HYDROMER, INC. and CONSOLIDATED SUBSIDIARY

Consolidated Financial Statements

September 30, 2015

HYDROMER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended September 30, 2015	2014
Revenues		
Sales of Products	**$ 797,935**	$ 789,164
Service Revenues	**309,948**	395,971
Royalties and contract revenues	**286,357**	290,637
Total Revenues	**1,394,240**	1,475,772
Expenses		
Cost of Sales	**359,883**	402,039
Operating Expenses	**1,022,348**	1,018,453
Other Expenses	**35,524**	40,191
(Benefit from) / Provision for Income Taxes	**(5,017)**	7,352
Total Expenses	**1,412,738**	1,468,035
Net Income	**$ (18,498)**	$ 7,737
(Loss) Earnings Per Common Share*	**$ (0.00)**	$ 0.00
Weighted Average Number of Common Shares Outstanding*	**4,772,318**	4,772,318

*There are no Common Stock Equivalents (e.g. Options), hence dilutive earnings per share = basic earnings per share.

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

	September 30, **2015** (unaudited)	June 30, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 592,222**	$ 464,699
Trade Receivables less allowance for doubtful accounts of $4,018 and $33,605 as of Septmeber 30, 2015 and June 30, 2014, respectively	**914,866**	1,113,578
Inventory	**484,085**	450,764
Prepaid Assets	**114,295**	159,357
Deferred tax asset, non-current	**74,017**	68,000
Other	**9,982**	3,458
Total Current Assets	**2,189,467**	2,259,856
Property and Equipment, net	**2,339,903**	2,349,379
Deferred tax asset, non-current	**1,036,266**	1,036,266
Intangible assets, net	**736,463**	747,109
Other	**73,674**	76,907
Total Assets	**$ 6,375,773**	$ 6,469,517
LIABILITIES & EQUITY		
Current Liabilities:		
Accounts Payable	**$ 254,853**	$ 236,113
Accrued Expenses	**222,374**	217,879
Income tax payable	**1,000**	-
Current portion of deferred revenue	**52,418**	137,243
Current portion of mortgage payable	**87,136**	87,136
Total Current Liabilities	**617,781**	678,371
Deferred Tax Liability	**278,182**	278,182
Long term portion of deferred revenue	**21,958**	15,897
Long term portion of mortgage payable	**2,391,836**	2,412,553
Total Liabilities	**3,309,757**	3,385,003
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 September 30, 2015 and June 30, 2014	**3,721,815**	3,721,815
Contributed capital	**633,150**	633,150
Accumulated deficit	**(1,282,809)**	(1,264,311)
Treasury stock, 10,917 common shares at cost	**(6,140)**	(6,140)
Total Stockholders' Equity	**3,066,016**	3,084,514
Total Liabilities and Stockholders' Equity	**$ 6,375,773**	$ 6,469,517

See accompanying notes.

HYDROMER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net (Loss) Income	**$ (18,498)**	$ 7,737
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and Amortization	**94,921**	102,257
Deferred income taxes	**(6,017)**	6,852
Changes in Assets and Liabilities:		
Trade receivables	**198,712**	109,684
Inventory	**(33,321)**	17,156
Prepaid expenses	**18,963**	14,240
Other assets	**(3,291)**	7,478
Accounts payable and accrued liabilities	**23,236**	(32,737)
Deferred income	**(78,764)**	(19,302)
Income taxes payable	**1,000**	1,000
Net Cash Provided by Operating Activities	**196,941**	214,365
Cash Flows from Investing Activities:		
Cash purchases of property and equipment	**(25,582)**	(28,851)
Cash payments on patents and trademarks	**(23,119)**	(22,100)
Net Cash Used in Investing Activities	**(48,701)**	(50,951)
Cash Flows from Financing Activities:		
Repayment of long-term borrowings	**(20,717)**	(19,674)
Net Cash Used in Financing Activities	**(20,717)**	(19,674)
Net Increase in Cash and Cash equivalents	**127,523**	143,740
Cash and Cash equivalents, Beginning of Period	**464,699**	545,686
Cash and Cash equivalents, End of Period	**$ 592,222**	$ 689,426

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, 2015. 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 three months ended September 30, by segment are:

2015	Polymer Research	Medical Products	Corporate Overhead	Total
Revenues	$ 1,110,049	$ 284,191		$ 1,394,240
Expenses	(771,553)	(260,748)	$ (385,454)	(1,417,755)
Pre-tax Income (Loss)	$ 338,496	$ 23,443	$ (385,454)	$ (23,515)
2014				
Revenues	$ 1,112,977	$ 362,795		$ 1,475,772
Expenses	(826,762)	(246,300)	(387,621)	(1,460,683)
Pre-tax Income (Loss)	$ 286,215	$ 116,495	$ (387,621)	$ 15,089

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

Results of Operations

The Company's revenues for the quarter ended September 30, 2015 were $1,394,240, $81,532 or 5.5% lower than the $1,475,772 for the same period the previous year. Revenues are comprised of the sale of Products and Services and Royalty and Contract payments.

Product sales were $797,935 for the quarter ended September 30, 2015 as compared to $789,164 for the same period the year before, higher by $8,771 (1.1%). The growth in sales of our Medical Chemical sales was reduced by lower sales in the other product lines.

Services revenues, comprising of contract coating services, for the three months ended September 30, 2015 was $309,948 or $86,023 (21.7%) lower than the $395,971 the corresponding period the year before. A customer build up of inventory [stocking levels] in the prior quarter (sales of $421,777) resulted in the lower volume this current quarter.

Royalty and Contract revenues include royalties received and the periodic recurring payments from license, stand still and other agreements other than for product and services. Included in Royalty and Contract revenues are revenues from support and supply agreements which avails our customers to continued technical support and/or guaranteed access to our proprietary coatings and may include the transfer of technical know-how (coatings procedures). Some of the royalties and support fees are based on the net sales of the final item (to which the Hydromer technology is applied to) and are subject to the reporting of our customers. For the quarter ended September 30, 2015, Royalty and Contract revenues were $286,357, flat to the $290,637 from the same period a year ago.

Total Expenses for the quarter ended September 30, 2015 were $1,412,738 as compared with $1,468,035 the year before, lower by $55,297 or 3.8%.

For the quarter ended September 30, 2015, the Company's Cost of Goods Sold was $359,883 as compared with $402,039 the year prior, lower by $42,156 or 10.5%. A product mix change, with a much higher proportion of the higher margin Medical Chemical sales resulted in the lower Cost of Goods Sold.

Operating expenses were $1,022,348 for the quarter ended September 30, 2015 as compared with $1,018,453 the year before, slightly higher by $3,895 or 0.4%. The $108,955 balance received, of the $224,363 Small Business Innovative Research ("SBIR") grant (as reported in the June 30, 2015 Annual Report Management's Discussion and Analysis), covered $30,263 in staffing costs, offsetting higher employee benefits costs. This expense savings was reduced by higher equipment repair costs during the quarter.

Interest expense, interest income and other income are included in Other Expenses. Interest expense (primarily mortgage interest) for the three months ended September 30, 2015 and September 30, 2014 were $32,827 and $33,696, respectively, lower due to the amortization of the mortgage principal. Also included in Other Expenses is the Company's foreign currency transaction losses, lower in the current quarter due to the reduction to the transactional volume.

A net loss of $18,498 ($0.00 per share) is reported for the quarter ended September 30, 2015 as compared to net income of $7,737 ($0.00 per share) the year before.

Lower revenues ($81,532) resulted in the loss during the quarter. Impacting the Company's results are reinvestment expenses (Research and Development staffing and patent costs) that provides more for future returns than for the current period. For the most recent fiscal year, the twelve months ended June 30, 2015, such "reinvestment" expenses aggregated $920,585.

Financial Condition

The working capital position as of September 30, 2015 was $1,571,686 as compared with $1,581,485 as of June 30, 2015 or lower by $9,799.

For the three months ended September 30, 2015, operating activities provided $196,942 in net cash.

> Collection of trade receivables ($198,712) and the non-cash depreciation and amortization expense ($94,921) as reduced by changes to Deferred Income were the primary contributors to the net cash provided by operating activities.

Investing activities used $48,701 and financing activities used $20,717 during the three months ended September 30, 2015.

> Investing activities for the three months ended September 30, 2015 included $25,582 for capital expenditures and $23,119 towards the Company's patent estate. Reported under Financing activities was the repayment of the principal portion of the mortgage.

EBITDA for the quarter ended September 30, 2015 was $104,233: Depreciation of property, plant and equipment and amortization of the patent estate totaled $94,921, interest expense was $32,827 and the Benefit from Income Taxes was $5,017. This compares with EBITDA of $151,042 for the previous year's quarter ended September 30, 2014.