieved, and other criteria related to the efforts of our vendors. These estimates will be subject to change as additional information becomes available. Depending on the timing of payments to vendors and estimated services provided, we will record net prepaid or accrued expenses related to these costs.

Fair Value of Common Stock and Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period. The Company's policy permits the valuation of stock-based awards granted to non-employees to be measured at fair value at the grant date.

Determining the appropriate fair value of share-based awards requires the use of subjective assumptions, including the fair value of our common shares for awards prior to our IPO, and for options, the expected life of the option and expected share price volatility. We use the Black-Scholes option pricing model to value our option awards. The assumptions used in calculating the fair value of share-based awards represents our best estimates and involve inherent uncertainties and the application of judgment. As a result, if factors change and management uses different assumptions, share-based compensation expense could be materially different for future awards.

Fluctuations in Operating Results

Our results of operations have fluctuated significantly from period to period in the past and are likely to continue to do so in the future. We anticipate that our quarterly and annual results of operations will be impacted for the foreseeable future by several factors, including the progress and timing of expenditures related to the development of our product candidates. We cannot predict with certainty what the full impact of the COVID-19 pandemic may have on our business, results of operations, financial condition, and prospects. Due to these fluctuations, we believe that the period-to-period comparisons of our operating results are not a good indication of our future performance.

Results of Operations

Three Months Ended September 30, 2022 and 2021

The following table summarizes our results of operations for the three months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		
	2022	**2021**	**Difference**
Operating expenses:			
Research and development	$ 1,553,295	$ 799,779	$ 753,516
General and administrative	892,777	912,490	(19,713)
Total operating expenses	2,446,072	1,712,269	733,803
Losses from operations	(2,446,072)	(1,712,269)	(733,803)
Other income and expenses:			
Interest (income) expense, net	(21,486)	651	(22,137)
Net loss	$ (2,424,586)	$ (1,712,920)	$ (711,666)

Research and Development Expenses

Research and development expenses increased by $0.8 million from $0.8 million for the three months ended September 30, 2021, compared $1.6 million for the three months ended September 30, 2022. The increase in research and development expense was the result of $0.3 million of increased clinical trial expenses from the ongoing DMT310 rosacea study, an increase of $0.3 million related to non-clinical activities, and increased chemistry, manufacturing, and controls, or CMC, expenses, of $0.2 million.

General and Administrative Expenses

General and administrative expenses were $0.9 million for the three months ended September 30, 2022 and September 30, 2021. Increases in insurance and public company costs were offset by decreases in legal costs for the three months ended September 30, 2022.

Other income and expenses

The Company opened a cash sweep account during the third quarter of 2022 and has begun earning interest income via overnight deposits totaling $21,486, net, for the three months ended September 30, 2022.

Nine Months Ended September 30, 2022, and 2021

The following table summarizes our results of operations for the nine months ended September 30, 2022, and 2021:

	Nine Months Ended September 30,		
	2022	2021	Difference
Operating expenses:			
Research and development	$ 4,761,686	$ 2,347,564	$ 2,414,122
General and administrative	3,201,111	2,956,444	244,667
Total operating expenses	7,962,797	5,304,008	2,658,789
Loss from operations	(7,962,797)	(5,304,008)	(2,658,789)
Other income and expenses:			
Interest (income) expense, net	(21,486)	45,613	(67,099)
Net loss	$ (7,941,311)	$ (5,349,621)	$ (2,591,690)

Research and Development Expenses

Research and development expenses increased by $2.4 million from $2.3 million for the nine months ended September 30, 2021, compared to $4.8 million for the nine months ended September 30, 2022. The increase in research and development expense was the result of $1.4 million of increased clinical trial expenses from the ongoing DMT310 rosacea study, $0.5 million in increased non-clinical expenses, $0.2 million in increased CMC expenses, as well as increased employee and personnel expenses of $0.4 million.

General and Administrative Expenses

General and administrative expenses increased by $0.2 million from $3.0 million for the nine months ended September 30, 2021, compared to $3.2 million for the nine months ended September 30, 2022. The increase in general and administrative expenses was the result of increased insurance and public company costs of $0.9 million, offset by decreased legal costs of $0.1 million and $0.6 million of decreased stock-based compensation expense.

Other income and expenses

Other income and expenses changed by $67,099 from $45,613 representing interest expense, net, for the nine months ended September 30, 2021 compared to interest income, net, of $21,486 for the nine months ended September 30, 2022. The Company opened a cash sweep account during the third quarter of 2022 and has begun earning interest income via overnight deposits. The prior year interest expense related to the amortization of debt discount and interest expense for previously outstanding debt. As of December 31, 2021, the Company no longer had any debt outstanding.

Cash Flows

The following table summarizes our cash flows from operating and financing activities:

	Nine Months Ended September 30,	
	2022	2021
Statements of cash flows data:		
Total net cash provided by (used in):		
Operating activities	$ (7,008,636)	$ (3,889,483)
Financing activities	$ 4,276,652	$ 15,962,424
Increase (decrease) in cash and cash equivalents	$ (2,731,984)	$ 12,072,941

Operating activities

Cash used in operations of $7.0 million for the nine months ended September 30, 2022, was the result of the net loss of $7.9 million and an increase in prepaid expenses and other current assets of $0.1 million, offset by non-cash stock-based compensation of $0.7 million and an increase in accrued and other current liabilities of $0.3 million.

Cash used in operations of $3.9 million for the nine months ended September 30, 2021 was the result of the net loss of $5.3 million and an increase in prepaid expenses and other current assets of $1.0 million, offset by non-cash stock-based compensation of $1.4 million and an increase in accounts payable and accrued and other current liabilities of $1.0 million.

Financing activities

Cash provided by financing activities of $4.3 million for the nine months ended September 30, 2022, was the result of the net proceeds received from the issuance of common stock and warrants issued in April 2022 from a private placement of the Company's securities.

Cash provided by financing activities of $16.0 million for the nine months ended September 30, 2021 was the result of net proceeds of $15.4 million from our initial public offering, $1.6 million from the issuance of convertible subordinated promissory notes, proceeds of $0.6 million from the issuance of Series 1d Preferred Units, offset by $1.0 million payment for the redemption of 5,221,156 shares of Series 1c preferred stock and $0.6 million of principal and final payments on debt.

Liquidity and Capital Resources

Since our inception, we have not generated any revenue or commercialized any products. As of September 30, 2022, our cash and cash equivalents totaled $8.1 million, and we had an accumulated deficit of $43.9 million. For the nine months ended September 30, 2022, and the year ended December 31, 2021, we used cash of $7.0 million and $5.7 million, respectively, in operations. As a result of our initial public offering of common stock and warrants to purchase common stock in August 2021 for net proceeds of $15.4 million, as well as our private placement of common stock and warrants to purchase common stock in April 2022 for net proceeds of $4.3 million, our cash balances are expected to fund operations into the third quarter of 2023. We anticipate that we will continue to incur net losses for the foreseeable future.

Historically, our principal sources of cash have included proceeds from the issuance of common and preferred equity and proceeds from the issuance of debt. Our principal uses of cash have included cash used in operations (including clinical development of our product candidates and general and administrative expenses) and payments for license rights. We expect that the principal uses of cash in the future will be for continuing operations, funding of research and development, and general working capital requirements. We expect that as research and development expenses continue to grow, we will need to raise additional capital to sustain operations and research and development activities.

Funding Requirements

We plan to focus in the near term on the development, regulatory approval, and potential commercialization of DMT310 for the treatment of acne, psoriasis, and rosacea. We anticipate we will incur net losses for the next several years as we complete clinical development of DMT310 for the treatment of acne, psoriasis and rosacea and continue research and development of DMT410 for the treatment of aesthetic and medical skin conditions. In addition, we plan to seek opportunities to identify, acquire or in license and develop additional drug candidates, potentially build commercial capabilities, and expand our corporate infrastructure. We may not be able to complete the development and initiate commercialization of these programs if, among other things, our clinical trials are not successful or if the FDA does not approve our drug candidate arising out of our current clinical trials when we expect, or at all.

Our primary uses of capital are, and we expect will continue to be, compensation and related expenses, clinical costs, external research and development services, legal and other regulatory expenses, and administrative and overhead costs. Our future funding requirements will be heavily determined by the resources needed to support development of our drug candidates.

As a publicly traded company, we will incur significant legal, accounting, and other expenses that we were not required to incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as rules adopted by the Securities and Exchange Commission, or SEC, and Nasdaq, requires public companies to implement specified corporate governance practices that were not applicable to us as a private company. We expect these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly.

We believe that our existing cash and cash equivalents, along with the proceeds from a private placement of our securities which closed in April 2022 (the "Private Placement"), will be sufficient to fund our operating expenses and capital expenditure requirements into the third quarter of 2023. We have based this estimate of cash runway on assumptions that may prove to be wrong, and we could utilize our available capital resources sooner than we expect. We anticipate that we will continue to incur net losses for the foreseeable future. These factors raise substantial doubt about our ability to continue as a going concern for the one-year period following the date that these financial statements were issued. We will require additional capital to conduct Phase 3 studies for DMT310 for the treatment of acne, continue development of DMT310, and to pursue in licenses or acquisitions of other drug candidates. Additional funds may not be available on a timely basis, on favorable terms, or at all, and such funds, if raised, may not be sufficient to enable us to continue to implement our long-term business strategy. If we are unable to raise sufficient additional capital, we may need to substantially curtail our planned operations and the pursuit of our growth strategy.

We may raise additional capital through the sale of equity or convertible debt securities. In such an event, the terms of these securities may include liquidation or other preferences that adversely affect the rights of a holder of our common stock.

Because of the numerous risks and uncertainties associated with research, development, and commercialization of pharmaceutical drugs, we are unable to estimate the exact amount of our working capital requirements. Our future funding requirements will depend on many factors, including:

- the number and characteristics of the drug candidates we pursue;
- the scope, progress, results, and costs of researching and developing our drug candidates, and conducting preclinical studies and clinical trials;
- the timing of, and the costs involved in, obtaining regulatory approvals for our drug candidates;
- the cost of manufacturing our drug candidates and any drugs we successfully commercialize;
- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of such agreements;
- the costs involved in preparing, filing, prosecuting, maintaining, defending, and enforcing patent claims, including litigation costs and the outcome of such litigation; and
- the timing, receipt and amount of sales of, or milestone payments related to or royalties on, our current or future drug candidates, if any.

To continue to grow our business over the longer term, we plan to commit substantial resources to research and development, clinical trials of our product candidates, and other operations and potential product acquisitions and in licensing. We have evaluated and expect to continue to evaluate a wide array of strategic transactions as part of our plan to acquire or in license and develop additional products and product candidates to augment our internal development pipeline. Strategic transaction opportunities that we may pursue could materially affect our liquidity and capital resources and may require us to incur additional indebtedness, seek equity capital or both. In addition, we may pursue development, acquisition or in licensing of approved or development products in new or existing therapeutic areas or continue the expansion of our existing operations. Accordingly, we expect to continue to opportunistically seek access to additional capital to license or acquire additional products, product candidates or companies to expand our operations, or for general corporate purposes. Strategic transactions may require us to raise additional capital through one or more public or private debt or equity financings or could be structured as a collaboration or partnering arrangement. We have no arrangements, agreements, or understandings in place at the present time to enter into any acquisition, in licensing or similar strategic business transaction.

Contractual Obligations and Commitments

We do not currently lease any office space.

We enter into contracts in the normal course of business with contract research organizations for clinical trials, preclinical research studies and testing, manufacturing and other services and products for operating purposes. These contracts generally provide for termination upon notice, and therefore we believe that our non-cancelable obligations under these agreements are not material.

JOBS Act Accounting Election

We are an emerging growth company, as defined in the Jumpstart Our Business Startups Act of 2012 ("the JOBS Act"). Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Recent Accounting Pronouncements

See Item 1 of Part I, "Notes to Financial Statements — Note 2 — Summary of Significant Accounting Policies" for a discussion of recent accounting pronouncements.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2022. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures as of September 30, 2022, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Evaluation of Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during the period to which this report relates that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. From time to time, we make changes to our internal control over financial reporting that are intended to enhance its effectiveness and which do not have a material effect on our overall internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

None.

ITEM 1A: RISK FACTORS

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes from the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the Securities and Exchange Commission, or SEC, on March 28, 2022. Any of these factors could result in a significant or material adverse effect on our result of operations or financial conditions. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations. We may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

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

On August 12, 2021, our registration statement on Form S-1 (Registration No. 333-256997) and the related registration statement (File No. 333-258772) was declared effective by the SEC for our initial public offering pursuant to which we sold an aggregate of 2,571,428 shares of its common stock and accompanying warrants to purchase up to 2,571,428 shares of common stock. Each share of common stock was sold together with one warrant to purchase one share of common stock with an exercise price of $7.00 per share at a combined offering price of $7.00, for gross proceeds of approximately $18.0 million, before deducting expenses. Maxim Group LLC acted as the sole book-running manager for the offering. On August 17, 2021, we closed the sale of the shares of Common Stock and warrants to purchase shares of Common Stock, resulting in net proceeds to us of approximately $15.4 million after deducting underwriting discounts and commissions and other offering expenses. No payments were made by us to directors, officers or persons owning ten percent or more of our Common Stock or to their associates, or to our affiliates. There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC on August 16, 2021 pursuant to Rule 424(b).

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
3.1	Amendment to Amended and Restated Bylaws, dated September 21, 2022 (incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the SEC on September 23, 2022).
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 and Principal Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b).
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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)

* Filed herewith.
** Furnished, not filed.
† Indicates a management contract or compensation plan, contract or arrangement.

SIGNATURES

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

Dermata Therapeutics, Inc.

Date: November 10, 2022

By: */s/ Gerald T. Proehl*
Gerald T. Proehl
President and Chief Executive Officer
(Principal Executive Officer)

By: */s/ Kyri K. Van Hoose*
Kyri K. Van Hoose
Senior Vice President, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 31.1

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

I, Gerald T. Proehl, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2022 of Dermata Therapeutics, Inc. (the "Registrant");

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

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

4. The Registrant's other certifying officer 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: November 10, 2022

/s/ Gerald T. Proehl
Gerald T. Proehl
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

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

I, Kyri K. Van Hoose, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2022 of Dermata Therapeutics, Inc. (the "Registrant");

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

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

4. The Registrant's other certifying officer 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: November 10, 2022

/s/ Kyri K. Van Hoose
Kyri K. Van Hoose
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

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

In connection with the quarterly report of Dermata Therapeutics, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of Gerald T. Proehl, as Chief Executive Officer, and Kyri K. Van Hoose, as Chief Financial Officer, certifies in his or her capacity as such officer of the Company, that to such officer's knowledge, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

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

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

Date: November 10, 2022

By: /s/ Gerald T. Proehl
Gerald T. Proehl
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Kyri K. Van Hoose
Kyri K. Van Hoose
Chief Financial Officer
(Principal Financial and Accounting Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.