POLYDEX PHARMACEUTICALS LIMITED

QUARTERLY DISCLOSURE REPORT

JULY 31, 2017

UNAUDITED

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
JULY 31, 2017
UNAUDITED

INDEX

ITEM I	**Name of Issuer**	Page	3
ITEM II	**Share Structure**	Page	3
ITEM III	**Consolidated Financial Statements**		
	Interim Financial Statements	Page	4-9
	Notes to Interim Financial Statements	Page	10-17
ITEM IV	**Management Discussion and Analysis**	Page	18-26
ITEM V	**Legal Proceedings**	Page	27
ITEM VI	**Defaults Upon Senior Securities**	Page	27
ITEM VII	**Other Information**	Page	27
ITEM VIII	**Exhibits**	Page	27
ITEM IX	**Certifications**	Page	28-29

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
JULY 31, 2017
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ITEM I NAME OF ISSUER

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ITEM II SHARES OUTSTANDING

Preferred Stock – Class A

(i)	Period end date	July 31, 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	July 31, 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	July 31, 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

ITEM III INTERIM FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

TABLE OF CONTENTS

Consolidated Balance Sheets
July 31, 2017 and January 31, 2017 (Unaudited) 5-6

Consolidated Statements of Operations and Comprehensive Income
Three and six months ended July 31, 2017 and 2016 (Unaudited) 7

Consolidated Statements of Shareholders' Equity
Six months ended July 31, 2017 and 2016 (Unaudited)..8

Consolidated Statements of Cash Flows
Six months ended July 31, 2017 and 2016 (Unaudited)..9

Notes to Consolidated Financial Statements (Unaudited) 10-18

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
JULY 31, 2017
UNAUDITED

(Expressed in United States dollars)

		July 31 2017 (Unaudited)		January 31 2017 (Unaudited)
Assets				
Current assets:				
Cash		$741,697		$653,214
Investments available for sale (note 3)		636,643		620,578
Trade accounts receivable		932,441		1,103,759
Inventories				
Finished goods	604,024		852,704	
Work in progress	278,363		69,567	
Raw materials	288,512	1,170,899	235,303	1,157,574
Prepaid expenses and other current assets		56,480		68,630
Total current assets		3,538,160		3,603,755
Property, plant and equipment, net		3,129,009		3,058,960
Deferred taxes (note 9)		--		21,986
Due from estate of former shareholder		20,903		20,903
		$6,688,072		$6,705,604

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
JULY 31, 2017
UNAUDITED

(Expressed in United States dollars)

	July 31 2017	January 31 2017
	(Unaudited)	(Unaudited)
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$350,302	$443,717
Accrued liabilities	260,705	426,582
Income taxes payable	12,226	3,350
Other loans and advances (note 4)	138,625	151,225
Current portion of long-term debt	46,231	44,157
Current portion of capital lease obligations	25,338	38,309
Current portion of due to shareholder	36,000	36,000
Total current liabilities	869,427	1,143,340
Long-term debt (note 5a)	124,352	144,041
Capital lease obligations (note 5b)	12,135	16,889
Due to shareholder	349,076	360,617
	485,563	521,547
Total liabilities	1,354,990	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	(19,091,331)	(19,220,395)
Accumulated other comprehensive income	551,395	388,094
	5,333,082	5,040,717
	$6,688,072	$6,705,604

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
JULY 31, 2017
UNAUDITED

(Expressed in United States dollars)

	Three Months Ended July 31 2017	Three Months Ended July 31 2016	Six Months Ended July 31 2017	Six Months Ended July 31 2017
	(Unaudited)	(Unaudited)	**(Unaudited)**	**(Unaudited)**
Sales	$1,274,622	$1,737,376	2,534,707	3,195,351
Cost of goods sold	967,335	1,153,893	1,949,176	2,205,796
Gross profit	307,287	583,483	585,531	989,555
Expenses				
General and administrative	149,931	220,471	296,129	351,991
Interest expense,net	8,414	9,700	16,908	19,780
Selling and promotion	12,529	23,600	25,743	30,866
Depreciation	1,903	1,572	3,732	4,396
Research and development	--	--	--	602
Foreign exchange (gain) loss	155,729	(64,753)	83,927	111,500
Interest and other income	(1,431)	(821)	(2,786)	(1,192)
Total expenses	327,075	189,769	423,653	517,943
Income before income taxes	(19,788)	393,714	161,878	471,612
Provision for income taxes (note 9)				
Current	105	1,453	11,287	3,543
Deferred	202	111,325	21,527	111,325
	307	112,778	32,814	114,868
Net income for the period	**(20,095)**	**280,936**	**129,064**	**356,744**
Unrealized gain (loss) on investments	(5,567)	3,736	(2,530)	3,027
Currency translation adjustment	477,806	23,333	165,831	351,297
Comprehensive income for the period	$452,144	$308,005	$292,365	$711,068
Per share information:				
Earnings per common share:				
Basic	(0.01)	0.08	0.04	0.11
Diluted	(0.01)	0.08	0.04	0.10
Weighted average number of common shares used compute net income per share for the period:				
Basic	3,399,978	3,380,478	3,399,978	3,380,478
Diluted	3,399,978	3,517,388	3,507,275	3,535,363

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
JULY 31, 2017
UNAUDITED

(Expressed in United States dollars)

	Six Months Ended July 31 2017	Six Months Ended July 31 2016
	(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	129,064	356,744
Balance, end of period	($19,091,331)	($19,532,910)
Accumulated Other Comprehensive Income:		
Balance, beginning of period	$388,094	$13,540
Unrealized gain on investments available for sale	(2,530)	3,027
Currency translation adjustment for the period	165,831	351,297
Balance, end of period	$551,395	$367,864

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
JULY 31, 2017
UNAUDITED

(Expressed in United States dollars)

	Six Months Ended July 31 2017	Six Months Ended July 31 2016
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operating activities:		
Net profit for the period	$129,064	$356,744
Add (deduct) items not affecting cash:		
Depreciation and amortization	117,428	106,498
Deferred income taxes (note 9)	21,527	111,325
Net change in non-cash working capital balances related to operations	(56,435)	(194,081)
Cash provided by operating activities	211,584	380,486
Investing activities:		
Additions to property, plant and equipment	(109,968)	(170,111)
Proceeds (Acquisition) of investments available for sale	(2,786)	(231,522)
Cash used in investing activities	(112,754)	(401,633)
Financing activities:		
Repayment of long-term debt	(21,394)	(20,939)
Proceeds (Repayment) of capital lease obligations, net	(18,267)	(16,454)
Decrease in due to shareholder	(5,625)	(12,398)
Cash used in financing activities	(45,286)	(49,791)
Effect of exchange rate changes	34,939	99,444
Net increase in cash and cash equivalents	88,483	28,506
Cash, beginning of year	653,214	942,555
Cash, end of period	$741,697	$971,061

See accompanying notes.

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. The unaudited interim consolidated financial statements as of July 31, 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 other 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 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.

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 fiscal period ended July 31, 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.

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.

Earnings 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 and six months ended July 31, 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. Options to purchase common shares of 107,297 were included in the computation of year to date diluted earnings per share as at July 31, 2017, and 154,885 incremental shares were included for the six months ended July 31, 2016. No options to purchase common shares were included in the computation of diluted earnings per share for the three months ended July 31, 2017 as the effect would be antidilutive. 136,910 incremental shares were included in the computation of diluted earnings per share for the three months ended July 31, 2016.

3. Investments Available For Sale:

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

	July 31 2017 $	January 31 2017 $
TD short term bond fund consisting of Canadian government and Corporate bonds maturing in the next 1-5 years, currently yielding 2.39%	**312,811**	307,312
5 year global fixed income fund class A, with an average maturity of 3.57 years and a yield to maturity of 1.53%	**323,832**	313,266
	636,643	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 July 31, 2017.

4. Other loans and advances:

Other loans and advances consist of the following:

	July 31 2018 $	January 31 2017 $
Customer advance	**113,625**	126,225
Customer deposit	**25,000**	25,000
	138,625	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:

	July 31 2018 $	January 31 2017 $
Bank term loan payable in monthly installments of Cdn $5,547 (U.S. $4,372) principal and interest at the Canadian bank's fixed rate of 4.20%	**170,583**	188,198
Less: current portion	**46,231**	44,157
	124,352	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 July 31, 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%) (see also note 7), Bank indebtedness is collateralized by a general security agreement over the Company's assets and a collateral mortgage of Cdn $500,000 (USD – $394,042) on the Dextran Products Limited building.

Interest expense for the six months ended July 31, 2017 for the bank loan was $3,825 (2016 - $4,619).

Principal repayments on the bank loan are as follows:

	$
2018	**46,231**
2019	**48,194**
2020	**50,240**
2021	**25,918**
	170,583

[b] Capital lease obligations consist of the following:

	July 31 2017	January 31 2017
	$	$
Obligation (Cdn. $20,241) under a capital lease, repayable in quarterly installments of $1,274 bearing interest at 9.42% and maturing in fiscal 2021	**15,952**	17,249
Obligation (Cdn. $27,424) under a capital lease, repayable in monthly installments of $3,219 bearing interest at 12.67% and maturing in fiscal 2018	**22,521**	37,949
Less current portion	**(25,337)**	(38,309)
	12,135	16,889

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

	$
2018	**29,005**
2019	**6,470**
2020	**6,470**
2021	**4,853**
Total minimum lease payments	**46,798**
Less amount representing imputed interest	**9,326**
	37,472

Interest expense for the 6 months ended July 31, 2017 for capital lease obligations was $2,826 (2017 - $4,904)

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 has committed to purchase approximately $175,000 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.

In August of 2017 the Company arranged to utilize its approved limit with its Canadian bank to borrow Cdn $250,000 (USD $197,000) to finance the purchase of additional capital equipment and building improvements.

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 July 31, 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 July 31, 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 former subsidiary Dextran Products Limited. The deferred tax provision consists of expensing the remaining deferred tax asset since it is fully utilized during the 6 months ended July 31, 2017.

10. Segmented Information:

Total revenue by significant customer:

	Six Months Ended July 31 2017	Six Months Ended July 31 2016
	$	$
Customer A	**561,850**	452,899
Customer B	**484,912**	279,002
Customer C	**253,462**	583,149
Customer D	**249,350**	153,420
Customer E	**--**	498,170
	1,549,574	1,966,640

Sales by geographic destination:

	Six Months Ended July 31 2017	Six Months Ended July 31 2016
	$	$
Europe	**1,253,735**	1,437,641
United States	**513,270**	951,851
Canada	**487,711**	298,084
Other	**242,291**	298,084
Pacific Rim	**37,700**	109,935
	2,534,707	3,195,351

ITEM IV MANAGEMENT DISCUSSION AND ANALYSIS

The Company's fiscal year ends on January 31st 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 July 31, 2017 interim consolidated financial statements and notes thereto included elsewhere in this report. Operating results for the three and six months ended July 31, 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. 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 subsidiary Chemdex, Inc. and its corporate division operating as Dextran Products. (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 the Company's division, Dextran Products in Canada. Chemdex, Inc. in the United States provides ferric hydroxide and hydrogenated dextran to a customer pursuant to a definitive supply agreement.

Management Objectives for Fiscal 2018:

Management is certainly disappointed with the results of the second quarter of fiscal 2018 which were negatively impacted by a swing in foreign exchange of $220,000. Sales volume also decreased due to the loss of US dollar sales, although these were partially replaced by Canadian dollar sales. While the foreign exchange issue is beyond management's control, the Company has been focusing on a new form of dextran. Registration of this product is also progressing

Results of Operations

Three and six months ended July 31, 2017 compared to three and six months ended July 31, 2016:

	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Variance	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016	Variance
Net Income (loss)	**$(20,095)**	**$280,936**	**(107)%**	**$129,064**	**$356,744**	**(64)%**
Income per Share:						
Basic	**$(0.01)**	**$0.08**		**$0.04**	**$0.11**	
Diluted	**$(0.01)**	**$0.08**		**$0.04**	**$0.10**	

The decrease in net income for the second quarter of fiscal year 2018 is due to decreased sales and the foreign exchange loss of $155, 729 compared to the gain of $64,753 for the second quarter of fiscal 2017. The decrease in net income for the year to date of fiscal 2018 is primarily due to decreased sales, though the foreign exchange loss and income taxes were greater in the year to date of fiscal 2017.

	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Variance	Six Months Ended July 31, 2016	Six Months Ended July 31, 2016	Variance
Sales	**$1,274,622**	**$1,737,376**	**(27)%**	**$2,534,707**	**$3,195,351**	**(21)%**

Throughout the first and second quarters of fiscal 2018 US dollar sales were impacted by decreased demand for liquid product in the United States. This was partially offset by increased Canadian dollar sales, but these were negatively affected by the decreased value of the Canadian dollar as compared to the comparable periods of 2016

	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Variance	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016	Variance
Gross Profit	**$307,287**	**$583,483**	**(47)%**	**$585,531**	**$989,555**	**(41)%**
Percentage of sales	**24%**	**33%**		**23%**	**31%**	

The decrease in gross margin percentage and dollar amounts in the second quarter and year to date of fiscal year 2018 were primarily related to the decreased sales of liquid product compared to comparable periods in fiscal 2017.

	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Variance	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016	Variance
Selling, promotion, general and administrative expenses	**$162,460**	**$244,071**	**(33)%**	**$321,872**	**$382,857**	**(16)%**

These expenses decreased in the second quarter and year to date of fiscal 2018 compared to comparable periods in fiscal 2017 due primarily to cost savings in several areas including legal expenses, some office expenses, and administration salaries and wages. Fiscal 2018 expenses also benefitted from the decreased value of the Canadian dollar compared to the six months ended July 2016.

	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Variance	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016	Variance
Research and Development expenditures	---	---	---	---	$602	(100)%

During fiscal year 2010 all of the Company's research into Ushercell was halted, with only some patent expenses being incurred and paid. Since that time further patent fees have been curtailed, with only smaller patent maintenance fees being expensed as incurred.

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	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Variance	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016	Variance
Depreciation and amortization expense	$58,810	$52,072	13%	$117,428	$106,498	10%

Depreciation and amortization increased for the three months and six months ending July 31 2017 compared to the three and six months ended July 31, 2016. This was primarily due to the significant fixed asset additions that occurred in fiscal 2017 and has continued into fiscal 2018. Included in depreciation and amortization expense are allocations to cost of goods sold in the amount of $113,696 for fiscal year to date 2018 (2017 - $102,102).

	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Variance	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016	Variance
Interest expense	**$8,414**	**$9,700**	**(13)%**	**$16,908**	**$19,780**	**(14)%**

Interest expense decreased in the second quarter and year to date of fiscal year 2018 compared to 2017 due to the decrease in long term debts as the Company continues to meet its debt repayment commitments.

	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Variance	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016	Variance
Foreign exchange (gain) loss	**$155,729**	**$(64,753)**	**340%**	**$83,927**	**$111,500**	**(25)%**

The foreign exchange loss during the second quarter and year to date of fiscal year 2018 offset to some extent the exchange gains that occurred during the first quarter of fiscal 2018. The Company's operating division, Dextran Products, had a net asset position with the United States dollar versus the Canadian dollar causing the increase in the value of the Canadian dollar to result in the loss noted above in the second quarter and year to date of fiscal 2018. The opposite occurred in fiscal 2017 when the Canadian dollar decreased in the second quarter and lowered the year to date loss.

	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Variance	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016	Variance
Interest and investment income	**$ 1,431**	**$ 821**	**75%**	**$2,786**	**$1,192**	**133%**

The increase in interest and other income in the second quarter and year to date of fiscal year 2018 compared to the second quarter and year to date of fiscal year 2017 is due to dividends reinvested and adjustments to market values during these periods.

	Three Months Ended July 31, 2017	Three Months Ended July 31, 2016	Variance	Six Months Ended July 31, 2017	Six Months Ended July 31, 2016	Variance
Income tax expense						
Current	**$105**	**$1,453**		**$11,287**	**$3,543**	
Deferred	**$202**	**$111,325**		**$21,527**	**$111,325**	
Income taxes	**$307**	**112,778**	**(99)%**	**$32,814**	**$114,868**	**(71)%**

Current income taxes and deferred income taxes decreased in the second quarter of fiscal 2018 as there were only exchange rate differences from the first quarter. This compared to the second quarter of fiscal 2017 when profits from the first quarter of fiscal 2018 could not utilize loss carryforwards available after the amalgamation date of May 1, 2017. Deferred tax expense resulted from the recognition of deferred, deductible research and development expenses that were utilized to reduce taxes otherwise payable.

Liquidity and Capital Resources

As of July 31, 2017, the Company had cash of $741,697, compared to cash of $653,214 at January 31, 2017. In the first six months of fiscal year 2018, the Company generated cash of $211,584 in its operating activities, compared to $380,486 for the six months of fiscal year 2017. The decrease in the generation of cash from operations during the first six months of fiscal year 2017 is primarily due to the decrease in sales, and the significant foreign exchange loss that resulted in the decrease in net income during the period. Depreciation continues to be a non-cash expense of the Company.

The Company's working capital increased to $2,668,733 and a working capital ratio of 4.07 to 1 as of July 31, 2017 compared to $2,459,774 and 3.15 to 1 as of January 31, 2017.

As of July 31, 2017, the Company had accounts receivable of $932,441 and inventory of $1,170,899 compared to $1,103,759 and $1,157,574 respectively at January 31, 2017 and $1,122,863 and $947,009 respectively at July 31, 2016. Accounts receivable decreased due to the decreased sales for the period, while inventory increased only slightly.

At July 31, 2017, the Company had accounts payable of $350,302 compared to $443,717 at January 31, 2017 and $595,312 at July 31, 2016. The decrease in accounts payable from January 31, 2017 was due to the timing of supplier payments.

During the second quarter of fiscal year 2018, capital expenditures totaled $82,712 as compared to $139,781 in the second of fiscal year 2017. Expenditures in the second quarter of fiscal 2018 related to plant equipment (pumps) and roofing improvements. Additional expenditures on capital equipment are possible for the remainder of fiscal 2018 should additional funds become available. In August of 2017 the Company was in the process of arranging to utilize approximately $197,000 (Cdn $250,000) of approved loan limit from its Canadian bank to finance capital additions in the third quarter of fiscal 2018.

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 capital lease obligations from January 31, 2017 is due to continued repayments of principal and interest throughout the period, as is the decrease in long term debt.

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 July 31, 2017 was $259,506 as compared to $252,533 at January 31, 2017, including accrued interest. The Company has taken a cumulative provision of $488,603 at July 31, 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 July 31, 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 July 31, 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 $328,405 at July 31, 2017, based on the closing price of the Company's common shares on the Pink Sheets quotation service on July 31, 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 July 31, 2017 remained at $6,962 (January 31, 2017 – $6,962).

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 $385,076 as at July 31, 2017 from $396,617 at January 31, 2017 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 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. The Company 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.

ITEM V LEGAL PROCEEDINGS

Not applicable.
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ITEM VI DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM VII OTHER INFORMATION

Not applicable.

ITEM VIII EXHIBITS

Not applicable

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.

September 15, 2017

/s/ George G. Usher
Chairman, President and Chief Executive Officer
Polydex Pharmaceuticals Limited

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.

September 15, 2017

/s/ John A. Luce
Chief Financial Officer
Polydex Pharmaceuticals Limited