HYDROMER, INC. and CONSOLIDATED SUBSIDIARY

Consolidated Financial Statements

December 31, 2015

HYDROMER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	**2015**	2014
Revenues				
Sales of Products	**$ 824,331**	$ 661,974	**$ 1,622,266**	$ 1,451,138
Service Revenues	**271,739**	330,234	**581,687**	726,205
Royalties and contract revenues	**276,727**	279,449	**563,084**	570,086
Total Revenues	**1,372,797**	1,271,657	**2,767,037**	2,747,429
Expenses				
Cost of Sales	**474,928**	367,615	**834,811**	769,654
Operating Expenses	**1,061,647**	1,009,016	**2,083,995**	2,027,469
Other (Income) Expenses	**24,424**	(100,821)	**59,948**	(60,630)
Provision for Income Taxes	**(75,169)**	(2,071)	**(80,186)**	5,281
Total Expenses	**1,485,830**	1,273,739	**2,898,568**	2,741,774
Net Income	**$ (113,033)**	$ (2,082)	**$ (131,531)**	$ 5,655
(Loss) Earnings Per Common Share*	**$ (0.02)**	$ (0.00)	**$ (0.03)**	$ 0.00
Weighted Average Number of Common Shares Outstanding	**4,772,318**	4,772,318	**4,772,318**	4,772,318
Income taxes paid	**$ 1,000**	$ 1,000	**$ 2,000**	$ 2,000

* 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

	December 31, 2015 (unaudited)	June 30, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 602,854**	$ 464,699
Trade Receivables less allowance for doubtful accounts of $12,749 and $33,605 as of December 31, 2015 and June 30, 2015, respectively	**660,588**	1,113,578
Inventory	**492,218**	450,764
Prepaid Assets	**108,851**	159,357
Deferred tax asset, non-current	**149,686**	68,000
Other	**4,500**	3,458
Total Current Assets	**2,018,697**	2,259,856
Property and Equipment, net	**2,314,278**	2,349,379
Deferred tax asset, non-current	**1,036,266**	1,036,266
Intangible assets, net	**714,737**	747,109
Other	**73,674**	76,907
Total Assets	**$ 6,157,652**	$ 6,469,517
LIABILITIES & EQUITY		
Current Liabilities:		
Accounts Payable	**$ 230,283**	$ 236,113
Accrued Expenses	**180,501**	217,879
Current portion of deferred revenue	**37,493**	137,243
Current portion of mortgage payable	**89,265**	87,136
Total Current Liabilities	**537,542**	678,371
Deferred Tax Liability	**278,182**	278,182
Long term portion of deferred revenue	**20,876**	15,897
Long term portion of mortgage payable	**2,368,069**	2,412,553
Total Liabilities	**3,204,669**	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 December 31, 2015 and June 30, 2015	**3,721,815**	3,721,815
Contributed capital	**633,150**	633,150
Accumulated deficit	**(1,395,842)**	(1,264,311)
Treasury stock, 10,917 common shares at cost	**(6,140)**	(6,140)
Total Stockholders' Equity	**2,952,983**	3,084,514
Total Liabilities and Stockholders' Equity	**$ 6,157,652**	$ 6,469,517

See accompanying notes.

HYDROMER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended December 31,	
	2015	2014
Cash Flows from Operating Activities:		
Net (Loss) Income	**$ (131,531)**	$ 5,655
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and Amortization	**191,624**	206,642
Deferred income taxes	**(81,686)**	2,781
Changes in Assets and Liabilities:		
Trade receivables	**452,990**	99,375
Inventory	**(41,454)**	(63,232)
Prepaid expenses	**37,881**	23,541
Other assets	**2,191**	9,442
Accounts payable and accrued liabilities	**(41,561)**	14,815
Deferred income	**(94,771)**	(38,605)
Income taxes payable	**(2,000)**	1,000
Net Cash Provided by Operating Activities	**291,683**	261,414
Cash Flows from Investing Activities:		
Cash purchases of property and equipment	**(35,746)**	(35,895)
Cash payments on patents and trademarks	**(75,951)**	(74,111)
Net Cash Used in Investing Activities	**(111,697)**	(110,006)
Cash Flows from Financing Activities:		
Repayment of long-term borrowings	**(42,355)**	(39,954)
Net Cash Used in Financing Activities	**(42,355)**	(39,954)
Net Increase in Cash and Cash equivalents	**137,631**	111,454
Cash and Cash equivalents, Beginning of Period	**464,699**	545,686
Cash and Cash equivalents, End of Period	**$ 602,330**	$ 657,140

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 six months ended December 31, by segment are:

2015	Polymer Research	Medical Products	Corporate Overhead	Total
Revenues	$ 2,234,331	$ 532,706		$ 2,767,037
Expenses	(1,645,823)	(521,486)	$ (811,445)	(2,978,754)
Pre-tax Income (Loss)	$ 588,508	$ 11,220	$ (811,445)	$ (211,717)
2014				
Revenues	$ 2,085,858	$ 661,571		$ 2,747,429
Expenses	(1,451,814)	(490,151)	(794,528)	(2,736,493)
Pre-tax Income (Loss)	$ 634,044	$ 171,420	$ (794,528)	$ 10,936

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

Results of Operations

The Company's revenues were $1,372,797 for the quarter ended December 31, 2015, $101,140 or 8.0% higher than the $1,271,657 for the same period the previous year. Revenues for the six month period ended December 31, 2015 were $2,767,037, as compared with $2,747,429 for the same period the year before or $19,608 higher (0.7%). Revenues are comprised of the sale of Products and Services and Royalty and Contract payments.

Product sales were $824,331 for the quarter ended December 31, 2015 as compared to $661,974 for the same period the year before, a $162,357 increase (24.5%). For the six month period, product sales were $1,622,266 for the 2015 period as compared with $1,451,138 for the 2014 period, an increase of $171,128 (11.8%). Stronger demand for our medical chemical coatings as well as $145,728 in private label T-HEXX DRY sales offset the lower product sales in the other divisions.

Services revenues, comprising of contract coating services, for the three months ended December 31, 2015 was $271,739 or $58,495 lower (17.7%) than the $330,234 the corresponding period the year before. For the six month periods ended December 31, 2015 and December 31, 2014, services revenues were $581,687 and $726,205, respectively or $144,518 lower (19.9%). The prior year's period included a spike in orders not mirrored this year.

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. Included in Royalty and Contract revenues are revenues from support and supply agreements which provides 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) and are subject to the reporting from our customers. For the six months ended December 31, 2015, Royalty and Contract revenues were $563,084 or essentially flat ($7,002 (1.2%) lower) against the prior year's $570,086.

Total Expenses for the quarter ended December 31, 2015 were $1,485,830 as compared with $1,273,739 the year before, a 16.7% increase. For the six months ended December 31, 2015, Total Expenses were $2,898,568 as compared with $2,741,774 the previous year, a 5.7% increase.

For the quarter ended December 31, 2015, the Company's Cost of Goods Sold was $474,928 as compared with $367,615 the year prior, higher by $107,313 or 29.2%. For the six month period ended December 31, 2015, Cost of Goods Sold was $834,811 as compared with $769,654 the same period a year ago, a $65,157 or 8.5% increase. Higher product sales resulted in the higher Cost of Goods Sold.

Operating expenses were $1,061,647 for the quarter ended December 31, 2015 as compared with $1,009,016 the year before, higher by $52,631 or 5.2%. For the six months ended December 31, 2015, Operating expenses were $2,083,995 or $56,526 higher (2.8%) than the previous year's $2,027,469, primarily from higher Employees costs (higher participation and rates of medical coverage for employees).

Other Income / Expenses includes interest expense, foreign currency exchange gains/losses, interest income and other income. For the quarter ended December 31, 2014, Other Income included a one-time $135,000 litigation settlement. Interest expense (primarily mortgage interest) for the six months ended December 31, 2015 and December 31, 2014, were $65,516 and $66,858, respectively.

A net loss of $113,033 ($0.02 per share) is reported for the quarter ended December 31, 2015 as compared to a net loss of $2,082 ($0.00 per share) the year before. For the six months ended December 31, 2015, a net loss of $131,531 ($0.03 per share) is reported as compared to net income of $5,655 ($0.00 per share) the year before.

Lower than average quarterly revenues resulted in the net losses, while the 2014 year included an one-time litigation settlement to offset the lower performance. Typically where we would see softness is sales from one product line, we would see offsetting higher revenues from another product line. While we did have two strong units (medical chemical sales and T-HEXX N.A.), this time around, their revenue increases were not sufficient to cover the other units (cosmetics, industrial anti-fog and T-HEXX International) particularly when given the lower margins of the product mix in the current period. With the anticipated product launches of a new abrasion resistant anti-fog coating, our all natural consumer product line (includes a non-alcohol based hand sanitizer, and triclosan free foaming hand soap and lotion) and a renewed marketing focus on our recently established equine products (hoof treatment, fly shield and shampoo), along with continued sales push of our existing products, we look towards higher revenues in the very near future.

Financial Condition

Working capital decreased $100,330 during the six months ended December 31, 2015.

For the six months ended December 31, 2015, operating activities provided $291,683 in net cash.

> Net income, as adjusted for the non-cash depreciation and amortization expense, provided $60,093 in cash. The net change in operating assets and liabilities provided for an additional $313,276 in cash, with the collections of trade accounts receivable accounting for $452,990 of that change.

Investing activities used $111,697 and financing activities used $42,355 during the six months ended December 31, 2015.

> Investing activities for the six months ended December 31, 2015 included $35,746 for capital expenditures and $75,951 towards the Company's patent estate. Under Financing activities was the repayment of the principal portion of the mortgage.

EBITDA for the six months ended December 31, 2015 was $45,423: Depreciation of property, plant and equipment and amortization of the patent estate totaled $191,624, interest expense was $65,516 and the Benefit from Income Taxes was $80,186. This compares with EBITDA of $284,436 for the six month period ending December 31, 2014, which included the proceeds from a litigation settlement. Impacting the operating results and EBITDA are the Company's continued reinvestment expenses, which includes the Research and Development team whose product developments do not yield any revenues in the current term. For the six months ended December 31, 2015 and 2014, direct R&D expenses (including salaries) aggregated $181,783 and $217,764, respectively.