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

# FORM 10-Q

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

**For the Quarterly Period Ended March 31, 2023**

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

**For the Transition Period from _____ to ______**

Commission File Number: **001-40739**

# 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 |
| Warrants, exercisable for one share of Common Stock | 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 2,338,157 shares of common stock, par value $0.0001 of Dermata Therapeutics, Inc. issued and outstanding as of May 10, 2023.

**DERMATA THERAPEUTICS, INC.**
**Form 10-Q**
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**Part I**

**Item 1: Financial Statements**

**DERMATA THERAPEUTICS, INC.**
**Balance Sheets**

| | March 31, 2023 (unaudited) | December 31, 2022 |
|---|---|---|
| Assets: | | |
| Cash and cash equivalents | $ 8,766,759 | $ 6,241,294 |
| Prepaid expenses and other current assets | 528,346 | 703,194 |
| Total assets | $ 9,295,105 | $ 6,944,488 |
| | | |
| Liabilities and Stockholders' Equity: | | |
| Liabilities: | | |
| Accounts payable | $ 492,871 | $ 496,702 |
| Accrued and other current liabilities | 714,164 | 425,932 |
| Total liabilities | 1,207,035 | 922,634 |
| Commitments and Contingencies (see Note 6) | | |
| Stockholders' Equity: | | |
| Common Stock, par value $0.0001, 250,000,000 shares authorized, and 2,388,157 shares issued and outstanding as of March 31, 2023; and 250,000,000 shares authorized, and 770,115 shares issued and outstanding as of December 31, 2022, respectively. | 239 | 77 |
| Additional paid-in capital | 55,921,161 | 51,614,965 |
| Accumulated deficit | (47,833,330) | (45,593,188) |
| Total stockholders' equity | 8,088,070 | 6,021,854 |
| Total liabilities and stockholders' equity | $ 9,295,105 | $ 6,944,488 |

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

**DERMATA THERAPEUTICS, INC.**
**Statements of Operations**
**(unaudited)**

| | For the three months ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| Operating expenses: | | |
| Research and development | $ 1,192,633 | $ 1,595,839 |
| General and administrative | 1,085,049 | 1,190,313 |
| Total operating expenses | 2,277,682 | 2,786,152 |
| Loss from operations | (2,277,682) | (2,786,152) |
| Other income and expenses: | | |
| Interest income, net | 37,540 | - |
| Net loss | $ (2,240,142) | $ (2,786,152) |
| Net loss per share of common stock, basic and diluted | $ (2.27) | $ (5.35) |
| Weighted-average basic and diluted common shares | 985,848 | 520,539 |

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

**DERMATA THERAPEUTICS, INC.**
**Statements of Stockholder's Equity**
**(unaudited)**

| | Common Stock | | Additional Paid-in | Accumulated | Total Stockholders' |
|---|---|---|---|---|---|
| | Shares | Par Value | Capital | Deficit | Equity |
| Balance at December 31, 2022 | 770,115 | $ 77 | $ 51,614,965 | $ (45,593,188) | $ 6,021,854 |
| Stock-based compensation | - | - | 131,260 | - | 131,260 |
| Issuance of common stock and warrants, net of issuance costs | 85,000 | 9 | 4,174,976 | - | 4,174,985 |
| Issuance of common stock upon exercise of pre-funded warrants | 1,533,123 | 153 | - | - | 153 |
| Settlement of fractional shares paid in cash | (81) | - | (40) | - | (40) |
| Net loss | - | - | - | (2,240,142) | (2,240,142) |
| Balance at March 31, 2023 | 2,388,157 | $ 239 | $ 55,921,161 | $ (47,833,330) | $ 8,088,070 |

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

**DERMATA THERAPEUTICS, INC.**
**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 | 520,539 | $ 52 | $ 46,089,327 | $ (35,982,275) | $ 10,107,104 |
| Stock-based compensation | - | - | 531,566 | - | 531,566 |
| Net loss | - | - | - | (2,786,152) | (2,786,152) |
| Balance at March 31, 2022 | 520,539 | $ 52 | $ 46,620,893 | $ (38,768,427) | $ 7,852,518 |

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

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

| | For the three months ended March 31, 2023 | 2022 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (2,240,142) | $ (2,786,152) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Stock-based compensation | 131,260 | 212,880 |
| Increase (decrease) in cash resulting from changes in: | | |
| Prepaid expenses and other current assets | 174,848 | (27,923) |
| Accounts payable | (3,831) | 146,985 |
| Accrued and other current liabilities | 288,232 | (153,638) |
| Total adjustments to reconcile net loss to net cash used in operations | 590,509 | 178,304 |
| Net cash used in operating activities | (1,649,633) | (2,607,848) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock and warrants, net of expenses | 4,174,985 | - |
| Proceeds from exercise of pre-funded warrants | 153 | - |
| Payment for fractional shares in reverse stock split | (40) | - |
| Net cash provided by financing activities | 4,175,098 | - |
| Net increase (decrease) in Cash and cash equivalents | 2,525,465 | (2,607,848) |
| Cash and cash equivalents at beginning of period | 6,241,294 | 10,798,806 |
| Cash and cash equivalents at end of period | $ 8,766,759 | $ 8,190,958 |

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

**DERMATA THERAPEUTICS, INC.**
**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 sold160,714 shares of its common stock, par value $0.0001 per share ("Common Stock"), together with 160,714 warrants to purchase one share of Common Stock with an exercise price of $112.00 per share, at a combined offering price of $112.00. Additionally, the underwriters exercised their option to purchase an additional 24,106 warrants to purchase Common Stock with an exercise price of $112.00 per share, resulting in total IPO warrants issued of 184,820 at an exercise price of $112.00. 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.

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.

***Reverse Stock Split***

On March 13, 2023, the Company effected a reverse split of shares of the Company's Common Stock at a ratio of 1-for-16 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.

***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 March 31, 2023, cash and cash equivalents totaled $8.8 million and the Company had an accumulated deficit of $47.8 million. For the three months ended March 31, 2023, and the year ended December 31, 2022, the Company used cash of $1.6 million and $8.8 million, respectively, in operations. During March 2023, the Company raised $5.0 million in gross proceeds from an at-the-market public offering of Common Stock and warrants. The Company's cash balances are expected to fund operations into the first quarter of 2024. 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 securities 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. The Company's ability to raise additional capital may be adversely impacted by potential worsening of global economic conditions, potential future global pandemics or health crises, and the recent disruptions to, and volatility in, the credit and financial markets in the United States.

The Company has raised additional capital through the initial public offering of its Common Stock and warrants, as well as a private placement financing in April 2022 and an at-the-market public offering in March 2023; however, prior completed financings 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.

***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 and cash sweep 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.

***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 and accrued expenses approximate their estimated fair values due to the short-term nature of these assets and liabilities.

***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 5 - 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 months ended March 31, 2023, and 2022, comprehensive loss was equal to the net loss.

***Net Loss Per Common Share***

Basic net loss per share is calculated by dividing net loss attributable to common shareholders by the weighted-average number of 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 share equivalents. Diluted net loss per share is calculated by adjusting basic shares outstanding for the dilutive effect of common share equivalents outstanding for the period. For purposes of the diluted net loss per share calculation, preferred shares, and warrants to purchase preferred shares are considered to be common share equivalents but are excluded from the calculation of diluted net loss per common 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 share is the same as the basic net loss per common share for the periods presented.

| | Three Months Ended March 31, | |
|---|---|---|
| | **2023** | **2022** |
| Net loss | $ (2,240,142) | $ (2,786,152) |
| Basic and diluted net loss per common share | $ (2.27) | $ (5.35) |
| Weighted-average basic and diluted common shares | 985,848 | 520,539 |

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

| | As of March 31, | |
|---|---|---|
| | 2023 | 2022 |
| Common stock options | 102,074 | 62,582 |
| Common stock warrants | 3,786,617 | 201,253 |
| Total potentially dilutive securities | 3,888,691 | 263,835 |

***Recent Accounting Pronouncements***

For the three months ended March 31, 2023, the Company has reviewed recent accounting standards and does not expect the future adoption of recently issued accounting pronouncements to have a material impact on the Company's financial position and results of operations.

**3. Balance Sheet Details**

The following provides certain balance sheet details:

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Prepaid expenses and other current assets: | | |
| Prepaid insurance | $ 366,314 | $ 586,407 |
| Prepaid research and development costs | 74,807 | 92,581 |
| Prepaid other | 80,867 | 11,604 |
| Interest receivable | 6,358 | 12,602 |
| Total prepaid expenses and other current assets | $ 528,346 | $ 703,194 |
| | | |
| Accrued and other current liabilities: | | |
| Accrued research and development costs | $ 422,597 | $ 254,787 |
| Accrued compensation and benefits | 131,257 | 170,389 |
| Accrued legal fees | 159,929 | - |
| Accrued other | 381 | 756 |
| Total accrued and other current liabilities | $ 714,164 | $ 425,932 |

**4. Equity Securities**

***Common Stock***

On March 20, 2023, the Company closed a public offering (the “2023 Offering”) priced at the market under Nasdaq rules, in which it sold an aggregate of (i) 85,000 shares of Common Stock, (ii) pre-funded warrants (the “2023 Pre-Funded Warrants”) to purchase up to an aggregate of 1,533,123 shares of Common Stock with an exercise price of $0.0001 per share, (iii) Series A warrants (the “Series A Common Warrants”) to purchase up to an aggregate of 1,618,123 shares of Common Stock, and (iv) Series B warrants (the “Series B Common Warrants” and collectively with the Series A Warrants, the “2023 Offering Warrants”) to purchase up to an aggregate of 1,618,123 shares of Common Stock. The 2023 Offering Warrants have an exercise price of $2.82 per share. The 2023 Pre-Funded Warrants were fully exercised by March 31, 2023, adding 1,533,123 common shares. No 2023 Pre-Funded Warrants were outstanding as of March 31, 2023.

On April 25, 2022, the Company closed a private placement ("PIPE"), in which it sold56,161 shares of its Common Stock together with179,687 pre-funded warrants to purchase up to an aggregate of 179,687 shares of Common Stock with an exercise price of $0.0001 per share ("Pre-funded Warrant"), and 235,849 warrants to purchase up to an aggregate of 235,849 shares of Common Stock with an exercise price of $21.20 per share ("PIPE Common Warrant") at a combined offering price of $21.20. The PIPE Common Warrants related to the private placement were to expire on May 12, 2027. 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 Pre-funded Warrants were exercised fully during 2022, and no Pre-Funded Warrants were outstanding as of December 31, 2022, or March 31, 2023, related to the 2022 PIPE.

In connection with the March 2023 Offering, the Company agreed to amend the terms of the PIPE Common Warrants, which are held by the purchaser in the 2023 Offering. The exercise price of the PIPE Common Warrant was reduced from $21.20 to $2.82 per share upon closing of the 2023 Offering. The original expiration date of the PIPE Common Warrant was May 12, 2027, which was extended to five years after the closing of the 2023 Offering, or March 20, 2028. The modification of the PIPE Common Warrants resulted in an increase in additional paid-in capital since the warrants are equity classified before and after the modification in connection with the March 2023 Offering.

***Stockholders' Agreements***

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.

On March 13, 2023, the Company filed a Certificate of Amendment to the Company's Amended and Restated Certificate of Incorporation, as amended, with the Secretary of State of the State of Delaware on March 14, 2023, a 1-for-16 reverse stock split of the Company's issued and outstanding shares of Common Stock. 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.

***Preferred Stock***

While the Company has 10,000,000 shares of preferred stock authorized with a par value of $0.0001, no shares of preferred stock are outstanding as of March 31, 2023, or December 31, 2022.

***Warrants***

The Company performs an assessment of warrants upon issuance to determine their proper classification in the financial statements based upon the warrant's specific terms, in accordance with the authoritative guidance provided in Financial Accounting Standards Board Accounting Standards Codification, or ASC, 480 Distinguishing Liabilities from Equity, and ASC 815, Derivatives and Hedging. The assessment considers whether the warrants are freestanding financial instruments pursuant to ASC 480 and whether the warrants meet all of the requirements for equity classification under ASC 815, including whether the warrants are indexed in the Company's own common stock and whether the warrant holders could potentially require cash settlement of the warrants. Additional accounting guidance regarding modifications is provided in Accounting Standards Update, or ASU, 2021-04 Earnings Per Share (Topic 260), Debt — Modifications and Extinguishments (Subtopic 470-50), Compensation — Stock Compensation (Topic 718), and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options (a consensus of the Emerging Issues Task Force), effective as of January 1, 2022.

For issued or modified warrants that meet all the criteria for equity classification, the warrants are required to be recorded as a component of additional paid-in capital. For issued or modified warrants that do not meet all the criteria for equity classification, the warrants are required to be liability classified and recorded at their initial fair value on the date of issuance and remeasured at fair value at each balance sheet date thereafter. The Company has performed an assessment of all warrants issued and modified and determined that the Company's warrants are equity classified.

*Common and Pre-Funded Warrants issued with Public Offering*

In March 2023, the Company completed the 2023 Public Offering, in which it sold85,000 shares of its Common Stock together with1,533,123 2023 Pre-funded Warrants to purchase up to an aggregate of 1,533,123 shares of Common Stock with an exercise price of $0.0001 per share, and 1,618,123 Series A Common Warrants to purchase up to an aggregate of 1,618,123 shares of Common Stock with an exercise price of $2.82 per share, and 1,618,123 Series B Common Warrants to purchase up to an aggregate of 1,618,123 shares of Common Stock with an exercise price of $2.82 per share, at a combined offering price of $3.09. Each Series A Common Warrant is immediately exercisable at the option of the holder and expires March 20, 2028. Each Series B Common Warrant is immediately exercisable at the option of the holder and expires July 20, 2025.

In connection with the 2023 Offering, the Company issued Placement Agent Warrants to purchase up to 113,269 shares of Common Stock at an exercise price equal to $3.8625 per share. The Placement Agent Warrants are exercisable immediately upon issuance and expire on March 16, 2028.

During the quarter ended March 31, 2023, 1,533,123 of the 2023 Pre-funded Warrants were exercised. No additional 2023 Pre-funded Warrants are outstanding as of March 31, 2023.

*Summary of Warrants Outstanding*

The table below lists outstanding warrants for the dates presented. The fair value of the Company's warrants is $1.29 per warrant share, the Company's closing stock price as of March 31, 2023. Since the exercise price of the warrants listed are greater than the fair value as of March 31, 2023, the intrinsic value of the warrants is zero.

| | Quantity of Warrants Outstanding as of | | Exercise | | Expiration |
|---|---|---|---|---|---|
| **Description** | **March 31, 2023** | **December 31, 2022** | | **Price** | **Date** |
| Series 1a Warrants | 4,321 | 4,321 | $ | 328.00 | 11/15/2026 |
| Class B Common Unit Warrants | 4,077 | 4,077 | $ | 91.84 | 12/31/2024 |
| IPO Warrants | 184,820 | 184,820 | $ | 112.00 | 8/17/2026 |
| IPO Underwriter Warrants | 8,035 | 8,035 | $ | 128.80 | 8/17/2026 |
| PIPE Common Warrants | 235,849 | 235,849 | $ | 2.82 | 3/20/2028 |
| Series A Common Warrants | 1,618,123 | - | $ | 2.82 | 3/20/2028 |
| Series B Common Warrants | 1,618,123 | - | $ | 2.82 | 7/20/2025 |
| Placement Agent Warrants | 113,269 | - | $ | 3.8625 | 3/16/2028 |
| Total warrants outstanding | 3,786,617 | 437,102 | | | |

**5. 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 5,205 common shares issuable pursuant to the 2021 Plan as of January 1, 2022. This evergreen provision resulted in an additional 7,701 common shares issuable pursuant to the 2021 as of January 1, 2023, increasing the total authorized shares available for issuance under the 2021 Plan to 115,919 as of January 1, 2023. 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 March 31, 2023, there remain an additional127 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 March 31, | |
|---|---|---|
| | **2023** | **2022** |
| Grant date fair value | $ 4.23 | $ 25.12 |
| Risk-free interest rate | 3.9% | 1.39% |
| Dividend yield | 0.00% | 0.00% |
| Expected life in years | 6.1 | 5.3 |
| Expected volatility | 112% | 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.

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 March 31, | |
|---|---|---|
| | 2023 | 2022 |
| Research and development | $ 48,425 | $ 55,201 |
| General and administrative | 82,835 | 157,679 |
| | $ 131,260 | $ 212,880 |

***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, 2022 | 65,983 | $ 60.32 | 8.2 |
| Options granted | 36,091 | 4.96 | 9.8 |
| Options exercised | - | - | - |
| Options cancelled | - | - | - |
| Balance at March 31, 2023 | 102,074 | $ 40.77 | 8.6 |
| | | | |
| Options exercisable at March 31, 2023 | 46,346 | $ 64.31 | 8.1 |

The aggregate intrinsic value of options exercisable as of March 31, 2023, 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 $1.29 per share. The intrinsic value of options outstanding and exercisable as of March 31, 2023, was zero.

As of March 31, 2023, total unrecognized compensation cost related to stock options was approximately $1.0 million and the weighted average period over which this cost is expected to be recognized is 2.3 years.

**6. Commitments and Contingencies**

***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. The original License Agreement was amended in 2019, and 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"). 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.

***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 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.

**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), hyperhidrosis, and various aesthetic indications, affect millions of people worldwide each year which may negatively impact their quality of life and emotional well-being. While there are multiple current treatment options for these indications on the market, we believe that most have significant drawbacks, including underwhelming efficacy, cumbersome application regimens and varying negative side effects, all of which we believe lead to decreased patient compliance. A majority of these indications are first treated with topical therapy; however, many patients frequently switch treatments or discontinue treatment altogether due to patient dissatisfaction. This is primarily due to slow and modest response rates, early onset of negative side effects, daily 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. Our *Spongilla* technology is derived from a naturally grown freshwater sponge, *Spongilla lacustris* or *Spongilla*, which is processed into a powder that is 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 medical and aesthetic skin diseases and conditions.

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 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 toxins, monoclonal antibodies, or dermal fillers, to target treatment sites, through topical application without the need for needles.

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 improvements at all time points for all three primary endpoints throughout the study (reduction in inflammatory lesions, reduction in non-inflammatory lesions, and improvement in Investigator Global Assessment). Based on this Phase 2b data we recently submitted an end of phase 2 meeting package to the FDA to agree on clinical development requirements for the Phase 3 acne program. We expect to receive feedback from the FDA by the end of June 2023 and, if acceptable to the FDA, we plan to initiate a Phase 3 program in the second half of 2023. In addition, based on the multiple mechanisms of action and anti-inflammatory effect seen with DMT310 acne trial, we completed a Phase 1b proof of concept, or POC, trial in psoriasis where we saw encouraging results warranting further investigation.

DMT310 consists of two grams of powder processed from the naturally grown freshwater sponge, *Spongilla lacustris.* The patient mixes the powder with a fluidizing agent (3% hydrogen peroxide) immediately prior to application by the patient to form an easy-to-apply paste. The paste is applied like a mud mask and 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 the 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 also 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 rejuvenation of the top layer of dead skin, thereby increasing collagen production. Additionally, 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 and fight inflammation.* 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 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 could be significant opportunity for DMT410 to break into this market and replace intradermal injections of botulinum toxin. 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 $56.9 million of gross proceeds from the sale of our debt and equity securities.

We have not generated any revenue to date and have incurred significant operating losses. Our net losses were $2.2 million and $2.8 million for the three months ended March 31, 2023, and 2022, respectively, and as of March 31, 2023, we had an accumulated deficit of $47.8 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 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;
- 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.

**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 2021, 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 represent 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. 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 March 31, 2023, and 2022***

The following table summarizes our results of operations for the periods presented:

| | Three Months Ended March 31, | | |
|---|---|---|---|
| | 2023 | 2022 | Difference |
| Operating expenses: | | | |
| Research and development | $ 1,192,633 | $ 1,595,839 | $ (403,206) |
| General and administrative | 1,085,049 | 1,190,313 | (105,264) |
| Total operating expenses | 2,277,682 | 2,786,152 | (508,470) |
| Losses from operations | (2,277,682) | (2,786,152) | 508,470 |
| Other income and expenses: | | | |
| Interest income, net | 37,540 | - | 37,540 |
| Net loss | $ (2,240,142) | $ (2,786,152) | $ 546,010 |

*Research and Development Expenses*

Research and development expenses decreased by $0.4 million from $1.6 million for the three months ended March 31, 2022, to $1.2 million for the three months ended March 31, 2023. The decrease in research and development expense from the first quarter of 2023 as compared the same period in 2022 resulted from $0.8 million of decreased clinical expenses from the DMT310 rosacea study completed in late 2022, offset by increased non-clinical and chemistry, manufacturing, and controls, or CMC, expenses of $0.4 million.

*General and Administrative Expenses*

General and administrative expenses decreased by $0.1 million from $1.2 million for the three months ended March 31, 2022, to $1.1 million for the three months ended March 31, 2023. This decrease resulted from decreased insurance costs of $0.1 million.

*Other Income and Expenses*

Other income and expenses increased by $37,540 from the three months ended March 31, 2023, as result of interest income earned from cash sweep accounts, which were opened during the third quarter of 2022.

*Cash Flows*

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2023 | 2022 |
| Statements of cash flows data: | | |
| Total net cash provided by (used in): | | |
| Operating activities | $ (1,649,633) | $ (2,607,848) |
| Financing activities | $ 4,175,098 | $ - |
| Increase (decrease) in cash and cash equivalents | $ 2,525,465 | $ (2,607,848) |

*Operating activities*

Cash and cash equivalents used in operations of $1.6 million for the three months ended March 31, 2023, was the result of the net loss of $2.2 million, offset by non-cash stock-based compensation of $0.1 million, a decrease in prepaid expenses and other current assets of $0.2 million, and an increase in accrued and other current liabilities of $0.3 million.

Cash used in operations of $2.6 million for the three months ended March 31, 2022, was the result of the net loss of $2.8 million, offset by non-cash stock-based compensation of $0.2 million.

*Financing activities*

The Company raised net proceeds of $4.2 million during the quarter ended March 31, 2023, resulting from the issuance of Common Stock and warrants from the March 2023 public offering. The Company did not experience any financing activities during the three months ended March 31, 2022.

***Liquidity and Capital Resources***

Since our inception, we have not generated any revenue or commercialized any products. As of March 31, 2023, our cash and cash equivalents totaled $8.8 million, and we had an accumulated deficit of $47.8 million. For the three months ended March 31, 2023, and the year ended December 31, 2022, we used cash of $1.6 million and $8.8 million, respectively, in operations. As a result of our public offering of Common Stock and warrants to purchase Common Stock in March 2023 for net proceeds of $4.2 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 first quarter of 2024. 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 and psoriasis. We anticipate we will incur net losses for the next several years as we complete clinical development of DMT310 for the treatment of acne and psoriasis 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 the 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 the offering in March 2023, will be sufficient to fund our operating expenses and capital expenditure requirements into the first quarter of 2024. 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 own or 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 March 31, 2023. 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 March 31, 2023, 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

Our operations and financial results are subject to various risks and uncertainties, including those described in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2022, filed with the Securities and Exchange Commission on February 21, 2023, as amended on March 28, 2023. The risk factor set forth below supplements the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. Other than as set forth below, there have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended December 31, 2022.

***Unfavorable global economic conditions and adverse developments with respect to financial institutions and associated liquidity risk could adversely affect our business, financial condition and stock price.***

The global credit and financial markets are currently and have from time-to-time experienced extreme volatility and disruptions, including severely diminished liquidity and credit availability, rising interest and inflation rates, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. The financial markets and the global economy may also be adversely affected by the current or anticipated impact of military conflict, including the ongoing conflict between Russia and Ukraine, terrorism, or other geopolitical events. Sanctions imposed by the United States and other countries in response to such conflicts, including the one in Ukraine, may also adversely impact the financial markets and the global economy, and any economic countermeasures by the affected countries or others could exacerbate market and economic instability. More recently, the closure of Silicon Valley Bank, or SVB, and their placement into receivership with the Federal Deposit Insurance Corporation, or FDIC, created bank-specific and broader financial institution liquidity risk and concerns. Although depositors at SVB ultimately gained access to their funds, even those in excess of the standard FDIC insurance limits, under a systemic risk exception granted by government and banking regulators including the FDIC, future adverse developments with respect to specific financial institutions or the broader financial services industry may lead to market-wide liquidity shortages, impair the ability of companies to access near-term working capital needs, and create additional market and economic uncertainty. There can be no assurance that future credit and financial market instability and a deterioration in confidence in economic conditions will not occur. Our general business strategy may be adversely affected by any such economic downturn, liquidity shortages, volatile business environment or continued unpredictable and unstable market conditions. If the equity and credit markets deteriorate, or if adverse developments are experienced by financial institutions, it may cause short-term liquidity risk and make any necessary debt or equity financing more difficult, more costly, more onerous with respect to financial and operating covenants and more dilutive. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and stock price and could require us to delay or abandon clinical development plans. In addition, there is a risk that one or more of our current service providers, financial institutions, manufacturers, and other partners may be adversely affected by the foregoing risks, which could directly affect our ability to attain our operating goals on schedule and on budget.

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

None.

### ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None noted.

### ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5: OTHER INFORMATION

None.

Table of Contents

**ITEM 6: EXHIBITS**

| Exhibit No. | Description |
|---|---|
| 1.1 | Engagement Letter, dated as of November 27, 2022, by and between Dermata Therapeutics, Inc. and H.C. Wainwright & Co., LLC. (incorporated by reference to Exhibit 1.1 to the Company's Registration Statement on Form S-1 (File No. 333-270195) filed on March 1, 2023). |
| 1.2 | Amendment No. 1 to the Engagement Letter, dated December 12, 2022, by and between Dermata Therapeutics, Inc. and H.C. Wainwright & Co., LLC. (incorporated by reference to Exhibit 1.2 to the Company's Registration Statement on Form S-1 (File No. 333-270195) filed on March 1, 2023). |
| 3.1 | Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Dermata Therapeutics, Inc., dated March 13, 2023. (incorporated by reference to Exhibit 3.1 to the Company's Current Report file on Form 8-K filed on March 13, 2023). |
| 4.1 | Form of Pre-Funded Warrant (incorporated by reference to Exhibit 4.8 to the Company's Registration Statement on Form S-1/A (File No. 333-270195) filed on March 13, 2023). |
| 4.2 | Form of Series A Common Warrant and Series B Common Warrant (incorporated by reference to Exhibit 4.9 to the Company's Registration Statement on Form S-1/A (File No. 333-270195) filed on March 16, 2023). |
| 4.3 | Form of Placement Agent Warrant (incorporated by reference to Exhibit 4.10 to the Company's Registration Statement on Form S-1/A (File No. 333-270195) filed on March 13, 2023). |
| 10.1 | Form of Purchase Agreement (incorporated by reference to Exhibit 10.23 to the Company's Registration Statement on Form S-1/A (File No. 333-270195) filed on March 16, 2023). |
| 10.2 | Amendment No. 1 dated January 1, 2022 to the Employment Agreement by and between Dermata Therapeutics, Inc. and Kyri K. Van Hoose. (incorporated by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1/A (File No. 333-270195) filed March 16, 2023). |
| 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: May 11, 2023

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 CHIEF 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 March 31, 2023, of Dermata Therapeutics, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: May 11, 2023

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

**EXHIBIT 31.2**

**CERTIFICATION OF CHIEF 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 quarter ended March 31, 2023, of Dermata Therapeutics, Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the 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: May 11, 2023

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

**EXHIBIT 32.1**

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

This Certification is being filed pursuant to 18 U.S.C. Section 1350, as adopted by Section 906 of the Sarbanes-Oxley Act of 2002. This Certification is included solely for the purpose of complying with the provisions of Section 906 of the Sarbanes-Oxley Act and is not intended to be used for any other purpose. In connection with the accompanying Periodic Report on Form 10-Q of Dermata Therapeutics, Inc. (the “Company”) for the quarter ended March 31, 2023 (the “Quarterly 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:

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

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

Dated: May 11, 2023

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

Dated: May 11, 2023

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

This certification shall not be deemed “filed” for any purpose, nor shall it be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act.