HYDROMER, INC. and CONSOLIDATED SUBSIDIARY

Consolidated Financial Statements

March 31, 2015



HYDROMER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2015	2014	**2015**	2014
Revenues				
Sales of Products	**$ 885,311**	$ 1,234,587	**$ 2,336,449**	$ 2,691,130
Service Revenues	**324,235**	358,213	**1,050,440**	986,559
Royalties and contract revenues	**236,052**	293,912	**806,138**	954,989
Total Revenues	**1,445,598**	1,886,712	**4,193,027**	4,632,678
Expenses				
Cost of Sales	**424,199**	561,869	**1,193,853**	1,326,690
Operating Expenses	**992,755**	1,155,390	**3,020,224**	2,989,788
Other (Income) Expenses	**53,361**	34,600	**(7,269)**	114,287
(Benefit from) Provision for Income Taxes	**(6,915)**	65,727	**(1,634)**	67,727
Total Expenses	**1,463,400**	1,817,586	**4,205,174**	4,498,492
Net (Loss) Income	**$ (17,802)**	$ 69,126	**$ (12,147)**	$ 134,186
(Loss) Earnings Per Common Share*	**$ (0.00)**	$ 0.01	**$ (0.00)**	$ 0.03
Weighted Average Number of Common Shares Outstanding	**4,772,318**	4,772,318	**4,772,318**	4,772,318
Income taxes paid	**$ 500**	$ 1,000	**$ 2,500**	$ 3,000

* Diluted EPS and Basic EPS are the same as the Company does not have any Common Stock Equivalents (e.g. Options).

See accompanying notes.

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

This report may contain forward-looking statements, which include, among other things, business strategy and expectations concerning industry conditions, market position, future operations, margins, profitability, liquidity and capital resources. Forward-looking statements generally can be identified by the use of terminology such as "may," "will," "expect," "intend," "estimate," "anticipate" or "believe" or similar expressions or the negatives thereof. These expectations are based on management's assumptions and current beliefs based on currently available information. Although the Company believes that the expectations reflected in such statements are reasonable, it can give no assurance that such expectations will be correct. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report and the Company does not have any obligation to update the forward-looking statements. The Company's operations are subject to a number of uncertainties, risks and other influences, many of which are outside its control, and any one of which, or a combination of which, could cause its actual results of operations to differ materially from the forward-looking statements.

HYDROMER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, **2015** (unaudited)	June 30, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 354,658**	$ 545,686
Trade Receivables less allowance for doubtful accounts of $28,104 and $33,605 as of March 31, 2015 and June 30, 2014, respectively	**1,002,311**	880,700
Inventory	**464,514**	365,024
Prepaid Assets	**154,499**	150,529
Deferred tax asset, non-current	**72,768**	68,634
Other	**3,624**	10,651
Total Current Assets	**2,052,374**	2,021,224
Property and Equipment, net	**2,363,720**	2,431,234
Deferred tax asset, non-current	**1,100,613**	1,100,613
Intangible assets, net	**760,241**	804,149
Other	**75,179**	79,295
Total Assets	**$ 6,352,127**	$ 6,436,515
LIABILITIES & EQUITY		
Current Liabilities:		
Accounts Payable	**$ 265,541**	$ 237,118
Accrued Expenses	**246,824**	234,833
Current portion of deferred revenue	**72,643**	93,599
Current portion of mortgage payable	**86,092**	82,042
Total Current Liabilities	**671,100**	647,592
Deferred Tax Liability	**303,130**	303,130
Long term portion of deferred revenue	**23,871**	54,733
Long term portion of mortgage payable	**2,434,049**	2,498,936
Total Liabilities	**3,432,150**	3,504,391
Contingencies	-	-
Equity:		
Preferred Stock - no par value, authorized 1,000,000 shares; no shares issued and outstanding	-	-
Common Stock - no par value, authorized 15,000,000 shares; 4,783,235 shares issued and 4,772,318 shares outstanding as of March 31, 2015 and June 30, 2014	**3,721,815**	3,721,815
Contributed capital	**633,150**	633,150
Accumulated deficit	**(1,428,848)**	(1,416,701)
Treasury stock, 10,917 common shares at cost	**(6,140)**	(6,140)
Total Stockholders' Equity	**2,919,977**	2,932,124
Total Liabilities and Stockholders' Equity	**$ 6,352,127**	$ 6,436,515

See accompanying notes.

HYDROMER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended March 31,	
	2015	2014
Cash Flows from Operating Activities:		
Net (Loss) Income	**$ (12,147)**	$ 134,186
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and Amortization	**306,178**	297,270
Deferred income taxes	**(4,134)**	64,727
Changes in Assets and Liabilities:		
Trade receivables	**(121,611)**	(130,469)
Inventory	**(99,490)**	26,055
Prepaid expenses	**(40,814)**	(21,037)
Other assets	**11,143**	6,847
Accounts payable and accrued liabilities	**43,364**	131,610
Deferred income	**(51,818)**	(54,707)
Income taxes payable	**(2,500)**	(3,000)
Net Cash Provided by Operating Activities	**28,171**	451,482
Cash Flows from Investing Activities:		
Cash purchases of property and equipment	**(44,876)**	(39,656)
Cash payments on patents and trademarks	**(113,486)**	(235,849)
Net Cash Used in Investing Activities	**(158,362)**	(275,505)
Cash Flows from Financing Activities:		
Repayment of long-term borrowings	**(60,837)**	(52,974)
Net Cash Used in Financing Activities	**(60,837)**	(52,974)
Net (Decrease) Increase in Cash and Cash equivalents	**(191,028)**	123,003
Cash and Cash equivalents, Beginning of Period	**545,686**	458,954
Cash and Cash equivalents, End of Period	**$ 354,658**	$ 581,957

See accompanying notes.

HYDROMER, INC.

Notes to Condensed Consolidated Financial Statements

Basis of Presentation:

In the opinion of management, the accompanying unaudited condensed financial statements include all adjustments (consisting of only normal adjustments) necessary for a fair presentation of the results for the interim periods. These condensed financial statements, including notes, do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America. Accordingly, the condensed financial statements should be read in conjunction with the consolidated financial statements and other information contained in our Annual Report for the year ended June 30, 2014. The condensed consolidated financial statements and notes have not been reviewed by the Company's independent public accountants.

Segment Reporting:

The Company operates two primary business segments. The Company evaluates the segments by revenues, total expenses and earnings before taxes. Corporate Overhead (primarily the salaries and benefits of senior management, support services (Accounting, Legal, Human Resources and Purchasing) and other shared services (building maintenance and warehousing)) are excluded from the business segments as to not distort the contribution of each segment. These segments are the lowest levels for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities.

The results for the nine months ended March 31, by segment are:

2015	Polymer Research	Medical Products	Corporate Overhead	Total
Revenues	$ 3,241,682	$ 951,345		$ 4,193,027
Expenses	(2,249,442)	(783,670)	$ (1,173,696)	(4,206,808)
Pre-tax Income (Loss)	$ 992,240	$ 167,675	$ (1,173,696)	$ (13,781)
2014				
Revenues	$ 3,721,809	$ 910,869		$ 4,632,678
Expenses	(2,512,994)	(816,242)	(1,101,529)	(4,430,765)
Pre-tax Income (Loss)	$ 1,208,815	$ 94,627	$ (1,101,529)	$ 201,913

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The Company's revenues for the quarter ended March 31, 2015 were $1,445,598, $441,114 or 23.4% lower than the $1,886,712 for the same period the previous year. For the nine month period ended March 31, revenues were $4,193,027 during the current fiscal year, as compared with $4,632,678 the year before or $439,651 lower (9.5%). Revenues are comprised of the sale of Products and Services and Royalty and Contract payments.

Product sales were $885,311 for the quarter ended March 31, 2015 as compared to $1,234,587 for the same period the year before. Revenues for the quarter ended March 31, 2015 were $349,276 (28.3%) lower than the corresponding quarter a year ago. The previous year's quarter had an usually higher performance due to higher sales from the T-HEXX Animal Health product line from the periodic private label T-HEXX DRY external teat sealant sales and from the International launch of the T-HEXX Dragonhyde® DUST dissolvable hoof bath powder. For the nine month period, product sales were $2,336,449 for the fiscal 2015 year, lower by $354,681 (13.2%) when compared with the $2,691,130 for the corresponding fiscal 2014 period due to the higher sales in the T-HEXX Animal Health line during the fiscal 2014 period.

Services revenues, comprising of contract coating services, for the three months ended March 31, 2015 were $324,235 or $33,978 lower (9.5%) than the $358,213 the corresponding period the year before. For the nine month periods ended March 31, 2015 and 2014, services revenues were $1,050,440 and $986,559, respectively, or $63,881 higher (6.5%) due to increased demand from one particular customer offset by the lower sales from other customers.

Classified as Royalty and Contract revenues are royalties received and the periodic recurring payments from license, stand-still and other agreements other than for product and services. Also included in Royalty and Contract revenues are revenues from support and supply agreements which avail our customers continued technical support and/or guaranteed access to our proprietary coatings and may include the transfer of technical know-how. Some of the royalties and support fees are based on the net sales of the final item (to which the Hydromer technology is applied) and are subject to the reporting of our customers. For the nine months ended March 31, 2015, Royalty and Contract revenues were $806,138, compared with $954,989 the same period a year ago, a decrease of $148,851 (15.6%) as a result of a cancellation of an agreement as previously reported ($70,000 was recorded in the 2014 fiscal year-to-date), a delay of accruing for another customer and a temporary lower in end user sales by a third licensee.

Total Expenses for the quarter ended March 31, 2015 were $1,463,400 as compared with $1,817,586 the year before, a $354,186 (19.5%) decrease. For the nine months ended March 31, 2015, Total Expenses were $4,205,174 as compared with $4,498,492 the previous year-to-date, lower by $293,318 or 6.5%.

For the quarter ended March 31, 2015, the Company's Cost of Goods Sold was $424,199 as compared with $561,869 the year prior, an decrease of $137,670 or 24.5% due to lower product sales and a change in product mix (a higher % of higher margin products was sold this fiscal quarter). For the nine month period ended March 31, 2015, Cost of Goods Sold was $1,193,853 as compared with $1,326,690 the same period a year ago. As with the quarter period, the $132,837 decrease (10.0%) in Cost of Goods Sold was due to lower product sales including that of the lower product margin items.

Operating expenses were $992,755 for the quarter ended March 31, 2015 as compared with $1,155,390 the year before, lower by $162,635 or 14.1%. For the nine months ended March 31, 2015, Operating expenses were $3,020,224 or $30,436 higher (1.0%) than the previous year's $2,989,788. The March 31, 2014 quarter included a $180,000 accounts receivable write-off and following a brief litigation during the summer of 2014, a settlement was reached for $135,000 in cash received in November 2014, the litigation settlement proceeds recorded as Other Income. For the nine month period, the current fiscal period includes higher employee costs from added Research & Development personnel, higher patent amortization costs, additional equipment repair costs and the one-time legal fees on the accounts receivable litigation.

Interest expense, foreign currency exchange gains/losses, interest income and other income are included in Other Expenses. Interest expense (primarily mortgage interest) for the nine months ended March 31, 2015 and March 31, 2014 were $100,068 and $117,423, respectively, lower this fiscal year as a result of a mortgage rate reset in October 2013. Reducing Other Expenses for the 2015 fiscal year period was the $135,000 litigation settlement discussed in the paragraph above.

A net loss of $17,802 ($0.00 per share) is reported for the quarter ended March 31, 2015 as compared to net income of $69,126 ($0.01 per share) the year before. A net loss of $12,147 ($0.00 per share) is reported for the nine months ended March 31, 2015 as compared to net income of $134,186 ($0.03 per share) the year before.

The strong sales for the nine month period ending March 31, 2014 was not mirrored this year although the gap could have been narrower as the Company had $96,478 in orders which was awaiting customer prepayment prior to shipment. Had the customers' payments been received and the orders shipped by March 31, 2015, the Company would have reported net income for both the quarter and the year-to-date periods.

Financial Condition

Working capital increased $7,642 during the nine months ended March 31, 2015.

For the nine months ended March 31, 2015, operating activities provided $28,171 in net cash.

For the nine months ended March 31, 2015, the cash provided by Operations (net income as adjusted for non-cash expenses) was $289,897 with the net change in operating assets and liabilities using $261,726 (accounts receivables using $121,611 due to the net increase in receivables as sales this quarter was $63,218 higher than that of the quarter ending June 30, 2014; inventories used $99,490 in cash due to a temporary build up of inventory for near term sales).

Investing activities used $158,362 in cash and financing activities used an additional $60,837 during the nine months ended March 31, 2015.

Investing activities for the nine months ended March 31, 2015 included $44,876 for capital expenditures and $113,486 towards the Company’s patent estate. Reported under Financing activities was the repayment of the principal portion of the mortgage.

The Company's results this year-to-date, due to the lower revenues as compared with the previous year, was further lowered as it included additional R&D staffing, expenditures we view as a long-term investment with minimal, if any, current returns. We have various new products ready to launch and hope we can report returns on our "investments" soon. EBITDA for the nine month period ending March 31, 2015 was $392,467.