



Date: June 23, 2008

Sector: Specialty Pharmaceuticals

Nasdaq: POLXF

Toronto, Canada

Business Summary

Polydex Pharmaceuticals Limited ("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.

The Company manufactures and sells bulk quantities of dextran and derivative products such as dextran sulphate and DEAE dextran. Dextran sulphate is a versatile compound with uses as a potential cholesterol reducing agent, a blood anti-coagulant, and as an ingredient in photographic emulsions. DEAE dextran, produced by a very limited number of manufacturers in the world, also employs a wide range of applications including the stabilization of proteins and vaccine production. Iron dextran is another of the Company's derivative products, produced by integrating iron with dextran, and is largely used as a supplement in the pig farming industry. Iron dextran is injected into most pigs at birth as a treatment for anemia.

The Company's nearly 30,000 sq. ft. production facility located in Toronto, Canada has the capacity to simultaneously produce both 10% and 20% iron dextran, and 500 kilograms per month of dextran sulphate. The Company currently produces approximately 8,000 liters of iron dextran per week and approximately 500 kilograms of dextran sulphate per quarter.

A recently completed multi-million dollar upgrade to the manufacturing facility has the Company now poised to see a potentially significant increase in annual sales of powdered products over the next several years. These products have traditionally provided at least 25% gross margin.

Financial Summary

At the end of the Company's fiscal quarter ending April 30, 2008 (the first quarter of fiscal year 2009), assets totaled \$9,912,545. With liabilities totaling \$2,269,766 as of such date, the shareholder equity of the Company was \$7,684,779, or approximately \$2.50 per share.

The Company's Canadian subsidiaries have non-capital loss carry forwards and other deductions available to reduce future years' income tax of approximately \$3,882,000.

Polydex Pharmaceuticals Limited

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Established: 1966
Nasdaq Listed: 1972
Trading Symbol: POLXF
3,072,846 common shares (1/31/08)
Number of Employees: 23

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Financial Summary continued...

EBITDA (a representation of the Company's earnings before calculation of interest, taxes, depreciation and amortization, an approximate measure of the Company's operating cash flow) for the first quarter of this fiscal year 2009, is much improved from the previous year and amounts to \$146,071, and is especially encouraging in light of the fact that the Company's fixed asset purchases are greatly reduced due to the completion of the spray dryer installation and refurbishment of the plant. EBITDA for the same period last year was \$21,584.

Operations and Management Objectives:

In recent years, the extreme fluctuations in the value of the Canadian dollar versus the U.S. dollar, together with sharp increases in the cost of raw materials and energy, had negatively impacted profitability and a steady pattern of increasing sales. In the fourth quarter of fiscal year 2008, this fluctuation pattern stabilized and in the first quarter of fiscal year 2009, the Company experienced a small foreign exchange gain in contrast to loss experienced in the first, second and third quarters of fiscal year 2008. The majority of the Company's revenues are denominated in U.S. dollars while the majority of its expenses are denominated in Canadian dollars.

To counter those recent trends, the Company's management embarked on an aggressive cost-cutting campaign and increased the pricing of products. Although some clients turned briefly to other international sources for dextran-based products, ultimately the quality of our products and the consistency in our ability to provide that product resulted in their return, preserving a stable customer base and attracting new customers and orders from Europe and North America.

In response to these expanding market opportunities and the potential for new market penetration, management has been focusing on plant refurbishment and equipment upgrades to increase production quality and capacity. New drying equipment was purchased and installation of the unit and the ancillary renovations to the manufacturing facility amounted to an expenditure of \$3.4 million Canadian. This new equipment is unique in Canada and is a key component in the production of the Company's powdered product line. Many of the Company's dextran-derivative products are available in liquid and in powder form for a wide variety of uses, and it is expected that this new drying equipment will greatly improve the quality of the finished powdered products, and with a considerable increase in production capability, will result in new markets becoming available, with a potential for appreciably higher sales in the coming years.

Management intends to focus on the Company's long-standing strengths of its core product line. Because of the upgrade in equipment, the Company is looking to expand production and sales of its entire product line in the coming years. Considerable time and resources have been focused on increasing production capability of higher margin powder products, and this has added significantly to the Company's asset base resulting in per share shareholder equity in the Company exceeding the current share price.

Research and Development Prospects

The Company's product Usherdex, a low molecular weight dextran, has been in development under agreement with the University of British Columbia and a number of Canadian hospitals. This compound has been shown in early preclinical and clinical trials to alleviate the breathing difficulties experienced by cystic fibrosis and other COPD patients. The Company jointly owns U.S. patent number 5,441,938 with the University of British Columbia, and U.S. patent number 5,514,665 is held by the University of British Columbia and licensed to the Company.

Ushercell, a cellulose sulphate gel formulation, had received international acclaim and support in the past as a potential microbicide, envisioned to prevent pregnancy and transmission of sexually transmitted infections. After a decade of promising safety trials, Ushercell had progressed to Phase III clinical trials in HIV prevention, but such trials were stopped suddenly when an Independent Monitoring Committee found anomalous HIV seroconversions at some of the trial sites. Those conversions were later determined to be statistically insignificant and investigations are ongoing to determine a clearer understanding of the anomalous findings in the Phase III trial.

Over \$75 million has been expended on the development of these specialty pharmaceutical compounds, nearly all of which has been borne by research partners and not by the Company. Management's objective is to secure development partners to continue the advancement of Usherdex as a cystic fibrosis treatment and of Ushercell as a contraceptive, and to look into other potential uses of these versatile compounds.

Management Biographies

Mr. George Usher , Chairman, President and CEO

Educated at Malvern College and the University of Guelph, Ontario, where he obtained an Honours degree, Mr. Usher joined the Company from university in 1982. He held several positions in production and management before becoming President for Canadian Operations in 1986. He was elected to serve on the board of Polydex in 1988, becoming President in 1993, CEO in 1996 and Chairman in 1998.

Mr. Joseph Buchman, Director and Chairman Compensation Committee

Mr. Buchman has been a director since 1983 and is presently a Financial Services Representative with Metlife Financial Services. Mr. Buchman has been with Metlife since 1979 and has served in sales, marketing and management. Mr. Buchman is a Chartered Life Underwriter and Chartered Financial Consultant (CLU and CLFC). Prior to Metlife, he had 20 years of experience in Wall Street. He was heavily involved in marketing, underwriting and management. While on Wall Street, he acquired seats on the American Stock Exchange and the National Stock Exchange.

Mr. Derek Lederer, Director and Chairman Audit Committee

Mr. Lederer is a Chartered Accountant and has been in public practice since 1970. He was an adjunct professor at York University for several years and has taught numerous community college courses and industry seminars on accounting and management. Mr. Lederer has served on a number of not-for-profit boards as Treasurer and as Chairman.

Mr. John Luce, Chief Financial Officer

Mr. Luce is a Chartered Accountant and Principal of John A. Luce C.A., a public accounting firm since 1992 and a former partner with Ernst & Young. He was appointed to the position of Chief Financial Officer in July, 2006.

Mr. John L. E. Seidler, Director

Mr. Seidler earned his BA from Leeds University in England and his MBA from the University of Western Ontario. A senior management veteran with 30 years' experience at three of the top Fortune 100 companies, Mr. Seidler has particular management expertise in the pharmaceutical field having served as Director of International Public Affairs for the Pfizer Pharmaceuticals Group and as an international executive for Johnson and Johnson, including Vice President International for Janssen Pharmaceuticals. He is currently a Senior Executive with Free & Clear Inc., a leading behavior-based tobacco cessation program.

Ms. Sharon Wardlaw, Treasurer, Secretary, Chief Operating Officer and President Dextran Products Limited.

Ms. Wardlaw has served as the Chief Financial Officer, Secretary and Treasurer of the Company since 1994. In July 2006, she was appointed to the position of Chief Operating Officer. She also currently serves as the President of Dextran Products Limited, a subsidiary of the Company. Since joining the Company in 1984, she has been employed in various capacities.

Note: This research report may contain forward-looking statements, within the meaning of the United States Securities Act of 1933, as amended, and the United States Securities Exchange Act of 1934, as amended, regarding Polydex Pharmaceuticals Limited, including, without limitation, statements regarding expectations about future revenues or business opportunities and developments relating to Ushercell or other potential research projects. These statements are typically identified by use of words like "may", "could", "might", "expect", "anticipate" or similar words. Actual events or results may differ materially from the Company's expectations, which are subject to a number of known and unknown risks and uncertainties including but not limited to changing market conditions, future actions by the United States Food and Drug Administration or equivalent foreign regulatory authorities as well as results of pending or future clinical trials. Other risk factors discussed in the Company's filings with the United States Securities and Exchange Commission may also affect the actual results achieved by the Company.