HYDROMER, INC. and CONSOLIDATED SUBSIDIARY

Consolidated Financial Statements

September 30, 2016

HYDROMER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	Three Months Ended September 30,	
	2016	**2015**
Revenues		
Sales of Products	**$ 715,735**	$ 797,935
Service Revenues	**383,419**	309,948
Royalties and contract revenues	**310,040**	286,357
Total Revenues	**1,409,194**	1,394,240
Expenses		
Cost of Sales	**380,996**	359,883
Operating Expenses	**1,026,845**	1,022,348
Other Expenses	**33,538**	35,524
Benefit from Income Taxes	**(12,081)**	(5,017)
Total Expenses	**1,429,299**	1,412,738
Net Loss	**$ (20,104)**	$ (18,498)
Loss 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.

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.

CONSOLIDATED BALANCE SHEETS

	September 30, 2016 (unaudited)	June 30, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	**$ 225,456**	$ 330,165
Trade Receivables less allowance for doubtful accounts of $3,007 as of September 30, 2016 and $12,039 as of June 30, 2016	**974,444**	936,519
Inventory	**501,460**	506,900
Prepaid Assets	**139,505**	188,661
Deferred tax asset	**72,747**	72,747
Other	**13,889**	3,550
Total Current Assets	**1,927,502**	2,038,542
Property and Equipment, net	**2,239,918**	2,271,610
Deferred tax asset, non-current	**1,239,422**	1,227,341
Intangible assets, net	**652,710**	678,378
Other	**69,283**	70,980
Total Assets	**$ 6,128,835**	$ 6,286,851
LIABILITIES & STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts Payable	**$ 328,140**	$ 412,705
Accrued Expenses	**196,070**	233,087
Current portion of deferred revenue	**37,089**	30,527
Current portion of mortgage payable	**92,559**	91,447
Total Current Liabilities	**653,857**	767,766
Deferred Tax Liability	**258,328**	258,328
Long term portion of deferred revenue	**20,446**	21,528
Long term portion of mortgage payable	**2,299,844**	2,322,765
Total Liabilities	**3,232,474**	3,370,387
Contingencies	-	-
Stockholders' 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, 2016 and June 30, 2016	**3,721,815**	3,721,815
Contributed capital	**633,150**	633,150
Accumulated deficit	**(1,452,466)**	(1,432,361)
Treasury stock, 10,917 common shares at cost	**(6,140)**	(6,140)
Total Stockholders' Equity	**2,896,359**	2,916,464
Total Liabilities and Stockholders' Equity	**$ 6,128,833**	$ 6,286,851

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

HYDROMER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net Loss	**$ (20,104)**	$ (18,498)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and Amortization	**96,107**	94,921
Deferred income taxes	**(12,081)**	(6,017)
Changes in Assets and Liabilities:		
Trade receivables	**(37,925)**	198,712
Inventory	**5,440**	(33,321)
Prepaid expenses	**28,237**	18,963
Other assets	**(8,642)**	(3,291)
Accounts payable and accrued liabilities	**(121,583)**	24,236
Deferred revenue	**5,480**	(78,764)
Net Cash (Used in) Provided by Operating Activities	**(65,071)**	196,941
Cash Flows from Investing Activities:		
Cash purchases of property and equipment	**(1,470)**	(25,582)
Cash payments on patents and trademarks	**(16,389)**	(23,119)
Net Cash Used in Investing Activities	**(17,859)**	(48,701)
Cash Flows from Financing Activities:		
Repayment of long-term borrowings	**(21,810)**	(20,717)
Net Cash Used in Financing Activities	**(21,810)**	(20,717)
Net Decrease in Cash and Cash equivalents	**(104,740)**	127,523
Cash and Cash equivalents, Beginning of Period	**330,165**	464,699
Cash and Cash equivalents, End of Period	**$ 225,425**	$ 592,222

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

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, 2016. 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:

2016	Polymer Research	Medical Products	Corporate Overhead	Total
Revenues	$ 1,018,748	$ 390,446		$ 1,409,194
Expenses	(805,870)	(250,159)	$ (385,351)	(1,441,380)
Pre-tax Income (Loss)	$ 212,879	$ 140,287	$ (385,351)	$ (32,185)
2015				
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)

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, 2016 were $1,409,194, $14,954 or 1.1% higher than the $1,394,240 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 $715,735 for the quarter ended September 30, 2016 as compared to $797,935 for the same period the year before, lower by $82,200 (10.3%). Lower Medical Chemical sales this year as a result of a customer buildup in the prior year were partially offset by stronger sales from the T-HEXX and Industrial Anti-fog product lines (arising primarily from the timing of sales).

Services revenues, comprising of contract coating services, for the three months ended September 30, 2016 was $383,419 or $73,471 (23.7%) higher than the $309,948 the corresponding period the year before as a result of sales growth, including sales from new customers.

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, 2016, Royalty and Contract revenues were $310,040, an increase of $23,683 or 8.3% against the $286,357 from the same period a year ago, higher royalties primarily from a new agreement coming online.

Total Expenses for the quarter ended September 30, 2016 were $1,429,299 as compared with $1,412,738 the year before, lower by $16,561 or 1.2%.

For the quarter ended September 30, 2016, the Company's Cost of Goods Sold was $380,996 as compared with $359,883 the year prior, higher by $21,113 or 5.9%. A product mix change, with a larger proportion of the lower margin products sold, resulted in the increase to Cost of Goods Sold.

Operating expenses were $1,026,845 for the quarter ended September 30, 2016 as compared with $1,022,348 the year before, slightly higher by $4,497 or 0.4%. The prior year included the benefit of the Small Business Innovative Research ("SBIR") grant which lowered staffing costs by $30,263. This year's activity included lower tradeshow expenses and equipment repair costs.

Interest expense, interest income and other income are included in Other Expenses. Interest expense (primarily mortgage interest) for the three months ended September 30, 2016 and September 30, 2015 were $31,740 and $32,827, respectively, lower due to the amortization of the mortgage principal.

A net loss of $20,104 ($0.00 per share) is reported for the quarter ended September 30, 2016 as compared to $18,498 ($0.00 per share) the year before.

Although revenues were higher this past quarter ($14,954), the prior fiscal year's quarter realized $56,522 in cost reductions from the benefit of the SBIR. The Company's results for each period also includes "reinvestment expenses" (Research and Development staffing and patent costs) that provides for future returns than for the current period. These expenditures amounted to $134,311 (or 13% of Operating Expenses) for the three months ended September 30, 2016 and $138,427 (14% of Operating Expenses) for the three months ended September 30, 2015.

Financial Condition

The working capital position as of September 30, 2016 was $1,273,645 as compared with $1,270,776 as of June 30, 2016 or an improvement by $2,869.

For the three months ended September 30, 2016, operating activities used $65,071 in net cash.

The primary use of cash for operating activities was for Accounts Payable ($121,583).

Investing activities used $17,859 and financing activities used $21,810 during the three months ended September 30, 2016.

Investing activities for the three months ended September 30, 2016 included $1,470 for capital expenditures and $16,389 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, 2016 was $97,856: Depreciation of property, plant and equipment and amortization of the patent estate totaled $96,107, interest expense was $33,934 and the Benefit from Income Taxes was $12,081. This compares with EBITDA of $104,233 for the previous year's quarter ended September 30, 2015.