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 September 30, 2021

Commission File Number: **001-40739**

DERMATA THERAPEUTICS, INC.

(Exact name of registrant as specified in the charter)

Delaware	**82-1510982**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.0001 Par Value	DRMA	The Nasdaq Capital Market
Common Stock Purchase Warrants	DRMAW	The Nasdaq Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No.

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards pursuant to Section 13(a) of the Exchange Act. ☒

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

There were 8,328,629 shares of common stock, par value $0.0001 of Dermata Therapeutics, Inc. issued and outstanding as of November 10, 2021.

DERMATA THERAPEUTICS, INC.
(FORMERLY DERMATA THERAPEUTICS, LLC)
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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Quarterly Report") contains forward-looking statements that involve risks and uncertainties. We make such forward-looking statements pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. All statements other than statements of historical facts contained in this Quarterly Report are forward-looking statements. In some cases, you can identify forward-looking statements by words such as "anticipate," "believe," "contemplate," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "seek," "should," "target," "will," "would," or the negative of these words or other comparable terminology. These forward-looking statements include, but are not limited to, statements about:

- our plans to research, develop and commercialize our product candidates;
- the initiation, progress, success, cost, and timing of our clinical trials and product development activities;
- the therapeutic potential of our product candidates, and the disease indications for which we intend to develop our product candidates;
- our ability and timing to advance our product candidates into, and to successfully initiate, conduct, enroll and complete, clinical trials;
- our ability to manufacture our product candidates for clinical development and, if approved, for commercialization, and the timing and costs of such manufacture;
- the performance of third parties in connection with the development and manufacture of our product candidates, including third parties conducting our clinical trials as well as third-party suppliers and manufacturers;
- our ability to obtain funding for our operations, including funding necessary to initiate and complete clinical trials of our product candidates;
- the size and growth of the potential markets for our product candidates and our ability to serve those markets;
- the potential scope, duration, and value of our intellectual property rights;
- our ability, and the ability of our licensors, to obtain, maintain, defend, and enforce intellectual property rights protecting our product candidates, and our ability to develop and commercialize our product candidates without infringing the proprietary rights of third parties;
- our ability to recruit and retain key personnel;
- the effects of the COVID-19 pandemic on our operations; and
- other risks and uncertainties, including those described under Part II, Item 1A, "Risk Factors" of this Quarterly Report.

Any forward-looking statements in this Quarterly Report reflect our current views with respect to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors that may cause actual results to differ materially from current expectations include, among other things, those listed under Part II, Item 1A, "Risk Factors" of this Quarterly Report. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Except as required by law, we assume no obligation to update or revise these forward-looking statements for any reason, even if new information becomes available in the future.

Part I

Item 1: Financial Statements

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

	September 30, 2021 (unaudited)	December 31, 2020
Assets:		
Current assets:		
Cash	$ 12,603,341	$ 530,400
Prepaid expenses and other current assets	1,082,446	75,053
Total current assets	13,685,787	605,453
Fixed assets, net	-	-
Total assets	$ 13,685,787	$ 605,453
Liabilities and Stockholders' and Members' Equity (Deficit):		
Liabilities:		
Current liabilities:		
Accounts payable	$ 769,863	$ 104,276
Accrued and other current liabilities	425,369	133,477
Convertible subordinated promissory notes, net of discount	-	1,848,495
Related party convertible subordinated promissory notes, net of discount	-	1,140,984
Current portion of long-term debt, net of debt discount	-	556,160
Total current liabilities	1,195,232	3,783,392
Total liabilities	1,195,232	3,783,392
Commitments and Contingencies (see Note 10)		
Stockholders' and Members' Equity (Deficit):		
Series 1 Preferred Units, 6,906,244 units authorized, issued and outstanding at December 31, 2020	-	6,833,877
Series 1a Preferred Units, 5,018,750 units authorized, issued and outstanding at December 31, 2020	-	4,380,081
Series 1a Preferred Warrant Units, 1,419,228 units issued and outstanding at December 31, 2020	-	723,431
Series 1b Preferred Units, 6,500,000 units authorized, issued and outstanding at December 31, 2020	-	4,119,595
Series 1c Preferred Units, 46,553,188 units authorized, issued and outstanding at December 31, 2020	-	6,491,592
Class A Common Units, 508,777 units authorized, issued and outstanding at December 31, 2020	-	10,430
Class B Common Units, 1,767,477 units authorized, issued and outstanding at December 31, 2020	-	2,342,853
Common Stock, par value $0.0001, 90,000,000 shares authorized, 8,328,629 shares issued and outstanding at September 30, 2021	833	-
Additional paid-in capital	45,919,140	-
Accumulated deficit	(33,429,418)	(28,079,798)
Total stockholders' and members' equity (deficit)	12,490,555	(3,177,939)
Total liabilities and stockholders' and members' equity (deficit)	$ 13,685,787	$ 605,453

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating expenses:				
Research and development	$ 799,779	$ 120,466	$ 2,347,564	$ 1,493,520
General and administrative	912,490	419,596	2,956,444	1,187,906
Total operating expenses	1,712,269	540,062	5,304,008	2,681,426
Loss from operations	(1,712,269)	(540,062)	(5,304,008)	(2,681,426)
Other income and expenses:				
Interest expense, net	651	57,333	45,613	158,791
Net loss	$ (1,712,920)	$ (597,395)	$ (5,349,621)	$ (2,840,217)
Deemed dividend upon the redemption of 5,221,156 shares of Series 1c preferred stock (see Note 6)	$ 269,038	$ -	$ 269,038	$ -
Deemed dividend upon the amendment of terms of the Series 1d convertible preferred stock (see Note 6)	$ 2,293,199	$ -	$ 2,293,199	$ -
Net loss attributable to common stockholders	$ (4,275,157)	$ (597,395)	$ (7,911,858)	$ (2,840,217)
Net loss per share of common stock, basic and diluted	$ (0.86)	$ (0.31)	$ (2.69)	$ (1.49)
Weighted-average basic and diluted common units/shares	4,980,306	1,911,009	2,945,351	1,911,009

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

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

	Class A Common		Class B Common		Series 1 Preferred		Series 1a Preferred		Series 1a Warrants		Series 1b Preferred	
	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount	Units	Amount
Balance at December 31, 2019	508,777	$ 10,430	1,761,908	$ 2,342,853	6,906,244	$ 6,833,877	5,000,000	$ 4,361,331	1,437,978	$ 723,431	6,500,000	$ 4,119,595
Class B Common Units issued			2,439									
Net loss												
Balance at March 31, 2020	508,777	$ 10,430	1,764,347	$ 2,342,853	6,906,244	$ 6,833,877	5,000,000	$ 4,361,331	1,437,978	$ 723,431	6,500,000	$ 4,119,595
Series 1c Preferred Units issued												
Net loss												
Balance at June 30, 2020	508,777	$ 10,430	1,764,347	$ 2,342,853	6,906,244	$ 6,833,877	5,000,000	$ 4,361,331	1,437,978	$ 723,431	6,500,000	$ 4,119,595
Exercise of Series 1a Preferred Warrant Units							18,750	$ 18,750	(18,750)			
Net loss												
Balance at September 30, 2020	508,777	$ 10,430	1,764,347	$ 2,342,853	6,906,244	$ 6,833,877	5,018,750	$ 4,380,081	1,419,228	$ 723,431	6,500,000	$ 4,119,595
Net loss												
Balance at December 31, 2020	508,777	$ 10,430	1,767,477	$ 2,342,853	6,906,244	$ 6,833,877	5,018,750	$ 4,380,081	1,419,228	$ 723,431	6,500,000	$ 4,119,595
Series 1d Preferred Units issued												
Class B Common Units forfeited			(22,494)									
Conversion of Common Units to Common Stock	(508,777)	$(10,430)	(1,744,983)	$(2,342,853)								
Conversion of Preferred Units to Preferred Stock					(6,906,244)	$(6,833,877)	(5,018,750)	$(4,380,081)			(6,500,000)	$(4,119,595)
Conversion of Warrant Units to Preferred Stock Warrants									(1,419,228)	$(723,431)		
Stock-based compensation												
Net loss												
Balance at March 31, 2021	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Stock-based compensation												
Net loss												
Balance at June 30, 2021	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -
Redemption of Series 1c preferred shares												
Conversion of Preferred Stock to Common Stock												
Conversion of Preferred Stock Warrants to Common Stock Warrants												
Conversion of Convertible Debt to Common Stock												
Issuance of Common Stock and warrants, net issuance costs												
Stock-based compensation												
Net loss												

Balance at September 30, 2021	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -	-	$ -

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

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

	Series 1c Preferred		Series 1d Preferred		Preferred Stock		Preferred Stock Warrants		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Units	Amount	Units	Amount	Shares	Par Value	Shares	Par Value	Shares	Par Value			
Balance at December 31, 2019	44,767,474	$ 6,241,592										$(24,843,268)	$ (210,159)
Class B Common Units issued													
Net loss												$ (1,421,173)	$ (1,421,173)
Balance at March 31, 2020	44,767,474	$ 6,241,592										$(26,264,441)	$ (1,631,332)
Series 1c Preferred Units issued	1,785,714	$ 250,000											$ 250,000
Net loss												$ (821,649)	$ (821,649)
Balance at June 30, 2020	46,553,188	$ 6,491,592										$(27,086,090)	$ (2,202,981)
Exercise of Series 1a Preferred Warrant Units													$ 18,750
Net loss												$ (597,395)	$ (597,395)
Balance at September 30, 2020	46,553,188	$ 6,491,592										$(27,683,485)	$ (2,781,626)
Net loss												$ (396,313)	$ (396,313)
Balance at December 31, 2020	46,553,188	$ 6,491,592										$(28,079,798)	$ (3,177,939)
Series 1d Preferred Units issued			6,065,989	$ 5,034,801									$ 5,034,801
Class B Common Units forfeited													$ -
Conversion of Common Units to Common Stock									1,911,009	$ 191	2,353,092		$ -
Conversion of Preferred Units to Preferred Stock	(46,553,188)	$(6,491,592)	(6,065,989)	$(5,034,801)	71,044,171	$ 7,104					26,852,842		$ -
Conversion of Warrant Units to Preferred Stock Warrants							1,419,228	$ 142			723,289		$ -
Stock-based compensation											1,160,049		$ 1,160,049
Net loss												$ (2,304,908)	$ (2,304,908)
Balance at March 31, 2021	-	$ -	-	$ -	71,044,171	$ 7,104	1,419,228	$ 142	1,911,009	$ 191	31,089,272	$(30,384,706)	$ 712,003
Stock-based compensation											113,987		$ 113,987
Net loss												$ (1,331,792)	$ (1,331,792)
Balance at June 30, 2021	-	$ -	-	$ -	71,044,171	$ 7,104	1,419,228	$ 142	1,911,009	$ 191	31,203,259	$(31,716,498)	$ (505,802)
Redemption of Series 1c preferred shares					(5,221,156)	$ (522)					(999,478)		$ (1,000,000)

Conversion of Preferred Stock to Common Stock					(65,823,015)	$ (6,582)			3,813,973	$ 381	6,200		$ -
Conversion of Preferred Stock Warrants to Common Stock Warrants							(1,419,228)	$ (142)			142		$ -
Conversion of Convertible Debt to Common Stock									32,219	$ 3	180,430		$ 180,434
Issuance of Common Stock and warrants, net issuance costs									2,571,428	$ 257	15,385,932		$ 15,386,189
Stock-based compensation											142,655		$ 142,655
Net loss												$ (1,712,920)	$ (1,712,920)
Balance at September 30, 2021	-	$ -	-	$ -	-	$ -	-	$ -	8,328,629	$ 833	45,919,140	$ (33,429,418)	$ 12,490,555

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

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

	For the nine months ended September 30,	
	2021	**2020**
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net loss	$ (5,349,621)	$ (2,840,217)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	1,416,691	-
Amortization of debt discount costs	14,126	88,293
Depreciation of fixed assets	-	322
Increase/(decrease) in cash resulting from changes in:		
Prepaid expenses and other current assets	(1,007,393)	(5,300)
Accounts payable	665,587	(256,601)
Accrued and other current liabilities	371,127	20,936
License and settlement agreement	-	(500,000)
Total adjustments to reconcile net loss to net cash used in operations	1,460,138	(652,350)
Net cash used in operating activities	(3,889,483)	(3,492,567)
Cash flows from financing activities:		
Proceeds from issuance of common stock and warrants, net of issuance costs	15,386,189	-
Redemption of Series 1c preferred stock	(1,000,000)	-
Payments on debt	(556,482)	(462,963)
Proceeds from Paycheck Protection Plan loan	-	133,592
Net proceeds from issuance of convertible subordinated promissory notes	1,562,717	2,314,432
Proceeds from issuance of Series 1d preferred units	570,000	-
Proceeds from issuance of Series 1c preferred units	-	250,000
Proceeds from exercise of Series 1a preferred warrant units	-	18,750
Net cash provided by financing activities	15,962,424	2,253,811
Net increase (decrease) in cash	12,072,941	(1,238,756)
Cash at beginning of period	530,400	1,991,802
Cash at end of period	$ 12,603,341	$ 753,046
Supplemental disclosures:		
Cash paid for interest	$ 1,420	$ 51,149
Cash paid for taxes	$ 1,400	$ 1,400
Non-cash financing activities:		
Conversion of common and preferred units and warrants to common and preferred stock and warrants	$ 29,936,660	$ -
Conversion of convertible subordinated promissory notes to Series 1d preferred units	$ 4,464,801	$ -
Deemed dividend upon amendment to the terms to the Series 1d convertible preferred stock	$ 2,293,199	$ -
Conversion of convertible subordinated promissory notes and accrued interest to common shares at IPO	$ 180,434	$ -
Conversion of preferred stock to common stock at IPO	$ 6,582	$ -

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

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

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.

Initial Public Offering

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

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

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

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

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

After the IPO, there were no shares of preferred stock or preferred stock warrants outstanding. Prior to the IPO, the Company had 1,911,009 shares of common stock outstanding after the Company's reverse stock split in July 2021. The Company's total common stock issued and outstanding was 8,328,629 as of September 30, 2021.

Reverse Stock Split

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

Liquidity and Going Concern Uncertainty

Since its inception, the Company has devoted substantially all of its resources to research and development activities and has not generated any revenue or commercialized any product candidates. As of September 30, 2021, cash totaled $12.6 million and the Company had an accumulated deficit of $33.4 million. For the year ended December 31, 2020 and the nine months ended September 30, 2021, the Company used cash of $4.0 million and $3.9 million, respectively, in operations. The Company's cash balances are expected to fund operations into October 2022. The Company anticipates that it will continue to incur net losses for the foreseeable future. These factors raise substantial doubt about the Company's ability to continue as a going concern for the one-year period following the date that these financial statements were issued.

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

Management's Plan to Continue as a Going Concern

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

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

Basis of Presentation

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

2. Summary of Significant Accounting Policies

Use of Estimates

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

Segment Information

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

Deferred Financing Costs

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

Cash

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 savings accounts. At times, deposits held may exceed the amount of insurance provided by the FDIC. The Company has not experienced any losses in its cash and believes they are not exposed to any significant credit risk.

Fair Value Measurement

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

Fixed Assets

Fixed assets consist of furniture and fixtures and computer equipment. Fixed assets are stated at cost less accumulated depreciation and amortization. Additions, improvements, and major renewals are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. Depreciation is determined using the straight-line method over the estimated useful lives of the assets, which is primarily three years. Depreciation and amortization expense for the nine months ended September 30, 2021 and 2020 were $0 and $322, respectively.

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 based on 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 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. The Company records the difference between the benefit recognized and measured pursuant to the accounting guidance on accounting for uncertain tax positions taken or expected to be taken on the Company's tax return. 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% likely to be realized upon ultimate settlement with the related tax authority. The liabilities are adjusted in light of changing facts and circumstances, such as the outcome of tax audits. To the extent that the assessment of such tax positions changes, the change in estimate is recorded in the period in which the determination is made. There are no uncertain tax positions.

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. Refer to Note 7- Equity Incentive Plan for further discussion.

Net Loss Per Common Unit/Share

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

Basic net loss per unit/share is calculated by dividing net loss attributable to common unitholders or shareholders by the weighted-average number of units or shares outstanding during the period, without consideration of common unit or share equivalents. Diluted net loss per unit or share is calculated by adjusting weighted-average shares outstanding for the dilutive effect of common unit or share equivalents outstanding for the period. For purposes of the diluted net loss per unit or share calculation, preferred units or shares, profit interests, and warrants to purchase preferred units or shares are considered to be common unit or share equivalents but are excluded from the calculation of diluted net loss per common unit or share if their effect would be anti-dilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Net loss	$ (1,712,920)	$ (597,395)	$ (5,349,621)	$ (2,840,217)
Deemed dividend upon redemption of 5,221,156 shares of Series 1c convertible preferred stock	$ 269,038	$ -	$ 269,038	$ -
Deemed dividend upon amendment of the terms to the Series 1d convertible preferred stock	$ 2,293,199	$ -	$ 2,293,199	$ -
Net loss attributable to common stockholders	$ (4,275,157)	$ (597,395)	$ (7,911,858)	$ (2,840,217)
Basic and diluted net loss per common unit/share	$ (0.86)	$ (0.31)	$ (2.69)	$ (1.49)
Weighted-average basic and diluted common units/shares	4,980,306	1,911,009	2,945,351	1,911,009

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

	As of	
	September 30, 2021	September 30, 2020
Series 1 Preferred Units/Shares	-	336,882
Series 1a Preferred Units/Shares	-	244,811
Series 1a Preferred Warrant	-	69,212
Series 1b Preferred Units/Shares	-	317,058
Series 1c Preferred Units/Shares	-	2,270,866
Series 1d Preferred Units/Shares	-	-
Class B Common Units Profits Interests	-	365,245
Common Stock Options	523,199	-
Common Stock Warrants	3,091,657	-
Total potentially dilutive securities	3,614,856	3,604,074

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board ("FASB") issued Account Standards Update ("ASU") No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"). ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. ASU 2019-12 also improves the consistent application, and the simplification, of other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years, with early adoption permitted. Adoption of this new guidance on January 1, 2021 did not have an impact on the Company's financial position and results of operations.

In August 2020, the FASB issued ASU 2020-06, Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in an Entity's Own Equity (Subtopic 815-40) ("ASU 2020-06"). ASU 2020-06 eliminates the beneficial conversion and cash conversion accounting models for convertible instruments. It also amends the accounting for certain contracts in an entity's own equity that are currently accounted for as derivatives because of specific settlement provisions. In addition, ASU 2020-06 modifies how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted earnings per share computation. The amendments in ASU 2020-06 are effective for smaller reporting companies as defined by the U.S. Securities and Exchange Commission ("SEC") for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, but not earlier than fiscal years beginning after December 15, 2020. Adoption of this new guidance on January 1, 2021 did not have an impact on the Company's financial position and results of operations.

3. Balance Sheet Details

The following provides certain balance sheet details:

	September 30, 2021	December 31, 2020
Prepaid expenses and other current assets		
Prepaid insurance	$ 1,082,446	$ 68,003
Prepaid research and development costs	-	7,050
Total prepaid expenses and other current assets	$ 1,082,446	$ 75,053
Fixed assets		
Furniture and office equipment	$ 59,382	$ 59,382
Computer equipment	17,225	17,225
	76,607	76,607
Less: accumulated depreciation and amortization	(76,607)	(76,607)
Total fixed assets, net	$ -	$ -
Accrued and other current liabilities		
Accrued interest payable	$ -	$ 49,169
Accrued compensation and benefits	424,569	84,308
Accrued research and development costs	800	-
Total accrued and other current liabilities	$ 425,369	$ 133,477

4. Subordinated Convertible Promissory Notes

In July and October 2020, the Company issued an aggregate of $3,000,000 of subordinated convertible promissory notes (the "Notes"). Notes in the amount of $1,145,000 were issued to existing investors who are also related parties (See Note 11 - Related Parties), $1,730,000 were issued to existing investors who are not related parties and notes in the amount of $125,000 were issued to new investors. The Notes bore interest at 4% per annum and were to mature on July 17, 2021. The Notes were subordinated to the Company's long-term debt and were convertible into a qualified Series A financing of at least $10 million at a 20% discount to the lowest price per unit paid by investors for that financing. Under authoritative accounting guidance, this contingent beneficial conversion feature was to be measured and recognized when the contingency is resolved. The Notes were recorded upon issuance net of debt discount costs of $28,301. The Company recognized $497 and $16,888 of interest expense during the three and nine months ended September 30, 2021, respectively, and $155 and $14,126 of amortized debt discount costs during the three and nine months ended September 30, 2021, respectively, related to the Notes.

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

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

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

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

As of September 30, 2021, the Company had no promissory notes outstanding.

5. Long-Term Debt

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

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

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

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

In January and February 2021, the company paid the final principal payments of $231,482 under the SVB Loan and Security Agreement. The Company also paid the final payment fee of $225,000 in February 2021 and the amendment fee of $100,000 in March 2021.

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

Paycheck Protection Program

On April 22, 2020, the Company received proceeds of a $133,592 loan from SVB under provisions of the Small Business Administration Paycheck Protection Program ("PPP"). This loan was forgiven in December 2020 under provisions of the PPP.

6. Equity Securities

Common Stock and Preferred Stock

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

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

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

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

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

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

The Company's total common stock issued and outstanding was 8,328,629 as of September 30, 2021.

Series 1 Preferred Units

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

Series 1a Preferred Units

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

Series 1b Preferred Units

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

Series 1c Preferred Units

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

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

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

Series 1d Preferred Units

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

Class A Common Units

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

Class B Common Units

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

Liquidation Preference

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

Conversion Rights

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

Stockholders' Agreements

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

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

On June 29, 2021, with effectiveness on July 1, 2021, the Company's board of directors approved an amendment to the 2021 Plan to increase the number of shares of Common Stock available for issuances from 593,340 to 1,648,213 shares.

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

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

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

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

Warrants

Warrants issued at IPO

On August 17, 2021, the Company completed its IPO, in which it sold2,571,428 shares of its common stock together with2,571,428 warrants to purchase one share of common stock with an exercise price of $7.00 per share at a combined offering price of $7.00. The underwriters exercised their option to purchase an additional385,714 warrants, increasing the number of warrants issued at IPO to 2,957,142. Each warrant is immediately exercisable at the option of the holder and expires five years from the date of issuance.

The Company evaluated the terms of the warrants issued at the IPO and determined that they should be classified as equity instruments based upon accounting guidance provided in ASC 480, Distinguishing Liabilities from Equity, and ASC 815, Derivatives and Hedging. Since the Company determined that the warrants were equity classified, the Company recorded the proceeds from the IPO, net of issuance costs, within common stock at par value and the balance of proceeds to additional paid in capital. The fair value of each warrant on August 17, 2021 was $0.9995 based on the closing trading price on that day. As of September 30, 2021, the outstanding warrants are exercisable into 2,957,142 shares of common stock whose fair value was $4.49 per share, based on the closing trading price on that day.

As of September 30, 2021, the Company had 2,957,142 warrants outstanding resulting from the IPO with an exercise price of $7.00 and which expire August 17, 2026.

Warrants issued with Class B Common Units

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

As of September 30, 2021, the Company had 65,303 common warrants outstanding related to the prior Class B Common Units with an exercise price of $5.74 and which expire December 31, 2024.

Warrants issued with Series 1a Preferred Units

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

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

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

As of September 30, 2021, the Company had 69,212 common warrants outstanding related to the prior Series 1a preferred warrants with an exercise price of $20.50 and which expire November 15, 2026.

7. Equity Incentive Plan

Under the Company's 2021 Omnibus Equity Incentive Plan (the "2021 Plan"), the Company may grant options to purchase common stock, restricted stock awards, performance stock awards, incentive bonus awards, other cash-based awards or directly issue shares of common stock to employees, directors, and consultants of the Company. The 2021 Plan provides for the issuance of up to 1,648,213 shares, all of which may, but need not, be issued in respect of Incentive Stock Options. Options may be granted at an exercise price per share of not less than 100% of the fair market value at the date of grant. Stock awards granted are exercisable over a maximum term of 10 years from the date of grant and generally vest over a period of four years for employees and one year for directors of the Company's board and consultants.

As of September 30, 2021, there remain an additional 1,125,014 shares reserved for issuance under the 2021 Plan.

Stock Award Activity

A summary of the Company's Equity Plans 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, 2020	-	$ -	-
Options granted	523,199	5.84	9.0
Options exercised	-	-	-
Options cancelled	-	-	-
Balance at September 30, 2021	523,199	$ 5.84	9.0
Options exercisable at September 30, 2021	233,686	$ 5.80	9.3

The aggregate intrinsic value of options exercisable as of September 30, 2021 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 $4.49 per share. The intrinsic value of options outstanding and exercisable as of September 30, 2021 was zero due to the underlying options exercise price above market value.

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 for the three and nine months ended September 30, 2021:

	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2021
Grant date fair value	$ 4.54	$ 4.87
Risk-free interest rate	0.98%	0.92%
Dividend yield	0.00%	0.00%
Expected life in years	5.8	5.7
Expected volatility	125%	122%

Stock-based Compensation Expense

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

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

The following table summarizes the total stock-based compensation expense included in the Company's statements of operations for the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Research and development	$ 30,075	$ -	$ 310,046	$ -
General and administrative	112,580	-	1,106,645	-
	$ 142,655	$ -	$ 1,416,691	$ -

As of September 30, 2021, total unrecognized compensation cost related to stock options was approximately $1.4 million and the weighted average period over which this cost is expected to be recognized is 2.9 years.

8. 401(k) Plan

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

9. License Agreements

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

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

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

10. Commitments and Contingencies

Coronavirus Pandemic

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

Legal Proceedings

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

11. Related Parties

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

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

During the third quarter of 2021, the Company amended the conversion terms of its Series 1d preferred stock, as described in Note 6 – Equity Securities. As a result of the Series 1d preferred stock amendments, the Company presented a deemed dividend of approximately $2.3 million during the three and nine months ended September 30, 2021, approximately $1.2 million of which related to Series 1d preferred shares owned by the Company's Principal Stockholders and their affiliates.

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our lack of operating history;
- the expectation that we will incur significant operating losses for the foreseeable future and will need significant additional capital;
- our current and future capital requirements to support our development and commercialization efforts for our product candidates and our ability to satisfy our capital needs;
- our dependence on our product candidates, which are still in various stages of clinical development;
- our, 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 diseases and conditions we believe have significant unmet needs.

Dermatological diseases such as acne vulgaris (or acne), psoriasis vulgaris (or psoriasis), papulopustular rosacea (or rosacea), hyperhidrosis and various aesthetic indications affect millions of people worldwide each year and may negatively impact their quality of life and emotional well-being. While there are multiple current treatment options for these indications on the market, we believe that most have significant drawbacks, including cumbersome application regimens and varying negative side effects. While a majority of these indications are first treated with topical products, many patients frequently switch treatments or discontinue treatment altogether due to patient dissatisfaction with slow and modest response rates, early onset of negative side effects, onerous application schedules and typically long duration of therapy. A small percentage of patients may be candidates for biologic or systemic therapies, but these patients are typically required to try topical or oral treatment options prior to qualifying for these expensive systemic therapies. Given the limitation with current topical therapies and the restricted usability of systemic therapies, we believe there is a significant opportunity to address the needs of frustrated patients searching for effective topical products that satisfy their dermatological and lifestyle needs.

Our lead product candidate, DMT310, incorporates our proprietary, multifaceted,*Spongilla* technology to topically treat a variety of dermatological conditions with an expected once-weekly treatment application regimen. DMT310 is a multifactorial, naturally derived product that is applied once-weekly to treat inflammatory skin diseases. The product candidate consists of two grams of powder processed from a wholly naturally grown freshwater sponge, *Spongilla lacustris* (or *Spongilla)*, which powder is then mixed with a fluidizing agent immediately prior to application by the patient 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 ideal environmental conditions, the proprietary harvesting protocols developed with our supplier, and our post-harvest processing procedures produce a pharmaceutical product candidate that optimizes the mechanical component as well as the chemical components of the sponge for a product candidate with multiple mechanisms of action for the treatment of inflammatory skin conditions.

We believe our *Spongilla* technology platform will enable us to develop and formulate singular and combination products that target topical delivery of chemical compounds into the dermis for maximum treatment effect for a variety of indications. One mechanism of our technology is its mechanical ability to allow for the intradermal delivery of a variety of large and small molecules to a targeted treatment site, through topical application. In addition to this mechanical component, the technology also utilizes multiple naturally occurring chemical compounds which we believe have demonstrated, in-vitro, anti-microbial, and anti-inflammatory properties. We believe the combination of these mechanical and chemical components can make our platform extremely versatile for the treatment of a wide variety of medical and aesthetic skin conditions and diseases.

Critical Accounting Policies and Use of Estimates

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

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

Research and Development Expenses

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

Fair Value of Common Stock and Stock-Based Compensation

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

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

Results of Operations

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 our development of our product candidates. We cannot predict with certainty what the full impact of the COVID-19 pandemic may have on our business, results of operations, financial condition, and prospects. Due to these fluctuations, we believe that the period-to-period comparisons of our operating results are not a good indication of our future performance.

Three Months Ended September 30, 2021 and 2020

The following table summarizes our results of operations for the three months ended September 30, 2021 and 2020:

	Three Months Ended		
	September 30, 2021	**September 30, 2020**	**Difference**
Operating expenses:			
Research and development	$ 799,779	$ 120,466	$ 679,313
General and administrative	912,490	419,596	492,894
Total operating expenses	1,712,269	540,062	1,172,207
Losses from operations	(1,712,269)	(540,062)	(1,172,207)
Other income and expenses:			
Interest expense, net	651	57,333	56,682
Net loss	$ (1,712,920)	$ (597,395)	$ (1,115,525)

Research and Development Expenses

Research and development expenses increased by $0.7 million from $0.1 million for the three months ended September 30, 2020 to $0.8 million for the three months ended September 30, 2021. The increase was the result of increased clinical trial expenses of $0.3 million and increased salaries, benefits, and stock-based compensation of $0.4 million.

General and Administrative Expenses

General and administrative expenses increased by $0.5 million from $0.4 million for the three months ended September 30, 2020 to $0.9 million for the three months ended September 30, 2021. The increase was the result of $0.2 million in increased insurance costs, $0.2 million related to professional fees and public company costs, as well as $0.1 million of increased salaries, benefits, and stock-based compensation.

Other Income and Expenses

Other income and expenses decreased by $56,682 from $57,333 for the three months ended September 30, 2020 to $651 for the three months ended September 30, 2021. The decrease was the result of decreased debt discount amortization of $15,979 and decreased interest expense, net, of $40,703.

Nine Months Ended September 30, 2021 and 2020

The following table summarizes our results of operations for the nine months ended September 30, 2021 and 2020:

	Nine Months Ended		
	September 30, 2021	**September 30, 2020**	**Difference**
Operating expenses:			
Research and development	$ 2,347,564	$ 1,493,520	$ 854,044
General and administrative	2,956,444	1,187,906	1,768,538
Total operating expenses	5,304,008	2,681,426	2,622,582
Loss from operations	(5,304,008)	(2,681,426)	(2,622,582)
Other income and expenses:			
Interest expense, net	45,613	158,791	(113,178)
Net loss	$ (5,349,621)	$ (2,840,217)	$ (2,509,404)

Research and Development Expenses

Research and development expenses increased by $0.8 million from $1.5 million for the nine months ended September 30, 2020 to $2.3 million for the nine months ended September 30, 2021. The increase was the result of increased salaries, benefits, and stock-based compensation of $0.9 million, increased manufacturing costs of $0.2 million, and increased nonclinical studies of $0.1 million, offset by $0.4 million in decreased clinical costs.

General and Administrative Expenses

General and administrative expenses increased by $1.8 million from $1.2 million for the nine months ended September 30, 2020 to $3.0 million for the nine months ended September 30, 2021. The increase resulted from increased legal and professional fees of $0.7 million, increased salaries, benefits, and stock-based compensation expense of $0.9 million and increased insurance costs of $0.2 million.

Other income and expenses

Other income and expenses decreased by $113,178 from $158,791 for the nine months ended September 30, 2020 to $45,613 for the nine months ended September 30, 2021. The decrease was the result of decreased debt discount amortization of $74,167 and decreased interest expense of $39,011.

Cash Flows

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

	Nine Months Ended September 30,	
	2021	2020
Statements of cash flows data:		
Total net cash provided by (used in):		
Operating activities	$ (3,889,483)	$ (3,492,567)
Financing activities	$ 15,962,424	$ 2,253,811
Increase (decrease) in cash	$ 12,072,941	$ (1,238,756)

Operating activities

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

Cash used in operations of $3.5 million for the nine months ended September 30, 2020 was the result of the net loss of $2.8 million, payment of $0.5 million for a license and settlement liability, as well as an increase in accounts payable and accrued and other current liabilities of $0.2 million.

Financing activities

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

Cash provided by financing activities of $2.3 million for the nine months ended September 30, 2020 was the result of proceeds of $2.3 million from the issuance of convertible subordinated promissory notes, proceeds of $0.3 million from the issuance of Series 1c Preferred Units, and proceeds of $0.1 million from the Paycheck Protection Plan loan, offset by $0.5 million of principal payments on debt.

Liquidity and Capital Resources

Since our inception, we have not generated any revenue or commercialized any products. As of September 30, 2021, our cash totaled $12.6 million and we had an accumulated deficit of $33.4 million. For the year ended December 31, 2020 and the nine months ended September 30, 2021, we used cash of $4.0 million and $3.9 million, respectively, in operations. As a result of our initial public offering of common stock and warrants to purchase common stock in August 2021 for net proceeds of $15.4 million, our cash balances are expected to fund operations into October 2022. We anticipate that we will continue to incur net losses for the foreseeable future.

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

Funding Requirements

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

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

As a publicly traded company, we will incur significant legal, accounting, and other expenses that we were not required to incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, as well as rules adopted by the SEC and The NASDAQ Stock Market, 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 the net proceeds from our initial public offering, together with our existing cash, will not be sufficient to fund our operating expenses and capital expenditure requirements for at least the next 12 months. We anticipate our cash resources will fund our operations into October 2022, including the initiation and completion of our planned Phase 2 clinical trials for DMT310 for the treatment of rosacea, the initiation of our Phase 2 clinical trial for DMT310 for the treatment of psoriasis and the completion of our planned non-clinical and pharmacokinetic studies for DMT310 for the treatment of acne. 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 expect that we will require additional capital to conduct Phase 3 studies for DMT310 for the treatment of acne, 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.

Contractual Obligations and Commitments

We do not currently lease any office space.

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

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

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 Condensed Consolidated Financial Statements — Note 2 — Summary of Significant Accounting Policies” for a discussion of recent accounting pronouncements.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2021. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based on the evaluation of our disclosure controls and procedures as of September 30, 2021, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were not effective. We identified a material weakness in our internal control over financial reporting as we did not design or implement a control to ensure all material contracts or agreements are reviewed by accounting personnel to ensure they are accounted for and disclosed properly. Notwithstanding such material weakness, we believe the financial information presented herein is materially correct and fairly presents the financial position and operating results of the quarter ended September 30, 2021 in conformity with U.S. generally accepted accounting principles for interim financial information and in accordance with the rules and regulations of the U.S. Securities and Exchange Commission.

We currently are preparing a remediation plan to address the underlying cause of the material weakness described above. The remediation plan includes, among other things, the hiring of a third-party financial consultant to review the company's processes and implementing a contract control process that requires major contracts to be reviewed and approved by both legal and finance departments and outside consultants when necessary. The material weakness had no impact on any amounts reported in the financial statements for the three and nine months ended September 30, 2021. Management is committed to remediating the material weakness in a timely manner. The material weakness will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

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.

As a newly public company, we continue the process of reviewing and documenting our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

PART II – OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

None.

ITEM 1A: RISK FACTORS

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes from the risk factors disclosed in our Prospectus as filed by us with the SEC pursuant to Rule 424(b)(4) under the Securities Act, relating to our registration statement on Form S-1 (File No. 333-256997). Any of these factors could result in a significant or material adverse effect on our result of operations or financial conditions. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business or results of operations. We may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC.

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

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

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None noted.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

Exhibit No.	Description
10.1	Consulting Agreement, dated September 1, 2021, between the Company and Thomas Insley (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the Company on September 1, 2021).
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—the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

* Filed herewith.
** Furnished, not filed.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on November 15, 2021.

Dermata Therapeutics, Inc.

Date: November 15, 2021

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

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

DERMATA THERAPEUTICS, INC.
CONSULTING AGREEMENT

This Consulting Agreement (***"Agreement"***) is effective as of September 1, 2021 (the "***Effective Date***") by and between **Dermata Therapeutics, INC.**, a Delaware corporation having its mailing address located at 3525 Del Mar Heights Rd. #322, San Diego, CA 92130 (***"Company"***), and **Thomas Insley** (***"Consultant"***).

Whereas, Company desires to retain Consultant as an independent contractor to perform consulting services for Company; and

Whereas, Consultant is willing to perform such services, on the terms described herein;

Now, Therefore, in consideration of the foregoing, and of the covenants, terms and conditions hereinafter expressed, the parties agree as follows:

1. Services and Compensation. Consultant agrees to perform for Company the services described in **Exhibit A** as requested by Company from time to time (the ***"Services"***), and Company agrees to pay Consultant the compensation described in **Exhibit A** for Consultant's performance of the Services. If not specified on **Exhibit A**, the scope, timing, duration, and site of performance of said Services shall be mutually and reasonably agreed to by Company and Consultant and are subject to change upon the written agreement of both parties. Consultant will make reasonable, good faith efforts to provide the Services in a timely and professional manner consistent with industry practices.

2. Confidentiality.

2.1 Definitions. ***"Confidential Information"*** means all information relating to the business of Company, including, without limitation, any financial information, business plans, clinical and product development plans, strategies, business forecasts, sales and merchandising materials, patent disclosures, patent applications, structures, models, techniques, know-how, trade secrets, processes, compositions, formulations, compounds and apparatus relating to the same and other proprietary information related to the current, future and proposed products and services of Company or its subsidiaries or affiliates disclosed by Company or obtained by Consultant through observation or examination of such information, whether written, graphic or oral, furnished to Consultant by or on behalf of Company, either directly or indirectly, or obtained or observed by Consultant while providing Services hereunder, and the Services to be provided by Consultant hereunder.

2.2 Nonuse and Nondisclosure. Consultant agrees that for a period of ten (10) years from the termination of this Agreement, Consultant will hold in strict confidence and not disclose to any third party any Confidential Information, except as approved in writing by Company; *provided*, *however*, that Consultant shall not be obligated to treat as confidential, any Confidential Information that Consultant can prove through written documentation that (i) is known or made available to the public or otherwise is in the public domain at the time of disclosure by Company to Consultant, (ii) becomes part of the public domain after disclosure by Company to Consultant by any means except through breach of this Agreement by Consultant, or by a third party under an obligation of confidentiality to Company, or (iii) has been otherwise known by Consultant prior to communication by Company to Consultant of such information.

(a) Consultant shall not use any Confidential Information provided to Consultant for any reason or purpose other than the performance of Services on behalf of the Company, and shall make no other use of the Confidential Information. Consultant agrees that, as between Company and Consultant, all Confidential Information will remain the sole property of Company. Consultant also agrees to take all necessary and reasonable precautions to prevent any unauthorized disclosure of such Confidential Information. Without Company's prior written approval, Consultant may disclose the existence, but not the terms, of this Agreement to third parties.

(b) In the event a court or governmental agency legally compels Consultant to disclose Confidential Information, Consultant shall promptly inform Company of the compelled disclosure, so that Company may seek a protective order or other remedy, and Consultant agrees to cooperate with Company in any proceeding to obtain a protective order or other remedy. If, in the absence of a protective order or other remedy, Consultant is nonetheless, in the opinion of Consultant's legal counsel, compelled to disclose Confidential Information, Consultant may disclose only that portion of the Confidential Information that such counsel advises Consultant is legally required to be disclosed. In such an event, Consultant shall give to Company written notice of the Confidential Information to be disclosed as far in advance of its disclosure as is practicable and, upon Company's request, Consultant shall use reasonable commercial efforts to obtain assurances that confidential treatment will be accorded to such information.

2.3 Third Party Confidential Information.

(a) Consultant recognizes that Company has received and in the future may receive from third parties, their confidential or proprietary information subject to a duty on Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Consultant agrees that, during the Term of this Agreement and thereafter, Consultant owes Company and such third parties a duty to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or entity or to use it except as necessary in carrying out the Services for Company consistent with Company's agreement with such third party, unless otherwise authorized by such third party.

(b) Consultant agrees not to disclose to Company, or to use in connection with providing the Services to Company, any confidential information belonging to any third party, including Consultant's prior employers.

2.4 Return of Materials. At any time upon Company's request, Consultant will deliver to Company all of Company's property, equipment and documents, together with all copies thereof, that were previously given to Consultant, including but not limited to all electronically stored confidential and/or nonpublic information, passwords to access such property, or Confidential Information that Consultant may have in Consultant's possession or control, and Consultant agrees to certify in writing that Consultant has fully complied with this obligation.

3. Ownership.

3.1 Assignment. Consultant agrees that all copyrights and copyrightable material, notes, records, drawings, designs, inventions, ideas, discoveries, enhancements, modifications, know-how, improvements, developments, discoveries, trade secrets' data and information of every kind and description conceived, generated, made, discovered, developed or reduced to practice by Consultant, solely or in collaboration with others, during the Term and in the course of performing Services under this Agreement (collectively, ***"Inventions"***), are, as between Company and Consultant, the sole and exclusive property of Company. Consultant agrees to disclose such Inventions promptly to Company and hereby assigns, and agrees to assign, all of Consultant's right, title and interest in and to any such Inventions promptly to Company without royalty or any other consideration and to execute all applications, assignments or other instruments reasonably requested by Company in order for Company to establish Company's ownership of such Inventions and to obtain whatever protection for such Inventions, including copyright and patent rights in any and all countries on such Inventions as Company shall determine.

3.2 Further Assurances. Consultant agrees to assist Company, or its designee, in every reasonable way to secure Company's rights in Inventions and any copyrights, patents or other intellectual property rights relating to all Inventions in any and all countries, including the disclosure to Company of all pertinent information and data with respect to all Inventions, the execution of all applications, specifications, oaths, assignments and all other instruments that Company may deem necessary in order to apply for and obtain such rights and in order to assign and convey to Company, its successors, assigns and nominees the sole and exclusive right, title and interest in and to all Inventions, and any copyrights, patents, or other intellectual property rights relating to all Inventions. Consultant also agrees that Consultant's obligation to execute or cause to be executed any such instrument or papers shall continue after the termination of this Agreement. Consultant represents and warrants that each of Consultant's employees or other personnel who are involved in the Services shall have executed a binding written agreement with Consultant obligating such person to assign to Consultant all of his or her respective rights, title and interests in and to each Invention and to provide reasonable cooperation and assistance in filing and prosecuting patent applications with respect to such Inventions. Consultant shall assume full responsibility and liability to Company for any actions of its personnel that are not in accordance with such obligations.

3.3 Pre-Existing Materials. Subject to Section 3.1, Consultant agrees that if, in the course of performing the Services, Consultant incorporates into any Invention developed under this Agreement any pre-existing invention, improvement, development, concept, discovery or other proprietary information owned by Consultant or in which Consultant has an interest, (i) Consultant will inform Company, in writing before incorporating such invention, improvement, development, concept, discovery or other proprietary information into any Invention, and (ii) Company is hereby granted a nonexclusive, royalty-free, perpetual, irrevocable, worldwide license to make, have made, modify, use and sell such item as part of or in connection with such Invention. Consultant will not incorporate any invention, improvement, development, concept, discovery or other proprietary information owned by any third party into any Invention without Company's prior written permission.

3.4 Attorney-in-Fact. Consultant agrees that, if Company is unable because of Consultant's unavailability, dissolution, or mental or physical incapacity to secure Consultant's signature for the purpose of applying for or pursuing any application for any United States or foreign patents, mask work or copyright registrations covering the Inventions assigned to Company in Section 3.1, then Consultant hereby irrevocably designates and appoints Company and its duly authorized officers and agents as Consultant's agent and attorney-in-fact, to act for and on Consultant's behalf to execute and file any such applications and to do all other lawfully permitted acts only to further the prosecution and issuance of patents, copyright and mask work registrations with the same legal force and effect as if executed by Consultant.

4. Representations and Warranties. Consultant represents and warrants to Company that Consultant is legally able to enter into this Agreement and that Consultant's execution, delivery and performance of this Agreement will not and does not conflict with any agreement, arrangement or understanding, written or oral, to which Consultant is a party or by which Consultant is bound. Consultant further represents and warrants that Consultant has not and has never been, nor has any of Consultant's personnel who may provide Services under this Agreement, been (a) debarred or convicted of a crime for which a person or entity can be debarred under Section 306(a) or 306(b) of the United States Generic Drug Enforcement Act of 1992 or under 42 U.S.C. Section 1320a-7 or (b) sanctioned by, suspended, excluded, or otherwise deemed ineligible to participate in any federal health care program including Medicare and Medicaid, or any other federal procurement or non-procurement programs. Should Consultant or any of Consultant's personnel be debarred, convicted or sanctioned as described above, Consultant shall immediately notify Company of such debarment, conviction or sanction.

5. Term and Termination.

5.1 Term. The term of this Agreement (the ***"Term"***) shall commence on the Effective Date and shall remain in full force and effect until the earlier of (i) final completion of the Services or (ii) termination as provided in Section 5.2.

5.2 Termination. Either party may terminate this Agreement by giving 30 days prior written notice to the other party. The Company may terminate this Agreement immediately and without prior notice if Consultant refuses to or is unable to perform the Services or is in breach of any material provision of this Agreement. The Company and Consultant agree that the terms and conditions of this Agreement, including the Term, shall be subject to an annual review by Company.

5.3 Survival. Upon termination of this Agreement, all rights and duties of Company and Consultant toward each other shall cease except:

(a) The Company will pay, within 30 days after the effective date of termination, all amounts owing to Consultant for Services completed and accepted by Company prior to the termination date and related expenses, if any, submitted in accordance with Company's policies and in accordance with the provisions of Section 1 of this Agreement; and

(b) Sections 2, 3, 4, 5.3, 6, 7, 8, 9 and 10 will survive termination of this Agreement.

6. Independent Contractor; Benefits; Taxes.

6.1 Independent Contractor. It is the express intention of Company and Consultant that Consultant performs the Services as an independent contractor to Company, and nothing in this Agreement should be construed to create a partnership, joint venture or employer-employee relationship. Consultant (a) is not the agent of Company and (b) is not authorized to make any representation, contract, or commitment on behalf of Company.

6.2 Benefits. The Company and Consultant agree that Consultant will receive no Company-sponsored benefits from Company. If Consultant is reclassified by a state or federal agency or court as Company's employee, Consultant will become a reclassified employee and will receive no benefits from Company, except those mandated by state or federal law, even if by the terms of Company's benefit plans or programs of Company in effect at the time of such reclassification, Consultant would otherwise be eligible for such benefits.

6.3 Taxes and Withholdings. The Company shall not be responsible for paying any federal, state or local taxes on compensation, and Consultant shall be solely responsible for the payment thereof. The Company may, however, report payments made to Consultant hereunder to tax authorities and shall inform Consultant of such actions. Consultant agrees to accept exclusive liability for complying with all applicable state and federal laws, including laws governing self-employed individuals, if applicable, such as laws related to payment of taxes, social security, disability, and other contributions based on fees paid to Consultant under this Agreement. The Company will not withhold or make payments for social security, unemployment insurance or disability insurance contributions, or obtain workers' compensation insurance on Consultant's behalf. Consultant hereby agrees to indemnify and defend Company against any and all such taxes or contributions, including penalties and interest. Consultant agrees to provide proof of payment of appropriate taxes on any fees paid to Consultant under this Agreement upon reasonable request of Company.

7. Indemnification.

7.1 By Consultant. Consultant agrees to indemnify and hold harmless Company and its directors, officers and employees (each a ***"Company Indemnitee"***) from and against all losses, damages, liabilities, costs and expenses whatsoever, (including without limitation attorneys' fees and costs), arising from any claim, action, demand or proceeding made or brought against a Company Indemnitee, arising from or in connection with (i) any grossly negligent or intentionally wrongful act of Consultant or Consultant's assistants, employees or agents, (ii) any material breach by Consultant or Consultant's assistants, employees or agents of any of the covenants contained in this Agreement, (iii) any material failure of Consultant to perform the Services in accordance with all applicable laws, rules and regulations, or (iv) any violation or claimed violation of a third party's rights resulting in whole or in part from Company's use of the work product of Consultant under this Agreement and for which Consultant deliberately misrepresented to Company the status of third party rights.

7.2 By Company. The Company shall defend, indemnify and hold Consultant harmless from and against any and all losses, damages, liabilities (including without limitation product liability), settlement amounts, costs and expenses whatsoever (including without limitation reasonable attorneys' fees and costs) arising from any claim, action, demand or proceeding made or brought against Consultant as a result of the any and all judgements, support and advice rendered to the Company which Consultant has provided Services unless such liability arises from Consultant's or Consultant's assistants', employees' or agents' gross negligence or intentional misconduct.

8. Nonsolicitation; Non-Disclosure.

8.1 Nonsolicitation. From the date of this Agreement until twelve (12) months after the termination of this Agreement (the ***"Restricted Period"***), Consultant will not, without Company's prior written consent, directly or indirectly, whether for Consultant's own account or for the account of any other person, firm, corporation or other business organization, solicit, entice, persuade, induce or otherwise attempt to influence any person or business who is, or during the period of Consultant's engagement by Company was, an employee, consultant, contractor, partner, supplier, customer or client of Company or its affiliates to leave or otherwise stop doing business with Company.

8.2 Non-Disclosure. Consultant agrees that without the prior written consent of Company, Consultant will not intentionally generate any publicity, news release or other announcement concerning the engagement of Consultant hereunder or the services to be performed by Consultant hereunder or otherwise utilize the name of Company or any of its affiliates for any advertising or promotional purposes.

9. Voluntary Nature of Agreement. Consultant acknowledges and agrees that Consultant is executing this Agreement voluntarily and without any duress or undue influence by Company or anyone else. Consultant further acknowledges and agrees that Consultant has carefully read this Agreement and has asked any questions needed to understand the terms, consequences and binding effect of this Agreement and fully understand it to his or her satisfaction. Finally, Consultant agrees that Consultant has been provided an opportunity to seek the advice of an attorney of its choice before signing this Agreement.

10. Miscellaneous.

10.1 Governing Law. This Agreement shall be governed by the laws of California without regard to conflicts of law rules.

10.2 Assignability. Except as otherwise provided in this Agreement, Consultant may not sell, assign or delegate any rights or obligations under this Agreement.

10.3 Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter of this Agreement and supersedes all prior written and oral agreements between the parties regarding the subject matter of this Agreement.

10.4 Headings. Headings are used in this Agreement for reference only and shall not be considered when interpreting this Agreement.

10.5 Notices. Any notice or other communication required or permitted by this Agreement to be given to a party shall be in writing and shall be deemed given if delivered personally or by commercial messenger or nationally recognized overnight delivery service (e.g. Federal Express, UPS), or mailed by U.S. registered or certified mail (return receipt requested), or sent via facsimile (with receipt of confirmation of complete transmission) to the party at the party's address or facsimile number written below or at such other address or facsimile number as the party may have previously specified by like notice. If by mail, delivery shall be deemed effective 3 business days after mailing in accordance with this Section 10.5.

If to Company, to:
Dermata Therapeutics, LLC
Attention: Chief Executive Officer
3525 Del Mar Heights Rd., #322

If to Consultant, to: The address for notice on the signature page to this Agreement or, if no such address is provided, to the last address of Consultant provided by Consultant to Company.

10.6 Nature of Services. The Company acknowledges that Consultant's role is advisory in nature. The Company is therefore free, in its sole discretion to accept, modify, or reject Consultant's recommendations or any work product resulting from the provision of Services as described herein. The Company shall be solely responsible for the consequences, direct or indirect, of any such decision by Company.

10.7 Amendments; Waiver. No modification of or amendment to this Agreement, or any waiver of any rights under this Agreement, will be effective unless in writing and signed by Consultant and Company.

10.8 Attorneys' Fees. In any court action at law or equity that is brought by one of the parties to this Agreement to enforce or interpret the provisions of this Agreement, the prevailing party will be entitled to reasonable attorneys' fees, in addition to any other relief to which that party may be entitled.

10.9 Further Assurances. Consultant agrees, upon request, to execute and deliver any further documents or instruments necessary or desirable to carry out the purposes or intent of this Agreement.

10.10 Severability. If any provision of this Agreement is found to be illegal or unenforceable, the other provisions shall remain effective and enforceable to the greatest extent permitted by law.

10.11 Counterparts and Facsimiles. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. Facsimile signatures shall be deemed original signatures for all purposes.

[Signature Page Follows]

In Witness Whereof, the parties hereto have executed this Consulting Agreement as of the date first written above.

CONSULTANT

By: _____
Name: Thomas Insley

DERMATA THERAPEUTICS, INC.

By: _____
Name: Gerry Proehl
Title: President and CEO

Consultant's Address for Notice:

Please attached completed W-9 form.

EXHIBIT A
SERVICES AND COMPENSATION

1. **Services.** The Services shall include, but shall not be limited to, the following operational activities, as requested by Company:

- Facilitate and support the transition of the incoming Chief Financial Officer
- Assist the Dermata finance and accounting department with financing and account matters
- Provide support for the drafting and review of SEC documents
- Provide assistance in completing audits
- Provide other support and assistance as typically provide by a financial advisor

The manner and means that Consultant chooses to complete the Services are in Consultant's sole discretion and control. Consultant agrees to provide Consultant's own equipment, tools, and other materials at Consultant's own expense; however, Company will make its facilities and equipment available to Consultant when necessary.

2. **Compensation.**

A. The Company will pay Consultant a consulting fee of $250.00 per hour during the Term. The Consulting fee shall be payable monthly 30 days following Company's receipt of an invoice from Consultant detailing the Services provided and the time spent providing such Services, all of which fees shall be net of any applicable withholding taxes.

B. The Company will reimburse Consultant for all reasonable expenses incurred by Consultant in performing the Services pursuant to this Agreement, provided that Consultant receives written consent from Company's Chief Executive Officer prior to incurring such expenses and submits receipts for such expenses to Company in accordance with Company policy.

EXHIBIT 31.1

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

I, Gerald T. Proehl, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2021 of Dermata Therapeutics, Inc. (the "Registrant");

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

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

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

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

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

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

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

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

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

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

Date: November 15, 2021

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

EXHIBIT 31.2

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

I, Kyri K. Van Hoose, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended September 30, 2021 of Dermata Therapeutics, Inc. (the "Registrant");

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

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

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

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

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

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

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

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

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

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

Date: November 15, 2021

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

EXHIBIT 32.1

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

In connection with the quarterly report of Dermata Therapeutics, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of Gerald T. Proehl, as Chief Executive Officer, and Kyri K. Van Hoose, as Chief Financial Officer, certifies in his or her capacity as such officer of the Company, that to such officer's knowledge, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

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

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

Date: November 15, 2021

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

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

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