POLYDEX PHARMACEUTICALS LIMITED

QUARTERLY DISCLOSURE REPORT

JULY 31, 2016

UNAUDITED

INDEX

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
JULY 31, 2016
UNAUDITED

ITEM I NAME OF ISSUER

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ITEM II SHARES OUTSTANDING

Preferred Stock – Class A

(i)	Period end date	July 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	July 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	July 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 shares
(v)	Number of shareholders of record	229

ITEM III INTERIM FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
July 31, 2016
UNAUDITED

(Expressed in United States dollars)

			July 31 2016		January 31 2016
			(Unaudited)		(Unaudited)
Assets					
Current assets:					
Cash	$		971,061	$	$942,555
Investments available for sale (note 3)			318,869		79,123
Trade accounts receivable			1,122,863		854,749
Due from shareholders					3,000
Inventories					
Finished goods	660,054			462,142	
Work in progress	11,998			172,211	
Raw materials	274,957		947,009	256,250	890,603
Prepaid expenses and other current assets			46,617		65,664
Total current assets			3,406,419		2,835,694
Property, plant and equipment, net			3,034,471		2,769,489
Deferred taxes (note 8)			94,675		191,780
Due from estate of former shareholder			20,903		20,903
	$		6,556,468	$	5,817,866

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
July 31, 2016
UNAUDITED

(Expressed in United States dollars)

		July 31 2016		January 31 2016
		(Unaudited)		(Unaudited)
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable	$	595,312	$	$475,709
Accrued liabilities		393,142		452,660
Income taxes payable		2,902		3,991
Other loans payable (note 4)		138,825		138,825
Customer deposits		37,672		41,040
Current portion of long-term debt		43,103		39,352
Current portion of capital lease obligations		35,902		31,471
Current portion of due to shareholder		36,000		36,000
Total current liabilities		1,282,858		1,219,048
Long-term debt (note 5a)		165,787		174,842
Capital lease obligations (note 5b)		36,457		51,280
Due to shareholder		372,560		384,958
		574,804		611,080
Total liabilities		1,857,662		1,830,128
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, 2015 - 899,400)		15,010		15,010
3,380,478 common shares (January 31, 2015 - 3,305,478)		56,323		56,323
Contributed surplus		23,792,519		23,792,519
Deficit		(19,532,910)		(19,889,654)
Accumulated other comprehensive income		367,864		13,540
		4,698,806		3,987,738
	$	6,556,468	$	5,817,866

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
July 31, 2016
UNAUDITED

(Expressed in United States dollars)

	Three Months Ended July 31 2016	Three Months Ended July 31 2015	Six Months Ended July 31 2016	Six Months Ended July 31 2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales	$ 1,737,376	$ 1,679,801	$ 3,195,351	$ 3,240,978
Cost of goods sold	1,153,893	1,271,665	2,205,796	2,276,474
Gross profit	583,483	408,136	989,555	964,504
Expenses				
General and administrative	220,471	138,744	351,991	278,412
Interest expense,net	9,700	(18,426)	19,780	834
Selling and promotion	23,600	9,220	30,866	20,281
Research and development	-	-	602	594
Depreciation	1,572	2,043	4,396	4,128
Foreign exchange (gain) loss	(64,753)	(117,834)	111,500	(55,596)
Interest and other income	(821)	(20,584)	(1,192)	(20,742)
Total expenses	189,769	(6,837)	517,943	227,911
Net income before income taxes	393,714	414,973	471,612	736,593
Income taxes (note 8)				
Current	1,453	-	3,543	1,900
Deferred	111,325	-	111,325	-
	112,778	-	114,868	1,900
Income for the period	280,936	414,973	356,744	734,693
Unrealized gain (loss) on investments available for sale	3,736	(37)	3,027	(712)
Currency translation adjustment	23,333	(485,416)	351,297	(235,552)
Comprehensive income for the period	$ 308,005	$ (70,480)	$ 711,068	$ 498,429
Per share information:				
Income per common share:				
Basic	0.08	0.13	0.11	0.22
Diluted	0.08	0.12	0.10	0.21
Weighted average number of common shares used in computing net loss per share for the period:				
Basic	3,380,478	3,305,478	3,380,478	3,305,478
Diluted	3,517,388	3,490,857	3,535,363	3,468,699

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

(Expressed in United States dollars)

		Six Months Ended July 31 2016		Six Months Ended July 31 2015
		(Unaudited)		(Unaudited)
Preferred Shares:				
Balance, beginning and end of period	$	15,010	$	15,010
Common Shares:				
Balance, beginning and end of period	$	56,323	$	55,071
Contributed Surplus:				
Balance, beginning and end of period	$	23,792,519	$	23,708,452
Deficit:				
Balance, beginning of period	$	(19,889,654)	$	(21,167,154)
Net profit for the period		356,744		734,693
Balance, end of period	$	(19,532,910)	$	(20,432,461)
Accumulated Other Comprehensive Income:				
Balance, beginning of period	$	13,540	$	558,333
Unrealized loss on investments available for sale		3,027		(712)
Currency translation adjustment for the period		351,297		(235,552)
Balance, end of period	$	367,864	$	322,069

See accompanying notes.

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

(Expressed in United States dollars)

	Six Months Ended July 31 2016	Six Months Ended July 31 2015
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operating activities:		
Net profit for the period	356,744	734,693
Add (deduct) items not affecting cash:		
Depreciation and amortization	106,498	54,355
Deferred income taxes (note 15)	111,325	-
Deferred loan expenses	-	(4,966)
Net change in non-cash working capital balances related to operations	(194,081)	76,814
Cash provided by operating activities	380,486	860,896
Investing activities:		
Additions to property, plant and equipment	(170,111)	(85,276)
Proceeds (Acquisition) of investments available for sale	(231,522)	(402)
Cash used in investing activities	(401,633)	(85,678)
Financing activities:		
Repayment of long-term debt	(20,939)	-
Proceeds (Repayment) of capital lease obligations, net	(16,454)	(16,345)
Decrease in due to shareholder	(12,398)	(13,602)
Cash provided by (used in) financing activities	(49,791)	(29,947)
Effect of exchange rate changes	99,444	(149,776)
Net increase (decrease) in cash and cash equivalents	28,506	595,495
Cash, beginning of year	942,555	491,116
Cash, end of period	971,061	1,086,611

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 2016 Annual Report for the fiscal year ended January 31, 2016 as found on the Polydex Pharmaceuticals Limited (the “Company”) website, www.polydex.com. The unaudited interim consolidated financial statements as of July 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 September 15, 2016 that would require recognition or note disclosures in these financial statements.

2. Significant Accounting Policies:

<u>Basis of consolidation</u>
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.

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

<u>Use of estimates</u>
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.

<u>Inventories</u>
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. 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 six months ended July 31, 2016 the Company has not entered into any derivative financial instruments.

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.

Earnings 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 and six months ended July 31, 2016 (2015 - 3,305,478). 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 154,885 were included in the computation of year to date diluted earnings per share as at July 31, 2016, and 163,221 incremental shares were included for the six months ended July 31, 2015. Options to purchase common shares of 136,910 were included in the computation of diluted earnings per share for the three months ended July 31, 2016, and 185,379 incremental shares were included for the three months ended July 31, 2015.

3. Investments Available For Sale:

Investments available for sale consist of the following:

	July 31 2016	January 31 2016
Investments available for sale	$ **318,869**	$ 79,123

The investments consist of a Canadian short-term bond fund with maturity dates extending from one to five years and a yield rate of 2.43%, and an international bond fund with a year to date yield rate of 3.24%. Investments available for sale are stated at fair market value, based on quoted market prices. An unrealized loss of $3,027 has been included in accumulated other comprehensive income

4. Other Loan Payable:

	July 31 2016	January 31 2016
Advance from customer	$ **138,825**	$ 138,825

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:

	July 31 2016	January 31 2016
Bank term loan payable in monthly installments of Cdn $5,547 (U.S. $4,249) principal and interest at the Canadian bank's fixed rate of 4.20%	**$ 208,890**	$ 214,194
Less: current portion	**(43,103)**	(39,352)
	$ 165.787	$ 174,842

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 6 months ended July 31, 2016 for the bank loan was $4,619 (2015 - $10,824).

Principal repayments on the bank loan are as follows:

	$
2017	**43,102**
2018	**44,931**
2019	**46,840**
2020	**48,828**
2021	**25,139**
	208,890

(b) Capital lease obligations consist of the following:

	July 31 2016	January 31 2016
Obligation (Cdn. $24,548) under a capital lease, repayable in quarterly installments of $1,289 bearing interest at 9.42% and maturing in fiscal 2017	**$ 18,802**	$ 63,791
Obligation (Cdn. $69,924) under a capital lease, repayable in monthly installments of $3,128 bearing interest at 12.67% and maturing in fiscal 2021	**53,557**	18,960
Less current portion	**(35,902)**	(31,471)
	$ 36,457	$ 51,280

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

	$
2017	**42,500**
2018	**26,856**
2019	**4,954**
2020	**4,954**
2021	**3,511**
Total minimum lease payments	**82,775**
Less amount representing imputed interest	**10,416**
	$ 72,359

Interest expense for the year for capital lease obligations for the six months ending July 31, 2016 was $4,904 (2015 - $7,427)

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 commits the Company to provide materials and advice for the development of a new product. 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 $680,000 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.

7. Stock-based Employee Compensation:

The Company maintains an incentive share option plan for management personnel for options to purchase up to 749,168 common shares. The Company also issues options to certain consultants for services provided to the Company.

All options granted have terms of five years and vest immediately. At July 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, which are exercisable after one year from the grant date and expire on dates between January 31, 2017 and January 31, 2021, 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 July 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 July 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 will be adjusted each fiscal quarter.

9. Segmented Information:

Total revenue by significant customer:

		Six Months Ended July 31, 2016		Six Months Ended July 31, 2015
Customer A	$	**583,149**	$	693,709
Customer B		**498,170**		392,066
Customer C		**452,899**		152,450
Customer D		**279,002**		262,783
Customer E		**184,320**		61,440
Customer F		**161,420**		68,460
Customer G		**87,900**		311,605
	$	**2,246,860**	$	1,942,513

Sales by geographic destination:

		Six Months Ended July 31, 2016		Six Months Ended July 31, 2015
Europe	$	**1,437,641**	$	1,551,281
United States		**951,851**		998,771
Other		**397,840**		297,910
Canada		**298,084**		333,910
Pacific Rim		**109,935**		59,503
	$	**3,195,351**	$	3,240,978

ITEM IV MANAGEMENT DISCUSSION AND ANALYSIS

The Company's fiscal year ends on January 31st 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 July 31, 2016 interim consolidated financial statements and notes thereto included elsewhere in this report. Operating results for the six months ended July 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 for the fiscal year ended January 31, 2016. The Company's financial statements are prepared in accordance with United States generally accepted accounting principles. All amounts are in United States dollars, unless otherwise denoted.

Overview

The Company is engaged in the manufacture of bulk pharmaceutical intermediates for the worldwide veterinary pharmaceutical industry and also the manufacture and marketing of biotechnology-based products for the human pharmaceutical market. The Company conducts its business operations through its wholly-owned subsidiaries, Dextran Products and Chemdex.

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:

Though sales and production performance experienced year to date have been consistent with the prior year, net income was impacted by higher expenses, most notably foreign exchange losses of \$111,500 and deferred tax expenses of \$111,325, the latter being a non-cash item that did not impact our strong cash flow. EDITDA was \$597, 890 year to date.

Management continues to dialogue with existing customers about production and delivery of our high quality products. Recently the Company limited its regular summer shutdown for maintenance in Q2 and shifted a significant portion of the shutdown to Q3. Q2 saw significant investment in equipment, especially the implementation of an additional air compressor, a key component of our production processes. At the same time various projects are continuing with respect to reducing utility costs related to water consumption, a large part of our production costs. Further investment in equipment is planned while attempting to minimize any major production interruptions.

Results of Operations

Three and six months ended July 31, 2016 compared to three and six months ended July 31, 2015:

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Variance	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015	Variance
Net Income	**$280,936**	**$414,973**	**(32)%**	**$356,744**	**$734,693**	**(51)%**
Income per Share:						
Basic	**$0.08**	**$0.13**		**$0.11**	**$0.22**	
Diluted	**$0.08**	**$0.12**		**$0.10**	**$0.21**	

The decrease in net income for the second quarter and year to date of fiscal year 2017 is a result of increased expenses, especially foreign exchange losses of $111,500 and deferred tax expenses of $111,325 compared to the prior year's comparable periods.

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Variance	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015	Variance
Sales	**$1,737,376**	**$1,679,801**	**3%**	**$3,195,351**	**$3,240,978**	**(1)%**

Sales for the second quarter and year to date of fiscal year 2017 were comparable to the same periods of fiscal year 2016.

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Variance	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015	Variance
Gross Profit	**$583,483**	**$408,136**	**43%**	**$989,555**	**$964,504**	**3%**
Percentage of sales	**33%**	**24%**		**31%**	**30%**	

Gross margin percentages in the second quarter and year to date of fiscal year 2017 improved over the comparable periods in fiscal 2016 primarily due to the impact on cost of sales of the decreased value of the Canadian dollar.

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Variance	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015	Variance
Selling, promotion, general and administrative expenses	**$244,071**	**$147,970**	**65%**	**$382,857**	**$298,693**	**28%**

These expenses increased in the second quarter and year to date of fiscal 2017 compared to comparable periods in fiscal 2016 due to several factors. First, significant legal fees related to the employee termination suit as well as professional fees related to tax advice were incurred primarily during the second quarter of fiscal 2017. Second, administration wages increased partially due to the employment of full time additional office personnel. Third, management travel and payments of supplier commissions also increased.

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Variance	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015	Variance
Research and Development expenditures	**---**	**---**	**---**	**$602**	**$594**	**1%**

During fiscal year 2010 all of the Company's research into Ushercell was halted, with only some patent expenses being incurred and paid, as occurred in the first quarter of fiscal 2017. Since that time further patent fees have been curtailed, with only smaller patent maintenance fees being expensed as incurred.

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	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Variance	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015	Variance
Depreciation and amortization expense	**$52,072**	**$26,737**	**95%**	**$106,498**	**$54,355**	**96%**

Depreciation and amortization increased for the three months and six months ending July 31 2016 compared to the three months ended July 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 especially during the second quarter of fiscal 2017. Included in depreciation and amortization expense are allocations to cost of goods sold in the amount of $102,102 for fiscal year to date 2017 (2016 - $50,226).

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Variance	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015	Variance
Interest expense	**$9,700**	**$(18,246)**	**153%**	**$19,780**	**$834**	**2,272%**

Interest expense increased in the second quarter and year to date of fiscal year 2017 compared to 2016 due primarily 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.

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Variance	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015	Variance
Foreign exchange (gain) loss	**$(64,753)**	**$(117,834)**	**45%**	**$111,500**	**$(55,596)**	**301%**

The foreign exchange gain during the second quarter of fiscal year 2017 offset to some extent the large exchange losses that occurred during the first quarter of fiscal 2017. The Company's subsidiary, Dextran Products Ltd, had a net asset position with the United States dollar versus the Canadian dollar causing the decrease in the value of the Canadian dollar to result in the gains noted above in the second quarter of fiscal 2017. However the Canadian dollar increased in value during the first quarter of fiscal 2017 compared to year end values which resulted in the large exchange loss in the first quarter of fiscal 2017.

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Variance	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015	Variance
Interest and investment income	**$ 821**	**$163**	**404%**	**$1,192**	**$321**	**271%**
Supply agreement fees	**---**	**$20,421**	**---**	**---**	**$20,421**	**---**
Interest and other income	**$821**	**$20,584**		**$1,192**	**$20,742**	

The decrease in interest and other income in the second quarter and year to date of fiscal year 2017 compared to the second quarter and year to date of fiscal year 2016 is due to supply agreement fees from a customer received during the second quarter fiscal 2016. No fees were received in fiscal 2017.

	Three Months Ended July 31, 2016	Three Months Ended July 31, 2015	Variance	Six Months Ended July 31, 2016	Six Months Ended July 31, 2015	Variance
Income tax expense						
Current	**$1,453**	**---**	**---**	**$3,543**	**$1,900**	**86%**
Deferred	**$111,325**	**---**	**---**	**$111,325**	**---**	**---**
Income taxes	**112,778**	**---**	**---**	**$114,868**	**$1,900**	**5,946%**

The increase in current income taxes is due to increased profits in the Company's Chemdex, Inc. subsidiary. The deferred income tax expense represents the tax effect resulting from the deferred, deductible research and development expenses that were recognized at January 31, 2016 and that now would be utilized to reduce taxes otherwise payable.

Liquidity and Capital Resources

As of July 31, 2016, the Company had cash of $971,061, compared to cash of $942,555 at January 31, 2016. In the first six months of fiscal year 2017, the Company generated cash of $380,486 in its operating activities, compared to $860,896 for the six months of fiscal year 2016. 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 net income during the period. Depreciation continues to be a non-cash expense of the Company.

The Company's working capital increased to $2,052,449 and a working capital ratio of 2.42 to 1 as of July 31, 2016 compared to $1,772,182 and 2.41 to 1 as of January 31, 2016.

As of July 31, 2016, the Company had accounts receivable of $1,122,863 and inventory of $947,009 compared to $854,749 and $890,603 respectively at January 31, 2016 and $847,752 and $915,135 respectively at July 31, 2015. Accounts receivable increased due to significant sales in the last month of the second quarter, while inventory decreased to meet customer demand.

At July 31, 2016, the Company had accounts payable of $539,312 compared to $475,709 at January 31, 2016 and $539,683 at July 31, 2015. The increase in accounts payable from January 31, 2015 was due to the timing of supplier payments.

During the second quarter of fiscal year 2017, capital expenditures totaled $139,781 as compared to $19,626 in the second of fiscal year 2016. The substantial investment in fiscal 2016 was due primarily to the acquisition of an additional more efficient air compressor, which is a vital component of our production processes. Additional expenditures on capital equipment are possible for the remainder of fiscal 2017 should additional funds become available.

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, 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.

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

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

Related Party Transactions

The amount outstanding under the due from shareholder as of April 30, 2016 was $243,103 as compared to $240,130 at January 31, 2016, including accrued interest. The Company has taken a cumulative provision of $475,276 at July 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 July 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 July 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 $306,511 at July 31, 2016, based on the closing price of the Company's common shares on the Pink Sheets quotation service on July 31, 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 July 31, 2016 remained at $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 $408,560 as at July 31, 2016 from $420,937 at January 31, 2016 due to monthly payments by the Company, less interest charges.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Critical Accounting Policies

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

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

Revenue Recognition

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

Allowance for Doubtful Accounts

Accounts receivable is stated net of allowances for doubtful accounts. Allowances for doubtful accounts are determined by each reporting unit on a specific item basis. Management reviews the credit worthiness of individual customers and past payment history to determine the allowance for doubtful accounts. Since the majority of sales at Dextran Products are export, Dextran Products maintains credit insurance through a crown corporation which is supported by the Canadian government, for the majority of its customers' receivables. There has been no allowance for doubtful accounts during the past two fiscal years.

Long-Lived Assets

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

Deferred Tax Assets

The Company has recorded a valuation allowance on deferred tax assets where there is uncertainty as to the ultimate realization of the future tax deduction. Dextran Products has recognized a deferred tax asset related to available Canadian research and development tax credits and it is expected to utilize a portion of it in the current fiscal year. Dextran Products has also 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

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

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, 2016

/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, 2016

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