



HYDROMER, INC

CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal year ended
June 30, 2022

Concord, NC



HYDROMER, INC
CONSOLIDATED STATEMENT OF OPERATIONS
For the fiscal year ended June 30, 2022
(UNAUDITED)

| | FY22 | % to Sales | FY21 | % to Sales | Change | % Change |
|--|-----------------------|---------------|-----------------------|---------------|---------------------|-----------------|
| Revenues | | | | | | |
| Sale of products | \$ 1,433,397 | 38.0% | \$ 1,176,861 | 32.0% | \$ 256,536 | 21.8% |
| Services revenue | 1,683,511 | 44.6% | 1,451,699 | 39.5% | 231,812 | 16.0% |
| Royalty and contracts revenue | 659,352 | 17.5% | 1,050,101 | 28.5% | (390,749) | -37.2% |
| Total revenues | 3,776,260 | 100.0% | 3,678,661 | 100.0% | 97,599 | 2.7% |
| Expenses | | | | | | |
| Cost of sales | 1,931,477 | 51.1% | 2,476,385 | 67.3% | (544,908) | -22.0% |
| Operating expenses | 3,565,352 | 94.4% | 4,061,359 | 110.4% | (496,007) | -12.2% |
| Total expenses | 5,496,829 | 145.6% | 6,537,744 | 177.7% | (1,040,915) | -15.9% |
| Operating revenue/(loss) | (1,720,569) | -45.6% | (2,859,083) | -77.7% | 1,138,514 | -39.8% |
| Other income/(expense) | 30,000 | 0.8% | (2,039) | -0.1% | 32,039 | -1571.3% |
| Total other income/(expense) | 30,000 | 0.8% | (2,039) | -0.1% | 32,039 | -1571.3% |
| Income/(loss) from operations before income taxes | (1,690,569) | -44.8% | (2,861,122) | -77.8% | 1,170,553 | -40.9% |
| Expense/(benefit) from income taxes | (76,076) | -2.0% | (128,750) | -3.5% | 52,674 | -40.9% |
| Net income/(loss) | \$ (1,614,493) | -42.8% | \$ (2,732,372) | -74.3% | \$ 1,117,879 | -40.9% |
| Basic and diluted loss from operations | (0.34) | | (0.57) | | | |
| Net income attributable to common shareholders | (0.34) | | (0.57) | | | |
| Weighted average number of common shares outstanding | 4,772,318 | | 4,772,318 | | - | 0.0% |
| Retained earnings/(accumulated deficit), beg-of-period | \$ (2,881,179) | | \$ (148,807) | | \$ (2,732,372) | 1836.2% |
| Net income | (1,614,493) | | (2,732,372) | | 1,117,879 | -40.9% |
| Dividends paid | - | | - | | - | 0.0% |
| Retained earnings/(accumulated deficit), end-of-period | \$ (4,495,672) | | \$ (2,881,179) | | \$ (1,614,493) | 56.0% |



HYDROMER, INC
CONSOLIDATED BALANCE SHEET
 As of the fiscal year ended June 30, 2022
 (UNAUDITED)

| | FY22 | FY21 | Change | % Change |
|---|------------------|------------------|-------------|----------|
| ASSETS | | | | |
| Current assets | | | | |
| Cash and cash equivalents | 14,274 | 288,983 | (274,709) | -95.1% |
| Trade receivables, net of \$76K and \$23K of allowance for doubtful account as of June 30, 2022 and 2021, respectively. | 692,832 | 436,782 | 256,050 | 58.6% |
| Inventory | 212,333 | 109,705 | 102,628 | 93.5% |
| Other current assets | - | - | - | 0.0% |
| Total current assets | 919,439 | 835,470 | 83,969 | 10.1% |
| Property and equipment, net | 1,515,269 | 2,161,696 | (646,427) | -29.9% |
| Intangible assets, net | 219,207 | 278,968 | (59,761) | -21.4% |
| Accrued income tax benefit | 235,823 | 270,327 | (34,504) | -12.8% |
| Other assets | - | 259,141 | (259,141) | -100.0% |
| Total assets | 2,889,738 | 3,805,602 | (915,864) | -24.1% |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current liabilities | | | | |
| Accounts payable | 537,514 | 828,642 | (291,128) | -35.1% |
| Other current liabilities | 1,530,538 | 443,158 | 1,087,380 | 245.4% |
| Current portion of deferred revenue | - | 97,623 | (97,623) | -100.0% |
| Total current liabilities | 2,068,052 | 1,369,423 | 698,629 | 51.0% |
| Long term debt | 968,533 | 968,533 | - | 0.0% |
| Total long term liabilities | 968,533 | 968,533 | - | 0.0% |
| Total liabilities | 3,036,585 | 2,337,956 | 698,629 | 29.9% |
| Stockholders' Equity | | | | |
| Preferred stock - "No Par-Value" 1,000,000 shares authorized 0 shares issued 0 shares outstanding as of June 30, 2022, and 2021, respectively. | - | - | - | 0.0% |
| Common stock - "No Par Value" 15,000,000 shares authorized 4,783,235 shares issued 4,772,318 shares outstanding as of June 30, 2022, and 2021, respectively. | 3,721,815 | 3,721,815 | - | 0.0% |
| Contributed capital | 633,150 | 633,150 | - | 0.0% |
| Retained earnings | (4,495,672) | (2,881,179) | (1,614,493) | 56.0% |
| Treasury stock - at "Cost" 10,917 common shares | (6,140) | (6,140) | - | 0.0% |
| Total stockholders' equity | (146,847) | 1,467,646 | (1,614,493) | -110.0% |
| Total liabilities and stockholders' equity | 2,889,738 | 3,805,602 | (915,864) | -24.1% |



HYDROMER, INC
CONSOLIDATED STATEMENT OF CASH FLOWS
As of the fiscal year ended June 30, 2022
(UNAUDITED)

| | FY22 | FY21 | Change | % Change |
|---|--------------------|--------------------|-----------|----------|
| Cash flows from operating activities | | | | |
| Net income | (1,614,493) | (2,732,372) | 1,117,879 | -40.9% |
| Adjustments for non-cash transactions | | | | |
| Depreciation and amortization | 639,983 | 236,007 | 403,976 | 171.2% |
| Allowance for doubtful accounts | 53,000 | (22,989) | 75,989 | -330.5% |
| Cumulative Effect of Correction of Error (See Footnotes) | | 2,259,906 | | |
| <i>Changes operational working capital, excluding cash and debt</i> | | | | |
| Trade receivables | (309,050) | 271,613 | (580,663) | -213.8% |
| Inventory | (102,628) | 194,882 | (297,510) | -152.7% |
| Prepaid liabilities | - | 282,223 | (282,223) | -100.0% |
| Accounts payable and accrued liabilities | 796,252 | (706,393) | 1,502,645 | -212.7% |
| Deferred revenue | (97,623) | (10,037) | (87,586) | 872.6% |
| Accrued income tax benefit/liability | 34,504 | 179,452 | (144,948) | -80.8% |
| Other Assets | 259,141 | - | | |
| Net cash flow provided by/(used in) operating activities | (340,914) | (47,708) | 1,707,559 | -3579.2% |
| Cash flows from investing activities | | | | |
| Changes in property and equipment | 66,205 | - | 66,205 | 0.0% |
| Changes in intangible assets | - | - | - | 0.0% |
| Changes in non-current assets/liabilities | - | - | - | 0.0% |
| Net cash provided by/(used in) investing activities | 66,205 | - | 66,205 | 0.0% |
| Cash flows from financing activities | | | | |
| Changes in short/long-term borrowings | - | (465,505) | 465,505 | -100.0% |
| Changes in dividends | - | - | - | 0.0% |
| Changes in equity | - | - | - | 0.0% |
| Net cash flow provided by/(used in) financing activities | - | (465,505) | 465,505 | -100.0% |
| Net increase/(decrease) in cash and cash equivalents | (274,709) | (513,213) | 2,239,269 | -436.3% |
| Cash and cash equivalents at the beg of the fiscal year | 288,983 | 802,196 | (513,213) | -64.0% |
| Cash and cash equivalents at the end of the fiscal year | 14,274 | 288,983 | 1,726,056 | 597.3% |



HYDROMER, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
 As of the fiscal year ended June 30, 2022
 (UNAUDITED)

| | FY22 | FY21 | Change | % Change |
|---|------------------|------------------|-------------|----------|
| Stockholders' equity at the beginning of the fiscal year | 1,467,646 | 1,940,111 | (472,465) | -24.35% |
| Common stock and contributed capital: | | | | |
| Opening balance at the beginning of the fiscal year | 4,348,825 | 4,348,825 | - | 0.00% |
| Stocks issued | - | - | - | 0.00% |
| Closing balance at the end of the fiscal year | 4,348,825 | 4,348,825 | - | 0.00% |
| Retained earnings: | | | | |
| Opening balance at the beginning of the fiscal year | (2,881,179) | (2,408,713) | (472,466) | 19.61% |
| Net income | (1,614,493) | (2,732,372) | 1,117,879 | -40.91% |
| Dividends declared/paid | - | - | - | 0.00% |
| Stocks repurchased | - | - | - | 0.00% |
| Effects of changes in accounting policies | - | - | - | 0.00% |
| Effects of correction of prior period errors | - | 2,259,906 | (2,259,906) | -100.00% |
| Closing balance at the end of the fiscal year | (4,495,672) | (2,881,179) | (1,614,493) | 56.04% |
| Stockholders' equity at the end of the fiscal year | (146,847) | 1,467,646 | (1,614,493) | -110.01% |

Hydromer, Inc & Subsidiary
Notes to the Consolidated Financial Statements

01. SUMMARY OF 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 offering polymer research & development, and manufacturing services capabilities for a wide variety of applications. We are a U.S. public corporation domiciled in Concord, NC. Our customers are located across the United States of America, Europe, and Asia-Pacific.

The Company was established in 1980 and originally incorporated in the State of New Jersey. Initially, approximately 99% of the outstanding common stock of the Company with --no par value-- (the “Common Stock”) was owned by Biosearch Medical Products, Inc (“BMPI”). On September 16, 1982, BMPI distributed all its shareholdings in Hydromer, in return, the Company granted BMPI an exclusive, worldwide, perpetual, royalty-free license to use our technology to develop, manufacture, and market biomedical devices for enteral feeding applications. On February 4, 2000, the Company acquired all the outstanding common stock of BMPI for \$0.20 per share, consequently, BMPI became a wholly owned subsidiary of Hydromer, fully managed and administered by the Company.

For over four decades, we have developed value-added solutions to serve businesses in domestic and international markets, in a wide range of industries. Driven by the new strategic business objectives and goals, the Company’s operations were restructured into two distinct business segments: *Medical* and *Industrial*.

(i.) *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 cardiovascular and neurovascular catheter market as well as in gastrointestinal (GI) and urological medical device markets, among many others.

(ii.) *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 multibillion-dollar markets including, agricultural, appliances, automotive, electronics, sensors, swim and ski goggles, face visors, etc.

We manage many global B2B services such as coating services, research and development, analytical testing, technology transfer, and dedicated machinery building, installation, and support.

We have successfully developed proprietary formulations and have secured many patents worldwide at separate times throughout our history including, anti-microbial, anti-fog, anti-frost, condensation-controlling, hydrophilic and thromboresistant coatings. Our track record of innovation plays an integral part in over four decades of sustainable revenues from product sales and services, royalties, and support agreements.

The Company’s securities are publicly traded on the OTCIQ pink sheets markets, under the 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 (“U.S. GAAP”) and include the accounts of Hydromer’s wholly owned subsidiary, BMPI. All intercompany transactions have been eliminated.

Use of Estimates

The preparation of the Company’s consolidated financial statements in conformity with U.S. 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.

Hydromer, Inc & Subsidiary
Notes to the Consolidated Financial Statements

Cash Equivalents

Cash and cash equivalents consist of investments with original maturities of three months or less. As of June 30, 2022, the total cash was \$14K. There were no cash equivalents as of June 30, 2022, and 2021.

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 (refer to 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 creditworthiness, 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 every quarter.

The ending balance in the allowance for doubtful accounts was \$76K and \$23K on June 30, 2022, and 2021, respectively.

Fair Value Measurements

Accounting Standards Codification 820-10, *Fair Value Measurements*, defines fair value, sets up a framework for measuring fair value under 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 unobservable 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 is 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* - Unobservable 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 June 30, 2022, or 2021.

Inventory

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

Property, Equipment, and 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: five-ten periods for machinery and equipment, three-five periods for furniture and office equipment, forty periods for the building, and leasehold improvements

Hydromer, Inc & Subsidiary
Notes to the Consolidated Financial Statements

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 the remaining life of the patent, not to exceed 20 periods. Costs associated with patents that 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 service sales are recognized at the time of shipment or when services are rendered if the 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 include 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 they are earned.

In multiple element arrangements, revenue is

distributed to each separate unit of accounting and each deliverable in an arrangement is evaluated to figure out 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. In 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 decided for the joint unit as a single unit of accounting. Allocation of the consideration is determined at arrangement inception based on each unit's relative selling price. The Company does not engage in multiple element arrangements and therefore any impact is immaterial.

Shipping and Handling Charges

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

Marketing and Advertising

Costs associated with marketing and advertising are expensed in the period incurred and are included in operating expenses. Total marketing and advertising expenses were \$1K and \$7K for the fiscal years ended June 30, 2022, and 2021, respectively.

Research and Development

Research and development costs are primarily made up of employee salaries and benefits, are charged to operations when incurred, and are included in operating expenses. The amounts charged to expenses for the fiscal years ended June 30, 2022, and 2021 were \$10K and \$17K, respectively.

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

Hydromer, Inc & Subsidiary
Notes to the Consolidated Financial Statements

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 an underpayment or other assessments are recorded as interest expenses. Related 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

No dividends were paid during the fiscal years ended June 30, 2022, and 2021, respectively.

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 consistently 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 the business segment. The accounting policies of these segments are described in the Summary of Significant Accounting Policies. Corporate overhead is formed primarily of salaries and benefits of senior management, support services (accounting, legal, IT, human resources, purchasing), and other shared services (building maintenance and warehousing), and are reflected separately from the results of the business segments.

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

Medical segment: This business segment includes transactions derived from the following coatings: hydrophilic, anti-microbial, thrombo-resistant, one-step, cell growth, drug delivery, and primers. It includes transactions corresponding to the manufacturing and sale of products; services,

including contract coating, analytical testing, and technology transfer; royalties derived from those contracts; research and development efforts aimed at this technology and product line; and any other transactions within this product category.

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 market the Company's line of novel hydrophilic hydrogels products, currently under development and testing.

Industrial segment: This business segment is surrounded by the Company's anti-fog, anti-frost, and condensation-control products. It includes transactions corresponding to the manufacturing and sale of products; services, including contract coating, analytical testing, and technology transfer; any royalties derived from those contracts (i.e., sales, services, support); research and development efforts targeted toward this technology and product line; and any other transactions within this product category.

The Company's line of products within the industrial segment includes Hydromer's Luxere™ anti-fog and condensation control coatings, Glacial™ anti-frost coating, Brillianz™ UV stable anti-fog and condensation control coating, and the divested T-HEXX animal products line.

03. CONCENTRATION OF CREDIT & BUSINESS RISK

The Company is exposed to additional credit and business risks due to its concentration of activity with certain parties. For example, at times throughout the year, the Company may maintain certain bank accounts more than FDIC insured limits.

Additionally, the Company provides customers credit in the normal business course. Periodic credit evaluations of customers are performed, and allowances for doubtful accounts are based on factors surrounding the credit risk of those specific customers, historical trends, and other information.

Hydromer, Inc & Subsidiary
Notes to the Consolidated Financial Statements

Credit risk was concentrated in two customers whose outstanding receivable balances accounted for 5% and 2%, respectively of total accounts receivable for the period ended June 30, 2022.

04. RETAINED EARNINGS

In 2021, the Company discovered that in fiscal years 2010 to 2019, certain journal entries to record quarterly manufacturing cost of sales and to reduce the inventory value for materials used to manufacture products sold, were duplicated. As a result, the total cost of sales was overstated, while operating revenues and the carrying value of inventory were understated. The cumulative effect of the error was corrected to retained earnings in the Company's restated consolidated financial statements for the fiscal year ending June 30, 2021.

05. INVENTORY

The inventory used in the Company's manufacturing process consists of:

| | '000 USD | |
|------------------------|---------------|---------------|
| | FY22 | FY21 |
| Raw materials | \$ 30 | \$29 |
| Work-in-progress | 93 | 30 |
| Finished goods | 89 | 51 |
| Total inventory | \$ 212 | \$ 110 |

06. PROPERTY AND EQUIPMENT

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

| | '000 USD | |
|------------------------------|-----------------|-----------------|
| | FY22 | FY21 |
| Machinery and equipment | \$ 2,062 | \$ 2,038 |
| Furniture and fixtures | 284 | 355 |
| Computer equipment | 342 | 342 |
| Leasehold improvements | 1,975 | 1,995 |
| Total PP&E, gross | 4,663 | 4,730 |
| Total accum deprec. | (3,148) | (2,568) |
| Total PP&E, net | \$ 1,515 | \$ 2,162 |

Total depreciation expense for the fiscal years ended June 30, and 2021, was \$211K and \$196K respectively.

07. INTANGIBLE ASSETS

The total net book value of the Company's intangible assets was \$219K and \$279K as of June 30 2022, and 2021, respectively, as follows:

| | '000 USD | |
|-------------------------------------|--------------|--------------|
| | FY22 | FY21 |
| Patents | \$793 | \$793 |
| Trademarks | 43 | 43 |
| Total intangible assets | 836 | 836 |
| Accumulated amortization | (617) | (557) |
| Total intangible assets, net | \$219 | \$279 |

Future amortization of intangible assets as of June 30, 2022:

| | '000 USD | |
|---------------------|-----------|------------|
| <u>Year ending,</u> | | |
| 2023 | 46 | |
| 2024 | 39 | |
| 2025 | 32 | |
| Thereafter | 102 | |
| Total | \$ | 219 |

Amortization expense was \$87K and \$86K for the fiscal years ended June 30, 2022, and 2021, respectively.

08. OTHER CURRENT LIABILITIES

Other Current Liabilities primarily includes deferred compensation, accrued payroll and benefit costs, income taxes payable and other general expenses for which invoices have not been received. For the fiscal years ended June 30, 2022, and 2021, total other current liabilities were \$1.5M and \$0.5M, respectively.

09. RESTRUCTURING RESERVE

The Company kept a restructuring reserve to cover the additional costs of restructuring and relocating the Company's operations and corporate headquarters to Concord, NC. Total restructuring expenses incurred for the year ended September 2021 totaled \$748K. In the fiscal year 2021, the Company incurred significant expenses attributable to this reserve. The full amount of the reserve was consumed in the fiscal year 2021.

Hydromer, Inc & Subsidiary
Notes to the Consolidated Financial Statements

10. INCOME TAXES

For the fiscal years ended June 30, 2022 and 2021, the Company's income tax provision (benefit) was comprised of the following:

'000 USD

| | <u>Federal</u> | <u>State</u> | <u>Total</u> |
|----------------------|----------------------|---------------------|----------------------|
| <i>June 30, 2022</i> | | | |
| Current | \$ 41 | \$ 17 | \$ 58 |
| Deferred | 186 | 80 | 266 |
| Total | <u>\$ 227</u> | <u>\$ 97</u> | <u>\$ 324</u> |
| <i>June 30, 2021</i> | | | |
| Current | \$ 48 | \$ 21 | \$ 69 |
| Deferred | 97 | 42 | 139 |
| Total | <u>\$ 145</u> | <u>\$ 63</u> | <u>\$ 208</u> |

The Company has not yet filed its corporate tax return for the calendar years 2021 and 2022.

11. LONG-TERM DEBT

For the years ended June 30, 2022, and 2021, the Company's long-term debt totaled \$969K in both years, respectively.

| | <u>FY22</u> | <u>FY21</u> |
|-----------------------------|-------------------|-------------------|
| CARES Act Loan #1 | \$ 350 | \$ 350 |
| CARES Act Loan #2 | 469 | 469 |
| Economic Disaster Loan | 150 | 150 |
| Total Long-Term Debt | <u>969</u> | <u>969</u> |

The Company obtained three separate loans through the Small Business Administration ("SBA") under the Coronavirus (COVID-19) Aid Relief and Economic Security ("CARES") Act and the Economic Disaster Loans - COVID-19 Relief Act. The loans were disbursed through June 30, 2022 with no further amounts available. These proceeds of the loans were used in accordance with the Acts, and therefore are all eligible for forgiveness in accordance with those Acts. While the Company has not yet obtained all approvals and agreements for said forgiveness, the Company does not believe there is any risk in the forgiveness not being granted.

12. STOCK OPTIONS AND AWARDS

On February 22, 2022, the board of directors approved an option plan that granted each director 2K fully vested options for each meeting attended, awarded at the annual meeting at the five-day market

price average. There were no stock option issuances during the 2022 or 2021 fiscal periods as Directors waived their options earned in lieu of cash payments, of which no cash payments were made in 2022.

At the 2020 Annual Shareholders Meeting, the Company shareholders ratified, via proxy voting, the The Board of Directors approved the Stock Option Plan of 400K common share options for issuances towards employment recruitment and incentives. In October 2020, the Board of Directors authorized 250K common share options for issuances to eight active employees at the strike price of \$0.87, which was the fair market value (FMV) of the common stock on the past 10 days average of January 1, 2021 (Grant date). The vesting period is three-periods in equal annual increments, starting on January 1, 2021. As of June 30, 2022, there were no common stock options outstanding.

13. RETIREMENT PLAN

The Company sponsors a qualified 401K plan covering substantially all full-time employees under which eligible employees can defer a portion of their annual compensation. The Company determines annually, the amount of matching contributions. There were no Company matching contributions made to the plan during the fiscal years ended June 30, 2022, or 2021.

14. RECENT ACCOUNTING PRONOUNCEMENTS

The FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). This 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 March 15, 2018.

In February 2016, the FASB issued ASB 2016-02, Leases (Topic 842). The new standard amends several aspects of lease accounting, including requiring lessees to recognize operating leases with

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a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. The new standard is effective for private companies for fiscal periods beginning after March 15, 2021. Early adoptions are permitted. The new standard is required to be adopted using a modified retrospective approach.

15. SUBSEQUENT EVENTS

The Company evaluated the events and transactions after its June 30, 2022, balance sheet date and, in accordance with FASB ASC 855-10-50, *Subsequent Events*, determined there were no other significant events to report through June 30, 2022, date when the financial statements were available before issuance.

The Company's operations had been affected by the ongoing outbreak of COVID-19 which in March 2021, was declared a pandemic by the World Health Organization. To alleviate the impact of the disruption, the Company applied for and received loans under certain acts provided for by Congress (See Long-Term Debt footnote 11).

Any future impact of any COVID-19 resurgence after June 30, 2022 is unknown at this time.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

01. CHANGES IN ACCOUNTING STANDARDS

The Company has adopted the following new accounting standards:

The Tax Cut and Jobs Act (TCJA)

Effective March 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, ends the graduated corporate rate schedule, repeals the corporate alternative minimum tax, and doubles the Section 179 expensing limit for small business 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 to carry forward indefinitely. The new law also eliminates the domestic production activities deduction (Section 199). Starting in 2022, expenditures for research and experimentation must be amortized over five years (15 years for offshore research and experimentation expenses) instead of immediately deductible.

Contracts Revenue

Effective July 1, 2021, 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 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 March 15, 2018.

Operating Leases

Effective July 1, 2022, the Company adhered to the newly enacted FASB ASU 2016-02, Leases (Topic 842). By the guideline and for the operating leases corresponding to the corporate headquarters building in North Carolina, and the research and development offsite laboratory in New Jersey, the Company recognizes the right-of-use asset and a 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. In addition to the other information in this report and the Company's other filings with the OTC Markets Group Inc, investors should carefully consider the factors set forth below. Investors should be aware that it is not possible to predict or identify all such factors with certainty and that the following is 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.

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

On March 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.

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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 regularly 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 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.

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

The Company's continued growth and success depend 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.

The 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 buy 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, requires a 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 buying patterns. Even following initial regulatory approval, the success of a product can be set back by safety and efficacy findings in the 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 keeping the profitability of operations in economies experiencing

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high inflation rates. While the Company strives to support profit margins in these economies through cost reduction programs, productivity improvements, and periodic price increases, it might experience operating losses because 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 concerning payments to government officials. Those laws include the U.S. Foreign Corrupt Practices Act (FCPA), which precludes publicly traded companies from promising, offering, or giving anything of value to foreign officials with the corrupt intent of influencing the foreign official to help 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, and significant costs associated with addressing the shortage.

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

Starting in the last quarter of 2021 and throughout 2022, the Company faced operating and financial pressures resulting from the COVID-19 pandemic. The timing and extent of the Company's ability to work within normal levels and generate expected revenue have 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 were severely affected 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 2022 (foreign customers located in regions where the pandemic hit first started to experience the effects of the pandemic as early as March 2021). Uncontained virus outbreaks at manufacturing plants forced shutdowns of customers' production facilities that consume the Company's chemical coatings.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

I. MANAGEMENT NOTES ON THE STATEMENT OF INCOME

01. REVENUES (GROSS SALES)

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.

During the years ended June 30, 2022, and 2021, the Company reported total gross revenues of \$3.8M and \$3.7M respectively, resulting in a increase of \$49K (2%).

| | <u>FY22</u> | <u>FY21</u> |
|-----------------------|-----------------|-----------------|
| Product sales | \$1,433 | \$1,177 |
| Services income | 1,684 | 1,452 |
| Royalties | 659 | 1,050 |
| Total revenues | \$ 3,776 | \$ 3,679 |

'000 USD

Revenues increased in 2022 by approximately \$100K, due to primarily to (i) higher coating volumes from medical customers that had been adversely impacted by the COVID-19 pandemic and (ii) product sales to industrial customers. This was partially offset by lower royalty revenue due to lower volumes from several specific royalty customers.

In the periods ended June 30, 2022, and 2021, respectively, total revenue by geographical location was categorized as follows:

| | <u>FY22</u> | <u>FY21</u> |
|----------|-------------|-------------|
| Domestic | 84% | 82% |
| Foreign | 16% | 18% |

02. PERSONNEL COSTS

Personnel costs include all compensation costs incurred in connection with all the applicable personnel of the Company, including all salary, commission, payroll taxes, and benefits.

Throughout the year ended June 30, 2022, the Company functioned at comparable levels as previous years with approximately 15% lower

headcount. To manage the financial aftermath of the COVID-19 pandemic, management aimed at supporting optimal operating efficiency and effectively managing operating costs, thus, certain positions were not filled after employees' resignations, and management salaries were deferred and/or reduced for a limited time while achieving leaner and more efficient operations. Furthermore, salary deferrals/reduction schemes were indefinitely implemented for specific executive personnel.

During the periods ended June 30, 2022, and 2021, total employee costs were \$2.6M and \$2.9M, respectively, resulting in a decrease of \$343K (12%), attributed to the incorporating leaner operations and implementation of executive personnel's salary deferral/reduction measures.

03. MARKETING AND ADVERTISING

Costs associated with marketing and advertising are expensed in the period incurred and are included in operating expenses. During the periods ended June 30, 2022, and 2021, total marketing expenses were \$1K and \$7K, respectively resulting in a decrease of \$6K (92%), mainly attributed to stricter cost reduction measures implemented in the fiscal year 2022 to navigate the economic adversities of the COVID-19 pandemic.

04. RESEARCH AND DEVELOPMENT

Research and development costs are primarily represented by employee salaries and benefits. These costs are charged to operations when incurred and are included in operating expenses. The total amount charged to expenses for the periods ended June 30, 2022, and 2021, were \$10K and \$17K, respectively. The \$7K (41%) decrease was mainly attributed to the cost reduction measures implemented in the fiscal year 2022.

05. FACILITIES AND OPERATIONS

Comprises all costs incurred to keep and manage the Company's manufacturing and administrative facilities, including rent, utilities, and repairs & maintenance, among others, and are reported within operating expenses. Total facilities and operations expenses incurred during the periods ended June 30, 2022, and 2021, were \$464K and

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\$499K, respectively, representing a decrease of \$35K (7%) resulting from the implementation of strict cost reduction measures since the beginning of 2022.

06. GENERAL EXPENSES

The Company's General and administrative expenses during the years ended June 30, 2022 and 2021, were \$311K and \$399K, respectively, representing a decrease of \$88K (22%). This is attributed to continued cost reduction measures implemented in 2022 to navigate the financial aftermath of the COVID-19 pandemic.

07. RETAINED EARNINGS

Total Retained earnings for the years ended June 30, 2022, and 2021, were (\$4.5M) and (\$2.9M), respectively, with the only impact being the current fiscal year net loss.

The Company reported a \$1.6M total loss, net of an \$76K estimated provision for income taxes benefits, resulting in a net improvement of \$1.1M (41%) from the prior year's results due to the successful reductions in total operating expenditures of \$1.0M (20%).

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A. MANAGEMENT NOTES ON THE BALANCE SHEET

01. CASH AND CASH EQUIVALENTS

As of June 30, 2022, the Company's total aggregate cash was \$15K. There were no cash equivalents as of June 30, 2022, and 2021.

02. TRADE RECEIVABLES

The composition of the Company's total net accounts receivable as of the periods ended March 31, 2022, and 2021, respectively, is as follows:

| | '000 USD | |
|-----------------------|---------------|---------------|
| | <u>FY22</u> | <u>FY21</u> |
| A/R-trade | \$ 550 | \$ 277 |
| A/R-royalties | 220 | 183 |
| A/R- Allowance | <u>(77)</u> | <u>(23)</u> |
| Total A/R, net | \$ 693 | \$ 437 |

03. INVENTORY

The Company's ending inventory balances are comprised as follows:

| | '000 USD | |
|------------------------|---------------|---------------|
| | <u>FY22</u> | <u>FY21</u> |
| Raw materials | \$ 30 | \$ 29 |
| Work-in-progress | 93 | 30 |
| Finished goods | <u>89</u> | <u>51</u> |
| Total inventory | \$ 212 | \$ 110 |

The total cost of inventory recognized as expenses during the period and included in the cost of sales amounted to \$513K and \$735K during the periods ended June 30, 2022, and 2021, respectively. The 45% decrease was attributed to the enforcement of "Just-in-Time" inventory methods along with efficiencies and operating improvements achieved in manufacturing and production.

04. PROPERTY AND EQUIPMENT

For the years ended June 30, 2022, and 2021, respectively, the Company's property and equipment consisted of the following assets:

| | '000 USD | |
|------------------------------|-----------------|-----------------|
| | <u>FY22</u> | <u>FY21</u> |
| Machinery & equipment | 2,063 | 2,038 |
| Furniture & fixtures | 284 | 355 |
| Computer equipment | 342 | 343 |
| Leasehold improvements | <u>1,975</u> | <u>1,994</u> |
| Total PP&E, gross | \$ 4,664 | \$ 4,730 |
| | | |
| Total accum depreciation | <u>(3,148)</u> | <u>(2,568)</u> |
| | | |
| Total PP&E, net | \$1,515 | \$2,162 |

Machinery and equipment include the cost to buy equipment to optimize daily work functions in the warehouse, production and manufacturing areas, and research and development laboratory testing. Construction costs to improve and furnish the Company's new headquarters facility in North Carolina are reflected in leasehold improvements and furniture and fixtures.

Total depreciation expense for the years ended June 30, 2022 and 2021 were \$580K and \$196K, respectively; with the increase related to the capital investments made at the end of fiscal year 2021.

05. OTHER CURRENT LIABILITIES

For the fiscal year 2022, the Company includes as part of current liabilities the inventory adjustments account (contra-liability) which in years before 2021 was used to record periodic adjustments to the carrying values of manufacturing inventory.

The increase in Other Current Liabilities was partially attributable to product and other liabilities that had been incurred for which invoices had not yet been received as well as increases in deferred compensation and payroll related benefits.