

# **POLYDEX PHARMACEUTICALS LIMITED**

*QUARTERLY DISCLOSURE REPORT*

*OCTOBER 31, 2016*

*UNAUDITED*

POLYDEX PHARMACEUTICALS LIMITED  
QUARTERLY REPORT  
OCTOBER 31, 2016  
UNAUDITED

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**QUARTERLY REPORT**  
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**UNAUDITED**

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**ITEM I      NAME OF ISSUER**

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Toronto, Ontario, Canada  
M1L 2H5  
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**ITEM II      SHARES OUTSTANDING**

Preferred Stock – Class A

(i)	Period end date	October 31, 2016
(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	October 31, 2016
(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	October 31, 2016
(ii)	Authorized	10,000,000 shares
(iii)	Issued and outstanding	3,380,478 shares
(iv)	Freely tradable shares (public float)	2,565,166
(v)	Number of shareholders of record	232

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**ITEM III INTERIM FINANCIAL STATEMENTS**

CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

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**POLYDEX PHARMACEUTICALS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
**October 31, 2016**  
**UNAUDITED**

(Expressed in United States dollars)

	<b>October 31</b>	<b>January 31</b>
	<b>2016</b>	<b>2016</b>
	(Unaudited)	(Unaudited)
<b>Assets</b>		
Current assets:		
Cash	\$ 1,406,359	\$ 942,555
Investments available for sale (note 3)	308,874	79,123
Trade accounts receivable	735,043	854,749
Due from shareholders		3,000
Inventories		
Finished goods	771,114	462,142
Work in progress	115,552	172,211
Raw materials	<u>260,051</u>	<u>256,250</u>
Prepaid expenses and other current assets	109,475	65,664
<b>Total current assets</b>	<b>3,706,468</b>	<b>2,835,694</b>
Property, plant and equipment, net	2,988,593	2,769,489
Deferred taxes (note 8)	36,991	191,780
Due from estate of former shareholder	20,903	20,903
	<b>\$ 6,752,955</b>	<b>\$ 5,817,866</b>

See accompanying notes.

**POLYDEX PHARMACEUTICALS LIMITED**  
**CONSOLIDATED BALANCE SHEETS**  
October 31, 2016  
**UNAUDITED**

(Expressed in United States dollars)

	<b>October 31</b>	<b>January 31</b>
	<b>2016</b>	<b>2016</b>
	(Unaudited)	(Unaudited)
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 725,138	\$ 475,709
Accrued liabilities	424,248	452,660
Income taxes payable	4,295	3,991
Other loans payable (note 4)	126,225	138,825
Customer deposits	37,612	41,040
Current portion of long-term debt	42,400	39,352
Current portion of capital lease obligations	36,044	31,471
Current portion of due to shareholder	36,000	36,000
<b>Total current liabilities</b>	<b>1,431,962</b>	<b>1,219,048</b>
Long-term debt (note 5a)	150,633	174,842
Capital lease obligations (note 5b)	26,058	51,280
Due to shareholder	366,306	384,958
	<b>542,997</b>	<b>611,080</b>
<b>Total liabilities</b>	<b>1,974,959</b>	<b>1,830,128</b>
Commitments and contingencies (note 6)		
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, 2016 - 899,400)	15,010	15,010
3,380,478 common shares (January 31, 2016 - 3,380,478)	56,323	56,323
Contributed surplus	23,792,519	23,792,519
Deficit	(19,288,654)	(19,889,654)
Accumulated other comprehensive income	202,798	13,540
	<b>4,777,996</b>	<b>3,987,738</b>
	<b>\$ 6,752,955</b>	<b>\$ 5,817,866</b>

See accompanying notes.

**POLYDEX PHARMACEUTICALS LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**October 31, 2016**  
**UNAUDITED**

(Expressed in United States dollars)

	<b>Three Months Ended October 31 2016</b>	<b>Three Months Ended October 31 2015</b>	<b>Nine Months Ended October 31 2016</b>	<b>Nine Months Ended October 31 2015</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Sales</b>	\$ 1,447,510	\$ 1,422,392	\$ 4,642,861	\$ 4,663,370
Cost of goods sold	1,034,805	1,192,971	3,240,601	3,469,445
<b>Gross profit</b>	412,705	229,421	1,402,260	1,193,925
<b>Expenses</b>				
General and administrative	179,327	140,997	531,320	419,426
Interest expense, net	9,235	17,333	29,015	18,167
Selling and promotion	12,573	15,143	43,439	35,424
Research and development	-	-	600	584
Depreciation	1,696	1,898	6,092	6,026
Foreign exchange (gain) loss	(91,322)	10,346	20,178	(45,250)
Interest and other income	(455)	(369,001)	(1,647)	(389,743)
Total expenses	111,054	(183,284)	628,997	44,634
Net income before income taxes	301,651	412,705	773,263	1,149,291
Income taxes (note 8)				
Current	1,393	4,600	4,936	6,500
Deferred	56,002	-	167,327	-
	57,395	4,600	172,263	6,500
<b>Income for the period</b>	244,256	408,105	601,000	1,142,791
Unrealized gain (loss) on investments available for sale	1,668	(319)	959	(1,031)
Currency translation adjustment	(166,734)	36,365	188,299	(196,187)
<b>Comprehensive income for the period</b>	\$ 79,190	\$ 444,151	\$ 790,258	\$ 945,573
Per share information:				
Income per common share:				
Basic	0.07	0.12	0.18	0.34
Diluted	0.07	0.12	0.17	0.33
Weighted average number of common shares used in computing net loss per share for the period:				
Basic	3,380,478	3,317,978	3,380,478	3,315,478
Diluted	3,518,681	3,524,117	3,530,419	3,486,897

**POLYDEX PHARMACEUTICALS LIMITED**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**October 31, 2016**  
**UNAUDITED**

(Expressed in United States dollars)

	<b>Nine Months Ended October 31 2016</b>	<b>Nine Months Ended October 31 2015</b>
	(Unaudited)	(Unaudited)
<b>Preferred Shares:</b>		
Balance, beginning and end of period	\$ 15,010	\$ 15,010
<b>Common Shares:</b>		
Balance, beginning and end of period	\$ 56,323	\$ 55,071
<b>Contributed Surplus:</b>		
Balance, beginning and end of period	\$ 23,792,519	\$ 23,708,452
<b>Deficit:</b>		
Balance, beginning of period	\$ (19,889,654)	\$ (21,167,154)
Net profit for the period	601,000	734,693
Balance, end of period	\$ (19,288,654)	\$ (20,432,461)
<b>Accumulated Other Comprehensive Income:</b>		
Balance, beginning of period	\$ 13,540	\$ 558,333
Unrealized loss on investments available for sale	959	(712)
Currency translation adjustment for the period	188,299	(235,552)
Balance, end of period	\$ 202,798	\$ 322,069

See accompanying notes.



POLYDEX PHARMACEUTICALS LIMITED  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
October 31, 2016  
UNAUDITED

(Expressed in United States dollars)

	<b>Nine Months Ended October 31 2016</b>	<b>Nine Months Ended October 31 2015</b>
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operating activities:		
Net profit for the period	601,000	1,142,791
Add (deduct) items not affecting cash:		
Depreciation and amortization	161,607	80,528
Deferred income taxes (note 15)	167,327	-
Deferred loan expenses	-	(6,396)
Net change in non-cash working capital balances related to operations	80,837	(292,775)
<b>Cash provided by operating activities</b>	<b>1,010,771</b>	<b>924,148</b>
Investing activities:		
Additions to property, plant and equipment	(260,214)	(128,876)
Proceeds (Acquisition) of investments available for sale	(230,863)	(468)
<b>Cash used in investing activities</b>	<b>(491,077)</b>	<b>(129,344)</b>
Financing activities:		
Repayment of long-term debt	(31,420)	-
Proceeds (Repayment) of capital lease obligations, net	(24,921)	(24,470)
Exercise of common share options	-	3,000
Decrease in due to shareholder	(18,652)	(20,447)
<b>Cash provided by (used in) financing activities</b>	<b>(74,993)</b>	<b>(41,917)</b>
Effect of exchange rate changes	19,103	(99,630)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>463,804</b>	<b>653,257</b>
Cash, beginning of year	942,555	491,116
<b>Cash, end of period</b>	<b>1,406,359</b>	<b>1,144,373</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 2016 Annual Report for the fiscal year ended January 31, 2016 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 October 31, 2016 and 2015 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 December 15, 2016 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

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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 fixed income mutual funds, 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 annually 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. Further purchases by a customer of a bulk product with the same specifications do not require approvals. Returns of bulk product are rare and generally are not accepted.

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 year. 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 enters into foreign exchange contracts from time to time, 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 three months and nine months ended October 31, 2016 the Company has not entered into any derivative financial instruments.

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Stock options

The Company uses the fair value accounting to apply recognition provisions to its 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 statement or tax returns. Deferred income taxes are provided for 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 (loss) per common share

Basic earnings per common share is computed using the weighted average number of common shares outstanding of 3,380,478 for the three months ended October 31, 2016 and 3,380,478 for the nine months ended October 31, 2016, as compared to the 3,317,978 for the three months ended October 31, 2015 and 3,315,478 for the nine months ended October 31, 2015. 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 149,941 were included in the computation of year to date diluted earnings per share as at October 31, 2016, and 138,203 incremental shares were included for the three months ended October 31, 2016. Options to purchase common shares of 122,581 were included in the computation of year to date diluted earnings per share as at October 31, 2015, and 87,861 incremental shares were included for the three months ended October 31, 2015.

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**3. Investments Available for sale**

Investments available for sale consist of the following:

	<b>October 31 2016</b>	January 31 2016
Investments available for sale	<b>\$ 308,874</b>	<b>\$ 79,123</b>

The investments consist of a Canadian short-term bond fund with maturity dates extending from one to five years and a yield rate of 1.8%, and an international bond fund with a year to date yield rate of 2.26%. Investments available for sale are stated at fair market value, based on quoted market prices. An unrealized loss of \$959 has been included in accumulated other comprehensive income

**4. Other Loan Payable:**

	<b>October 31 2016</b>	January 31 2016
Advance from customer	<b>\$ 126,225</b>	<b>\$ 138,825</b>

The Advance from customer is a non-interest bearing advance to be used for working capital.

**5. Long Term Debt and Capital Lease Obligations:**

(a) Bank indebtedness consists of the following:

	<b>October 31 2016</b>	January 31 2016
Bank term loan payable in monthly installments of Cdn \$5,547 (U.S. \$4,249) principal and interest at the Canadian bank's fixed rate of 4.20%	<b>\$ 193,033</b>	<b>\$ 214,194</b>
Less: current portion	<b>(42,400)</b>	<b>(39,352)</b>
	<b>\$ 150,633</b>	<b>\$ 174,842</b>

The bank term loan relates to the Company's subsidiary Dextran Products Limited located in Toronto, Canada and is secured by a general security agreement including Dextran's building and equipment as well as a pledge against its accounts receivables. Interest expense for the 9 months ended October 31, 2016 for the bank loan was \$6,726 (2015 - \$23,516).

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Principal repayments on the bank loan are as follows:

	\$
<b>2017</b>	<b>42,400</b>
<b>2018</b>	<b>44,200</b>
<b>2019</b>	<b>46,076</b>
<b>2020</b>	<b>48,032</b>
<b>2021</b>	<b>12,325</b>
	<b>193,033</b>

(a) Capital lease obligations consist of the following:

	<b>October 31 2016</b>	January 31 2016
Obligation (Cdn. \$23,509) under a capital lease, repayable in quarterly installments of \$1,289 bearing interest at 9.42% and maturing in fiscal 2017	\$ 17,530	\$ 63,791
Obligation (Cdn. \$58,776) under a capital lease, repayable in monthly installments of \$3,128 bearing interest at 12.67% and maturing in fiscal 2021	<b>44,573</b>	18,960
Less current portion	<b>(36,044)</b>	(31,471)
	<b>\$ 26,058</b>	\$ 51,280

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Future minimum annual lease payments on the capital lease obligations including interest are as follows for the applicable fiscal years:

	\$
<b>2017</b>	<b>41,376</b>
<b>2018</b>	<b>17,008</b>
<b>2019</b>	<b>4,824</b>
<b>2020</b>	<b>4,824</b>
<b>2021</b>	<b>2,412</b>
<b>Total minimum lease payments</b>	<b>70,444</b>
<b>Less amount representing imputed interest</b>	<b>8,342</b>
	<b>\$ 62,102</b>

Interest expense for the year for capital lease obligations for the nine months ending October 31, 2016 was \$5,763 (2015 - \$8,937)

**6. Commitments and Contingencies:**

A subsidiary of the Company, Chemdex, Inc, has a supply agreement with an existing customer to supply raw materials for an existing 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 agreement also committed the Company to provide materials and advice for the development of a new product, which was completed in fiscal 2016. Once this product is registered in the United States the Company will receive a payment for \$250,000, and will provide the raw materials required.

The Company's subsidiary, Dextran Products Limited has committed to purchase approximately \$570,000 of partially finished product from a contract manufacturer.

An employee of the Company's subsidiary, Dextran Products Limited, filed a claim alleging improper termination and harassment. Discussions involving legal counsel are ongoing.

There were no other material commitments or contingencies outstanding as at October 31, 2016.

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

The Company maintains an incentive share option plan for management personnel for options to purchase up to 799,168 common shares. The Company also issues options to certain consultants for services provided to the Company.



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All options granted have terms of five years and vest immediately. At October 31, 2016, the Company had 297,000 options outstanding at exercise prices ranging from \$0.31 to \$1.80 and a weighted average exercise price of \$0.81. The options expire on dates between January 31, 2017 and January 31, 2021, and entitle the holder of an option to acquire one common share of the Company.

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, 2016 to October 31, 2016, because there were no options granted during this period. Similarly, no stock-based employee compensation expense was recorded during the period from February 1, 2015 to October 31, 2015, because there were no options granted during that period.

**8. Provision for Income Taxes**

The Company's current income tax provision relates to income taxes owing at its subsidiary Chemdex, Inc. The deferred tax provision relates to utilization of a portion of the deferred tax asset that was recognized at January 31, 2016 and is adjusted each fiscal quarter.

**9. Segmented Information:**

Total revenue by significant customer:

	Nine Months Ended October 31, 2016	Nine Months Ended October 31, 2015
Customer A	\$ 801,754	\$ 633,099
Customer B	728,111	1,371,736
Customer C	452,899	211,250
Customer D	351,925	445,469
Customer E	307,200	298,510
Customer F	301,910	184,320
Customer G	210,574	311,605
	<b>\$ 3,154,374</b>	<b>\$ 3,455,989</b>

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Sales by geographic destination:

	Nine Months Ended October 31, 2016	Nine Months Ended October 31, 2015
United States	\$ 1,782,983	\$ 1,449,084
Europe	1,747,676	2,204,110
Other	624,405	523,615
Canada	373,297	401,058
Pacific Rim	114,500	85,503
	\$ 4,642,861	\$ 4,663,370

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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 2017 refers to the Company's fiscal year ended January 31, 2017. The following discussion should be read in conjunction with the October 31, 2016 interim consolidated financial statements and notes thereto included elsewhere in this report. Operating results for the nine months ended October 31, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2017. For further information, refer to the Polydex Pharmaceuticals Limited Annual Report on our website [www.polydex.com](http://www.polydex.com) for the fiscal year ended January 31, 2016. 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.

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 2017:*

With fewer production issues due to increased vigilance, management is turning its attention to conservation of utilities. The cost of these have been steadily increasing and now constitute a significant part of overhead. Recent grants offer incentives to make conservation even more attractive. Initial discussions have suggested an investment of about \$80,000 could provide savings of about \$80,000 per year. The Company is being assisted by Partners in Project Green, a local organization, who have made introductions to consultants to accelerate the project.

Customer demand remains high and the Company has hired one individual to expand the production team. Production of Dextran Sulphate is being outsourced. It is expected this will increase capacity of other products at the Toronto facility.

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**Results of Operations**

*Nine and three months ended October 31, 2016 compared to nine and three months ended October 31, 2015:*

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Variance	Nine Months Ended October 31, 2016	Nine Months Ended October 31, 2015	Variance
<b>Net Income</b>	\$244,256	\$408,105	(40%)	\$601,000	\$1,142,791	(47%)
<b>Net Income per Share</b>						
<b>Basic:</b>	\$0.07	\$0.12		\$0.18	\$0.34	
<b>Diluted:</b>	\$0.07	\$0.12		\$0.17	\$0.33	

The decrease in net income for the third quarter of fiscal 2017 is due to increased general and administration expenses and deferred income tax expenses. The decrease is offset by a foreign exchange gain compared to the foreign exchange loss in the third quarter of fiscal year 2016. The decrease in net income for the year to date of fiscal 2017 is due to increased general and administration expenses and deferred income tax expense, as well as the absence of supply agreement fees from a customer which were received during the second quarter fiscal 2016. No fees were received in fiscal 2017.

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Variance	Nine Months Ended October 31, 2016	Nine Months Ended October 31, 2015	Variance
<b>Sales</b>	\$1,447,510	\$1,422,392	2%	\$4,642,861	\$4,663,370	(1%)

Sales during the third quarter and year to date of fiscal 2017 were consistent with sales levels experienced in the comparable periods of fiscal 2016.

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	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Variance	Nine Months Ended October 31, 2016	Nine Months Ended October 31, 2015	Variance
<b>Gross Profit</b>	<b>\$412,705</b>	<b>\$229,421</b>	<b>80%</b>	<b>\$1,402,260</b>	<b>\$1,193,925</b>	<b>17%</b>
Percentage of sales	28.5%	16.1%		30.2%	25.6%	

Gross margin percentages in the third quarter and year to date of fiscal year 2017 improved over the comparable periods in fiscal 2016 primarily due to significant replacement of Canadian dollar customer sales with sales denominated in United States dollars. Gross profit also benefitted from the impact on cost of sales of the decreased value of the Canadian dollar in fiscal 2017 compared to fiscal 2016.

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Variance	Nine Months Ended October 31, 2016	Nine Months Ended October 31, 2015	Variance
<b>Selling, promotion, general and administrative expenses</b>	<b>\$191,900</b>	<b>\$156,130</b>	<b>23%</b>	<b>\$574,759</b>	<b>\$454,850</b>	<b>26%</b>

These expenses increased in the third quarter and year to date of fiscal 2017 compared to comparable periods in fiscal 2016 due to several factors. Significant legal fees related to the employee termination suit as well as professional fees related to accounting and tax advice were incurred during the second and third quarters of fiscal 2017. In addition administration wages increased partially due to the employment of full time additional office personnel.

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Variance	Nine Months Ended October 31, 2016	Nine Months Ended October 31, 2015	Variance
<b>Research and Development expenditures</b>	<b>\$ --</b>	<b>\$ --</b>	<b>-- %</b>	<b>\$ 600</b>	<b>\$ 584</b>	<b>23%</b>

The Company is maintaining a minimal level of research and development, while concentrating on expanding its customer base with derivatives of existing products. Research and development is consisting solely of legal fees necessary to maintain its cellulose patents.

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	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Variance	Nine Months Ended October 31, 2016	Nine Months Ended October 31, 2015	Variance
<b>Depreciation and amortization expense</b>	<b>\$55,109</b>	<b>\$26,173</b>	<b>111%</b>	<b>\$161,607</b>	<b>\$80,528</b>	<b>101%</b>

Depreciation and amortization increased for the three months and nine months ending October 31 2016 compared to the three and nine months ended October 31, 2015. This was due to the increase resulting from a significant portion of the building that was recognized as being utilized during the last quarter of fiscal 2016, as well as the approximate doubling of the equipment assets purchased during fiscal 2017. Included in depreciation and amortization expense are allocations to cost of goods sold in the amount of \$155,515 for fiscal year to date 2017 (2016 - \$74,503).

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Variance	Nine Months Ended October 31, 2016	Nine Months Ended October 31, 2015	Variance
<b>Interest Expense</b>	<b>\$9,235</b>	<b>\$17,333</b>	<b>(47)%</b>	<b>\$29,015</b>	<b>\$18,167</b>	<b>60%</b>

Interest expense decreased in the third quarter of fiscal year 2017 compared to 2016 due primarily to the lower interest rates on the long term bank loan compared to the mortgage loan that was refinanced in fiscal 2017. The year to date interest was higher in the year to date of fiscal 2017 compared to 2016 due to the forgiveness of loan interest that occurred in the second quarter of fiscal year 2016. This related to previously accrued interest on a term and demand loan from a customer and did not reoccur in fiscal 2017.

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	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Variance	Nine Months Ended October 31, 2016	Nine Months Ended October 31, 2015	Variance
<b>Foreign exchange (gain) loss</b>	<b>\$(91,322)</b>	<b>\$10,346</b>	<b>(53)%</b>	<b>\$ 20,178</b>	<b>\$ (45,250)</b>	<b>592%</b>

The foreign exchange gain in the third quarter of fiscal 2017 was due primarily to the decrease in value of the Canadian dollar compared to the United States dollar during the period. This compares to the loss in the same three months of fiscal 2016 that was due primarily to the substantial amount of accounts receivable at the end of that quarter that were denominated in Canadian dollars in the Company's subsidiary, Dextran Products Limited. The loss for the year to date in fiscal 2017 was attributable primarily to fluctuations in exchange rates compared to the significant sales in United States dollars that were incurred primarily in the first and second quarters of fiscal 2016.

	Three Months Ended October 31, 2016	Three Months Ended October 31, 2015	Variance	Nine Months Ended October 31, 2016	Nine Months Ended October 31, 2015	Variance
<b>Interest and investment income</b>	<b>\$455</b>	<b>--</b>		<b>\$1,647</b>	<b>\$468</b>	<b>252%</b>
<b>Supply agreement fees</b>	<b>--</b>	<b>\$369,001</b>		<b>--</b>	<b>\$389,275</b>	
<b>Interest and other income</b>	<b>\$455</b>	<b>\$369,001</b>	<b>(99)%</b>	<b>\$1,647</b>	<b>\$389,743</b>	<b>(99)%</b>

The decrease in interest and other income in the third quarter and year to date of fiscal year 2017 compared to the third quarter and year to date of fiscal year 2016 is due to supply agreement fees from a customer and income recognition of commitments related to a supply agreement with another customer that occurred during the year to date of fiscal 2016. In July 2013, a subsidiary of the Company, Chemdex, Inc., signed a supply agreement with an existing customer to provide raw materials for a new product and renew an existing supply agreement for an existing product. Under the terms of the agreement the customer will endeavour to obtain registration for the new product. During the third quarter of fiscal 2016 the Company completed its obligation to provide raw materials and technological advice and therefore recognized \$250,000 as income. Once registration for this new product has been acquired a second payment of \$250,000 will become due. The agreement is for a period of ten years, renewable for another ten years, and provides the customer with exclusive rights to this new raw material product in the United States. No fees were received in fiscal 2017.

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**Liquidity and Capital Resources**

As of October 31, 2016, the Company had cash of \$1,406,359 compared to cash of \$942,555 at January 31, 2016. In the third quarter of fiscal year 2017, the Company generated cash of \$630,286 in its operating activities, compared to generating cash of \$63,252 for the third quarter of fiscal year 2016. The generation of cash from operations during the year to date of fiscal year 2016 benefitted substantially from supply agreement fees earned in the quarter.

The Company's working capital increased to \$2,160,864 and a working capital ratio of 2.37 to 1 as of October 31, 2016, compared to \$1,772,182 and 2.41 to 1 as of January 31, 2016.

As of October 31, 2016, the Company had accounts receivable of \$735,043 and inventory of \$1,146,717 compared to \$854,749 and \$890,603 respectively at January 31, 2016 and \$849,095 and \$837,861 respectively at October 31, 2015. The decrease in accounts receivable is primarily due to the decreased value of the Canadian dollar.

At October 31, 2016, the Company had accounts payable of \$725,138 compared to \$475,709 at January 31, 2016 and \$549,867 at October 31, 2015. The increase in accounts payable compared to January 31, 2015 was due to the timing of supplier payments.

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased to \$963,885 for the nine months ended October 31, 2016 compared to \$1,247,986 for the nine months ended October 31, 2015. This decrease is primarily due to the supply agreement fees, interest forgiveness and completion of the Company's product development commitments that occurred in fiscal 2016.

During the third quarter of fiscal year 2017, capital expenditures amounted to \$90,103 compared to \$40,306 in the third quarter of fiscal year 2016. Capital expenditures are expected at a similar rate as the year to date for the remainder of fiscal year 2017.

The change in accumulated other comprehensive income of the Company is primarily attributable to the currency translation adjustment of subsidiary Dextran Products Limited. 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, 2016 is due to continued repayments of principal and interest throughout the period and the decrease in value of the Canadian dollar during the period.



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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 has had a material effect on its operations or financial results at any time in the last three years.

**Related Party Transactions**

In August 1997, the Company loaned the late Thomas C. Usher, its Vice-Chairman, Director of Research and Development, a member of its Board of Directors and the beneficial owner of greater than 5% of the outstanding common shares of the Company, \$691,500 at an interest rate equal to the prime rate of Toronto Dominion Bank plus 1.50% (the "Loan"). The amount outstanding under the Loan as of October 31, 2016 was \$249,295, as compared to \$240,130 at January 31, 2016, including accrued interest. The Company has taken a cumulative provision of \$478,392 at October 31, 2016 (January 31, 2016 - \$469,227) 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 October 31, 2016, pursuant to a non-interest bearing loan with no specific repayment terms. The outstanding amount of this loan has not changed from January 31, 2016. The amounts continue to remain owing from the estate of Thomas C. Usher.

As of October 31, 2016, 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 \$330,837 at October 31, 2016, based on the closing price of the Company's common shares on the Pink Sheets quotation service on October 30, 2016. 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 October 31, 2016 is \$6,962 (January 31, 2016 - \$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 \$402,285 at October 31, 2016 from \$420,937 at January 31, 2016 due to monthly payments by the Company, less interest charges.

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**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.

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*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**

An employee of the Company's subsidiary, Dextran Products Limited, has filed a claim alleging improper termination and harassment. The Company has engaged legal counsel and discussions are ongoing.

**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.

December 15, 2016

/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.

December 15, 2016

/s/ John A. Luce

Chief Financial Officer  
Polydex Pharmaceuticals Limited