POLYDEX PHARMACEUTICALS LIMITED

ANNUAL REPORT

JANUARY 31, 2020

UNAUDITED

INDEX

PART A GENERAL COMPANY INFORMATION

Polydex Pharmaceuticals Limited
421 Comstock Road
Toronto, Ontario, Canada
M1L 2H5
Tel: (416) 755-2231
Fax: (416) 755-0334
Web: www.polydex.com

Incorporated under the laws of the Commonwealth of the Bahamas, June 14, 1979
Amalgamated under the laws of Ontario, Canada, May 1, 2017

PART B SHARE STRUCTURE

Preferred Stock – Class A

(i) Period end date	January 31, 2020
(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	January 31, 2020
(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	January 31, 2020
(ii) Authorized	10,000,000 shares
(iii) Issued and outstanding	3,432,478 shares
(iv) Freely tradable shares (public float)	2,561,166 shares
(v) Number of shareholders of record	220

Transfer Agent

Computershare
PO Box 30170
College Station Texas
USA 77842-3170

PART C BUSINESS INFORMATION

Introduction

Polydex Pharmaceuticals Limited (the "Company") is engaged in the development, manufacture and marketing of biotechnology-based products for the human pharmaceutical market, and also manufactures bulk pharmaceutical intermediates for the worldwide veterinary pharmaceutical industry. The Company focuses on the manufacture and sale of Dextran and derivative products, including Iron Dextran and Dextran Sulphate, and other specialty chemicals.

The Company was incorporated under the laws of the Commonwealth of the Bahamas on June 14, 1979 as Polydex Chemicals Limited, and changed its name on March 28, 1984. On May 1, 2017 Polydex Pharmaceuticals Limited amalgamated with its two Canadian subsidiaries, Dextran Products Limited and Polydex Chemicals (Canada) Limited under the laws of Ontario, Canada.

The Company conducts its business operations through the amalgamated Canadian company, operating as "Dextran Products" which manufactures and sells Dextran and Dextran derivative products including Iron Dextran while Chemdex Inc. ("Chemdex"), a subsidiary that is incorporated in the state of Kansas, United States, sells Iron Dextran for the US market.

Products and Sales

Iron Dextran

Iron Dextran is a derivative of Dextran produced by complexing iron with Dextran. Iron Dextran is injected into most pigs at birth as a treatment for anemia. The Company sells Iron Dextran to independent distributors and wholesalers primarily in Europe, the Far East, South America and Canada. Chemdex, Inc. has United States FDA approval for the manufacture and sale of Iron Dextran for veterinary use. On March 4, 2004, Sparhawk Laboratories Inc. ("Sparhawk") and Chemdex entered into an exclusive Supply Agreement under which Sparhawk agreed to purchase 100% of its product needs for bulk Iron Dextran solution from Chemdex for a period of 10 years, and Chemdex agreed to sell such products in the United States exclusively to Sparhawk, subject to minimum purchase requirements. Concurrently with the Supply Agreement, the Company sold its finished product veterinary pharmaceutical business to Sparhawk. In July 2013 Chemdex, Inc., signed an agreement with Sparhawk to provide raw materials and technological advice for a new product and renew the existing supply agreement noted above. Under the terms of the agreement the customer will endeavor 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 has 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 these raw materials in the United States.

Dextran Sulphate

Dextran Sulphate is a specialty chemical derivative of Dextran used in biotechnology applications and the pharmaceutical industry. Dextran Sulphate manufactured by the Company is sold primarily to independent distributors, or direct to companies in the United States and Europe for analytical applications. This usage requires no regulatory approval.

Patents, Trademarks and Licenses

Cellulose Sulphate

Ushercell is a high molecular weight Cellulose Sulphate envisioned for topical vaginal use primarily in the prevention and transmission of AIDS and other sexually transmitted diseases, as well as unplanned pregnancies.

During fiscal year ended January 31, 2006, a patent bearing European Patent No. 1,296,691 entitled "Cellulose Sulfate and Other Sulfated Polysaccharides to Prevent and Treat Papilloma Virus and Other Infections" was issued. This patent is effective in the following countries: France, Germany, United Kingdom, Austria, Belgium, Switzerland, Denmark, Spain, Finland, Greece, Ireland, Italy, Netherlands, Portugal, Sweden, Turkey and Hong Kong. This patent is directed to treating, inhibiting and preventing papilloma virus infections using sulfated polysaccharides.

Low Molecular Weight Dextran

Cystic fibrosis is a genetic disease, which causes a cascade of effects, the most severe being a buildup of mucus in the lungs. This mucus is difficult to remove and also permits the colonization of bacteria, which then cause secondary infections and often death. Research relating to cystic fibrosis has shown that a special form of Dextran, named by the Company as Usherdex 4, is effective in preventing the colonization of bacteria in the mouth and in stimulating the macrophages in the lungs to remove the bacteria present and lessen secondary infections.

The Company is a party to a Research Agreement with the University of British Columbia, and a number of Canadian hospitals. Under the terms of this Research Agreement, the Company agreed to provide equipment and funding for continuing research on a low molecular weight dextran, initially studied for a cystic fibrosis treatment, in exchange for an exclusive worldwide license to manufacture, distribute and sell any products developed from the research. Rights to the low molecular weight dextran were licensed to BCY LifeSciences, Inc. of Canada in 1999. Under this license agreement, BCY LifeSciences will pay a royalty to both the Company and the University of British Columbia based on sales and sublicensing revenue in return for the exclusive right to sublicense, manufacture, distribute and sell developed products. In February 2005, BCY Lifesciences sublicensed the low molecular weight dextran to ALIGN Pharmaceuticals, a private United States based company.

Suppliers

Dextran Products

In the manufacture of Dextran and Dextran derivative products, the Company uses one main supplier for its sugar raw material requirements. The Company also uses two suppliers for its iron requirements with respect to the manufacture of Iron Dextran. Both sugar and iron are readily available from numerous suppliers at competitive prices in the market.

The Company previously was dependent upon a single source for a certain raw material used in the production of Dextran Sulphate. While no shortages were anticipated, the Company decided to outsource production to ensure stable supply of the liquid product that would still be dried in house. Customers were informed and the change made. The Company is looking for a second possible producer as back up. The increase in production costs has been minimal. The Company has no other long-term contracts with its suppliers.

Order Book and Seasonality

Customer ordering patterns have become more immediate compared with the blanket orders more commonly seen in prior years. However, the current production schedule is healthy and is continuing to meet customer demand into July 2020. The Company does not believe that seasonality is material to its financial results as a whole.

Competition

The Company is the only Canadian manufacturer of Iron Dextran. The other major suppliers of Iron Dextran are located in Europe, although there exist several smaller European and Chinese sources of Iron Dextran. Dextran Sulphate is manufactured by one manufacturer in Europe. With regard to Iron Dextran and Dextran Sulphate, the Company competes on the basis of quality, service and price.

Environmental Compliance

The Company believes that it is in substantial compliance with all existing applicable foreign, federal, state, provincial and local environmental laws and does not anticipate that such compliance will have a material effect on its future capital expenditures, earnings or competitive position.

Employees

As of March 31, 2020, the Company employed 23 employees, of whom 13 were engaged in production, 6 in quality control, and 4 in administration, marketing and sales activities. None of the Company's employees are covered by collective bargaining agreements. Management considers its relations with employees to be in good standing.

Research and Development

During the fiscal years ended January 31, 2020, 2019 and 2018, the Company expended $0, $0, and $4,029 respectively. Research and development expenditures resulted primarily from legal fees related to patent acquisition and maintenance. During the fiscal years ended January 31, 2020, 2019 and 2018 the Company did not recognize any investment tax credit benefits.

PART D MANAGEMENT STRUCTURE AMD FINANCIAL INFORMATION

BOARD OF DIRECTORS

Name and Occupation	Age	Year First Elected Director
DEREK JOHN MICHAEL LEDERER, Chartered Accountant. Mr. Lederer is a partner with the public accounting firm Truster Zweig LLP. Previously he had his own public accounting firm since 1970, and is a former adjunct professor at York University in Toronto, Ontario.	**78**	**1998**
JOSEPH BUCHMAN. Now retired, Mr. Buchman was a Financial Services Representative with Metlife Financial Services, where he served in various capacities beginning in 1979. He has acted as the former vice-president of an investment firm in charge of operations and finance, and is well acquainted with the investment community and its requirements	**80**	**1983**
MARTIN LIPPER has an extensive background in business and finance, including roles as the director of research for securities firms involved in mergers and acquisitions. He is currently serving as a director of another public company.	**85**	**2010**
GEORGE G. USHER. Mr. Usher has served as Chairman of the Board since January 27, 1998, President and Chief Executive Officer of the Company since 1993 and 1996, respectively, and Vice President of Dextran Products Limited, a former subsidiary of the Company, since 1987. Previously, Mr. Usher was employed by the Company in various positions since 1982.	**61**	**1988**

EXECUTIVE OFFICERS

Name	Age	Title
George G. Usher	61	Chairman of the Board, President and Chief Executive Officer
David P. Jamestee	54	Chief Financial Officer
Sharon L. Wardlaw	67	Chief Operating Officer, Secretary and Treasurer

SELECTED FINANCIAL DATA

The following selected historical consolidated financial and other data are qualified by reference to, and should be read in conjunction with, the consolidated financial statements and notes thereto included elsewhere in this report. The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. All amounts are in United States dollars.

	Fiscal year ended January 31,				
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	2020	2019	2018	2017	2016
	$	$	$	$	$
Sales from continuing operations	**5,141,341**	4,942,621	5,279,040	6,621,330	6,040,369
Net income	**250,886**	230,946	448,005	669,259	1,277,500
Net income per common share	**0.07**	0.07	0.13	0.20	0.38
Total assets	**7,184,724**	7,057,743	7,328,939	6,705,604	5,817,866
Long term borrowings	**426,954**	525,997	640,141	521,547	611,080

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company`s shares are listed and traded on the OTC Bulletin Board and the Pink OTC Markets Inc through April 2020. The Company's common shares trade under the symbol "POLXF."

The reported high and low closing prices of the Company's common shares as reported on the OTC Pink Sheets for each full quarterly period within the two most recent fiscal years of the Company were as follows:

Fiscal Year 2020 **fiscal quarter ended:**	**High**	**Low**
April 30, 2019	$ 1.00	0.75
July 31, 2019	1.14	0.78
October 31, 2019	1.13	0.95
January 31, 2020	1.18	0.95

Fiscal Year 2019 fiscal quarter ended:	High	Low
April 30, 2018	$ 1.36	1.14
July 31, 2018	1.14	1.01
October 31, 2018	1.18	0.84
January 31, 2019	0.93	0.80

The quotations set out above represent the prices for the specific dates between dealers and do not include retail mark-up, markdown or commission. They do not represent actual transactions.

As of January 31, 2020, there were approximately 220 holders of record of the Company's common shares.

The Company has paid no dividends in the past and does not consider likely the payment of any dividends in the foreseeable future.

During the year ended January 31, 2020 there were 13,000 options exercised by Directors of the Company. The Company did not make any repurchases of its common shares and does not currently have a plan to repurchase any of its common shares.

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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Schwartz Levitsky Feldman llp
CHARTERED PROFESSIONAL ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS
TORONTO • MONTREAL

SLF

INDEPENDENT PRACTITIONER'S REVIEW ENGAGEMENT REPORT

To the Shareholders of
Polydex Pharmaceuticals Limited

We have reviewed the accompanying consolidated financial statements of Polydex Pharmaceuticals Limited which comprise the consolidated balance sheets as of January 31, 2020 and 2019, and the consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for the years ended January 31, 2020, 2019, and 2018, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Practitioner's Responsibility

Our responsibility is to express a conclusion on the accompanying consolidated financial statements based on our review. We conducted our review in accordance with Canadian generally accepted standards for review engagements, which require us to comply with relevant ethical requirements.

A review of consolidated financial statements in accordance with Canadian generally accepted standards for review engagements is a limited assurance engagement. The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated financial statements do not present fairly, in all material respects, the financial position of Polydex Pharmaceuticals Limited as at January 31, 2020 and 2019, and the results of its operations and its cash flows for the years ended January 31, 2020, 2019, and 2018 in accordance with accounting principles generally accepted in the United States of America.

Schwartz Levitsky Feldman llp

Toronto, Ontario
April 28, 2020

Chartered Professional Accountants
Licensed Public Accountants

2300 Yonge Street, Suite 1500, Box 2434
Toronto, Ontario M4P 1E4
Tel: 416 785 5353
Fax: 416 785 5663

POLYDEX PHARMACEUTICALS LIMITED

Consolidated Balance Sheets

(Expressed in US dollars)

(See Independent Practitioner's Review Engagement Report)

	January 31 2020 $	January 31 2019 $
	(Unaudited)	(Unaudited)
Assets		
Current assets:		
Cash	370,236	1,593,728
Investments held-to-maturity (note 5)	152,643	-
Trade receivables	1,332,828	1,011,959
Inventories (note 3)	1,026,018	1,078,781
Prepaid expenses and other current assets	78,897	71,042
Total current assets	2,960,622	3,755,510
Non-current assets:		
Investments held-to-maturity (note 5)	843,728	-
Property, plant and equipment, net (note 4)	3,276,824	3,035,116
Right-of-use asset, net (note 8[b])	20,147	183,714
Deferred taxes (note 13[b])	62,500	62,500
Due from estate of former shareholder (note 7[i])	20,903	20,903
Total assets	7,184,724	7,057,743

See accompanying notes.

On behalf of the Board:

Derek Lederer, Director Joseph Buchman, Director

POLYDEX PHARMACEUTICALS LIMITED

Consolidated Balance Sheets

(Expressed in US dollars)

(See Independent Practitioner's Review Engagement Report)

	January 31 2020 $	January 31 2019 $
	(Unaudited)	(Unaudited)
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	339,635	370,552
Accrued liabilities (note 9)	252,155	260,521
Income taxes payable	2,194	1,933
Other advances (note 6)	64,275	75,825
Current portion of bank debt (note 8[a])	66,429	63,898
Current portion of lease liabilities (note 8[b])	4,270	4,141
Current portion of due to shareholder (note 7[ii])	47,760	36,000
Total current liabilities	776,718	812,870
Non-current liabilities:		
Long-term bank debt (note 8[a])	138,435	206,538
Lease liabilities(note 8[b])	18,811	5,747
Due to shareholder (note 7[ii])	269,708	313,712
Total liabilities	1,203,672	1,338,867
Related party transactions (note 7)		
Commitments (note 19)		
Shareholders' equity:		
Share capital (note 10)		
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
3,432,478 common shares (January 31, 2019 - 3,419,478)	57,192	56,975
Contributed surplus	23,816,221	23,807,078
Deficit	(18,290,558)	(18,541,444)
Accumulated other comprehensive income (note 18)	383,187	381,257
Total shareholders' equity	5,981,052	5,718,876
Total liabilities and shareholders' equity	7,184,724	7,057,743

See accompanying notes.

Consolidated Statements of Shareholders' Equity

(Expressed in US dollars)

(See Independent Practitioner's Review Engagement Report)

	Preferred Shares $	Common Shares $	Contributed Surplus $	Deficit $	Accumulated Other Comprehensive Income (Loss) $	Total Shareholders' Equity $
						(Unaudited)
Balance, January 31, 2017 (Unaudited)	15,010	56,649	23,801,359	(19,220,395)	388,094	5,040,717
Common share options issued						-
Common share options exercised	-	326	5,719	-	-	6,045
Comprehensive income (loss):						
Net income for the year	-	-	-	448,005	-	448,005
Unrealized loss on investments available for sale	-	-	-	-	(22,241)	(22,241)
Currency translation adjustment	-	-	-	-	295,945	295,945
Balance, January 31, 2018 (Unaudited)	15,010	56,975	23,807,078	(18,772,390)	661,798	5,768,471
Common share options exercised	-	-	-	-	-	-
Comprehensive income (loss):						
Net income for the year	-	-	-	230,946	-	230,946
Reclassification adjustment for loss on sale of investments included in net income	-	-	-	-	29,703	29,703
Currency translation adjustment	-	-	-	-	(310,244)	(310,244)
Balance, January 31, 2019 (Unaudited)	15,010	56,975	23,807,078	(18,541,444)	381,257	5,718,876
Common share options exercised	-	217	9,143	-	-	9,360
Comprehensive income:						
Net income for the year	-	-	-	250,886	-	250,886
Currency translation adjustment	-	-	-	-	1,930	1,930
Balance, January 31, 2020 (Unaudited)	15,010	57,192	23,816,221	(18,290,558)	383,187	5,981,052

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Expressed in US dollars)

(See Independent Practitioner's Review Engagement Report)

Year ended January 31	2020	2019	2018
	$	$	$
	(Unaudited)	(Unaudited)	(Unaudited)
Sales	5,141,341	4,942,621	5,279,040
Cost of goods sold	4,097,278	4,014,691	3,983,724
Gross profit	1,044,063	927,930	1,295,316
Expenses			
General and administrative (note 10[b])	608,088	623,036	655,829
Selling and promotion	48,815	59,895	54,546
Interest expense (note 7, 8[a] & 8[b])	34,724	34,980	33,751
Depreciation	8,011	7,521	7,692
Research and development (note 12)	-	-	4,029
Foreign exchange loss	55,548	10,444	75,849
One-time settlement (note 20)	50,450	-	-
Realized loss on sale of investments	-	26,404	-
Interest and other income	(13,984)	(4,096)	(18,169)
Total expenses	791,652	758,184	813,527
Income before income taxes	252,411	169,746	481,789
Income taxes (recovery) (note 13[a])			
Current	1,525	1,300	11,621
Deferred tax expense (recovery)	-	(62,500)	22,163
	1,525	(61,200)	33,784
Net Income	250,886	230,946	448,005
Reclassification adjustment for loss on sale of investments included in net income	-	29,703	-
Unrealized loss on investments available for sale	-	-	(22,241)
Currency translation adjustment	1,930	(310,244)	295,945
Comprehensive income (loss) for the year	252,816	-49,595	721,709
Per share information:			
Income per common share:			
Basic	0.07	0.07	0.13
Diluted	0.07	0.07	0.13
Weighted average number of common shares used in computing net income per share for the year:			
Basic	3,425,978	3,419,478	3,409,728
Diluted	3,425,978	3,457,004	3,466,649

See accompanying notes.

Consolidated Statements of Cash Flows

(Expressed in US dollars)

(See Independent Practitioner's Review Engagement Report)

Year ended January 31	2020	2019	2018
	$	$	$
	(Unaudited)	(Unaudited)	(Unaudited)
Cash provided by (used in):			
Operating activities:			
Net income	250,886	230,946	448,005
Add (deduct) items not affecting cash:			
Depreciation	272,672	275,292	250,202
Deferred income tax (recovery)	-	(62,500)	22,163
Gain on disposal of equipment	-	(764)	(1,500)
Realized loss on investments available for sale	-	26,404	-
Net change in non-cash working capital balances related to operations (note 14)	(328,966)	264,610	(430,501)
Cash provided by operating activities	194,592	733,988	288,369
Investing activities:			
Additions to property, plant and equipment	(358,360)	(339,836)	(374,614)
Increase in investments available for sale	-	(3,332)	(16,931)
Increase of investments held-to-maturity	(996,297)	-	-
Proceeds of investments available for sale	-	618,554	-
Proceeds from sale of equipment	-	764	1,500
Cash provided by (used in) investing activities	(1,354,657)	276,150	(390,045)
Financing activities:			
Repayment of loan payable	(63,402)	(61,722)	(45,804)
Repayment of lease liabilities	(4,955)	(3,915)	(41,618)
Decrease in due to shareholder	(32,244)	(22,602)	(24,278)
Proceeds from long-term debt	-	-	193,678
Exercise of common share options	-	-	6,045
Cash provided by (used in) financing activities	(100,601)	(88,239)	88,023
Effect of exchange rate changes	37,174	39,327	(7,059)
Net increase (decrease) in cash	(1,223,492)	961,226	(20,712)
Cash, beginning of year	1,593,728	632,502	653,214
Cash, end of year	370,236	1,593,728	632,502
Non cash transactions			
Assets acquired under lease	24,176	-	-
Settlement of directors liability	9,360	-	-
	33,536	-	-

See accompanying notes. -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Polydex Pharmaceuticals Limited (the "Company") was originally incorporated in the Commonwealth of the Bahamas but was continued as a Canadian corporation in the province of Ontario during the first quarter of fiscal 2018. On May 1, 2017, its two Canadian subsidiaries, Dextran Products Limited and Polydex Chemicals (Canada) Limited were amalgamated into Polydex Pharmaceuticals Limited. The Company carries on business in Canada and through its subsidiary Chemdex, Inc in the United States. Its principal business activities include the manufacture and sale of veterinary pharmaceutical products and specialty chemicals. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are 100% owned. The subsidiaries after amalgamation are: Chemdex, Inc., a US company and Novadex International Limited, a Bahamian company. All inter-company accounts and transactions have been eliminated on consolidation.

Cash

This consists of cash held at financial institutions in Canada and the United States.

Trade receivables

The Company has trade receivables from selling manufactured goods at agreed upon prices. Normal receivables are due between 30 and 120 days after the issuance of the invoice. The receivables from export sales are insured by Export Development Canada. At year end, substantially all of the receivables were insured and no allowance was required.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 unrecoverable amounts relating to trade receivable and shareholder loans, useful lives of property, plant and equipment, valuation allowances relating to deferred taxes, inventory obsolescence and asset impairment charges.

Inventories

Inventories of raw materials are stated at the lower of cost and net realizable value, cost being determined on a first-in, first-out basis. Work-in-process and finished goods are valued at the lower of cost and net realizable value, and include the cost of raw materials, direct labor, variable overhead expenses and fixed overhead expenses based on normal manufacturing capacity.

Investments held-to-maturity

Investments are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investments held-to-maturity consisted of guaranteed interest rate contracts with varying interest rates and are stated amortized cost, based on interest earned. Interest income is included in other income in the consolidated statements of operations and comprehensive income as it is earned.

Property, plant and equipment

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 commencing when available for use as follows:

Buildings	15 and 25 years
Machinery and equipment	3 to 10 years

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 on an undiscounted basis. If these cash flows are less than the carrying value of such asset, the asset is not recoverable and an impairment loss is recognized for the difference between estimated recoverable amount and carrying value. Impairment losses are not reversable.

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

All revenue is from sales of bulk manufactured products and is measured based on a consideration specified in a contract with a customer and excludes any amounts collected on behalf of third parties, such as taxes assessed by a governmental authority.

Revenue is recognized when the products are transferred to the customer, the customer obtains control of the product (risk of loss passes to the customer), no significant obligations remain, and the return liabilities is reasonably estimated. Up-front payments are deferred until control of the product transfers to the customer based on the contract terms. Control of the product passes to the customer pursuant to the applicable sales contract, either upon shipment of product or upon receipt of product 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.

Shipping and handling fees charged to customers are reported within revenue. Incidental items that are immaterial in the context of the contract are recognized as an expense in cost of goods sold. The Company does not have any significant financing components as payment is received at or shortly after the point of sale. Costs incurred to obtain a contract will be expensed as incurred when the amortization period is less than a year.

The Company's historical obligations for returns and refunds were not material and accordingly related disclosures are not provided.

Revenue recognized under the supply agreement (see note 11) is subject to the same revenue recognition criteria as all other sales.

For more detailed information about reportable segments, please see note 15.

Comprehensive income

The Company discloses comprehensive income in their financial statements using the single statement method. 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 classified as 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 these companies have been translated into United States dollars using the current exchange rates at the consolidated balance sheet dates. Share capital 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 other comprehensive income (loss) within shareholders' equity.

Stock options

The Company uses fair value accounting rules to recognize 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 fair value using the Black-Scholes option pricing model.

Income per common share

Basic income per common share is computed using the weighted average number of shares outstanding of 3,425,978 for the year ended January 31, 2020, 3,419,478 for the year ended January 31, 2019, and 3,409,728 for the year ended January 31, 2018. Diluted income per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock. In 2020 there were no incremental shares included in the calculation of diluted income per common share. In 2019 incremental shares of 37,526 were included in the calculation of diluted income per common share. In 2018 incremental shares of 56,921 were included in the calculation of diluted income per common share.

Income taxes

The Company accounts for income taxes by recognizing deferred tax assets and liabilities for the expected future tax consequences of transactions that have been included in the consolidated financial statements or tax returns. Deferred income taxes are provided using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities at the substantively enacted tax rate at year end.

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.

Uncertain tax positions are recognized in the financial statements only if that position is more likely than not of being sustained upon examination by taxing authorities, based on the technical merits of the position. The Company recognizes interest and penalties related to uncertain tax positions in the income tax provision. There are currently no unrecognized tax benefits that if recognized would affect the tax rate. There was no interest or penalties recognized for the years ended January 31, 2020 and 2019.

3. INVENTORIES

Inventories consist of the following:

	2020	2019
	$	$
Finished goods	736,004	513,397
Work-in-process	12,120	319,623
Raw materials	277,894	245,761
	1,026,018	1,078,781

Management has determined that no obsolescence is required at the year-end.

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2020			2019		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
	$	**$**	**$**	$	$	$
Land and buildings	**4,272,363**	**1,686,053**	**2,586,310**	4,290,785	1,626,569	2,664,216
Machinery and equipment	**9,596,231**	**7,696,619**	**1,899,612**	9,139,023	7,549,261	1,589,762
	13,868,594	**9,382,672**	**4,485,922**	13,429,808	9,175,830	4,253,978
Less: Impairment Adjustment	**(1,209,098)**	**-**	**(1,209,098)**	(1,218,862)	-	(1,218,862)
	12,659,496	**9,382,672**	**3,276,824**	12,210,946	9,175,830	3,035,116

Depreciation of $264,661 was charged to cost of sales in fiscal 2020 (2019 - $267,771; 2018 - $242,510). Assets not available for use included in property, plant and equipment amounted to $498,494 (2019 - $478,013; 2018 - $1,273,590) and have been impaired. Buildings, machinery and equipment were last impaired in 2010; differences in the impairment adjustment are due to foreign exchange differences. Impairment adjustments are not reversed.

5. INVESTMENTS HELD-TO-MATURITY

At January 31, 2020, the Company held investments in guaranteed interest contracts that were classified as held to maturity and consisted of the following:

	2020			
	Amortized Cost	**Unrealized Holding Gains**	**Unrealized Holding Losses**	**Fair Value**
	$	**$**	**$**	**$**
Guaranteed interest contracts	**996,372**	**-**	**-**	**996,372**

	2019			
	Amortized Cost	**Unrealized Holding Gains**	**Unrealized Holding Losses**	**Fair Value**
	$	**$**	**$**	**$**
Guaranteed interest contracts	-	-	-	-

5. INVESTMENTS HELD-TO-MATURITY (cont'd)

Contractual maturities of investments held-to-maturity at January 31, 2020, are as follows:

	Net Carrying Amount
Due in one year or less	152,643
Due in 2-5 years	458,515
Due in 6-10 years	385,214
	996,372

6. OTHER ADVANCES

Other advances consist of the following:

	2020	2019
	$	$
Customer advance	**64,275**	75,825

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

7. RELATED PARTY TRANSACTIONS

Amounts due from (to) shareholder consist of the following:

	2020	2019
	$	$
Amounts due from estate of former shareholder, net of impairment *[i]*	**20,903**	20,903
Amounts due to shareholder *[ii]*	**(317,468)**	(349,712)
Amounts due from shareholders *[iii]*	-	-

7. RELATED PARTY TRANSACTIONS (cont'd)

[i] Amounts due from estate of former shareholder (the "Estate") bear interest at the United States bank prime lending rate plus 1.5% (2020 - 6.25%-7.00%; 2019 - 6.00%-7.00%), except for an amount of $250,000 (2019 - $250,000) which is non-interest bearing. In 2020, 2019 and 2018, a reserve equal to the interest income was entered to offset this interest. These amounts have no fixed terms of repayment. The Estate has pledged 243,263 shares of the Company as collateral for this loan, and the Company has determined that no further reserve amount is required. The Company will continue to hold the pledged shares as collateral until the loan is repaid. The Company also had a commitment to pay a death benefit of $110,000 to the Estate. At January 31, 2020, a balance of $3,532 is still to be paid to the Estate (2019 - $6,962). See Note 9.

[ii] Amounts due to shareholder, which are payable in monthly amounts of $7,500 CAD (2019 - $5,000 CAD), are unsecured and bear interest at the United States bank prime lending rate plus 1.5% (2020 - 6.25%-7.00%; 2019 - 6.00%-7.00%). Based on the current rate of interest, the principal repayment on this loan for fiscal 2021 will be approximately $47,760 (2020 - $36,000). This loan may not be called and has no fixed maturity date.

Principal repayments on the amounts due to shareholder are as follows:

	$
2021	47,760
2022	47,760
2023	47,760
2024	47,760
2025	47,760
Thereafter	78,668
	317,468
Less: Current portion	**47,760**
	269,708

Interest expense recorded with respect to amounts due to shareholder is as follows:

	2020 $	2019 $	2018 $
Interest expense	**22,578**	23,317	21,719

7. RELATED PARTY TRANSACTIONS (cont'd)

[iii] At January 31, 2020 two shareholder/directors exercised their options and each purchased 6,500 common shares of the Company (note 10[a]).

There were no options exercised for the year ended January 31, 2019.

During the year ended January 31, 2018, three shareholder/directors exercised their options and each purchased 6,500 common shares of the Company (note 10[a]). There was a balance due from these shareholders in an amount receivable of $6,045 related to these options. The amount was received subsequent to that year end.

8. LONG TERM DEBT OBLIGATIONS

[a] Bank Term Loans

The Company's bank term loans consist of the following:

	2020 **$**	2019 $
Bank term loan #1 payable in monthly installments of Cdn $5,594 (U.S. $4,227) principal and interest at the Canadian bank's fixed rate of 4.98%	**49,371**	97,159
Bank term loan #2 payable in monthly installments of Cdn $2,527 (U.S. $1,910) principal and interest at the Canadian bank's fixed rate of 3.97%	**155,493**	**173,277**
	204,864	270,436
Less: current portion	**66,429**	63,898
	138,435	206,538

Bank term loan #1 was arranged in January 2016 for 60 months at a fixed rate of prime plus 1.50% (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 in December 2017 for 120 months at a fixed rate of prime plus 1.50% (2020 and 2019 - 3.97%).

8. LONG TERM DEBT OBLIGATIONS (cont'd)

[a] Bank Term Loans (cont'd)

The Company also obtained an operating loan facility of Cdn $300,000 (USD – $226,706) for working capital purposes, which was not utilized at January 31, 2020 and 2019. This Canadian operating facility bears interest at the Canadian bank's prime lending rate plus 2.15% (2020 and 2019 - 3.95%).

The bank term loans and the operating facility are collateralized by a general security agreement over the Company's assets and a collateral mortgage of Cdn $500,000 (USD – $377,843) on the Company's building located in Toronto, Canada.

The Company was in compliance with all covenants as of January 31, 2020.

Interest expense for the year on the loans was $10,240 (2019 - $10,503).

Principal repayments on the bank loans are as follows:

	$
2021	**66,429**
2022	**17,747**
2023	**18,464**
2024	**19,212**
2025	**19,988**
Thereafter	**63,024**
	204,864

8. LONG TERM DEBT OBLIGATIONS (cont'd)

[b] Lease liabilities

The Company has historically entered into lease arrangements where the Company is the lessee. As of January 31, 2020, the Company has entered into a single finance lease arrangement for office equipment which has no renewal period and fixed rental payments.

Finance lease liabilities consist of the following:

	2020	2019
	$	$
Lease liability, repayable in monthly installments of Cdn. $1,618 (U.S. $1,223) bearing interest at 9.42% and matured in fiscal 2020.	-	9,888
Lease liability, repayable in quarterly installments of Cdn. $2,134 (U.S. $1,613) bearing interest at 10.15% and maturing in fiscal 2024.	**23,081**	-
	23,081	9,888
Less current portion	**4,270**	4,141
	18,811	5,747

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

	$
2021	**6,453**
2022	**6,453**
2023	**6,453**
2024	**6,453**
2025	**3,226**
Total minimum lease payments	**29,038**
Less amount representing imputed interest	**5,957**
	23,081

Interest expense for the year on finance lease obligations was $1,906 (2019 - $1,160), recognized as part of interest expense.

The cost of the right-of-use asset is $24,176 and the accumulated amortization is $4,029. The comparative figure comprises asset under finance leases with a cost of $231,086 and accumulated amortization of $47,372. The current year amortization expense of the right-of-use asset associated with finance lease obligations for the year was $4,029 (2019 - $47,372), recognized as part of cost of goods sold.

9. ACCRUED LIABILITIES

	2020 $	2019 $
Payroll and related taxes payable	**127,656**	145,681
Professional fees payable	**42,844**	47,695
Utilities and taxes	**25,338**	54,860
Death benefit payable	**3,532**	6,962
Others	**52,785**	5,323
	252,155	260,521

10. SHARE CAPITAL

[a] Share capital issued and outstanding

[i] Class A preferred shares

The Class A preferred shares carry dividends, are convertible into common shares of the Company and are redeemable, at rates to be determined by resolution of the Board of Directors. No Class A preferred shares have been issued to date.

[ii] Class B preferred shares

The Class B preferred shares carry no dividends, are non-convertible and entitle the holder to two votes per share. 899,400 of the Class B preferred shares have been issued and are outstanding.

[iii]Common shares

During the year ended January 31, 2020, 13,000 common share options were exercised and 13,000 common shares were issued for $9,360.

During the year ended January 31, 2019, there were no common share options exercised or issued.

During the year ended January 31, 2018, 19,500 common share options were exercised and 19,500 common shares were issued for $6,045.

10. SHARE CAPITAL (cont'd)

[b] Share option plan

The Company maintains an incentive share option plan for management personnel for 710,668 options to purchase common shares. The Company also issues options to certain consultants for services provided to the Company.

All options granted have a term of five years and vest immediately. At January 31, 2020, the Company had 53,000 options outstanding at an exercise price of $1.80 and a weighted average exercise price of $1.80. The options, which are exercisable one year after being granted and expire on January 31, 2021, entitle the holder of an option to acquire one common share of the Company.

No options were granted during the year ended January 31, 2020, 2019 and 2018.

Details of the outstanding options, which are all currently exercisable, are as follows:

	Share options			Weighted average exercise price per share		
	2020	2019	2018	**2020**	2019	2018
	#	#	#	$	$	$
Options outstanding, beginning of year	**138,000**	191,000	244,000	**1.13**	1.05	0.89
Granted	-	-	-	-	-	-
Exercised	**(13,000)**	-	(19,500)	**0.72**	-	0.31
Expired	**(72,000)**	(53,000)	(33,500)	**0.72**	0.82	0.31
Options outstanding, end of year	**53,000**	138,000	191,000	**1.80**	1.13	1.05
Weighted average fair value of options granted during the year				$ -	$ -	$ -

The following table summarizes information relating to the options outstanding at January 31, 2020:

Exercise Price	Number Outstanding	Remaining Contractual Life (months)
1.80	53,000	12

11. SPARHAWK LABORATORIES, INC.

Sparhawk Laboratories, Inc.

In July 2013 the Company renewed an agreement to supply ferric hydroxide and hydrogenated dextran solution to Sparhawk on an exclusive basis in the United States for an additional 10 years expiring in 2024. As part of this renewal agreement, the Company is to receive a fee of $250,000 upon registration of a related product. The Company is not exposed to any potential losses due to this agreement (see note 19).

12. RESEARCH AND DEVELOPMENT

The Company has not made claims for investment tax credits on research and development activities. Research and development expenditures are as follows:

	2020	2019	2018
	$	$	$
Research and development expenditures	-	-	4,029
Less: Investment tax credits	-	-	-
Research and development expense	-	-	4,029

13. INCOME TAXES

[a] Substantially all of the Company's activities are carried out in Canada and its subsidiary in the United States. The Company's effective income tax rate is dependent on the tax legislation in each country and the operating results of each subsidiary and the parent company.

The components of income (loss) before income taxes are as follows:

	2020	2019	2018
	$	$	$
Bahamas	-	-	-
Canada	**245,779**	164,065	491,638
United States	**6,632**	5,681	(9,849)
	252,411	169,746	481,789

13. INCOME TAXES (cont'd)

The provision for (recovery of) income taxes consists of the following:

	2020 $	2019 $	2018 $
Provision for income taxes based on Canadian statutory income tax rates (2020 – 25%, 2019 – 25%, 2018 – 25%)	**61,445**	41,016	122,910
Decrease in valuation allowance	**(94,903)**	(93,712)	(33,947)
Tax and exchange rate changes on deferred tax items	**21,788**	(16,290)	(60,216)
Expired tax losses and other	**-**	6,390	1,178
Items not deductible for tax	**11,670**	96	3,859
	-	(62,500)	33,784
Provision for income taxes (recovery) based on United States income tax rates (2020 – 25%, 2019 – 25%, 2018 – 19%)	**1,658**	1,420	(1,871)
Decrease in valuation allowance and other	**(133)**	(120)	1,871
	1,525	1,300	-
Provision for (recovery of) income taxes	**1,525**	(61,200)	33,784

Significant components of the provision for (recovery of) income taxes attributable to continuing operations are as follows:

	2020 $	2019 $	2018 $
US current tax expense	**1,525**	1,300	-
Canadian current tax expense	-	-	11,621
Canadian deferred tax recovery (expense)	-	(62,500)	22,163
Income taxes (recovery)	**1,525**	(61,200)	33,784

13. INCOME TAXES (cont'd)

[b] Deferred tax assets and liabilities have been provided on temporary differences and unused tax losses that consist of the following:

	2020 $	**2019** $	2018 $
Deferred tax assets			
Canadian			
Non-capital losses	**295,198**	452,574	539,753
Excess of tax value over carrying value of depreciable assets	**288,390**	225,542	156,521
Net capital losses *[note 13[c]]*	**125,053**	123,672	124,346
Other items	**734**	2,490	15,668
United States			
Net operating loss carryforwards	**1,234**	1,367	689
	710,609	805,645	836,977
Less valuation allowance	**648,109**	743,145	836,977
Net deferred tax assets	**62,500**	62,500	-

13. INCOME TAXES (cont'd)

[c] The parent company has non-capital loss carryforwards available to reduce future years' income for tax purposes in Canada totaling approximately $1,181,000. These non-capital losses expire as stated below.

Year of expiry	$
2029	200,000
2030	211,000
2031	117,000
2032	57,000
2033	66,000
2034	126,000
2035	54,000
2036	201,000
2037	149,000
Total	1,181,000

The parent Company also has capital losses available to offset future taxable capital gains of approximately $1,000,000. These capital losses have an indefinite carryforward period.

[d] The Company has not recorded a deferred tax liability related to its investment in foreign subsidiaries. The Company has determined that its investment in these subsidiaries is permanent in nature and it does not intend to dispose of or realize dividends from these investments in the foreseeable future. However, if either of these events were to occur, the Company will be liable for withholding taxes.

14. CONSOLIDATED STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2020	2019	2018
	$	$	$
Decrease (increase) in assets			
Trade receivables	**(328,950)**	431,511	(353,894)
Due from shareholders	**-**	6,045	(6,045)
Inventories	**44,119**	(107,123)	178,401
Prepaid expenses and other current assets	**(8,366)**	(3,408)	451
	(293,197)	327,025	(181,087)
Increase (decrease) in liabilities			
Accounts payable	**(27,947)**	(27,361)	(42,719)
Accrued liabilities	**19,706**	32,642	(160,744)
Income taxes payable	**270**	1,133	(2,530)
Other advances	**(27,798)**	(68,829)	(43,421)
	(35,769)	(62,415)	(249,414)
	(328,966)	264,610	(430,501)

Cash paid during the year for interest was $34,724 (2019 – $34,980; 2018 – $33,751). Cash paid during the year for income taxes was $1,300 (2019 – $1,300; 2018 – $11,621).

15. SEGMENTED INFORMATION

All manufacturing, sales and administrative operations are carried out through Dextran Products ("Dextran") in Canada, while Chemdex in the United States only sells bulk quantities of a specific dextran derivative to Sparhawk under the Supply Agreement, as described in note 11.

Below is a breakdown of Company's sales revenue among significant customers and by geographic region:

	2020	2019	2018
	$	$	$
Total sales by significant customer:			
Customer A	**973,529**	13,060	593,637
Customer B	**632,757**	658,233	407,100
Customer C	**576,466**	-	-
Customer D	**553,000**	608,000	561,850
Customer E	**443,500**	398,043	820,886
Customer F	**278,865**	557,047	512,163
Customer G	**225,463**	407,781	81,402
	3,683,580	2,642,164	2,977,038

	2020	2019	2018
	$	$	$
Sales by geographic destination:			
United States	**2,537,884**	1,657,167	1,739,498
Europe	**1,670,660**	2,264,617	1,877,270
Other	**365,975**	562,330	610,773
Canada	**339,126**	419,857	825,639
Pacific Rim	**227,696**	38,650	225,860
	5,141,341	4,942,621	5,279,040

All the Company's long-lived assets are located in Canada.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments has been determined based on available market information and appropriate valuation methodologies. ASC 820 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1
Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2
Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3
Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at January 31, 2020, and 2019:

The carrying values of cash, trade receivable, accounts payable and advances approximate their fair values as at January 31, 2020 and 2019 because of the short period to maturity of these financial instruments.

Investments held-to-maturity consist of guaranteed interest contracts that are valued on the basis of the initial investment plus accrued interest receivable to date as this interest will be paid out if the contract is cancelled early.

The estimated fair values of the bank debt and due to shareholder are not materially different from the carrying values for financial statement purposes as at January 31, 2020 and 2019. The fair value of the amount due from the estate of the former shareholder (Note 7[i]) is not determinable because the amount has no fixed terms of repayment.

Cash has been classified as level 1 on the fair value hierarchy.

Investments held-to-maturity have been classified as level 2 on the fair value hierarchy.

There have been no changes in Level 1, Level 2, and Level 3 and no changes in valuation techniques for these assets or liabilities for the period ended January 31, 2020.

17. OTHER DISCLOSURES

[a] Concentration of trade receivables

As at January 31, 2020, six (2019 – three) customers of the Company comprised 75% (2019 - 59%) of the trade receivable balance. No other customers had trade accounts receivable balances outstanding at year end that represented more than 10% of the Company's trade accounts receivable balance.

[b] Foreign currency risk

The Company is exposed to foreign currency risk through its net investment in its Canadian operations. The Company has not entered into hedging arrangements related to the foreign currency risk exposure.

18. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of other accumulated comprehensive income are as follows:	**2020**	2019
	$	$
Currency translation	**383,187**	381,257
Accumulated other comprehensive income	**383,187**	381,257

19. COMMITMENTS

In July of 2013, a subsidiary of the Company, Chemdex Inc., renewed its supply agreement with an existing customer and signed an agreement to supply raw materials for an additional product. During the third quarter of fiscal 2016 the Company completed its obligation to provide raw materials and technological advice and has therefore recognized $250,000 as income. Upon registration of this new product with the US Food and Drug Administration, 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 these raw materials in the United States (see note 11).

The Company has committed to purchase approximately $140,000 of partially finished products from a contract manufacturer.

20. SUBSEQUENT EVENTS

Ministry of Labour Settlement

The Company settled charges under the Ontario Occupational Health and Safety Act relating to an incident with an outside contractor during the plant shutdown in August 2018. The fine and related legal costs associated with this settlement is included in accrued liabilities and are not due until one year from the settlement date. The Company intends to pay these costs prior to the deadline.

COVID-19 Pandemic

As a result of the COVID-19 Pandemic, the Company has implemented a Pandemic Plan in an effort to protect employees, customers and business. There is a great degree of uncertainty in Canada as all levels of government try to protect citizens in a situation that continues to evolve.

The Company believes it meets the conditions in Ontario to be considered an "essential" business and is allowed to remain operating during the pandemic. Communication with the Canadian Federation of Independent Businesses and the Economic Development department of the City of Toronto has not resulted in a confirmation either way. Management has attended a Pandemic Webinar for businesses covering Workplace Health and Safety as well as its legal responsibilities.

The Company has implemented physical distancing protocols and significantly increased its sanitation program, including hand sanitizing stations throughout the facility. The Company has also advised employees relating to self-isolation and required actions should this become necessary.

On March 27, 2020, the Company initiated a voluntary plant shutdown. A skeleton staff remained on site during this shutdown and a gradual return to production was implemented beginning April 13, 2020.

The Company's cash position remains strong and management is maintaining a daily evaluation of the situation to ensure planning to the best of their ability.

21. ADOPTION OF NEW ACCOUNTING STANDARDS

On February 1, 2019, the company implements ASU No. 2016-02, Leases (Topic 842) and subsequent amendments thereto. Under this standard, lessees recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). As the Company did not have any off-balance sheet lease arrangements, the adoption of the standard did not result in any adjustments to opening balances under the modified retrospective approach. There was no material impact to the timing of the expense recognition in the Company's Consolidated Statement of Operations and Comprehensive Incomes. Disclosures related to the Company's leasing activities are presented in Note 8[b].

22. RECENT ACCOUNTING PRONOUNCEMENTS

The FASB issued new guidance (Topic 326) to replace the incurred loss model for loans and other financial assets with an expected loss model, which is referred to as the current expected loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures no accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in certain leases recognized by a lessor. In addition, the amendments in Topic 326 require credit losses on available-for-sale to be presented as a valuation allowance rather than as a direct write-down. This new guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is in the process of evaluating the impact of this guidance.

Management does not believe that any other recently issued but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

SECURITY OWNERSHIP OF 5% OR GREATER HOLDERS

Preferred Shares	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Class B Preferred Shares	George G. Usher Chairman of the Board, Director, President and CEO Polydex Pharmaceuticals Limited 421 Comstock Road Toronto, Ontario, Canada M1L 2H5	899,400	100%
Common Shares	George G. Usher Chairman of the Board, Director, President and CEO Polydex Pharmaceuticals Limited 421 Comstock Road Toronto, Ontario, Canada M1L 2H5	269,713	7.9%
Common Shares	Estate of Thomas C. Usher Peter T. Higgs, Trustee c/o Polydex Pharmaceuticals Limited	243,263	7.2%
Common Shares	Wendy Scheven Vancouver, Canada	174,641	5.14%

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 consolidated financial statements and notes thereto included elsewhere in this report. This discussion may contain forward-looking statements that are dependent upon various risks, uncertainties and other factors that could cause results to differ materially from those expressed herein. The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. All amounts are in United States dollars, unless otherwise denoted.

Overview

The Company is engaged in the manufacture and sale of bulk pharmaceutical intermediates and biotechnology-based products for the worldwide veterinary and human pharmaceutical industry operating as Dextran Products in Canada. Chemdex, Inc. in the United States, a wholly owned subsidiary, provides raw materials to Sparhawk Laboratories, Inc. pursuant to a definitive supply agreement.

Management Objectives for Fiscal 2021:

Overall, the year's results are better than the prior year and management is satisfied. Sales dollars increased, despite continued predatory pricing pressures, due to fewer problems with the production of powdered product. Margins were maintained despite an inventory write-down in the final quarter.

In the first quarter of fiscal 2021 management has seen increased demand in Native Dextran for new applications. This development work has been ongoing for several years and management is pleased to see progress. We have confirmed orders in place for the first half of the year.

Management is still hopeful that the registration of a new product in the United States will result in $250,000 of additional supply agreement income in fiscal 2021 or 2022. Product registration has now started in Slovakia, although it is difficult to predict the timing of the associated sales or volume.

The Company begins the new year with cash and investments of $1.4 million and accounts receivable of a further $1.3 million. This will allow the Company to continue to prudently invest in more efficient production equipment that should lead to either further cost savings or cost containment. Management also believes at this time that these cash reserves will significantly protect the Company due to the uncertainty of the COVID-19 situation that continues to unfold.

Results of Operations

Fiscal year ended January 31, 2020 compared to Fiscal Year ended January 31, 2019 compared to Fiscal Year ended January 31, 2018:

	FY 2020	FY 2019	FY 2018	20 v 19	19 v 18
				(% increase(decrease))	
Income before taxes	**$252,411**	$169,746	$481,789	**47%**	**(65)%**
Net Income	**250,886**	230,946	448,005	**9%**	**(48)%**
Income per share	**0.07**	0.07	0.13		

Net income increased in fiscal year 2020 primarily due to the change in product mix and increased margins on powder sales. Net income in the current year would have been higher except for an unexpected write-down of inventory in the last quarter of the year. It was further reduced by a Ministry of Labour settlement relating to an incident with a subcontractor.

Net income decreased significantly in fiscal year 2019 primarily due to decreased sales resulting from production delays and equipment maintenance.

	FY 2020	FY 2019	FY 2018	20 v 19	19 v 18
				(% increase (decrease))	
Sales	**$5,141,341**	$4,942,621	$5,279,040	**4%**	(6)%

Sales for the fiscal year ended January 31, 2020 increased slightly due to the change in product mix.

Sales for the fiscal year ended January 31, 2019 were only down slightly despite equipment maintenance. A significant order scheduled for delivery at the end of the current fiscal year didn't occur. This order will be fulfilled in the first quarter of fiscal 2020.

	FY 2020	FY 2019	FY 2018	20 v 19	19 v 18
				(% increase(decrease))	
Gross profit	**$1,044,063**	$927,930	$1,295,316	**13%**	(28)%

Gross profit percentage for the fiscal year 2020 increased primarily due to large powdered sales ordered completed. One of the Company's objectives for fiscal 2020 was to increase powdered production. If not for the inventory write-down in the final quarter of year, the gross profit would have been higher.

Gross profit percentage for the fiscal year 2019 decreased as a result of continued overhead costs while equipment maintenance needs were addressed.

	FY 2020	FY 2019	FY 2018	20 v 19	19 v 18
				(% increase(decrease))	
Selling, promotion, general and administrative expenses	**$656,903**	$682,931	$710,375	**(4)%**	(4)%

The decrease in fiscal 2020 is due primarily to decreases in commissions and travel.

The decrease in fiscal 2019 is due primarily to decreases in salaries.

	FY 2020	FY 2019	FY 2018	20 v 19	19 v 18
				(% increase(decrease))	
Research and development	**$-**	$-	$4,029	(100)**%**	(100)%

There was no research and development activity in the current or the prior year.

	FY 2020	FY 2019	FY 2018	20 v 19	19 v 18
				(% increase(decrease))	
Depreciation	**$272,672**	$275,292	$250,202	**(1)%**	10%

Depreciation expense remained similar to the prior year as the Company remains committed to capital investment to further improve plant efficiencies.

Depreciation expense in 2019 continued to increase as the Company remained committed to capital investment to further improve plant efficiencies.

	FY 2020	FY 2019	FY 2018	20 v 19	19 v 18
				(% increase(decrease))	
Interest expense	**34,724**	$34,980	$33,751	(1)**%**	4%

Interest expense remained virtually unchanged in fiscal 2020. The decrease in interest on bank loans was offset somewhat by new capital lease agreements in the current year.

Interest expense increased slightly in fiscal 2019 as the second bank loan financed was in place for the entire period. Continuing decreasing balances of equipment lease agreements offset some of the increase.

	FY 2020	FY 2019	FY 2018	20 v 19	19 v 18
				(% increase(decrease))	
Foreign exchange loss	**$55,548**	$10,444	$75,849	**432%**	(86)%

Throughout fiscal year 2020 the increase in the Canadian dollar increased the foreign exchange losses compared to the prior year.

Throughout fiscal year 2019, the decrease in the Canadian dollar reduced the foreign exchange losses compared to the prior year when the Canadian dollar increased and produced a significantly higher loss.

	FY 2020	FY 2019	FY 2018	20 v 19	19 v 18
				(% increase(decrease))	
Interest and investment income	**$13,984**	$4,096	$18,169	**241%**	(77)%

The Company realized an overall loss on the disposition of investments available for sale at the end of the last fiscal year and invested the remaining proceeds in a series of guaranteed interest rate contracts in the current year. These contracts provide consistent and steady returns with no risk of capital erosion.

Investment income in 2019 decreased as a result of the sale of investments available for sale.

	FY 2020	FY 2019	FY 2018	20 v 19	19 v 18
				(% increase(decrease))	
Income tax expense					
Current	**$1,525**	$1,300	$11,621	**17%**	(89)%
Deferred tax expense (recovery)	**-**	(62,500)	22,163	**100%**	(382)%
	$1,525	$(61,200)	$33,784		

The current income tax expense remained similar to the prior year as the Company continues to utilize available loss carryforward balances. Management did not recognize any further deferred tax recovery in the current year as the magnitude of the assessment of future profits that were more likely than not did not change from prior year.

There was a decrease in the 2019 current tax expense because the amalgamation of Polydex and its Canadian subsidiaries occurred in the first quarter of fiscal 2018. The amalgamation took place May 1, 2017 and only a minor portion of the prior year's tax offsets were available until amalgamation. Deferred tax recovery in the prior year resulted from management's assessment that future profits were more likely than not.

Liquidity and Capital Resources

As of January 31, 2020, the Company had cash and investments of $1,366,607 compared to cash of $1,593,728 at January 31, 2019. In fiscal year 2020, the Company generated cash of $194,592 in its operating activities, compared to generating cash of $733,988 for fiscal year 2019 and $288,369 for fiscal year 2018. Depreciation continues to be a large non-cash expense of the Company and is expected to increase as a result of further investments in plant and equipment continuing in the future.

Working capital was $2,183,904 and the current ratio was 3.81 to 1 as of January 31, 2020, compared to $2,942,640 and 4.62 to 1 as of January 31, 2019 and $3,019,198 and 4.28 to 1 as of January 31, 2018. The change in the current year resulted mainly from $843,000 of investments moved to long-term investments. Although these investments are considered long-term as a result of their maturities, they remain highly liquid and can be cashed at any time without penalty or loss of capital.

As at January 31, 2020 the Company was committed to its agreement to supply raw materials to Sparhawk. The Company was also committed to purchase approximately $140,000 of partially finished product from a contract manufacturer.

At January 31, 2020, the Company had accounts receivable of $1,332,828 and inventory of $1,026,018 compared to $1,011,959 and $1,078,781 respectively, as at January 31, 2019. Accounts receivable were higher as at January 31, 2020 compared to January 31, 2019 as a result of the timing of customer payments while the decrease in inventory was primarily related to a write-down for inventory not recoverable.

Accounts payable of $339,635 (2019 - $370,552) at January 31, 2020 was lower than the prior fiscal year end as a result of the timing of supplier payments. During fiscal year 2020, capital expenditures totaled $358,360 as compared to $339,836 in fiscal year 2019. Equipment replacement and improvement expenditures are expected to continue as resources permit.

The change in accumulated other comprehensive income of the Company is entirely attributable to the currency translation adjustment of Dextran Products. This currency translation adjustment arises from the translation of Dextran Products' financial statements to United States dollars.

No changes in accounting principles or their application have been implemented in the reporting period that would have a material effect on reported income.

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 fiscal 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"). No repayment of the Loan has occurred since January 31, 2014. The amount outstanding under the Loan as of January 31, 2020 was $304,833 as compared to $285,081 at January 31, 2019, including accrued interest. The Company has taken a cumulative provision of $533,930 at January 31, 2020 (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 January 31, 2020, pursuant to a non-interest-bearing loan with no specific repayment terms.

The outstanding amount of this loan has not changed from January 31, 2017. The amounts continue to remain owing from the estate of Thomas C. Usher.

As of January 31, 2020, 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 $257,859 at January 31, 2020 based on the closing price of the Company's common shares on the Pink Sheets quotation service on January 31, 2020. 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 January 31, 2020 is $3,532 (2019 – $6,962).

On the advice of the lawyers of the estate, the co-executors of the estate have initiated actions to wind up the estate. In December 2019 all beneficiaries of the estate were sent documentation advising them of their options including an option to purchase shares of the Company held by the estate on their behalf. George Usher, one of the co-executors of the estate and also a director and shareholder of the company, has indicated he intends to purchase his proportionate share of the estate's shares. No other beneficiaries have advised the executors of the estate that they intend to purchase shares. Any remaining shares will be retired to Treasury by the Company once the estate is wound up.

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 $317,468 at January 31, 2020 from $349,712 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.

PART E ISSUANCE HISTORY

Not applicable.

PART F EXHIBITS

Not applicable.

ISSUER'S CERTIFICATIONS

I, George G. Usher, certify that:

1. I have reviewed this annual disclosure of Polydex Pharmaceuticals Limited;
2. Based on my knowledge, this annual 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.

April 30, 2020

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

ISSUER'S CERTIFICATIONS (Continued)

I, David Jamestee, certify that:

1. I have reviewed this annual 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.

April 30, 2020

/s/ David Jamestee
Chief Financial Officer
Polydex Pharmaceuticals Limited