HYDROMER, INC. and CONSOLIDATED SUBSIDIARY

Consolidated Financial Statements

March 31, 2016

HYDROMER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	**2016**	2015
Revenues				
Sales of Products	**$ 809,820**	$ 885,311	**$ 2,432,086**	$ 2,336,449
Service Revenues	**376,348**	324,235	**958,035**	1,050,440
Royalties and contract revenues	**250,574**	236,052	**813,658**	806,138
Total Revenues	**1,436,742**	1,445,598	**4,203,779**	4,193,027
Expenses				
Cost of Sales	**435,072**	424,199	**1,269,883**	1,193,853
Operating Expenses	**1,084,487**	992,755	**3,168,482**	3,020,224
Other (Income) Expenses	**33,376**	53,361	**93,324**	(7,269)
Benefit from Income Taxes	**(43,894)**	(6,915)	**(124,080)**	(1,634)
Total Expenses	**1,509,041**	1,463,400	**4,407,609**	4,205,174
Net Loss	**$ (72,299)**	$ (17,802)	**$ (203,830)**	$ (12,147)
Loss Per Common Share*	**$ (0.02)**	$ (0.00)	**$ (0.04)**	$ (0.00)
Weighted Average Number of Common Shares Outstanding	**4,772,318**	4,772,318	**4,772,318**	4,772,318
Income taxes paid	**$ 750**	$ 500	**$ 2,250**	$ 2,500

* 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, 2016 (unaudited)	June 30, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 278,616**	$ 464,699
Trade Receivables less allowance for doubtful accounts of $20,539 and $33,605 as of March 31, 2016 and June 30, 2015, respectively	**796,683**	1,113,578
Inventory	**533,732**	450,764
Prepaid Assets	**163,475**	159,357
Deferred tax asset, non-current	**162,747**	68,000
Other	**4,245**	3,458
Total Current Assets	**1,939,498**	2,259,856
Property and Equipment, net	**2,295,492**	2,349,379
Deferred tax asset, non-current	**1,067,848**	1,036,266
Intangible assets, net	**696,134**	747,109
Other	**70,981**	76,907
Total Assets	**$ 6,069,953**	$ 6,469,517
LIABILITIES & EQUITY		
Current Liabilities:		
Accounts Payable	**$ 231,981**	$ 236,113
Accrued Expenses	**191,459**	217,879
Current portion of deferred revenue	**32,134**	137,243
Current portion of mortgage payable	**90,349**	87,136
Total Current Liabilities	**545,923**	678,371
Deferred Tax Liability	**278,182**	278,182
Long term portion of deferred revenue	**19,796**	15,897
Long term portion of mortgage payable	**2,345,394**	2,412,553
Total Liabilities	**3,189,295**	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 March 31, 2016 and June 30, 2015	**3,721,815**	3,721,815
Contributed capital	**633,150**	633,150
Accumulated deficit	**(1,468,167)**	(1,264,311)
Treasury stock, 10,917 common shares at cost	**(6,140)**	(6,140)
Total Stockholders' Equity	**2,880,658**	3,084,514
Total Liabilities and Stockholders' Equity	**$ 6,069,953**	$ 6,469,517

See accompanying notes.

HYDROMER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Nine Months Ended March 31,	
	2016	2015
Cash Flows from Operating Activities:		
Net Loss	**$ (203,830)**	$ (12,147)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and Amortization	**288,487**	306,178
Deferred income taxes	**(126,330)**	(4,134)
Changes in Assets and Liabilities:		
Trade receivables	**316,895**	(121,611)
Inventory	**(82,968)**	(99,490)
Prepaid expenses	**(25,100)**	(40,814)
Other assets	**5,140**	11,143
Accounts payable and accrued liabilities	**(28,328)**	43,364
Deferred income	**(101,210)**	(51,818)
Income taxes payable	**(2,250)**	(2,500)
Net Cash Provided by Operating Activities	**40,506**	28,171
Cash Flows from Investing Activities:		
Cash purchases of property and equipment	**(52,386)**	(44,876)
Cash payments on patents and trademarks	**(110,257)**	(113,486)
Net Cash Used in Investing Activities	**(162,643)**	(158,362)
Cash Flows from Financing Activities:		
Repayment of long-term borrowings	**(63,946)**	(60,837)
Net Cash Used in Financing Activities	**(63,946)**	(60,837)
Net Increase in Cash and Cash equivalents	**(186,083)**	(191,028)
Cash and Cash equivalents, Beginning of Period	**464,699**	545,686
Cash and Cash equivalents, End of Period	**$ 278,616**	$ 354,658

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.

Certain amounts previously reported have been reclassified to conform to the 2016 presentation.

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:

2016	Polymer Research	Medical Products	Corporate Overhead	Total
Revenues	$ 3,193,026	$ 1,010,753		$ 4,203,779
Expenses	(2,463,596)	(882,490)	$ (1,185,603)	(4,531,689)
Pre-tax Income (Loss)	$ 729,430	$ 128,263	$ (1,185,603)	$ (327,910)
2015				
Revenues	$ 3,141,095	$ 1,051,932		$ 4,193,027
Expenses	(2,209,655)	(823,457)	$ (1,173,696)	(4,206,808)
Pre-tax Income (Loss)	$ 931,440	$ 228,475	$ (1,173,696)	$ (13,781)

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, 2016 were $1,436,742, flat ($8,856 or 0.6% lower) to the $1,445,598 for the same period the year before. For the nine month period ended March 31st, revenues were $4,203,779 during the current fiscal year, as compared with $4,193,027 the year before or $10,752 higher (0.3%). Revenues are comprised of the sale of Products and Services and Royalty and Contract payments.

Product sales were $809,820 for the quarter ended March 31, 2016 as compared to $885,311 for the same period the previous year, a decline of $75,491 (8.5%). For the nine month period ended March 31, 2016, product sales were $2,432,086, (4.1% or $95,637) higher than the corresponding $2,336,449 from the same period a year ago. For the year-to-date period, we have stronger demand for our medical chemical coatings as one of our customers is building up their inventory. This increase is reduced by sales declines in our Industrial Anti-fog and Cosmetic Intermediaries lines.

Services revenues, comprising of contract coating services, for the three months ended March 31, 2016 were $376,348 or $52,113 higher (16.1%) than the $324,235 the corresponding period the year before. For the nine month periods ended March 31, 2016 and 2015, services revenues were $958,035 and $1,050,440, respectively, or $92,405 lower (8.8%) as the prior year activity included customer inventory buildup not mirrored this fiscal year.

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, 2016, Royalty and Contract revenues were $813,658, compared with $806,138 the same period a year ago, an increase of $7,520 (0.9%).

Total Expenses for the quarter ended March 31, 2016 were $1,509,041 as compared with $1,463,400 the year before, a $45,641 (3.1%) increase. For the nine months ended March 31, 2016, Total Expenses were $4,407,609 as compared with $4,205,174 the previous year-to-date, higher by $202,436 or 4.8%.

For the quarter ended March 31, 2016, the Company's Cost of Goods Sold was $435,072 as compared with $424,199 the year prior, an increase of $10,873 or 2.6% due to a change in product mix (a higher % of lower margin products was sold this fiscal quarter). For the nine month period ended March 31, 2016, Cost of Goods Sold was $1,269,883 as compared with $1,193,853 the same period a year ago. The $76,030 increase (6.4%) in Cost of Goods Sold was due to the product mix change as well as the higher volume of product sales.

Operating expenses were $1,084,487 for the quarter ended March 31, 2016 as compared with $992,755 the year before, higher by $91,732 or 9.2%. For the nine months ended March 31, 2016, Operating expenses were $3,168,482 or $148,258 higher (4.9%) than the previous year's $3,020,224. The current year's period includes higher staffing costs resulting from added headcount, higher salaries of replacement staffing as well as increased costs and participation to the employee health program.

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, 2016 and March 31, 2015 were $98,409 and $100,068, respectively. Reducing Other Expenses for the 2015 fiscal year period was a $135,000 litigation settlement against a non-paying former licensee.

A net loss of $72,299 ($0.02 per share) is reported for the quarter ended March 31, 2016 as compared to $17,802 ($0.00 per share) the year before. A net loss of $203,830 ($0.04 per share) is reported for the nine months ended March 31, 2016 as compared to $12,147 ($0.00 per share) the year before.

Higher Operating Expenses and the one-time $135,000 litigation settlement in the prior year were the variances resulting in the change to the final results. The Company's order book as of March 31, 2016 included two orders aggregating $92,178 that allowed for delivery in March. One order was not ready to ship by our toll manufacturer and the second was awaiting customer prepayment.

Financial Condition

Working capital decreased $187,910 during the nine months ended March 31, 2016.

For the nine months ended March 31, 2016, operating activities provided $40,506 in net cash.

> For the nine months ended March 31, 2016, the cash provided by Operations (net loss as adjusted for non-cash expenses plus the change to operating assets and liabilities) was $40,506 with the net change in operating assets and liabilities providing $82,179 (accounts receivables provided $316,895 due to sales in March 2016 being $220,461 lower than that of the month of June 2015; reduced by the amortization of $101,210 in deferred revenues and inventories using $82,968).

Investing activities used $162,643 in cash and financing activities used an additional $63,946 during the nine months ended March 31, 2016.

> Investing activities for the nine months ended March 31, 2016 included $52,386 for capital expenditures and $110,257 towards the Company's patent estate. Reported under Financing activities was the repayment of the principal portion of the mortgage.

A weaker revenue performance during the month of March 2016 resulted in a lower ending Accounts Receivable balance [as of March 31, 2016], leading to the decrease to working capital. The Company anticipates launching an abrasion resistant Abrate-X518™ anti-fog coating and the HerbaSafe™ consumer product line (alcohol free hand sanitizer, antiseptic foaming soap and hand crème). The Company also anticipates adding revenue channels beyond its existing portfolio to pursue revenue growth.