

POLYDEX PHARMACEUTICALS LIMITED

QUARTERLY DISCLOSURE REPORT

OCTOBER 31, 2019

UNAUDITED

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

INDEX

ITEM I	Name of Issuer	Page	3
ITEM II	Share Structure	Page	3
ITEM III	Consolidated Financial Statements		
	Interim Financial Statements	Page	4-9
	Notes to Interim Financial Statements	Page	10-18
ITEM IV	Management Discussion and Analysis	Page	19-27
ITEM V	Legal Proceedings	Page	28
ITEM VI	Defaults Upon Senior Securities	Page	28
ITEM VII	Other Information	Page	28
ITEM VIII	Exhibits	Page	28
ITEM IX	Certifications	Page	29-30

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

ITEM I NAME OF ISSUER

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ITEM II SHARES OUTSTANDING

Preferred Stock – Class A

(i)	Period end date	October 31, 2019
(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, 2019
(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, 2019
(ii)	Authorized	10,000,000 shares
(iii)	Issued and outstanding	3,419,478
(iv)	Freely tradable shares (public float)	2,386,525
(v)	Number of shareholders of record	220

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

ITEM III INTERIM FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

TABLE OF CONTENTS

Consolidated Balance Sheets October 31, 2019 and January 31, 2019 (Unaudited)	5-6
Consolidated Statements of Operations and Comprehensive Income Three and Nine months ended October 31, 2019 and 2018 (Unaudited)	7
Consolidated Statements of Shareholders' Equity Nine months ended October 31, 2019 and 2018 (Unaudited)	8
Consolidated Statements of Cash Flows Nine months ended October 31, 2019 and 2018 (Unaudited)	9
Notes to Consolidated Financial Statements (Unaudited)	10-18

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2019
UNAUDITED

(Expressed in United States dollars)

	October 31	January 31
	2019	2019
	(Unaudited)	(Unaudited)
Assets		
Current assets:		
Cash	\$1,115,564	\$1,593,728
Investments available for sale (note 3)	617,916	-
Trade accounts receivable	1,049,217	1,011,959
Inventories		
Finished goods	710,901	513,397
Work in progress	443,043	319,623
Raw materials	<u>254,325</u>	<u>245,761</u>
	1,408,269	1,078,781
Prepaid expenses and other current assets	32,128	71,042
Total current assets	4,223,094	3,755,510
Property, plant and equipment, net	3,287,353	3,218,830
Deferred taxes (note 9)	62,500	62,500
Due from estate of former shareholder	20,903	20,903
	\$7,593,850	\$7,057,743

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2019
UNAUDITED

(Expressed in United States dollars)

	October 31 2019	January 31 2019
	(Unaudited)	(Unaudited)
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$636,920	\$370,552
Accrued liabilities	222,138	260,521
Income taxes payable	2,211	1,933
Other loans and advances (note 4)	64,275	75,825
Current portion of long-term debt (note 5a)	65,657	63,898
Current portion of capital lease obligations (note 5b)	4,084	4,141
Current portion of due to shareholder	46,500	36,000
Total current liabilities	1,041,785	812,870
Long-term debt (note 5a)	156,605	206,538
Capital lease obligations (note 5b)	21,121	5,747
Due to shareholder	282,967	313,712
	460,693	525,997
Total liabilities	1,502,478	1,338,867
Commitments and contingencies (note 6)		
Susequent events (note 7)		
Shareholders' equity:		
Capital stock		
Authorized:		
100,000 Class A preferred shares of \$0.10 each		
899,400 Class B preferred shares of \$0.0167 each		
10,000,000 common shares of \$0.0167 each		
Issued and outstanding:		
899,400 Class B preferred shares (January 31, 2019 - 899,400)	15,010	15,010
3,419,478 common shares (January 31, 2019 - 3,419,478)	56,975	56,975
Contributed surplus	23,807,078	23,807,078
Deficit	(18,150,982)	(18,541,444)
Accumulated other comprehensive income	363,290	381,257
	6,091,371	5,718,876
	\$7,593,849	\$7,057,743

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
OCTOBER 31, 2019
UNAUDITED

(Expressed in United States dollars)

	Three Months Ended October 31 2019 (Unaudited)	Three Months Ended October 31 2018 (Unaudited)	Nine Months Ended October 31 2019 (Unaudited)	Nine Months Ended October 31 2018 (Unaudited)
Sales	\$1,215,105	\$1,158,846	3,680,472	3,906,632
Cost of goods sold	982,540	957,533	2,764,263	3,193,345
Gross profit	232,565	201,313	916,209	713,287
Expenses				
General and administrative	152,686	136,796	459,268	438,556
Interest expense, net	8,064	9,372	26,095	28,181
Selling and promotion	8,813	12,907	33,277	46,978
Depreciation	2,157	1,159	5,846	5,986
Foreign exchange (gain) loss	(10,296)	6,640	9,534	(4,088)
Interest and other income	(3,456)	(893)	(9,809)	(3,355)
Total expenses	157,968	165,981	524,211	512,258
Income before income taxes	74,597	35,332	391,998	201,029
Provision for income taxes (note 9)				
Current	815	700	1,536	1,300
Deferred	-	-	-	-
	815	700	1,536	1,300
Net income (loss) for the period	73,782	34,632	390,462	199,729
Unrealized gain (loss) on investments	-	(1,934)	-	(4,523)
Currency translation adjustment	(9,248)	(35,323)	(17,967)	(329,357)
Comprehensive income for the period	\$64,534	(\$2,625)	\$372,495	(\$134,151)
Per share information:				
Earnings per common share:				
Basic	0.02	0.01	0.11	0.06
Diluted	0.02	0.01	0.11	0.06
Weighted average number of common shares used compute net income per share for the period:				
Basic	3,419,478	3,419,478	3,419,478	3,419,478
Diluted	3,444,868	3,451,044	3,443,549	3,463,939

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
OCTOBER 31, 2019
UNAUDITED

(Expressed in United States dollars)

	Nine Months Ended October 31 2019	Nine Months Ended October 31 2018
	(Unaudited)	(Unaudited)
Preferred Shares:		
Balance, beginning and end of period	\$15,010	\$15,010
Common Shares:		
Balance, beginning and end of period	\$56,975	\$56,975
Contributed Surplus:		
Balance, beginning and end of period	\$23,807,078	\$23,807,078
Deficit:		
Balance, beginning of period	(\$18,541,444)	(\$18,772,389)
Net profit for the period	390,462	165,097
Balance, end of period	(\$18,150,982)	(\$18,607,292)
Accumulated Other Comprehensive Income:		
Balance, beginning of period	\$381,257	\$661,798
Unrealized gain on investments available for sale	-	(4,523)
Currency translation adjustment for the period	(17,967)	(329,357)
Balance, end of period	\$363,290	\$327,918

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
OCTOBER 31, 2019
UNAUDITED

(Expressed in United States dollars)

	Nine Months Ended October 31 2019	Nine Months Ended October 31 2018
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operating activities:		
Net profit for the period	\$390,462	\$199,729
Add (deduct) items not affecting cash:		
Depreciation and amortization	214,003	145,888
Deferred income taxes (note 9)	---	-
Net change in non-cash working capital balances related to operations	(113,640)	628,419
Cash provided by operating activities	490,825	974,036
Investing activities:		
Additions to property, plant and equipment	(289,309)	(157,327)
Decrease in due from shareholder	-	-
Increase in investments available for sale	(9,809)	(2,462)
Proceeds (Acquisition) of investments available for sale	(599,627)	-
Cash used in investing activities	(898,745)	(159,789)
Financing activities:		
Repayment of long-term debt	(47,209)	(30,561)
Proceeds (Repayment) of capital lease obligations, net	(2,864)	(2,000)
Decrease in due to shareholder	(20,245)	(11,935)
Cash used in financing activities	(70,318)	(44,496)
Effect of exchange rate changes	74	10,500
Net increase in cash and cash equivalents	(478,164)	780,251
Cash, beginning of year	1,593,728	632,502
Cash, end of period	\$1,115,564	\$1,412,753

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

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 2019 Annual Report for the fiscal year ended January 31, 2019 as found on the Polydex Pharmaceuticals Limited (the “Company”) website, www.polydex.com. The unaudited interim consolidated financial statements as of October 31, 2019 and 2018 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 except as noted in note 7, there were no material subsequent events since October 31, 2019 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

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

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 to 25 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.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

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, 2019 the Company has not entered into any derivative financial instruments.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

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 3,419,478 for the current quarter and year to date ended October 31, 2019 (2018 – 3,419,478). 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 24,071 were included in the computation of year to date diluted earnings per share as at October 31, 2019, and 44,461 incremental shares were included for the nine months ended October 31, 2018. Options to purchase common shares of 25,390 were included in the computation of diluted earnings per share for the three months ended October 2019 and 31,516 incremental shares were included for the three months ended October 31, 2018.

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2019
 UNAUDITED

3. Investments Available for sale

Investments available for sale consist of the following:

	October 31 2019	January 31 2019
	\$	\$
Guaranteed interest contracts with interest rates varying from 1.90% to 2.55% per annum and varying maturities from February 2020 to February 2027	617,916	--
	617,916	--

Investments available for sale are stated at fair value, based on quoted market prices. The Company expects that the investments available for sale may be used for working capital for fiscal 2020 and onwards. Accordingly the investments available for sale were classified as part of current assets as at October 31, 2019.

4. Other loans and advances:

Other loans and advances consist of the following:

	October 31 2019	January 31 2019
	\$	\$
Customer advance	64,275	75,825

The advance from a customer is non-interest bearing, unsecured, and is repayable on demand.

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2019
 UNAUDITED

5. Long term debt obligations:

[a] Bank term loans consist of the following:

	October 31 2019 \$	January 31 2019 \$
Bank term loan #1 payable in monthly installments of Cdn \$5,594 (U.S. \$4,252) principal and interest at the Canadian bank's fixed rate of 4.98%	61,687	97,159
Bank term loan #2 payable in monthly installments of Cdn \$2,527 (U.S. \$1,921) principal and interest at the Canadian bank's fixed rate of 3.97%	160,575	173,227
	222,262	270,436
Less: current portion	65,657	63,898
	156,605	206,898

Bank term loan #1 was arranged in January 2016 for 60 months at a fixed rate of prime plus 1.5% (2019 – 4.20%). On January 29, 2019 the loan was renewed at a fixed rate of 4.98% per annum maturing January 29, 2021.

Bank term loan #2 was arranged December 2017 for 120 months at a fixed rate of prime plus 1.50% (2019 – 3.97%).

The Company also has an operating loan facility of Cdn \$300,000 (USD – \$228,016) for working capital purposes, of which none was utilized at October 31, 2019 and January 31, 2019. This Canadian operating facility bears interest at the Canadian banks' prime lending rate plus 3.00%.

Bank indebtedness and the operating loan facility are collateralized by a general security agreement over the Company's assets and a collateral mortgage of Cdn \$500,000 (USD - \$380,026) on the Company's building located in Toronto, Canada. The company was in compliance with all covenants as of October 31, 2019.

Interest expense for the nine months ended October 31, 2019 for the bank loan was \$10,520 (2018 - \$9,720).

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2019
 UNAUDITED

Principal repayments on the bank loan are as follows:

	\$
2020	65,657
2021	30,692
2022	18,388
2023	19,131
2024	88,394
Total	222,262

[b] Capital lease obligations consist of the following:

	October 31 2019	January 31 2019
	\$	\$
Obligation (Cdn. \$16,767) under a capital lease, repayable in quarterly installments of \$1,260 (U.S. \$958) bearing interest at 9.42% and maturing in fiscal 2021	--	13,039
Obligation (Cdn. \$34,423) under capital leases, repayable in monthly installments of \$2,134 (U.S. \$1,622) bearing interest at 10.15% and maturing in fiscal 2024	25,205	--
	25,205	14,726
Less current portion	4,084	3,382
	21,121	11,344

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

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

	\$
2020	6,490
2021	6,490
2022	6,490
2023	6,490
2024	6,490
Total minimum lease payments	32,450
Less amount representing imputed interest	7,245
	25,205

Interest expense for the 9 months ended October 31, 2019 for capital lease obligations was \$659 (2018 - \$1,196)

6. Commitments and Contingencies:

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

The Company has committed to purchase approximately \$144,000 of partially finished product from a contract manufacturer.

There were no other material commitments or contingencies outstanding as at October 31, 2019.

7. Subsequent Events:

The company received notification to appear in court on August 23, 2019 relating to charges under the Occupational Health and Safety Act. The charges related to an incident with an outside contractor during the plant shutdown in August 2018. The company retained legal counsel to attend to these charges. Settlement discussions are ongoing. The outcome of these charges is not determinable at this time and no further disclosure or recognition is considered necessary by management.

8. Stock-based Employee Compensation:

The Company uses the fair value method to account for awards of stock-based employee compensation. No stock-based employee compensation expense was recorded during the period from February 1, 2019 to October 31, 2019, because there were no options granted during this period. Similarly, no stock-based

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

employee compensation expense was recorded during the period from February 1, 2018 to October 31, 2018, because there were no options granted during that period.

9. Provision for Income Taxes:

The Company's income tax provision for October 31, 2019 relates to income taxes owing at its United State's subsidiary, Chemdex Inc.

10. Segmented Information:

Total revenue by significant customer:

	Nine Months Ended Oct 31 2019	Nine Months Ended Oct 31 2018
	\$	\$
Customer A	608,404	5,940
Customer B	480,466	318,281
Customer C	430,859	-
Customer D	334,616	180,794
Customer E	276,500	608,000
Customer F	225,462	407,781
Customer G	204,451	498,045
Customer H	-	185,945
	2,560,758	2,204,786

Sales by geographic destination:

	Nine Months Ended Oct 31 2019	Nine Months Ended Oct 31 2018
	\$	\$
United States	1,815,459	1,409,585
Europe	1,124,416	1,897,143
Canada	338,268	204,834
Other	280,155	362,670
Pacific Rim	122,175	32,400
	3,680,472	3,906,632

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

ITEM IV MANAGEMENT DISCUSSION AND ANALYSIS

The Company's fiscal year ends on January 31st of each year. In this report, fiscal year 2020 refers to the Company's fiscal year ended January 31, 2020. The following discussion should be read in conjunction with the October 31, 2019 interim consolidated financial statements and notes thereto included elsewhere in this report. Operating results for the nine months ended October 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2020. For further information, refer to the Polydex Pharmaceuticals Limited Annual Report on our website www.polydex.com. The company's financial statements are prepared in substantial accordance with United States generally accepted accounting principles. All amounts are in United States dollars, unless otherwise denoted.

Overview

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

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

Management Objectives for Fiscal 2020:

Powder orders remained strong in the quarter and increased margins on powder sales resulted in positive results for the quarter. Sales and production traditionally decrease in the current quarter as the quarter covers our regular shutdown and maintenance so management was pleased with the current quarter results. The company continues to invest in equipment in an effort to ensure sustainable production. Investment and repairs to equipment are over \$300,000 year to date. Product registrations activity also continues targeting markets in the United States, Europe and the Far East although regulatory approval cannot be determined.

Interest in new non-regulated products also remain strong and customer audits continue. The company is pleased to have a strong balance sheet with good cash reserves to protect its future production.

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2019
 UNAUDITED

Results of Operations

Nine and three months ended October 31, 2019 compared to nine and three months ended October 31, 2018:

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Variance	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Variance
Net Income	\$73,597	\$34,632	113%	\$390,462	\$199,729	95%
Net Income per Share						
Basic:	\$0.02	\$0.01		\$0.11	\$0.06	
Diluted:	\$0.02	\$0.01		\$0.11	\$0.06	

The increase in net income for the third quarter and the year to date fiscal 2020 compared to the third quarter and year to date fiscal 2019 is due primarily to increased gross margins and the change in product mix and increase in sales of powdered product.

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Variance	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Variance
Sales	\$1,215,105	\$1,156,846	5%	\$3,680,472	\$3,906,632	(6%)

Sales during the third quarter of fiscal 2020 were higher compared to the sales in the third quarter of fiscal 2019 due to the change in product mix. The decrease in sales for the year to date fiscal 2020 compared to fiscal 2019 is primarily due to timing of shipments.

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2019
 UNAUDITED

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Variance	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Variance
Gross Profit	\$232,565	\$201,313	16%	\$916,209	\$713,287	28%
Percentage of sales	19.1%	17.4%		24.9%	18.3%	

The increase in gross margin percentage and dollar amounts in the third quarter and year to date of fiscal year 2020 were primarily due to larger powdered sales orders completed. This was one of the Company's objectives for fiscal 2020 to increase powdered production.

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Variance	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Variance
Selling, promotion, general and administrative expenses	\$161,499	\$149,703	8%	\$492,545	\$485,534	1%

The increase in the third quarter of fiscal 2020 compared to fiscal 2019 is timing of pay periods in the current quarter and an increase in professional fees.

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Variance	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Variance
Research and Development expenditures	\$ --	\$ --	-- %	\$ --	\$ --	--%

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

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2019
 UNAUDITED

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Variance	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Variance
Depreciation and amortization expense	\$81,122	\$70,190	16%	\$214,003	\$215,540	(1%)

Depreciation and amortization increased for the three months and decreased for the nine months ending October 31, 2019 compared to the three and nine months ended October 31, 2018. This is primarily a result of significant equipment additions starting in the last quarter of fiscal 2019. The Company continues to invest in equipment to meet current and expected increases in production demand. The increase in year to date depreciation would be even higher if not for the change in accounting policy for the estimate for the useful life of the new building.

Included in depreciation and amortization expense are allocations to cost of goods sold in the amount of \$208,157 for fiscal year to date 2020 (2019 - \$209,554).

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Variance	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Variance
Interest Expense	\$8,064	\$9,372	(14%)	\$26,095	\$28,181	(7%)

Interest expense decreased in the quarter and year to date of fiscal 2020 compared to 2019 as the company continues to pay down loans.

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2019
 UNAUDITED

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Variance	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Variance
Foreign exchange (gain) loss	\$(10,296)	\$6,640	255%	\$9,534	\$(4,088)	(333%)

The volatility of these exchange rates increase or decrease the value of exchange affected amounts in the Company's Canadian division, Dextran Products, especially U.S. denominated sales.

	Three Months Ended October 31, 2019	Three Months Ended October 31, 2018	Variance	Nine Months Ended October 31, 2019	Nine Months Ended October 31, 2018	Variance
Interest and investment income	\$3,456	\$893	387%	\$9,809	\$3,355	292%

Interest and investment income increased in the current quarter and year to date. The company realized a loss on the disposition of investments at the end of the last fiscal year and invested the remaining proceeds in a series of guaranteed interest rate contracts in the current fiscal year. These contracts provide consistent and steady returns with no risk of capital erosion.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

Liquidity and Capital Resources

As of October 31, 2019, the Company had cash and investments of \$1,733,480 compared to cash of and investments of \$1,596,728 at January 31, 2019. In the first nine months of fiscal year 2020, the Company generated cash of \$490,826 in its operating activities, compared to \$968,306 for the nine months of fiscal year 2019. The decrease in generation of cash from operations during the first nine months of fiscal year 2020 is primarily due to collection of receivables and an increase in payables to suppliers for powdered orders shipped in the current quarter.

The Company's working capital increased to \$3,181,309 from \$2,942,640 as at January 31, 2019. The working capital ratio decreased to 4.05 to 1 as of October 31, 2019 compared to 4.62 to 1 as of January 31, 2019.

As of October 31, 2019, the Company had accounts receivable of \$1,049,217 and inventory of \$1,408,269 compared to \$1,011,959 and \$1,078,781 respectively at January 31, 2019 and \$967,919 and \$982,962 respectively at October 31, 2018. The increase in accounts receivable is primarily due to the timing of customer receipts while inventory increased in anticipation of future orders.

At October 31, 2019, the Company had accounts payable of \$636,920 compared to \$370,552 at January 31, 2019 and \$501,623 at October 31, 2018. The increase in accounts payable resulted from a shipment of raw materials received at the end of the quarter for drying.

During the third quarter of fiscal year 2020, capital expenditures amounted to \$68,236 compared to \$134,295 in the third quarter of fiscal year 2019. Expenditures in the third quarter of fiscal 2020 related to building and plant equipment. Additional expenditures on capital equipment are possible for the remainder of fiscal 2020.

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

The increase in capital lease obligations from January 31, 2019 is due to new capital leases for office equipment in the first quarter of fiscal 2020. Despite this addition overall long term debt decreased as a result of continued loan payments.

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.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

Related Party Transactions

The amount due from shareholder as of October 31, 2019 was \$300,081 compared to \$285,081 at January 31, 2019, including accrued interest. The Company has taken a cumulative provision of \$529,177 at October 31, 2019 (January 31, 2019 - \$514,178) 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, 2019, pursuant to a non-interest bearing loan with no specific repayment terms. The outstanding amount of this loan has not changed from January 31, 2019. The amounts continue to remain owing from the estate of Thomas C. Usher.

As of October 31, 2019, 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 \$267,589 at October 31, 2019, based on the closing price of the Company's common shares on the Pink Sheets quotation service on October 31, 2019. 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, 2019 is \$6,962 (January 31, 2019 - \$6,962).

The Company also has an outstanding loan payable to the Estate of Ruth Usher, a former director and the widow of Thomas C. Usher. The amount due from the Company pursuant to this loan decreased to \$329,446 at October 31, 2019 from \$349,691 at January 31, 2019 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

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

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

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

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.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

ITEM V LEGAL PROCEEDINGS

Not applicable.

ITEM VI DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM VII OTHER INFORMATION

Not applicable.

ITEM VIII EXHIBITS

Not applicable

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

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 16, 2019

/s/ George G. Usher

Chairman, President and Chief Executive Officer
Polydex Pharmaceuticals Limited

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2019
UNAUDITED

ITEM IX CERTIFICATIONS (Continued)

I, David P.M. Jamestee, 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 16, 2019

/s/ David P.M. Jamestee
Chief Financial Officer
Polydex Pharmaceuticals Limited