



July 6, 2020

Dear Hydromer Inc Shareholders,

I am pleased to present to you our company's financial update as of May FY20.

So far in 2020, we were able to successfully accomplish much of what was intended with our corporate modernization, restructuring and relocation planning we commenced in late 2018. These efforts and plans were of course further complicated this year by the COVID-19 pandemic but despite this new element we did manage to stabilize the manufacturing delays we experienced at the beginning of the year which resulted from the relocation and delayed construction of our manufacturing facility in NC. Since then we have also finalized all building construction efforts, which recently culminated with the completion of the ISO 9001:2015 audit of the company's NC facilities yielding full certification of our new clean room and NC Headquarters.

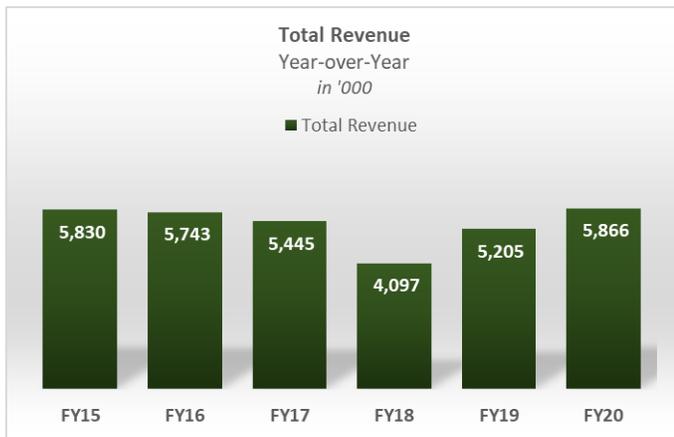
In the medical coating arena, we completed the hiring and training of a new team of operators to increase production output levels and reduce lead times for order completion; and in the chemical/polymer manufacturing, we increased our focus on automation and optimization by incorporating standardized procedures and equipment optimization. While some of our larger customers did require validation of our new facilities in NC prior to our commencing manufacturing of their products, and some did experience travel and work related delays due to the COVID-19 pandemic, we are pleased to report that we have recently completed all validation steps with our major customers, which will further ensure stability and growth of our core business and revenue generating abilities.

“Recently completed ISO 9001:2015 audit of the company's production facility in NC yielded full certification”

“New ISO Certificate was issued for the company's facility in NC”

With one more month in our fiscal year still to go, we are pleased to report that as of May 2020, fiscal year-to-date, un-audited managerial results of operations were as follows:

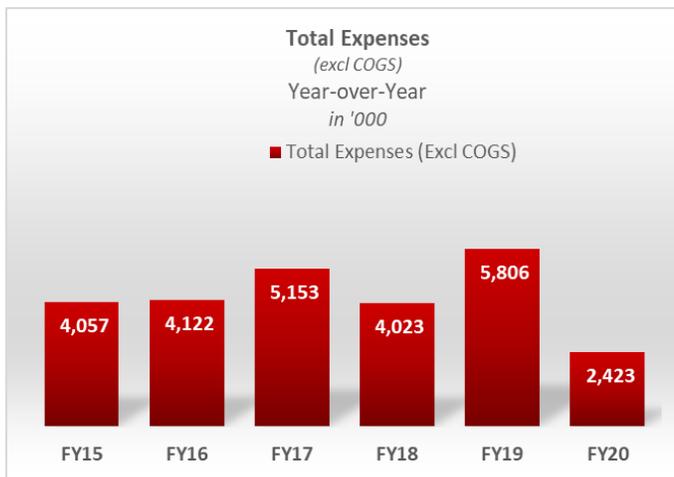
- Total Income was \$5.9M (*Graph 1*) and total Cost of Sales (COGS) was \$2.7M (*Graph 2*), respectively.
- Total Expenses (*excluding COGS*) totaled \$5.2M (*Graph 3*)
- Net Income was (\$2.0M) (*Graph 4*)



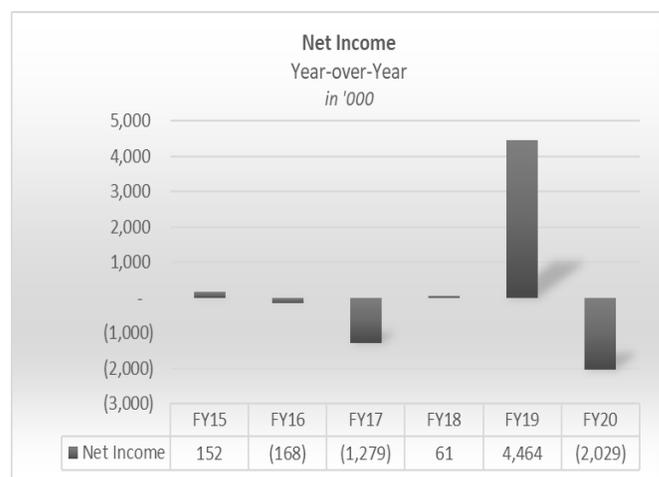
Graph 1



Graph 2



Graph 3



Graph 4

May FY20 total Income increased materially by \$2.3M (66%) in comparison to prior fiscal year 2019, mainly attributable to two key drivers. The first resulting from the rapid pivot we made to leverage our strengths in antimicrobial and sanitization technology to develop and launch our new **First Responder™** brand of alcohol-based hand sanitizer during the COVID-19 emergency response. The second resulting from us securing additional bridge orders from our customers during the months of October-December 2019 in preparation for the physical relocation of the company's manufacturing operations to NC.

May FY20 total Cost of Sales (COGS) increased \$0.6M (20%) from prior fiscal year. This resulted from increased total manufacturing costs (i.e. raw materials, packaging, and shipping products) and temporary labor costs incurred to produce new sales of hand sanitizer; offset by a decrease in manufacturing costs in our core business (polymer mixing and surface coatings), resulting from the delayed construction finalization and subsequent postponement of our manufacturing activities during the physical relocation to NC and from our customers having to remain closed during the stay-at-home orders of the COVID-19 pandemic.

Total Expenses (*excluding COGS*) for May FY20 increased by \$0.6M (11%) year-to-date, attributable to increases in employee costs corresponding to payments of certain retention

incentives and severance payments to former NJ employees no longer with the company, and costs incurred to relocate, evacuate and broom-clean the NJ building; offset by reduced operating costs, attributable to the cost reduction measures implemented since mid-FY19.

For this fiscal year 2020, the company expects to generate total Income of approximately **\$6.3M**, such Income levels have not been attained by Hydromer since over a decade. FY20 Income is expected to exceed prior fiscal year 2019 by approximately \$1.1M (**21%**).

Projected Cost of Sales for this fiscal year is expected to increase by \$.08M (33%) from prior fiscal year 2019, mainly resulting from increased costs to produce the new hand sanitizer.

Our total Operating Expenses (*excl COGS*) for fiscal year 2020 are expected to remain relatively flat year over year, resulting from the implementation of cost savings and expense reduction measures in this fiscal year, offset by the total costs incurred to rejuvenate the company's business strategies and relocate the manufacturing facilities to NC.

In summary, we are proud of the many augmentations and improvements we have now successfully enacted over this last year in many so critical areas that will help to continue to propel our growth. From our new leaner and more capable manufacturing facility and operations in NC, to the more experienced sales and marketing team, all of which have now been battle tested this fiscal year with a full corporate relocation, new production plant construction and certification and a troubling global pandemic. We have demonstrated our ability to modernize and rapidly adapt and thrive in in what has been unprecedented times and now we stand very well poised for continued growth. Hydromers rich legacy of innovation provides us with many technologies and areas of expertise that are in high demand. From our antimicrobial coating capabilities, line of both alcohol and plant-based sanitization products and proprietary technologies along with our proven line of anti-fog and condensation control products, we see that global demand for these will only continue to grow given today's more infection control minded ecosystem.

With Best Regards,



Peter M. von Dyck
Chief Executive Officer (CEO), Hydromer, Inc.