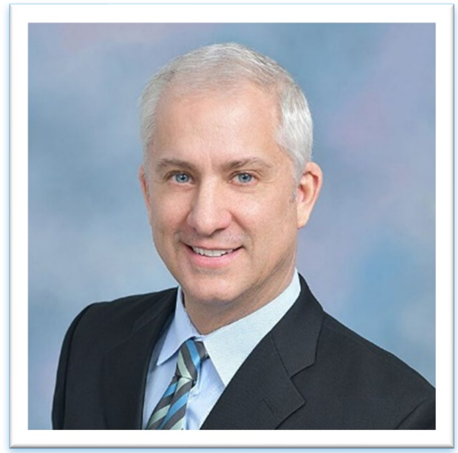
HYDROMER, INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three-months period ended
DECEMBER 31, 2020

Concord, NC

Letter from the CEO



Dear Hydromer Inc. Shareholders,

I am pleased to present to you our company's quarterly report for the 2nd quarter of FY21.

Hydromer Inc and its many longstanding customers really felt the impact and culmination of the COVID-19 pandemic this past Quarter. It has been disheartening to see so many of our medical device customers who provide vitally needed catheters and devices for the treatment of cancers, embolisms and strokes just not being consumed at normal levels in both hospitals and clinics despite the many serious disorders and therapies they help resolve. FY21 Q2 we saw a material decline in demand from many of our steadiest customers on the medical coatings and coatings services side and those combined sales were $1.1M vs $1.6M *(excl. T-Hexx)* in PY Q2. Similarly, with our royalties from medical technology we experienced a decline to $0.6M vs $0.7M in PY Q2.

Despite the lingering COVID-19 related contractions in Hospitals and clinics the Hydromer team worked hard and did achieve growth in several key areas which are very promising given the challenging backdrop of the Pandemic. Four of our med-tech customers further aligned with Hydromer during this Quarter to partner for continued growth as hospitals and clinics begin to try to move to more normal operations around the globe in the coming months. A few examples include a leading maker of a patented line of novel microcatheters for Peripheral Artery Disease (PAD) switched all their catheter coating business with their new and existing products from a leading competitor to now an exclusive relationship with Hydromer. Additionally, a fast-growing firm with solutions for the revascularization of patients with complex coronary and peripheral artery disease is scaling their business with us as they commence a US launch of a peripheral vascular devices the just acquired from an Israeli firm. Additionally, a customer located in the BioBay complex of Suzhou in the Jiangsu Province of China engaged in interventional and implantable devices expects to double our business with them going forward as they added an additional manufacturing location in China to double production capabilities with us. During this Quarter, we also managed to win several new customers including a client with vascular guidewire coating applications and three others including coatings for one of the largest manufactures of Intra Ocular Lens and syringe applications, and a manufacturer of an innovative embolic device. Another newly acquired customer reprocesses and certifies high-cost medical devices is also now on board with Hydromer as well. Recycled medical devices are a fast-growing segment both from a cost and environmental perspective. Hydromer is a new entrant in this area now and it offers tremendous scope for our growth going forward.

Sales of our Industrial Coatings business also managed some growth over PYU Q2 with Sales of $62K vs $132K *(excl. T-Hexx)* in PY Q2. This was due to us finding higher demand from our existing client and market leader in engineering plastics such as polycarbonate sheets for PPE and face shield applications. We also gained a new industrial client in Thailand for their polycarbonate sheet antifog applications.

We continue to broadly showcase Hydromer's expertise in antimicrobial, sanitization, and anti-fog technologies as highly useful tools and technologies in the emergency response to the current pandemic and beyond. We are fortunate in that we have many great customers, and they too see light at the end of the tunnel and several even predict a return to normal consumption and even growth in the next few months with products that utilize Hydromer technology. However, Hydromer has taken many measures to continue to restructure and materially reduce operating costs to ensure we endure this lingering and unpredictable global Pandemic.

Sincerely,

Peter M. von Dyck, Chief Executive Officer

Letter from the COO

We continue to benefit from our corporate modernization, restructuring and relocation plans which started in the later part of 2018 and should be completed in the second quarter 2021 with our R&D facilities being 100% in NC. Although our ability to fully operate in that modernized environment has been affected by the COVID19 pandemic, primarily due to some raw material suppliers having their own re-start and supply challenges. These raw material suppliers are experiencing quality and production issues due to having to restart complex production systems often with new personnel and new materials. Hydromer Operations and R&D teams are working closely with these struggling vendors to help them return to optimal quality and delivery conditions.

In the medical coating arena, we had previously reported that we have successfully completed all the customer required validations with many of these innovative customers expanding their product lines with Hydromer. We do have a group of core customers who are themselves still struggling with restarting their production lines due to the loss of key personnel and supply lines due primarily to the global COVID-19 pandemic lock downs. With several of these customers, the Hydromer Team is performing enhanced quality inspections to help them return to their normal high quality manufacturing standards.

It should also be mentioned that in addition to the COVID-19 related start-up challenges with our vendors and our customers. The unusual winter weather in the US has contributed to logistical delays to both our customers and Hydromer. Some of these delays added 2 weeks to scheduled deliveries. Never-the-less, the Hydromer Team rose and swiftly met these unplanned setbacks, emerging as a stronger and more effective team.

Best regards,

Martin von Dyck

Martin von Dyck, Chief Operations Officer

01. CHANGES IN SIGNIFICANT ACCOUNTING STANDARDS

The Company has adopted the following new accounting standards:

The Tax Cut and Jobs Act (TCJA)

Effective December 22, 2017, the Company adhered to the newly enacted *Tax Cut and Jobs Act (TCJA)*. The Act reduces the top corporate income tax rate from 35 percent to 21 percent, eliminates the graduated corporate rate schedule, repeals the corporate alternative minimum tax, doubles the Section 179 expensing limit for small businesses' investments. It further limits the amount of net business interest deduction to 30 percent of business income before interest, depreciation, and amortization, and limits the deduction for net operating losses to 80 percent of taxable income. The act also repeals carrybacks of losses but allows losses' carry forward indefinitely. The new law also eliminates the domestic production activities deduction (Section 199) and starting in 2022, expenditures for research and experimentation must be amortized over five years (15 years for offshore research and experimentation expenses) instead of being immediately deductible.

Contracts Revenue

Effective July 1, 2019, the Company adhered to FASB Accounting Standards Updated *(ASU) 2014-09, Revenue from Contracts with Customers (Topic 606)*. The update supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle. ASU 2014-09 is effective for private companies for reporting periods beginning after December 15, 2018.

Operating Leases

Effective July 1, 2020, the Company adhered to the newly enacted FASB *ASU 2016-02, Leases (Topic 842)*. In accordance with the guideline and for the operating leases corresponding to the corporate headquarters building in North Carolina, and the R&D offsite laboratory in New Jersey, the Company recognizes the right-of-use asset and lease liability on the balance sheet, while the periodic lease expense is recognized on the income statement on a straight-line basis over the life of each lease agreement, using the present value of the lease payments, discounted at the Company's incremental borrowing rate (IRR).

02. RISK FACTORS

The Company may face several uncertainties and risks that are difficult to predict and many of which are outside of the Company's control. Investors should be aware that it is not possible to predict or identify all potential risk factors with certainty and that the items set forth below are not meant to be a complete discussion of all potential risks or uncertainties. If known or unknown risks or uncertainties materialize, the Company's business, results of operations or financial condition could be adversely affected, potentially in a material way. In addition to the other information in this report and the Company's other filings with the OTCMKTS, investors should carefully consider the factors set forth below:

- Changes in tax laws or exposures to additional tax liabilities could negatively impact the Company's operating results.

On December 22, 2017, the U.S. enacted The Tax Cuts and Jobs Act (the TCJA), which introduced significant changes to U.S. corporate income tax law that will have a meaningful impact on the Company's provision for income taxes Accounting for the income tax effects of the TCJA requires significant judgments to be made in interpreting its provisions and may result in adjustments that could materially affect the Company's financial position and results of operations as well as the effective tax rate in the period in which the adjustments are made.

- The Company may not be able to successfully secure and defend intellectual property rights essential to the Company's businesses.

The Company owns a significant number of patents and other proprietary rights determined by patent offices, courts, and lawmakers in various countries, relating to its products and manufacturing processes. These rights are essential to the Company's businesses and materially important to the Company's results of operations. Public policy, both within and outside the U.S., has become increasingly unfavorable toward intellectual property rights.

The Company cannot be certain that it will obtain adequate patent protection for new products and technologies in the U.S. and other important markets or that such protections once granted, will last as originally anticipated. The Company consults with attorneys and other experts on a regular basis to proactively identify and mitigate potentially adverse effects resulting from the Company's ability to secure and defend its intellectual property.

- Product and pricing competition pressures arising from the Company's business and operations s in highly competitive markets could adversely affect the Company's earnings.

The Company faces substantial competition in all its business segments and geographic markets. The Company's businesses compete with companies of all sizes based on cost-effectiveness, technological innovations, intellectual property rights, product performance, real or perceived product advantages, pricing and availability and rate of reimbursement. The Company also competes with other market participants in securing rights to acquisitions, collaborations, and licensing agreements with third parties. Competition for rights to product candidates and technologies may result in significant investment and acquisition costs and onerous agreement terms for the Company.

Competitors' development of more effective or less costly products, and/or their ability to secure patent and other intellectual property rights and successfully market products ahead of the Company, could negatively impact sales of the Company's existing products as well as its ability to bring new products to market despite significant prior investment in the related product development. The Company actively analyzes the competition in its current and emerging markets to develop the appropriate business strategies to navigate those markets.

- Significant challenges or delays in the Company's innovation and development of new products, technologies and indications could have an adverse impact on the Company's long-term success.

The Company's continued growth and success depends on its ability to innovate and develop new and differentiated products and services that address the evolving needs of current and new customers in the various underserved and/or rapidly emerging markets and geographical locations.

Development of successful products and technologies is also necessary to offset revenue losses when the Company's existing products lose market share due to various factors, including steep competition. The Company cannot be certain of when or whether it will be able to develop, license or otherwise acquire new companies, products, and technologies.

The Company pursues product development through internal research and development as well as through collaborations, licensing, or other arrangements with outside third parties. In all these contexts, developing new products, particularly pharmaceutical and biotechnology products, and medical devices, require significant investment of resources over many years. Only a very few polymer research and development programs result in commercially viable products. The process depends on many factors including the ability to discern the future needs of markets, customers, and end-users; develop promising new solutions, strategies, and technologies; secure effective intellectual property protection; and successfully differentiate the Company's products from competing products and approaches to products' applications.

New products or enhancements to existing products may not be accepted quickly or significantly in the marketplace due to product and price competition, changes in customers' needs, preferences or purchasing patterns. Even following initial regulatory approval, the success of a product can be adversely impacted by safety and efficacy findings in larger real-world, as well as market entry of competitive products.

- The Company faces a variety of risks associated with conducting business internationally.

The Company's operations and business activities outside the U.S. are accompanied by certain financial, economic, and political risks, including the following:

-Inflation and Currency Devaluation Risks: The Company faces challenges in maintaining profitability of operations in economies experiencing high inflation rates. While the Company strives to maintain profit margins in these economies through cost reduction programs, productivity improvements and periodic price increases, it might experience operating losses as a result of continued inflation. In addition, the impact of currency devaluations in countries experiencing high inflation rates or significant currency exchange fluctuations could negatively impact the Company's operating results.

-Anti-Bribery and Other Regulations: The Company is subject to various federal and foreign laws that govern its international business practices with respect to payments to government officials. Those laws include the U.S. Foreign Corrupt Practices Act (FCPA), which prohibits U.S. publicly traded companies from promising, offering, or giving anything of value to foreign officials with the corrupt intent of influencing the foreign official for the purpose of helping the Company obtain or retain business or gain any improper advantage. The Company's business is heavily regulated and therefore may involve significant interaction with foreign officials. Enforcement activities under these laws could subject the Company to additional administrative and legal proceedings and actions, which could include claims for civil penalties, criminal sanctions, and administrative remedies.

-*Other Legal, Social and Political Risks:* Other risks inherent in conducting business globally include protective economic policies taken by governments such as trade protection measures and import/export licensing requirements; compliance with local regulations and laws including in certain countries, regulatory requirements restricting the Company's ability to sell its manufactured products in the relevant market; diminished protection of intellectual property and contractual rights in certain jurisdictions; potential nationalization or expropriation of the Company's foreign assets; and disruptions to markets due to war, armed conflict, terrorism, social upheavals or pandemics.

-*Interruptions and/or delays in manufacturing operations and shipping:* Unforeseeable interruptions of the Company's standard operations and in meeting deliverables to customers could adversely affect the Company's business, revenues, and reputation in the marketplace. The Company's product manufacturing activities require the timely delivery of enough amounts of complex, high-quality components, materials, and services. The Company secures raw materials from suppliers around the world thus, the Company has faced unanticipated interruptions and delays in manufacturing through its internal or external supply chain. Manufacturing disruptions can occur for many reasons including regulatory actions, production quality deviations or safety issues, labor disputes, site-specific incidents such as, fires, natural disasters such as, hurricanes and other severe weather events; raw material shortages; political unrest and terrorist attacks. Such delays and difficulties in manufacturing can result in product shortages, declines in sales, negative reputational impact and significant costs associated with addressing the shortage. The Company consistently evaluates the conditions of international markets to assess its continued ability to service, enter or operate in those markets.

- Operational and financial risks arising from the global COVID-19 pandemic.

Starting in the last quarter of 2019 and throughout 2020, the Company faced operating and financial pressures resulting from the COVID-19 pandemic. The timing and extent of the Company's ability to operate within normal levels and generate expected revenue has been negatively affected by decreases in the demand for the Company's products and services. For instance, sales of medical devices' coating polymers and coating services was severely impacted by hospitals delays in scheduling and performing secondary/elective medical procedures during the pandemic. Many of the Company's customers remained closed during stay-at-home orders in effect around the globe or significantly decreased their business activities since March 2020 (foreign customers located in regions where the pandemic hit second started to experience the effects of the pandemic as early as December 2019). Uncontained virus outbreaks at manufacturing plants forced shutdowns of customers' production facilities that consume the Company's chemical coatings. The Company remains abreast of customers' procurement needs, and proactively developed solutions to address production and consumption issues to ensure the Company timely fulfills incoming sales orders.

To capitalize on the increased in demand for sanitizing products during the pandemic, the Company expanded its line of sanitizing products and solidified its position in the marketplace as a reliable/trusted COVID-19 emergency response provider.

I. MANAGEMENT NOTES ON THE STATEMENT OF INCOME

01. REVENUES

The Company derives revenues from the manufacturing and sale of products, contract coating and other services, analytical testing, technology transfers, royalties, and sales and support agreements.

'000 USD

	Q2 FY21	Q2 FY20
Product Sales	$ 594	$ 1,331
Services Income	609	768
Royalties	573	632
Total Revenues	**$ 1,776**	**$ 2,731**

During the second quarter of fiscal year 2021, total revenues by geographical location were classified as follows:

	Q2 FY21	Q2 FY20
Domestic	81%	79%
Foreign	19%	21%

In the second quarter of fiscal year 2021, reported net total loss of $1,9M, a decrease of $239K (11%) from prior fiscal year. The decrease was mainly attributed to significant reductions of expenses, by performing under leaner and more efficient production guidelines to contrast the lower sales levels that resulted from the COVID-19 pandemic.

'000 USD

	Q2 FY21	Q2 FY20
Total income (Loss)	$ (2,063)	$ (2,290)
Income tax provision	(69)	(57)
Net Income (Loss)	**$ (1,994)**	**$ (2,233)**

02. EMPLOYEE COSTS

Employee costs comprise all compensation costs incurred in connection with the employment of Company's personnel in various capacities. These costs include salary, commission, payroll taxes, and benefits, among others. In the second quarter of fiscal year 2021, total employee costs totaled $1.6M, a decreased of $582K (27%) from prior fiscal year 2020, attributable to reduction of non-essential personnel headcount, and a decrease of non-revenue generating expenses. In fiscal year 2021, the Company continues to operate at comparable levels as prior years but with headcount reduced by approx. 15%. With the relocation of the Company's operations to a more cost-effective geographical area in North Carolina, and the introduction of new manufacturing and operational synergies, the Company expects to significantly reduce net operating costs, fostered by leaner and more efficient operations, process restructuring, and investments in IT and manufacturing solutions.

03. ADVERTISING & MARKETING

Advertising and marketing costs are expensed in the periods incurred and are reported under operating expenses. Total marketing and advertising expenses for quarter two of fiscal year 2021 totaled $6K, a decrease of $58K (90%) compared to prior fiscal year. This decrease was attributable to the implementation of stricter cost reduction measures in fiscal year 2021.

04. RESEARCH AND DEVELOPMENT

Research and development costs, primarily employee salaries and benefits, are expensed when incurred and are included in total operating expenses. Total R&D costs charged to expense in the second quarter of fiscal year 2021 was $51K, representing an increase of $20K (64%) from prior fiscal year that resulted from an increase in the amount and extent of R&D projects completed in the North Carolina's facilities, following the new management's business innovation strategies.

05. FACILITIES AND OPERATIONS

Comprises all cost incurred to maintain and manage the Company's manufacturing and administrative facilities in NC and NJ including rents, utilities, repairs & maintenance, etc. and are reported within operating expenses. Total facilities and operations expenses incurred in the second quarter of fiscal year 2021 were $284K, a decrease of $2K (0.1%) from prior fiscal year, attributable to the relocation of the Company's operations to North Carolina, and the implementation of cost reduction measures.

06. GENERAL EXPENSES

During the second quarter of fiscal year 2021, the Company's total general and administrative costs totaled $401K, a decrease of $145K (27%), mainly attributable to the elimination of non-essential expenditures.

II. MANAGEMENT NOTES ON THE BALANCE SHEET

01. CASH AND CASH EQUIVALENTS

As of December 31, 2020, the Company's aggregate cash totaled $153K. The Company's cash availability was adversely impacted by decreases in sales levels and reduced collection on receivables due to the lockdown measures in effect in the U.S. and abroad, and the financial effects of the COVID-19 pandemic on most businesses.

02. TRADE RECEIVABLES

The composition of the Company's total net accounts receivable as of December 31, 2020 is as follows:

'000 USD

	Q2 FY21	Q2 FY20
A/R-Trade, net	$ 186	$ 1,255
A/R-Royalties, net	199	372
Total A/R, Net	**$ 385**	**$ 1,627**

03. INVENTORY

The Company's ending inventory balances as of September 30, 2021 are as follows:

'000 USD

	Q2 FY21	Q2 FY20
Raw Materials	$ 45	$ 86
Work-in-Progress	40	98
Finished Goods	69	95
Total Inventory	**$ 154**	**$ 279**

The total cost of inventories recognized as expenses in cost of sales were $332K and $740K for the second quarter of fiscal years 2021 and 2020, respectively. The $408K (55%) decrease was attributable to the respective decrease in core business' sales revenue.

04. PROPERTY AND EQUIPMENT

The Company’s property and equipment consist of the following assets:

‘000 USD

	Q2 FY21	Q2 FY20
Machinery & Equipment	$ 1,499	$ 1,946
Furniture & Fixtures	483	406
Computer & Phone Equip	405	339
Leasehold Improvements	1,623	1,996
Total PP&E, Gross	**4,010**	**4,688**
Total Accum Depreciation	(2,804)	(2,386)
Total PP&E, Net	**$ 1,206**	**$ 2,301**

Machinery and equipment include cost to acquire equipment to optimize daily work functions in the warehouse, production and manufacturing areas, and R&D lab testing. Construction costs to improve and furnish the Company’s new headquarters building in North Carolina are reflected within leasehold improvements and furniture and fixtures. Total depreciation expenses for the second quarter of fiscal years 2021 and 2020 were $129K and $14K, respectively.

HYDROMER, INC

INTERIM CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

For the three months ended December 31, 2020

Fiscal year ending June 30, 2021

(UNAUDITED)

		Q2 FY21	% to Sales		Q2 FY20	% to Sales		Change	% Change
Revenues									
Sale of products	$	593,748	33.42%	$	1,331,296	33.42%	$	(737,548)	-55.40%
Services revenue		609,317	34.30%		768,162	34.30%		(158,845)	-20.68%
Royalty and contracts revenue		573,338	32.28%		631,706	32.28%		(58,368)	-9.24%
Total revenues		**1,776,403**	100.00%		**2,731,164**	100.00%		(954,761)	-34.96%
Expenses									
Cost of sales		1,342,149	75.55%		1,866,120	75.55%		(523,971)	-28.08%
Operating expenses		2,497,013	140.57%		3,167,388	140.57%		(670,375)	-21.16%
Total expenses		**3,839,162**	216.12%		**5,033,508**	216.12%		(1,194,346)	-23.73%
Operating revenue / (loss)		**(2,062,759)**	-116.12%		**(2,302,344)**	-116.12%		239,585	-10.41%
Other income / (expense)		(589)	-0.03%		12,078	-0.03%		(12,667)	-104.88%
Total other income / (expense)		**(589)**	-0.03%		**12,078**	-0.03%		(12,667)	-104.88%
Income / (loss) from operations before income taxes		**(2,063,348)**	-116.15%		**(2,290,266)**	-116.15%		226,918	-9.91%
Expense / (benefit) from income taxes		(69,204)	-3.90%		(57,350)	-3.90%		(11,854)	20.67%
Net income / (loss) from operations		**(1,994,144)**	-112.26%		**(2,232,916)**	-112.26%		238,772	-10.69%
Net income / (loss)	**$**	**(1,994,144)**	-112.26%	**$**	**(2,232,916)**	-112.26%	$	238,772	-10.69%
Basic and diluted loss from operations	**$**	**(0.42)**		**$**	**(0.47)**			-	0.00%
Net income attributable to common shareholders	**$**	**(0.42)**		**$**	**(0.47)**			-	0.00%
Weighted average number of common shares outstanding		**4,772,318**			**4,772,318**				0.00%
Retained earnings / (accumulated deficit), beg of period	$	(2,964,736)		$	620,856			(3,585,592)	-577.52%
Net income		(1,994,144)			(2,232,916)			238,772	-10.69%
Dividends paid		-			-			-	0.00%
Retained earnings / (accumulated deficit), end of period	$	(4,958,881)		$	(1,612,060)		$	(3,346,820)	207.61%

HYDROMER, INC

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As of the period ended December 31, 2020

(UNAUDITED)

	Q2 FY21	Q2 FY20	Change	% Change
ASSETS				
Current assets				
Cash and cash equivalents	**152,666**	**337,408**	(184,742)	-54.75%
Trade receivables, *net*	**385,341**	**1,626,908**	(1,241,567)	-76.31%
Inventory	**153,959**	**278,929**	(124,970)	-44.80%
Prepaid assets	**-**	**87,626**	(87,626)	-100.00%
Other current assets	**20,237**	**19,925**	312	1.57%
Total current assets	**712,203**	**2,350,796**	(1,638,593)	-69.70%
Property and equipment, net	**1,206,436**	**2,301,061**	(1,094,625)	-47.57%
Intangible assets, net	**177,614**	**256,674**	(79,060)	-30.80%
Other assets	**231,114**	**205,642**	25,472	12.39%
Total assets	**2,327,367**	**5,114,173**	(2,786,806)	-54.49%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	**1,026,699**	**1,229,639**	(202,940)	-16.50%
Accrued expenses	**1,399,699**	**377,397**	1,022,302	270.88%
Short-term borrowings	**-**	**-**	-	0.00%
Income taxes payable	**-**	**174,586**	(174,586)	-100.00%
Accrued restructuring charges	**-**	**224,762**	(224,762)	-100.00%
Current portion of deferred revenue	**7,897**	**17,897**	(10,000)	-55.88%
Current portion of long term debt	-	-	-	0.00%
Total current liabilities	**2,434,295**	**2,024,281**	410,014	20.25%
Deferred tax liability	**-**	**-**	-	0.00%
Long term debt	**503,128**	**353,127**	150,001	42.48%
Long term portion of deferred revenue	**-**	**-**	-	0.00%
Total long term liabilities	**503,128**	**353,127**	150,001	42.48%
Total liabilities	**2,937,423**	**2,377,408**	560,015	23.56%
Stockholders' Equity				
Contributed capital	4,354,965	4,354,965	(0)	0.00%
Retained earnings	(4,958,881)	(1,612,060)	(3,346,821)	207.61%
Treasury stock, 10,917 common shares at cost	(6,140)	(6,140)	(0)	0.00%
Total stockholders' equity	**(610,056)**	**2,736,765**	(3,346,821)	-122.29%
Total liabilities and stockholders' equity	**2,327,367**	**5,114,173**	(2,786,806)	-54.49%

HYDROMER, INC

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

As of the period ended December 31, 2020

(UNAUDITED)

	Q2 FY21	Q2 FY20	Change	% Change
Cash flows from operating activities				
Net income	**(1,994,144)**	**(2,290,266)**	296,122	-12.93%
Adjustments for non-cash transactions				
Depreciation and amortization	162,801	214,507	(51,706)	-24.10%
Deferred income taxes	-	(205,641)	205,641	-100.00%
Allowance for doubtful accounts	16,444	-	16,444	0.00%
Changes operational working capital, excluding cash and debt				
Trade receivables	382,093	1,470,949	(1,088,856)	-74.02%
Inventory	(39,818)	453,421	(493,239)	-108.78%
Prepaid expenses	165,753	217,185	(51,432)	-23.68%
Other current assets	-	-	-	0.00%
Accounts payable and accrued expenses	1,490,798	(938,327)	2,429,125	-258.88%
Deferred revenue	15,503	-	15,503	0.00%
Income taxes payable	(317,556)	(333,157)	15,601	-4.68%
Net cash provided by / (used in) operating activities	**(118,126)**	**(1,411,329)**	1,293,203	-91.63%
Cash flows from investing activities				
Additions to property and equipment	58,205	(1,412,510)	1,470,715	-104.12%
Acquisition of intangible assets	51,150	(27,788)	78,938	-284.07%
Decrease / (increase) in restricted cash and cash equivalents	-	-	-	0.00%
Decrease / (increase) in non-current assets/liabilities	195,267	195,197	70	0.04%
Redemption of matured short-term investments	-	-	-	0.00%
Net cash provided by / (used in) investing activities	**304,622**	**(1,245,101)**	1,549,723	-124.47%
Cash flows from financing activities				
Changes in long-term borrowings	(150,000)	-	(150,000)	0.00%
Changes in deferred revenue	-	-	-	0.00%
Dividends paid	-	-	-	0.00%
Decrease / (increase) in equity	-	-	-	0.00%
Net cash provided by / (used in) financing activities	**(150,000)**	**-**	(150,000)	0.00%
Net increase / (decrease) in cash and cash equivalents	**36,496**	**(2,656,430)**	2,692,926	-101.37%
Cash and cash equivalents at the beginning of the fiscal year	116,170	2,993,838	(2,877,668)	-96.12%
Cash and cash equivalents at the end of the fiscal year	**152,666**	**337,408**	(184,742)	-54.75%

01. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Hydromer®, Inc. & Subsidiary (the "Company") is an ISO 9001:2015 leading global Business-to-Business (B2B) surface modification and coating solutions provider with polymer research and development and manufacturing services capabilities for a wide variety of applications. The Company is a U.S. public corporation domiciled in Concord, NC, with customers in the United States of America, Europe, and Asia-Pacific. For over 40 years, Hydromer®, Inc. has developed value-added solutions to serve businesses in domestic and international markets, in a wide range of industries. Driven by the new corporate leadership's strategic business objectives and goals, the Company's operations were restructured into two distinct business segments: *Industrial* and *Medical*.

The *Industrial* segment delivers high-quality, customized anti-fog, anti-frost, and condensation-control coating solutions for a variety of applications on many substrates including, Polycarbonate, Glass, Metal, Ceramics and Polyurethane. This segment's product portfolio displays a presence in a range of multi-billion-dollar markets including, agricultural, appliances, automotive, electronics, sensors, swim & ski goggles, face visors, etc.

The *Medical* segment serves the numerous regulatorily approved specialized medical devices via our medical coatings with innovative qualities that reduce inserting and withdrawal friction and potential trauma and markedly improve the performance of medical devices. We serve customers in the complex cardio-vascular and neuro vascular catheter market as well as in gastrointestinal (GI) and urological medical devices space, as just a few examples.

Additionally, the Company continues its involvement in finding g*reen alternatives* that serve the growing sustainability trends while also looking to further advance its past technological success with its Hydrogel Technologies. Green Alternatives focus on meeting the growing demand for non-hazardous, nature-based ingredients that provide more natural, plant-based technologies and alternatives to a variety of markets. The markets being explored by Hydromer's technology portfolio are primarily in personal care, health & hygiene, household and kitchen sanitation, cosmetics, as well as food and beverage. While *Hydrogel* Technologies promote proprietary bio-compatible, hydrophilic delivery systems for various applications in numerous industries.

The Company also specializes in an array of global B2B services such as, coating services, R&D, analytical testing, technology transfer, and specialized machinery building & installation.

Established in 1980, the Company has successfully developed over 90 proprietary formulas and secured over 400 worldwide patents over its history, including anti-microbial, anti-fog, anti-frost, condensation-controlling, hydrophilic and thromboresistant coatings. This track record of innovation plays an important part in the Company's 40 year-long sustainable revenues from product sales, royalties, and service & support agreements.

The Company's shares are listed for trading on the OTCQ Markets -Pink Sheets Platform- [Symbol: HYDI].

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and include the accounts of Hydromer's wholly owned subsidiary. All intercompany transactions have been eliminated.

Use of Estimates

The preparation of the Company's Consolidated financial statements in conformity with US GAAP requires management to exercise certain judgments and to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and disclosures in the financial statements and accompanying notes. Actual results could differ from those estimates. The Company evaluates estimates and underlying assumptions on an ongoing basis.

Cash Equivalents

Cash and cash equivalents consist of investments with original maturities of three months or less. As of December 31, 2020, total cash was $153K. There were no cash equivalents as of December 31, 2020.

Accounts Receivable

The Company's Accounts receivable are uncollateralized, non-interest-bearing customer obligations due under normal trade terms requiring payment typically within 30 days from the invoice date, or in the case of royalties or contract payments (see Revenue Recognition note), usually 45 days from the end of a calendar quarter. Trade Accounts receivable are stated at the amounts billed to the customer; royalties and contract revenues are estimated until reported by the licensee/contractual party. Payments of Accounts receivable are allocated to the specific invoices identified on the customer's remittance advice or, if unspecified, are applied to the oldest unpaid invoices. The carrying amount of accounts receivable is reduced by a valuation allowance that reflects the Company's best estimate of the amounts that may not be collected. This estimate is based on reviews of all balances more than 90 days past due from the invoice date. Based on this assessment and of current credit worthiness, the Company estimates the portion, if any, of the balance that will not be collected. Management also considers the need for additional general reserves and reviews its valuation allowance on a quarterly basis. The ending balance in the allowance for doubtfully account was $16K and $112K as of December 31, 2020 and 2019, respectively.

Fair Value Measurements

Accounting Standards Codification 820-10, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value under U.S. Generally Accepted Accounting Principles (U.S. GAAP) and enhances disclosures about fair value measurements. Fair value is defined under ASC 820-10 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or the most advantageous market for an asset or liability in an orderly transaction between participants on the measurement date. Valuation techniques used to measure fair value under ASC 820-10 must maximize the use of observable inputs and minimize the use of un-observable inputs. The standard describes a fair value hierarchy based on the levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- *Level 1* - Quoted prices in active markets for identical assets or liabilities.

- *Level 2* - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or corroborated by observable market data or substantially the full term of the assets or liabilities.

- *Level 3* – Un-observable inputs that are supported by little or no market activity and that are significant to the value of the assets or liabilities.

Some of the Company's financial instruments are not measured at fair value on a recurring basis but are recorded at amounts that approximate fair value due to their liquid or short-term nature, such as cash and cash equivalents, accounts receivable and accounts payable. The Company reported no financial assets and liabilities requiring fair value reporting as of December 31, 2020 and 2019.

Inventory

The Company's inventory is carried at the lower of cost, determined by the first-in, first-out (FIFO) method, or net realizable value. The cost of inventories includes net prices paid for materials purchased, charges for freight and custom duties, production labor costs and factory overhead based on normal operating capacity. Allowances are made for slow moving, obsolete or unsellable inventory.

Property, Equipment & Depreciation

The cost of property and equipment, which includes a reasonable portion of labor costs for assets built in-house, is depreciated on a straight-line method over the estimated useful lives of the assets: 5-10 years for machinery and equipment, 3-5 years for furniture and office equipment, 40 years for the building, and leasehold improvements are depreciated over the lesser of the estimated useful life of the leasehold improvement or the term of the underlying lease. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

Patents

Registration and maintenance costs associated with the filing and registration of patents are prepaid and amortized over its remaining life of the patent, not to exceed 20 years. Costs associated with patents which are not approved or abandoned are expensed in the period in which such patents are not approved or abandoned. The annual maintenance fees associated with existing patents are expensed over 12 months and are included in Prepaid Expenses. The Research and Development costs associated with the patented technology are expensed as incurred and are not capitalized.

Long-Lived Assets

The Company assesses Long-lived assets for impairment as required under ASC 360-10, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company tests for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be recoverable. The Company assesses these assets for impairment based on the estimated future cash flows to be derived from those assets.

Revenue Recognition

Revenues from product and services sales are recognized at the time of shipment or when services are rendered if collection of the resulting receivable is probable. Revenues from royalties are recognized upon the sale of certain products by licensees with whom the Company has licensing agreements. Contract revenues, which includes payments from stand-still, supply or support agreements that are typically based on time frames, are recognized in the periods to which it pertains. Deferred revenues are recorded when agreements call for payment ahead of when the amounts are earned.

In multiple element arrangements, revenue is allocated to each separate unit of accounting and each deliverable in an arrangement is evaluated to determine whether it represents separate units of accounting. A deliverable constitutes a separate unit of accounting when it has standalone value and there is no general right of return for the delivered elements. Instances when the criteria are not met, the deliverable is combined with the undelivered elements and the allocation of the arrangement consideration and revenue recognition is determined for the combined unit as a single unit of accounting. Allocation of the consideration is determined at arrangement inception based on each unit's relative selling price.

Shipping and Handling Fees

The Company includes in revenues the costs of shipping and handling billed to customers and the related expense of shipping and handling costs is recognized as cost of sales.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the bases of assets and liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for operating losses that are available to offset future federal and state income taxes. Any interest charges on underpayment or other assessments are recorded as interest expense. Any penalties are recorded in operating expenses.

Earnings Per Share

The Company calculates basic net earnings per common share by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding for that period *(ASC 260-10, Earnings Per Share)*.

Dividends

Dividends in the amount of $0.25 per common share totaling $1.2M were paid in October 2018.

Discontinued Operations

The Company made the strategic decision to divest its T-HEXX Animal Health business which was completed in August 2019. Except as explicit described as discontinued operations and unless otherwise noted, all discussions and amounts presented herein relate to the Company's continuing operations.

02. BUSINESS SEGMENTS AND GEOGRAPHIC AREAS

The Company's operating segments reflect its business structure and the way financial information is regularly reviewed by the Company. Business segments are reported in a manner consistent with the amounts reflected in the Consolidated financial statements.

The Company evaluates business segments by revenues, total expenses, and earnings before income taxes. The Company's assets are typically not reviewed by business segment. The accounting policies of these segments are described in the "Summary of Significant Accounting Policies" section. Corporate overhead such as, salaries and benefits of executive leadership, support services (accounting, legal, IT, human resources, purchasing), and other shared services such as, building maintenance, and warehousing are presented separately from the business segments.

The Company's financial statements and results from operations are broken down into two business segments: Industrial and Medical.

Industrial Segment: This business segment is comprised of the Company's anti-fog, anti-frost, and condensation-control products. This business segment includes transactions associated with the manufacturing and sale of products; services including contract coatings, analytical testing, technology transfers; any royalties derived from those contracts (i.e. sales, services, support);

research and development efforts targeted towards this technology and product line; and any other transactions within those product categories. The Company's line of products within the industrial segment include: Hydromer's Luxere™ anti-fog and condensation control coatings, Glacial™ anti-frost coating, and Brillianz™ UV stable anti-fog and condensation control coating, and the divested T-HEXX animal products line.

Medical Segment: This business segment comprises transactions derived from the following coatings: hydrophilic, anti-microbial, thrombo-resistant, one-step, cell-growth, drug-delivery, and primers. This business segment includes transactions associated with the manufacturing and sale of products; services including contract coatings, analytical testing, technology transfers; royalties derived from those contracts; research and development efforts aimed at this technology and product line; and any other transactions within those product categories. The Company's line of products accounted for within the medical segment include Hydromer® hydrophilic medical device coatings, Hydromer® thromboresistant coatings, Hydromer® one-step coatings, Hydromer® cell-growth enhancing coatings, and Hydromer® primers.

Hydrogel Technologies is expected to market the Company's line of novel hydrophilic hydrogels products. This segment currently remains under preliminary research and development phase.