

# POLYDEX PHARMACEUTICALS LIMITED

*QUARTERLY DISCLOSURE REPORT*

*APRIL 30, 2017*

*UNAUDITED*

POLYDEX PHARMACEUTICALS LIMITED  
QUARTERLY REPORT  
APRIL 30, 2017  
UNAUDITED

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**ITEM I      NAME OF ISSUER**

Polydex Pharmaceuticals Limited  
421 Comstock Road  
Toronto, Ontario, Canada  
M1L 2H5  
Tel: (416) 755-2231  
Fax: (416) 755-0334  
Web: [www.polydex.com](http://www.polydex.com)

**ITEM II      SHARES OUTSTANDING**

Preferred Stock – Class A

(i)	Period end date	April 30, 2017
(ii)	Authorized	100,000 shares at \$0.10 each
(iii)	Issued and outstanding	None
(iv)	Freely tradable shares (public float)	None
(v)	Number of shareholders of record	None

Preferred Stock – Class B

(i)	Period end date	April 30, 2017
(ii)	Authorized	899,400 shares at \$0.0167 each
(iii)	Issued and outstanding	899,400 shares
(iv)	Freely tradable shares (public float)	None
(v)	Number of shareholders of record	1

Common Stock

(i)	Period end date	April 30, 2017
(ii)	Authorized	10,000,000 shares
(iii)	Issued and outstanding	3,399,978 shares
(iv)	Freely tradable shares (public float)	2,561,166
(v)	Number of shareholders of record	226

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**ITEM III      INTERIM FINANCIAL STATEMENTS**

**CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

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**POLYDEX PHARMACEUTICALS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**APRIL 30, 2017**  
**UNAUDITED**

(Expressed in United States dollars)

	<b>April 30</b>	<b>January 31</b>
	<b>2017</b>	<b>2017</b>
	(Unaudited)	(Unaudited)
<b>Assets</b>		
Current assets:		
Cash	\$1,073,986	\$653,214
Investments available for sale (note 3)	595,235	620,578
Trade accounts receivable	910,565	1,103,759
Inventories		
Finished goods	734,614	852,704
Work in progress	202,603	69,567
Raw materials	<u>251,233</u>	<u>235,303</u>
	1,188,450	1,157,574
Prepaid expenses and other current assets	46,174	68,630
Total current assets	3,814,410	3,603,755
Property, plant and equipment, net	2,881,996	3,058,960
Deferred taxes (note 9)	--	21,986
Due from estate of former shareholder	20,903	20,903
	<u>\$6,717,309</u>	<u>\$6,705,604</u>

See accompanying notes.

**POLYDEX PHARMACEUTICALS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**APRIL 30, 2017**  
**UNAUDITED**

(Expressed in United States dollars)

	<b>April 30 2017</b>	<b>January 31 2016</b>
	(Unaudited)	(Unaudited)
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$646,656	\$443,717
Accrued liabilities	420,459	426,582
Income taxes payable	14,329	3,350
Other loans and advances (note 4)	151,225	151,225
Current portion of long-term debt	42,486	44,157
Current portion of capital lease obligations	31,608	38,309
Current portion of due to shareholder	36,000	36,000
Total current liabilities	1,342,763	1,143,340
Long-term debt (note 5a)	126,370	144,041
Capital lease obligations (note 5b)	12,249	16,889
Due to shareholder	354,989	360,617
	493,608	521,547
Total liabilities	1,836,371	1,664,887
Commitments and contingencies (note 6)		
Susequent events (note 7)		
Shareholders' equity:		
Capital stock		
Authorized:		
100,000 Class A preferred shares of \$0.10 each		
899,400 Class B preferred shares of \$0.0167 each		
10,000,000 common shares of \$0.0167 each		
Issued and outstanding:		
899,400 Class B preferred shares (January 31, 2017 - 899,400)	15,010	15,010
3,399,478 common shares (January 31, 2017 - 3,399,478)	56,649	56,649
Contributed surplus	23,801,359	23,801,359
Deficit	(19,071,236)	(19,220,395)
Accumulated other comprehensive income	79,156	388,094
	4,880,938	5,040,717
	\$6,717,309	\$6,705,604

See accompanying notes.

**POLYDEX PHARMACEUTICALS LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**APRIL 30, 2017**  
**UNAUDITED**

(Expressed in United States dollars)

	<b>Three Months Ended April 30 2017</b>	<b>Three Months Ended April 30 2016</b>
	(Unaudited)	(Unaudited)
<b>Sales</b>	\$1,260,085	\$1,457,975
Cost of goods sold	981,841	1,051,903
<b>Gross profit</b>	278,244	406,072
<b>Expenses</b>		
General and administrative	146,198	131,519
Interest expense, net	8,494	10,080
Selling and promotion	13,214	7,266
Depreciation	1,829	2,824
Research and development	--	603
Foreign exchange (gain) loss	(71,802)	176,253
Interest and other income	(1,355)	(371)
<b>Total expenses</b>	96,578	328,174
Income before income taxes	181,666	77,898
Provision for income taxes (note 9)		
Current	11,182	2,090
Deferred	21,325	--
	32,507	2,090
<b>Net income for the period</b>	<b>149,159</b>	<b>75,808</b>
Unrealized gain (loss) on investments available for sale	3,037	(709)
Currency translation adjustment	(311,975)	582,125
<b>Comprehensive income for the period</b>	<b>(\$159,779)</b>	<b>\$657,224</b>
Per share information:		
Earnings per common share:		
Basic	0.04	0.02
Diluted	0.04	0.02
Weighted average number of common shares used in computing net income per share for the period:		
Basic	3,399,978	3,380,678
Diluted	3,512,178	3,551,311

See accompanying notes.

**POLYDEX PHARMACEUTICALS LIMITED**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**APRIL 30, 2017**  
**UNAUDITED**

(Expressed in United States dollars)

	<b>Three Months Ended April 30 2017</b>	<b>Three Months Ended April 30 2016</b>
	(Unaudited)	(Unaudited)
Preferred Shares:		
Balance, beginning and end of period	\$15,010	\$15,010
Common Shares:		
Balance, beginning and end of period	\$56,649	\$56,323
Contributed Surplus:		
Balance, beginning and end of period	\$23,801,359	\$23,792,519
Deficit:		
Balance, beginning of period	(\$19,220,395)	(\$19,889,654)
Net profit for the period	149,159	75,808
Balance, end of period	(\$19,071,236)	(\$19,813,846)
Accumulated Other Comprehensive Income:		
Balance, beginning of period	\$388,094	\$13,540
Unrealized gain on investments available for sale	3,037	(709)
Currency translation adjustment for the period	(311,975)	582,125
Balance, end of period	\$79,156	\$594,956

See accompanying notes.



POLYDEX PHARMACEUTICALS LIMITED  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
APRIL 30, 2017  
UNAUDITED

(Expressed in United States dollars)

	Three Months Ended April 30 2017	Three Months Ended April 30 2016
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operating activities:		
Net profit for the period	\$149,159	\$75,808
Add (deduct) items not affecting cash:		
Depreciation and amortization	58,618	54,426
Deferred income taxes (note 9)	21,325	-
Net change in non-cash working capital balances related to operations	334,019	(145,018)
<b>Cash provided by operating activities</b>	<b>563,121</b>	<b>(14,784)</b>
Investing activities:		
Additions to property, plant and equipment	(27,256)	(30,330)
Proceeds (Acquisition) of investments available for sale	(1,355)	(230,750)
<b>Cash used in investing activities</b>	<b>(28,611)</b>	<b>(261,080)</b>
Financing activities:		
Repayment of long-term debt	(10,541)	(10,418)
Proceeds (Repayment) of capital lease obligations, net	(8,642)	(8,076)
Decrease in due to shareholder	(5,625)	(6,389)
<b>Cash used in financing activities</b>	<b>(24,808)</b>	<b>(24,883)</b>
Effect of exchange rate changes	(88,930)	163,881
<b>Net increase in cash and cash equivalents</b>	<b>420,772</b>	<b>(136,866)</b>
Cash, beginning of year	653,214	942,555
<b>Cash, end of period</b>	<b>\$1,073,986</b>	<b>\$805,689</b>

See accompanying notes.

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**ITEM III      NOTES TO INTERIM FINANCIAL STATEMENTS**

**1. Basis of Presentation:**

The information contained in the interim consolidated financial statements is condensed from that which would appear in annual consolidated financial statements. The interim consolidated financial statements included herein should be read in conjunction with the unaudited financial statements, and notes thereto, and other financial information contained in the Annual Report for the fiscal year ended January 31, 2017 as found on the Polydex Pharmaceuticals Limited (the “Company”) website, [www.polydex.com](http://www.polydex.com). The unaudited interim consolidated financial statements as of April 30, 2017 and 2016 include all normal recurring adjustments which management considers necessary for a fair presentation. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the entire fiscal year. The interim consolidated financial statements include the accounts and transactions of the Company and its majority owned subsidiaries in which the Company has equal to or more than a 50% ownership interest and exercises control.

Management has reviewed subsequent events, and there were no material subsequent events since June 15, 2017 that would require recognition or note disclosures in these financial statements.

**2. Significant Accounting Policies:**

Basis of consolidation

The interim consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions have been eliminated on consolidation.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term deposits with maturities of less than three months at the date of purchase.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates relate to the allowance for doubtful accounts, depreciation and amortization rates, and asset impairment charges.

Inventories

Inventories of raw materials are stated at the lower of cost and net realizable value, cost being determined on a first-in, first-out basis. Work-in-process and finished goods are valued at the lower

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of cost and net realizable value, and include the cost of raw materials, direct labor and fixed and variable overhead expenses.

Investments available for sale

Investments available for sale consist of Canadian medium term investments, and are stated at fair market value based on quoted market prices. Interest income is included in other income in the consolidated statement of operations as it is earned. Changes in market values during the holding period are reported as unrealized gain (loss) on investments available for sale and are included in other comprehensive income (loss). Realized gains (losses) are reclassified from accumulated other comprehensive income (loss) on a specific item basis when the security is sold or matured.

Property, plant and equipment and patents and intangible assets

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings 15 years

Machinery and equipment 3 to 10 years

Patents and intangible assets are recorded at cost and are amortized on a straight-line basis over their estimated useful lives of ten years. Intangible assets consist of intellectual property, government licenses and government license applications.

Useful life is the period over which the asset is expected to contribute to the Company's future cash flows. The Company reviews the recoverability of its long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset from the expected future pre-tax cash flows of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value.

Costs related to plant refurbishments and equipment upgrades that represent improvements to existing facilities are capitalized. Costs related to repair and maintenance of buildings and equipment are expensed. The Company has no major planned maintenance activity.

Revenue recognition

Revenue results from sales of bulk manufactured products. Revenue is recognized when title and risk of ownership of products pass to the customer. Title and risk of ownership pass to the customer pursuant to the applicable sales contract, either upon shipment of product or upon receipt by the customer.

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Product sold in bulk quantities is tested, prior to release for shipment, to ensure that it meets customer specifications, and in many cases, customers receive samples for their own testing. Approval is obtained from the customer prior to shipping.

Comprehensive income

The Company discloses comprehensive income in their financial statements. In addition to items included in net income, comprehensive income includes items currently charged or credited directly to shareholders' equity, such as foreign currency translation adjustments.

Shipping and handling costs

Shipping and handling costs incurred by the Company for shipment of products to customers are included in cost of goods sold.

Research and development

Research and development costs are expensed as incurred and are stated net of investment tax credits earned.

Foreign currency translation

The functional currency of the Company's Canadian operations has been determined to be the Canadian dollar. All asset and liability accounts of the Company except capital stock have been translated into United States dollars using the current exchange rates at the interim consolidated balance sheet dates. Capital stock is recorded at historical rates. Revenue and expense items are translated using the average exchange rates for the period. The resulting gains and losses have been reported separately as accumulated other comprehensive income within shareholders' equity.

Derivative financial instruments

The Company's Canadian subsidiary from time to time enters into foreign exchange contracts, to manage exposure to currency rate fluctuations related to expected future cash flows. The Company does not engage in speculative trading of derivative financial instruments. The foreign exchange contracts are not designated as hedging instruments, and as a result all foreign exchange contracts are marked to market and the resulting gains and losses are recorded in the consolidated statements of operations in each reporting period. Unrealized gains and losses are included in accrued liabilities in the consolidated balance sheets and in net change in non-cash working capital balances related to operations in the consolidated statements of cash flows. For the quarter ended April 30, 2017 the Company has not entered into any derivative financial instruments.

Stock options

The Company uses the fair value accounting methodology to apply recognition provisions to employee stock options granted, modified or settled. Compensation expense is recorded at the date stock options are granted. The amount of compensation expense is determined by estimating the fair value of the options granted using the Black-Scholes option pricing model.

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Income taxes

The Company accounts for income taxes by recognizing deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Deferred income taxes are provided using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities.

Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to tax expense in the period of enactment. Deferred tax assets may be reduced if deemed necessary based on a judgmental assessment of available evidence, by a valuation allowance for the amount of any tax benefits which are more likely, based on current circumstances, not expected to be realized.

Income per common share

Basic earnings per common share is computed using the weighted average number of common shares outstanding of 3,399,978 for the three months ended April 30, 2017 (2016 – 3,380,478). Diluted earnings per common share is computed using the weighted average number of common shares outstanding adjusted for the incremental shares, using the treasury stock method, attributed to outstanding options to purchase common stock. 112,200 incremental shares were used in the calculation of diluted earnings per common share for the period ending April 30, 2017 (2016 – 170,833).

**3. Investments Available For Sale:**

Investments available for sale, at fair value, consist of the following:

	<b>April 30 2017 \$</b>	January 31 2017 \$
TD short term bond fund consisting of Canadian government and Corporate bonds maturing in the next 1-5 years, currently yielding 1.38%	<b>294,852</b>	307,312
5 year global fixed income fund class A, with an average maturity of 3.57 years and a yield to maturity of 1.49%	<b>300,383</b>	313,266
	<b>595,235</b>	620,578

Investments available for sale are stated at fair value, based on quoted market prices. The Company expects that the investments available for sale may be used for working capital for fiscal 2018 and onwards. Accordingly the investments available for sale were classified as part of current assets as at April 30, 2017.

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**4. Other loans and advances:**

Other loans and advances consist of the following:

	<b>April 30 2017 \$</b>	January 31 2017 \$
Customer advance	<b>126,225</b>	126,225
Customer deposit	<b>25,000</b>	25,000
	<b>151,225</b>	151,225

The advance and deposit from customers are non-interest bearing, unsecured, and are repayable on demand.

**5. Long term debt obligations:**

[a] Bank term loan consists of the following:

	<b>April 30 2017 \$</b>	January 31 2017 \$
Bank term loan payable in monthly installments of Cdn \$5,547 (U.S. \$4,059) principal and interest at the Canadian banks' fixed rate of 4.20%	<b>168,856</b>	188,198
Less: current portion	<b>42,486</b>	44,157
	<b>126,370</b>	144,041

The bank term loan was arranged in January 2016 for 60 months at a fixed rate of prime plus 1.5% (2017 and 2016- 4.20%). Dextran Products Limited also obtained an operating loan facility of Cdn \$300,000 (USD – \$219,538) for working capital purposes, of which none was utilized at April 30, 2017 and January 31, 2017. This Canadian operating facility bears interest at the Canadian banks' prime lending rate plus 3.00% (2017-4.70%; 2016–4.50%), Bank indebtedness is collateralized by a general security agreement over the Company's assets and a collateral mortgage of Cdn \$500,000 (USD – \$365,898) on the Dextran Products Limited building.

Interest expense for the quarter on the loan was \$1,864 (2016 - \$2,362).

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Principal repayments on the bank loan are as follows:

	\$
<b>2018</b>	<b>42,486</b>
<b>2019</b>	<b>44,289</b>
<b>2020</b>	<b>46,169</b>
<b>2021</b>	<b>35,912</b>
	<b>168,856</b>

[b] Capital lease obligations consist of the following:

	<b>April 30 2017</b>	January 31 2017
	\$	\$
Obligation (Cdn. \$21,356) under a capital lease, repayable in quarterly installments of \$1,184 bearing interest at 9.42% and maturing in fiscal 2017	<b>15,628</b>	37,949
Obligation (Cdn. \$38,575) under a capital lease, repayable in monthly installments of \$2,989 bearing interest at 12.67% and maturing in fiscal 2018	<b>28,229</b>	17,249
Less current portion	<b>(31,608)</b>	(38,309)
	<b>12,249</b>	16,889

Future minimum annual lease payments on the capital lease obligations including interest are as follows:

	\$
<b>2018</b>	<b>34,629</b>
<b>2019</b>	<b>4,735</b>
<b>2020</b>	<b>4,735</b>
<b>2021</b>	<b>4,735</b>
<b>Total minimum lease payments</b>	<b>48,834</b>
<b>Less amount representing imputed interest</b>	<b>4,977</b>
	<b>43,857</b>

Interest expense for the 3 months ended April 30, 2017 for capital lease obligations was \$1,475 (2016 - \$2,653)

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**6. Commitments and Contingencies:**

In July of 2013, a subsidiary of the Company, Chemdex Inc., renewed its supply agreement with an existing customer and signed an agreement to supply raw materials for an additional product. The agreement is for a period of ten years, renewable for another ten years, and provides the customer with exclusive rights to these raw materials in the United States.

The Company's subsidiary, Dextran Products Limited has committed to purchase approximately \$200,000 of partially finished product from a contract manufacturer.

**7. Subsequent Events**

Subsequent to January 31, 2017 and with the approval of the Company's directors, the process of amalgamation of Polydex Pharmaceuticals Limited with its subsidiaries Dextran Products Limited and Polydex Chemicals (Canada) Limited was initiated. To facilitate this amalgamation Polydex Pharmaceuticals Limited and Polydex Chemicals Canada Limited were continued as Ontario corporations. The amalgamation took place on May 1, 2017.

**8. Stock-based Employee Compensation:**

The Company uses the fair value method to account for awards of stock-based employee compensation. No stock-based employee compensation expense was recorded during the period from February 1, 2017 to April 30, 2017, because there were no options granted during this period. Similarly, no stock-based employee compensation expense was recorded during the period from February 1, 2016 to April 30, 2016, because there were no options granted during that period.

**9. Provision for Income Taxes**

The Company's current income tax provision relates to income taxes owing at its subsidiary Dextran Products Limited. The deferred tax provision consists of expensing the remaining deferred tax asset since it is fully utilized during the quarter.



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**10. Segmented Information:**

Total revenue by significant customer:

	<b>Three Months Ended April 30 2017</b>	<b>Three Months Ended April 30 2016</b>
	\$	\$
Customer A	261,050	236,199
Customer B	219,158	92,459
Customer C	183,000	--
Customer D	102,497	292,461
Customer E	--	244,322
	<b>765,705</b>	<b>865,441</b>

Sales by geographic destination:

	<b>Three Months Ended April 30 2017</b>	<b>Three Months Ended April 30 2016</b>
	\$	\$
Europe	659,286	713,959
United States	279,930	425,044
Canada	219,158	92,862
Other	66,611	192,535
Pacific Rim	35,100	33,575
	<b>1,260,085</b>	<b>1,457,975</b>

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**ITEM IV      MANAGEMENT DISCUSSION AND ANALYSIS**

*The Company's fiscal year ends on January 31<sup>st</sup> of each year. In this report, fiscal year 2018 refers to the Company's fiscal year ending January 31, 2018. The following discussion should be read in conjunction with the April 30, 2017 interim consolidated financial statements and notes thereto included elsewhere in this report. Operating results for the three months ended April 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2018. For further information, refer to the Polydex Pharmaceuticals Limited Annual Report on our website, [www.polydex.com](http://www.polydex.com). The Company's financial statements are prepared in accordance with United States generally accepted accounting principles. All amounts are in United States dollars, unless otherwise denoted.*

**Overview**

The Company is engaged in the manufacture of bulk pharmaceutical intermediates for the worldwide veterinary pharmaceutical industry and also the manufacture and marketing of biotechnology-based products for the human pharmaceutical market. The Company conducts its business operations through its wholly-owned subsidiaries, Dextran Products and Chemdex. On May 1, 2017 Dextran Products Limited and Polydex Chemicals Canada Limited were amalgamated into the parent company Polydex Pharmaceuticals Limited.

The manufacture and sale of bulk quantities of dextran and derivative products for sale to large pharmaceutical companies throughout the world is conducted through Dextran Products in Canada. Chemdex in the United States provides ferric hydroxide and hydrogenated dextran to Sparhawk pursuant to a definitive supply agreement.

*Management Objectives for Fiscal 2018:*

While management is pleased with the results of the first quarter, a strong focus remains on reducing utility costs while continuing to ensure continuance of sales. Past interest in a new form of Dextran has been revived and promising results are being generated from one potential customer while another new potential customer is also showing strong interest. Management's attendance at a recent conference resulted in new potential opportunities which will be explored. Efforts also continue assisting customers with registration of product which offer the opportunity of increased sales. Financial results will continue to be affected by foreign exchange gains and losses which are beyond management's control.

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**Results of Operations**

*Three months ended April 30, 2017 compared to three months ended April 30, 2016:*

	<b>Three Months Ended April 30 2017</b>	Three Months Ended April 30 2016	Variance
<b>Net Profit</b>	<b>\$149,159</b>	\$75,808	97%
<b>Income per Share:</b>			
<b>Basic</b>	<b>\$0.04</b>	\$0.02	
<b>Diluted</b>	<b>\$0.04</b>	\$0.02	

The increase in net profit for the first quarter of fiscal year 2018 is primarily a result of foreign exchange gains due to the decrease in value of the Canadian dollar during the quarter.

	<b>Three Months Ended April 30 2017</b>	Three Months Ended April 30 2016	Variance
<b>Sales</b>	<b>\$1,260,085</b>	\$1,457,975	(14)%

Sales decreased for the first quarter of fiscal year 2018 from the comparable period for the first quarter of fiscal year 2017 due primarily to price competition in the United States which impacted demand for liquid product.

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	Three Months Ended April 30 2017	Three Months Ended April 30 2016	Variance
<b>Gross profit</b>	<b>\$278,244</b>	<b>\$406,072</b>	<b>(31)%</b>
Percentage of sales	22%	28%	

The decrease in gross profit in the first quarter of fiscal year 2018 was due to reduced sales as noted above, partially offset by the decrease in value of the Canadian dollar during the period (cost of sales is primarily denominated in Canadian dollars).

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016	Variance
<b>Selling, promotion, general and administrative expenses</b>	<b>\$159,412</b>	<b>\$138,785</b>	<b>15%</b>

The increase during the first quarter of fiscal year 2018 in selling, promotion, general and administrative expenses compared to the comparable period of fiscal 2017 is primarily due to increased legal costs related to the amalgamation (note 9).

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016	Variance
<b>Research and development expenditures</b>	<b>---</b>	<b>\$603</b>	<b>(100)%</b>

During fiscal year 2010 all of the Company's research into Ushercell was halted, with only some patent expenses being incurred and paid, as occurred in the first quarter of fiscal 2017. Since that time further patent fees have been curtailed, with no patent maintenance fees occurring in the first quarter of fiscal 2018.

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	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016	Variance
<b>Depreciation and amortization expense</b>	<b>\$58,618</b>	<b>\$54,426</b>	<b>8%</b>

The increase in depreciation and amortization resulted from the significant capital investments made during the later quarters of fiscal 2017, primarily in plant equipment.

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016	Variance
<b>Interest expense</b>	<b>\$8,494</b>	<b>\$10,080</b>	<b>(16)%</b>

The decrease in interest expense in the first quarter of fiscal year 2018 is due the declining balances of long term liabilities as well as the decrease in value of the Canadian dollar compared to the first quarter of fiscal 2017.

	Three Months Ended April 30, 2017	Three Months Ended April 30, 2016	Variance
<b>Foreign exchange (gain) loss</b>	<b>\$(71,802)</b>	<b>\$176,253</b>	<b>141%</b>

The foreign exchange gain for the first quarter of fiscal year 2018 was due to the decreasing value of the Canadian dollar compared to the United States dollar throughout the period. This gain compares to the loss in the first quarter of fiscal year 2017 which was due to the increasing value of the Canadian dollar throughout that period. The volatility of these exchange rates increase or decrease the value of exchange affected amounts in the Company's Canadian subsidiary, Dextran Products Limited, especially US denominated sales.

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	<b>Three Months Ended April 30, 2017</b>	Three Months Ended April 30, 2016	Variance
<b>Interest and other income</b>	<b>\$1,355</b>	<b>\$371</b>	<b>265%</b>

Interest and other income increased compared to the prior year due to the timing of investment receipts.

### **Liquidity and Capital Resources**

As of April 30, 2017, the Company had cash of \$1,073,986, compared to cash of \$653,214 at January 31, 2017. In the first quarter of fiscal year 2018, the Company generated cash of \$563,121 in its operating activities, compared to expending cash of \$14,784 for the first quarter of fiscal year 2017. The increase in the generation of cash for operations during the first quarter of fiscal year 2018 is primarily due to the timing of receivables collections and the increase in amounts payable to suppliers. Depreciation continues to be a non-cash expense of the Company.

While the Company's actual working capital increased to \$2,474,647 from \$2,459,774 as at January 31, 2017, the working capital ratio declined to 2.84 to 1 as of April 30, 2017, compared to and 3.15 to 1 as of January 31, 2017.

As of April 30, 2017, the Company had accounts receivable of \$910,565 and inventory of \$1,188,450 compared to \$1,103,759 and \$1,157,574 respectively at January 31, 2017 and \$1,030,292 and \$1,119,048 respectively at April 30, 2016. Accounts receivable decreased due to the timing of collections and lower sales, while inventory increased due to processing related to the partially finished product received at the end of the quarter.

Accounts payable increased to \$646,656 at April 30, 2017, compared to \$443,717 at January 31, 2017 and \$613,990 at April 30, 2016 due primarily to the partially finished product noted above.

During the first quarter of fiscal year 2018, capital expenditures totaled \$27,256 as compared to \$30,330 in the first quarter of fiscal year 2017. The slight decrease was due primarily to the decrease in value of the Canadian dollar. Additional expenditures on capital equipment are planned for the remainder of fiscal 2018.

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The change in accumulated other comprehensive income of the Company is primarily attributable to the currency translation adjustment of Dextran Products. Dextran Products' functional currency is the Canadian dollar. This currency translation adjustment arises from the translation of Dextran Products' financial statements to U.S. dollars.

The decrease in long term debt is due to continued loan repayments and the impact of the decreased value of the Canadian dollar compared to the United States dollar at January 31, 2017.

Changes in the relative values of the Canadian dollar and the United States dollar occur from time to time and may, in certain instances, materially affect the Company's results of operations.

The Company does not believe that the impact of inflation and changing prices has had a material effect on its operations or financial results at any time in the last three years.

**Related Party Transactions**

The amount outstanding under the due from shareholder as of April 30, 2017 was \$255,860 as compared to \$252,553 at January 31, 2017, including accrued interest. The Company has taken a cumulative provision of \$484,957 at April 30, 2017 (January 31, 2017 481,630) against accrued interest on the loan and the other amounts receivable from the estate as noted below. Obligations with respect to the loan transferred to the estate of Thomas C. Usher upon his death in February 2005.

Thomas C. Usher also owed \$250,000 to a subsidiary of the Company, Novadex International Limited, as of April 30, 2017, pursuant to a non-interest bearing loan with no specific repayment terms. The outstanding amount of this loan has not changed from January 31, 2017. The amounts continue to remain owing from the estate of Thomas C. Usher.

As of April 30, 2017, Thomas C. Usher, now through his estate, had pledged 243,263 common shares of the Company as security for these amounts owing to the Company. These common shares had a market value of \$364,894 at April 30, 2017, based on the closing price of the Company's common shares on the Pink Sheets quotation service on April 30, 2017. The Company intends to continue to hold the pledged assets as collateral until the amounts owing discussed above are repaid.

The Company had a commitment to pay an amount equal to one year's salary, \$110,000, to Thomas C. Usher's estate. The amount owing on this commitment as at April 30, 2017 is \$6,962 (January 31, 2017 – \$6,962).

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The Company also has an outstanding loan payable to Ruth Usher, a former director and the widow of Thomas C. Usher. The amount due from the Company pursuant to this loan decreased to \$414,548 as at April 30, 2016 from \$420,937 at January 31, 2016 due to monthly payments by the Company, less interest charges.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements.

**Critical Accounting Policies**

The Company's interim consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, applied on a consistent basis. The critical accounting policies include the use of estimates of allowance for doubtful accounts, the useful lives of assets and the realizability of deferred tax assets.

Management is required to make estimates and assumptions in preparing the consolidated financial statements that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the periods. The actual results could differ from these estimates. Significant estimates made by management include the calculation of reserves for uncollectible accounts, inventory allowances, useful lives of long-lived assets and the realizability of deferred tax assets.

***Revenue Recognition***

Revenue results from sales of bulk manufactured products and is recognized when title and risk of ownership of products pass to the customer. Title and risk of ownership pass to the customer pursuant to the applicable sales contract, either upon shipment of product or upon receipt by the customer. Since returns are rare and generally not accepted, management has not made provision for returns. In addition, product sold in bulk quantities is tested, prior to release for shipment, to ensure that it meets customer specifications, and in many cases, customers receive samples for their own testing. Approval is obtained from the customer prior to shipping.

***Allowance for Doubtful Accounts***

Accounts receivable is stated net of allowances for doubtful accounts. Allowances for doubtful accounts are determined by each reporting unit on a specific item basis. Management reviews the credit worthiness of individual customers and past payment history to determine the allowance for doubtful accounts. Since the majority of sales at Dextran Products are export, Dextran Products



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maintains credit insurance through a crown corporation which is supported by the Canadian government, for the majority of its customers' receivables. There has been no allowance for doubtful accounts during the past two fiscal years.

***Long-Lived Assets***

Long-lived assets are stated at cost, less accumulated depreciation or amortization computed using the straight-line method based on their estimated useful lives ranging from three to fifteen years. Useful life is the period over which the asset is expected to contribute to the Company's future cash flows. A significant change in estimated useful lives could have a material impact on the results of operations. The Company reviews the recoverability of its long-lived assets, including buildings, equipment and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset from the expected future pre-tax cash flows of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets as well as other fair value determinations.

***Deferred Tax Assets***

The Company has recorded a valuation allowance on deferred tax assets where there is uncertainty as to the ultimate realization of the future tax deduction. Dextran Products has incurred capital losses, which are only deductible against capital gains. It is not certain that Dextran Products will realize capital gains in the future to use these Canadian capital loss deductions.

**Changes in Accounting Policies**

No changes in accounting principles or their application have been implemented in the reporting period that would have a material effect on reported income.

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**ITEM V      LEGAL PROCEEDINGS**

Not applicable.

**ITEM VI      DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM VII      OTHER INFORMATION**

Not applicable.

**ITEM VIII      EXHIBITS**

Not applicable

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**ITEM IX      CERTIFICATIONS**

I, George G. Usher, certify that:

1. I have reviewed this quarterly disclosure statement of Polydex Pharmaceuticals Limited;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

June 15, 2017

/s/ George G. Usher

Chairman, President and Chief Executive Officer  
Polydex Pharmaceuticals Limited

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**ITEM IX      CERTIFICATIONS (Continued)**

I, John A. Luce, certify that:

1. I have reviewed this quarterly disclosure statement of Polydex Pharmaceuticals Limited;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

June 15, 2017

/s/ John A. Luce

Chief Financial Officer  
Polydex Pharmaceuticals Limited