POLYDEX PHARMACEUTICALS LIMITED

ANNUAL REPORT

JANUARY 31, 2023

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, 2023
(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, 2023
(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, 2023
(ii) Authorized	10,000,000 shares
(iii) Issued and outstanding	3,432,478 shares
(iv) Freely tradable shares (public float)	2,586,253 shares
(v) Number of shareholders of record	205

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 in consideration for the payment of $250,000 at the time of signing the agreement. 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 the $250,000 as income. Once registration for this new product has been acquired, a second payment of $250,000 will become due. As at year-end registration has not been acquired. 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.

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. The current production schedule is continuing to meet customer demand into the near future. 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 April 30, 2023, the Company employed 20 employees, of whom 11 were engaged in production, 5 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, 2023, 2022 and 2021, the Company had no research and development expenditures and 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.	**81**	**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	**83**	**1983**
MARTIN LIPPER has an extensive background in business and finance as he was in charge of research departments for a number of NYSE brokerage houses. Currently retired, he was a member of the NYSE and the ASE. He worked to raise money and financed companies who were taken public as well as being active in mergers and acquisitions of public firms.	**88**	**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.	**64**	**1988**

EXECUTIVE OFFICERS

Name	Age	Title
George G. Usher	64	Chairman of the Board, President and Chief Executive Officer
David P. Jamestee	57	Chief Financial Officer
Sharon L. Wardlaw	70	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)
	2023	2022	2021	2020	2019
	$	$	$	$	$
Sales from continuing operations	**4,404,489**	4,229,126	4,856,169	5,141,341	4,942,621
Net income (loss)	**(766,374)**	(551,627)	211,702	250,886	230,946
Net income (loss) per common share	**(0.22)**	(0.16)	0.06	0.07	0.07
Total assets	**5,969,324**	7,277,279	7,771,783	7,184,724	7,057,743
Long term borrowings	**96,973**	259,692	347,460	426,954	525,997

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 2023. 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 2023 fiscal quarter ended:	**High**	**Low**
April 30, 2022	$ 1.10	0.91
July 31, 2022	1.07	0.72
October 31, 2022	1.00	0.72
January 31, 2023	1.10	0.55

Fiscal Year 2022 fiscal quarter ended:	High	Low
April 30, 2021	$ 1.11	0.91
July 31, 2021	1.14	0.96
October 31, 2021	1.00	0.93
January 31, 2022	1.10	0.86

The quotations set out here 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, 2023, there were approximately 205 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, 2023 there were no 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, 2023, and 2022, and the consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for the years ended January 31, 2023, 2022, and 2021, 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, 2023 and 2022, and the results of its operations and its cash flows for the years ended January 31, 2023, 2022, and 2021 in accordance with accounting principles generally accepted in the United States of America.

Schwartz Levitsky Feldman llp

Toronto, Ontario
April 29, 2023

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 2023 $	January 31 2022 $
	(Unaudited)	(Unaudited)
Assets		
Current assets:		
Cash	299,590	1,030,107
Investments held-to-maturity (note 6)	156,797	325,266
Trade receivables	809,017	774,289
Inventories (note 3)	1,211,208	1,111,885
Prepaid expenses and other current assets	40,068	15,385
Total current assets	2,516,680	3,256,932
Non-current assets:		
Investments held-to-maturity (note 6)	490,192	750,132
Property, plant and equipment, net (note 5)	2,935,958	3,238,413
Right-of-use asset, net (note 8[b])	5,591	10,899
Due from estate of former shareholder (note 7[i])	20,903	20,903
Total assets	5,969,324	7,277,279

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 2023 $ (Unaudited)	January 31 2022 $ (Unaudited)
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	537,018	716,976
Accrued liabilities (note 9)	186,924	207,646
Income taxes payable	3,532	1,458
Current portion of bank debt (note 8[a])	-	19,211
Current portion of lease liabilities (note 8[b])	5,717	5,248
Current portion of due to shareholder (note 7[ii])	53,676	60,756
Total current liabilities	786,867	1,011,295
Non-current liabilities:		
Long-term bank debt (note 8[a])	-	106,353
Lease liabilities (note 8[b])	3,080	9,414
Due to shareholder (note 7[ii])	93,893	143,925
Total liabilities	883,840	1,270,987
Government grant (note 4)		
Related party transactions (note 7)		
Commitments (note 18)		
Subsequent event (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, 2022 - 899,400)	15,010	15,010
3,432,478 common shares (January 31, 2022 - 3,432,478)	57,192	57,192
Contributed surplus	23,816,221	23,816,221
Deficit	(19,396,857)	(18,630,483)
Accumulated other comprehensive income (note 17)	593,918	748,352
Total shareholders' equity	5,085,484	6,006,292
Total liabilities and shareholders' equity	5,969,324	7,277,279

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 $	Total Shareholders' Equity $ (Unaudited)
Balance, January 31, 2020 (Unaudited)	15,010	57,192	23,816,221	(18,290,558)	383,187	5,981,052
Comprehensive income (loss):						
Net income for the year	-	-	-	211,702	-	211,702
Currency translation adjustment	-	-	-	-	281,449	281,449
Balance, January 31, 2021 (Unaudited)	15,010	57,192	23,816,221	(18,078,856)	664,636	6,474,203
Comprehensive income (loss):						
Net income for the year	-	-	-	(551,627)	-	(551,627)
Currency translation adjustment	-	-	-	-	83,716	83,716
Balance, January 31, 2022 (Unaudited)	15,010	57,192	23,816,221	(18,630,483)	748,352	6,006,292
Comprehensive income:						
Net income for the year	-	-	-	(766,374)	-	(766,374)
Currency translation adjustment	-	-	-	-	(154,434)	(154,434)
Balance, January 31, 2023 (Unaudited)	15,010	57,192	23,816,221	(19,396,857)	593,918	5,085,484

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	**2023**	**2022**	**2021**
	$	**$**	**$**
	(Unaudited)	(Unaudited)	(Unaudited)
Sales	4,404,489	4,229,126	4,856,169
Cost of goods sold	4,192,868	3,976,121	3,885,867
Gross profit	211,621	253,005	970,302
Expenses			
General and administrative	797,059	609,912	563,637
Selling and promotion	50,045	37,841	54,743
Interest expense (note 7, 8[a] & 8[b])	16,853	18,413	23,660
Depreciation	7,506	9,089	8,885
Foreign exchange loss	120,353	84,584	128,466
Interest and other income	(15,945)	(18,716)	(19,296)
Total expenses	975,871	741,123	760,095
Income before income taxes	(764,250)	(488,118)	210,207
Income taxes (recovery) (note 12[a])			
Current tax expense (recovery)	2,124	1,009	(1,495)
Deferred tax expense	-	62,500	-
	2,124	63,509	(1,495)
Net Income (loss)	(766,374)	(551,627)	211,702
Currency translation adjustment	(154,434)	83,716	281,449
Comprehensive income (loss) for the year	(920,808)	(467,911)	493,151
Per share information:			
Income per common share:			
Basic	(0.22)	(0.16)	0.06
Diluted	(0.22)	(0.16)	0.06
Weighted average number of common shares used in computing net income per share for the year:			
Basic	3,432,478	3,432,478	3,432,478
Diluted	3,432,478	3,432,478	3,432,478

See accompanying notes.

Consolidated Statements of Cash Flows

(Expressed in US dollars)

(See Independent Practitioner's Review Engagement Report)

Year ended January 31	2023 $ (Unaudited)	2022 $ (Unaudited)	2021 $ (Unaudited)
Cash provided by (used in):			
Operating activities:			
Net income (loss)	(766,374)	(551,627)	211,702
Add (deduct) items not affecting cash:			
Depreciation	328,164	330,502	290,270
Deferred income tax	-	62,500	-
Net change in non-cash working capital balances related to operations (note 13)	(412,108)	74,122	762,496
Cash provided by (used in) operating activities	(850,318)	(84,503)	1,264,468
Investing activities:			
Additions to property, plant and equipment	(171,064)	(151,800)	(285,764)
Increase in investments held-to-maturity	(15,945)	(18,716)	(55,610)
Proceeds from investments held-to-maturity	384,727	-	-
Cash provided by (used in) investing activities	197,718	(170,516)	(341,374)
Financing activities:			
Repayment of loan payable	(121,894)	(18,719)	(65,665)
Repayment of lease liabilities	(5,269)	(4,982)	(4,220)
Decrease in due to shareholder	(57,112)	(60,702)	(52,085)
Cash used in financing activities	(184,275)	(84,403)	(121,970)
Effect of exchange rate changes	106,358	55,245	142,924
Net increase (decrease) in cash	(730,517)	(284,177)	944,048
Cash, beginning of year	1,030,107	1,314,284	370,236
Cash, end of year	299,590	1,030,107	1,314,284

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.

The global pandemic COVID-19 has less of an impact than in the prior year but remains extremely fluid. Supply chain issues continue to have an impact on business due to raw material availability and cost although the effect seems to be levelling out. Management continues to monitor this carefully.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its 100% owned subsidiary, Chemdex, Inc., a US company.

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. The beginning balance as of February 1, 2021 was $952,518. 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 shareholder loans, valuation allowances relating to deferred taxes and asset impairment.

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 (loss) 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.

Property, plant and equipment (cont'd)

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 14.

Government support

Government grants that compensate the Company for expenses incurred are recognized in the profit or loss on a systematic basis over the periods in which the expenses are recognized.

In the prior fiscal year, the Company received government support in the form of the Canada Emergency Wage Subsidy. This was part of the COVID-19 mitigation efforts from the federal government of Canada and has been recorded as a reduction in salaries and benefits. There were no subsidies received in the current fiscal year.

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 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 3,432,478 for each of the years ended January 31, 2023, 2022, and 2021. 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. There were no incremental shares included in the calculation of diluted income per common share in 2023, 2022 or 2021.

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, 2023, 2022 and 2021.

(Expressed in US Dollars)

3. INVENTORIES

Inventories consist of the following:

	2023 **$**	2022 $
Finished goods	666,873	388,306
Work-in-process	197,697	377,104
Raw materials	346,638	346,475
	1,211,208	1,111,885

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

4. GOVERNMENT GRANT

During the year, there were no government wage subsidies received (2022 - $301,326 CAD ($240,369 USD), 2021 - $431,925 CAD ($322,573 USD)) under Canada's emergency COVID-19 pandemic relief measures for business. Approved wage subsidy claims are subject to audits by the Government authorities at a later date. Audit adjustments will be recorded in the year of the assessment. The wage subsidy has been accounted for as a reduction of the cost of the related salaries in the prior years.

(Expressed in US Dollars)

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2023			2022		
	Cost $	**Accumulated Depreciation $**	**Net Book Value $**	Cost $	Accumulated Depreciation $	Net Book Value $
Land and buildings	**4,249,362**	**1,900,175**	**2,349,187**	4,460,176	1,907,380	2,552,796
Machinery and equipment	**10,094,188**	**8,308,915**	**1,785,273**	10,418,753	8,475,176	1,943,577
	14,343,550	**10,209,090**	**4,134,460**	14,878,929	10,382,556	4,496,373
Less: Impairment Adjustment	**(1,198,502)**	**-**	**(1,198,502)**	(1,257,960)	-	(1,257,960)
	13,145,048	**10,209,090**	**2,935,958**	13,620,969	10,382,556	3,238,413

Depreciation of $320,658 was charged to cost of sales in fiscal 2023 (2022 - $321,413; 2021 - $281,385). Depreciation of $7,506 was charged to expenses in fiscal 2023 (2022 - $9,089; 2021 - $8,885). Assets not available for use included in property, plant and equipment amounted to $228,683 (2022 - $240,028; 2021 - $238,883) 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.

6. INVESTMENTS HELD-TO-MATURITY

At January 31, 2023, the Company held investments in guaranteed interest contracts that were classified as held to maturity and consisted of the following:

	2023			
	Amortized Cost $	**Unrealized Holding Gains $**	**Unrealized Holding Losses $**	**Fair Value $**
Guaranteed interest contracts	**646,989**	**-**	**-**	**646,989**

	2022			
	Amortized Cost $	**Unrealized Holding Gains $**	**Unrealized Holding Losses $**	**Fair Value $**
Guaranteed interest contracts	**1,075,398**	**-**	**-**	**1,075,398**

(Expressed in US Dollars)

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

Contractual maturities of investments held-to-maturity at January 31, 2023, are as follows:

	Net Carrying Amount
Due in one year or less	156,797
Due in 2-5 years	490,192
	646,989

7. RELATED PARTY TRANSACTIONS

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

	2023 $	2022 $
Amounts due from estate of former shareholder, net of impairment *[i]*	**20,903**	20,903
Amounts due to shareholder *[ii]*	**(147,569)**	(204,681)
Amounts due from shareholders *[iii]*	-	-

[i] Amounts due from estate of former shareholder (the "Estate") bear interest at the United States bank prime lending rate plus 1.5% (2023 – 4.75% to 9.0%; 2022 – 4.75%), except for an amount of $250,000 (2022 – $250,000) which is non-interest bearing. In 2023, 2022 and 2021, 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 238,093 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, 2022 this commitment was paid in full.

(Expressed in US Dollars)

7. RELATED PARTY TRANSACTIONS (cont'd)

[ii] Amounts due to shareholder, which are payable in monthly amounts of $7,500 CAD (2022 – $7,500 CAD), are unsecured and bear interest at the United States bank prime lending rate plus 1.5% (2023 – 4.75% - 9.0%; 2022 – 4.75%). Based on the current rate of interest, the principal repayment on this loan for fiscal 2024 will be approximately $53,676 (2023 – $60,756). This loan may not be called and has no fixed maturity date.

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

	$
2024	53,676
2025	53,676
2026	40,217
	147,569
Less: Current portion	**53,676**
	93,893

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

	2023	2022	2021
	$	$	$
Interest expense	**11,490**	11,132	14,418

[iii] There were no options exercised for the year ended January 31, 2023, 2022 or 2021.

(Expressed in US Dollars)

8. LONG TERM DEBT OBLIGATIONS

[a] Bank Term Loan

The Company's bank term loan consists of the following:

	2023 **$**	2022 $
Bank term loan payable in monthly installments of CAD $2,527 (USD $1,987) principal and interest at the Canadian bank's fixed rate of 3.97%	**-**	125,564
	-	125,564
Less: current portion	**-**	19,211
	-	106,353

Bank term loan was arranged in December 2017 for 120 months at the bank's fixed rate of 3.97%.

The Company paid the bank term loan in full on December 5, 2022 and the Company's operating loan facility of $300,000 (USD - $224,719) for working capital purposes, which was not ever utilized in the past three fiscal periods was removed.

Interest expense for the year on the loan was $2,973 (2022 – $5,451, 2021 – $7,085).

[b] Lease liabilities

The Company has historically entered into lease arrangements where the Company is the lessee. As of January 31, 2023, 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:

	2023 **$**	2022 $
Lease liability, repayable in quarterly installments of CAD. $2,134 (USD $1,599) bearing interest at 10.15% and maturing in fiscal 2025.	**8,797**	14,662
Less current portion	**5,717**	5,248
	3,080	9,414

(Expressed in US Dollars)

8. LONG TERM DEBT OBLIGATIONS (cont'd)

[b] Lease liabilities (cont'd)

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

	$
2024	**6,396**
2025	**3,199**
Total minimum lease payments	**9,595**
Less amount representing imputed interest	**798**
	8,797

Interest expense for the year on finance lease obligations was $1,305 (2022 – $1,830, 2021 – $2,157), recognized as part of interest expense.

The cost of the right-of-use asset is $23,964 and the accumulated amortization is $19,561. The comparative figure comprises asset under finance leases with a cost of $25,152 and accumulated amortization of $14,253. The current year amortization expense of the right-of-use asset associated with finance lease obligations for the year was $4,883 (2022 – $5,104, 2021 – $4,778), recognized as part of cost of goods sold.

The weighted average remaining life of the asset is two years (2022 – three years, 2021 – four years). The weighted average discount rate is 10.15% (2022 – 10.15%, 2021 – 10.15%).

9. ACCRUED LIABILITIES

	2023 $	2022 $
Payroll and related taxes payable	**86,921**	109,312
Professional fees payable	**64,278**	56,021
Utilities and taxes	**30,402**	38,913
Others	**5,323**	3,400
	186,924	207,646

10. SHARE CAPITAL

[a] Share capital authorized, issued and outstanding:

[i] Class A preferred shares

The Company is authorized to issue 100,000 Class A preferred shares. The Class A preferred shares are voting, retractable, and entitled to dividends. Class A Preferred shares do not have any conversion, redemption, or pre-emptive rights.

No Class A preferred shares have been issued to date.

[ii] Class B preferred shares

The Company is authorized to issue 899,400 Class B preferred shares. The Class B preferred shares are voting, retractable, and entitled to dividends. Class B Preferred shares do not have any conversion, redemption, or pre-emptive rights.

899,400 of the Class B preferred shares have been issued and are outstanding.

[iii] Common shares

The Company is authorized to issue 10,000,000 common shares. The Common shares are voting, retractable and entitled to dividends. Common shares do not have any pre-emptive rights.

3,432,478 Common shares have been issued and are outstanding.

During the years ended January 31, 2023, 2022 and 2021 there were no common share options exercised or issued.

(Expressed in US Dollars)

10. SHARE CAPITAL

[b] Share option plan

The Company maintains an incentive share option plan for management personnel for 710,668 options to purchase common shares. All options granted have a term of five years and vest immediately. At January 31, 2023, the Company had no options outstanding.

No options were granted during the year ended January 31, 2023, 2022 and 2021.

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

	Share options			Weighted average exercise price per share		
	2023	2022	2021	**2023**	2022	2021
	#	#	#	$	$	$
Options outstanding, beginning of year	-	-	53,000	-	-	-
Granted	-	-	-	-	-	-
Exercised	-	-	-	-	-	-
Expired	-	-	(53,000)	-	-	-
Options outstanding, end of year	-	-	-	-	-	-
Weighted average fair value of options granted during the year				$ -	$ -	$ -

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. As at year-end, registration has not been acquired. The Company is not exposed to any potential losses due to this agreement (see note 18).

(Expressed in US Dollars)

12. 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:

	2023	2022	2021
	$	$	$
Canada	**(775,232)**	(492,505)	204,567
United States	**10,982**	4,387	5,640
	(764,250)	(488,118)	210,207

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

	2023	2022	2021
	$	$	$
Provision for income taxes based on Canadian statutory income tax rates (2023 – 25%, 2022 – 25%, 2021 – 25%)	**(193,808)**	(123,126)	51,142
Increase (decrease) in valuation allowance	**117,307**	215,728	174,053
Tax and exchange rate changes on deferred tax items	**76,190**	(30,323)	(225,760)
Items not deductible for tax	**311**	221	564
	-	62,500	-
Provision for income taxes (recovery) based on United States income tax rates (2023 – 25%, 2022 – 25%, 2021 – 25%)	**2,746**	1,097	1,410
Decrease in valuation allowance and other	**(622)**	(88)	(1,292)
Tax on deferred tax items	-	-	(1,613)
	2,124	1,009	(1,495)

(Expressed in US Dollars)

12. INCOME TAXES (cont'd)

Provision for (recovery of) income taxes	**-**	63,509	(1,495)

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

	2023	2022	2021
	$	$	$
US current tax expense (recovery)	**2,124**	1,009	(1,495)
Canadian current tax expense	-	-	-
Canadian deferred tax recovery	-	62,500	-
Income taxes (recovery)	**2,124**	63,509	(1,495)

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

	2023	2022	2021
	$	$	$
Deferred tax assets			
Canadian			
Non-capital losses	**201,948**	201,948	164,275
Excess of tax value over carrying value of depreciable assets	**453,304**	453,304	372,341
Net capital losses *[note 13[c]]*	**380,464**	380,464	345,341
Other items	**940**	940	905
	1,036,656	1,036,656	883,428
Less valuation allowance	**1,036,656**	1,036,656	820,928
Net deferred tax assets	**-**	-	62,500

(Expressed in US Dollars)

12. INCOME TAXES (cont'd)

[c] The parent company has non-capital losses carry forward available to reduce future years' income for tax purposes in Canada totaling approximately $1,117,000. These non-capital losses expire as stated below.

Year of expiry	$
2032	38,000
2033	65,000
2034	123,000
2035	54,000
2036	199,000
2037	146,000
2042	144,000
2043	348,000
Total	1,117,000

The parent Company also has capital losses available to offset future taxable capital gains of approximately $2,900,000. These capital losses have an indefinite carry forward period.

[d] The Company has not recorded a deferred tax liability related to its investment in a foreign subsidiary. The Company has determined that its investment in the subsidiary 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.

(Expressed in US Dollars)

13. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2023 $	2022 $	2021 $
Decrease (increase) in assets			
Trade receivables	**(72,580)**	185,449	407,925
Government grant receivable	-	74,333	(69,592)
Inventories	**(154,752)**	(321,195)	258,531
Prepaid expenses and other current assets	**(25,575)**	82,386	(13,928)
	(252,907)	20,973	582,936
Increase (decrease) in liabilities			
Accounts payable	**(148,835)**	104,831	247,250
Accrued liabilities	**35,832**	1,400	(53,145)
Income taxes payable	**2,124**	(895)	118
Other advances	**(48,322)**	(52,187)	(14,663)
	(159,201)	53,149	179,560
	(412,108)	74,122	762,496

Cash paid during the year for interest was $16,853 (2022 – $18,413; 2021 – $23,360). Cash paid (recovered) during the year for income taxes was $2,124 (2022 – $1,009; 2021 – $(1,495)).

(Expressed in US Dollars)

14. 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:

	2023	2022	2021
	$	$	$
Total sales by significant customer:			
Customer A	**915,984**	683,900	722,200
Customer B	**481,250**	452,300	553,000
Customer C	**-**	813,120	927,459
Customer D	**-**	**-**	443,342
Customer E	**-**	-	352,100
	1,397,234	1,949,320	2,999,101

	2023	2022	2021
	$	$	$
Sales by geographic destination:			
United States	**3,029,177**	3,014,330	2,793,805
Europe	**984,171**	848,843	1,341,970
Other	**197,150**	280,013	301,820
Pacific Rim	**167,275**	80,926	86,475
Canada	**26,716**	5,014	332,099
	4,404,489	4,229,126	4,856,169

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

15. 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, 2023 and 2022:

The carrying value of other advances approximate their fair values as at January 31, 2023 and 2022 because of the short period to maturity of these financial instruments.

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, 2023 and 2022. 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.

16. OTHER DISCLOSURES

[a] Concentration of trade receivables

As at January 31, 2023, three (2021 – three) customers of the Company comprised 62% (2022 - 52%) 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's functional currency of its Canadian operations is the Canadian dollar. These operations are exposed to foreign currency risk as there are significant transactions denominated in US dollars and, consequently, some assets and liabilities are exposed to foreign exchange fluctuations. The Company has not entered into hedging arrangements related to the foreign currency risk exposure.

17. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of other accumulated comprehensive income are as follows:	**2023** $	2022 $
Currency translation	**593,918**	748,352
Accumulated other comprehensive income	**593,918**	748,352

18. 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 provide raw materials and technological advice for a new product in consideration for a payment of $250,000 at the time of signing the agreement. During the third quarter of fiscal 2016 the Company completed its obligation to provide raw materials and technological advice and has therefore recognized the $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. As of year-end, registration has not been acquired. 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 $1,755,000 of partially finished products from a contract manufacturer.

19. SUBSEQUENT EVENT

On April 26, 2023, the Company signed a Plan of Arrangement with Biospectra Canada Ltd and Biospectra, Inc. (together "Biospectra") for the sale of all the outstanding common and Class B preferred shares for total consideration of $6,940,000. There are a total of 3,432,478 common shares outstanding and the price per common share is US$2.017.

20. RECENT ACCOUNTING PRONOUNCEMENTS

Management does not believe that any 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	223,710	6.52%
Common Shares	Estate of Thomas C. Usher Peter T. Higgs, Trustee c/o Polydex Pharmaceuticals Limited	238,093	6.94%
Common Shares	Wendy Scheven Vancouver, Canada	174,641	5.09%

MANAGEMENT DISCUSSION AND ANALYSIS

The Company's fiscal year ends on January 31st of each year. In this report, fiscal year 2023 refers to the Company's fiscal year ended January 31, 2023. 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 2024:

Overall, the year's results weren't entirely unexpected given the continued uncertainty worldwide with respect to the COVID-19 pandemic and the African Swine Fever. While many restrictions were lifted, Federal Canadian government grants also ended in the fall of 2022 which had reduced the cost of salaries in the prior year. The Company maintained the same workforce to not only meet prior years production but also for the anticipated growth based on signed purchase orders on hand as of year end for the upcoming fiscal year. There is still uncertainty in the world with the remaining supply chain issues and with the Ukrainian situation. We do not believe the Ukrainian situation will have a significant effect unless it expands. Even then it is very difficult to predict the effect as the East European market is quite small for us. Supply chain issues have mainly resulted in increased shipping costs for product and this cost has been passed onto the customer whenever possible. Supply of raw materials is under control but with the continued increased vigilance.

The global pandemic continues but remains extremely fluid. Management continues to monitor the situation carefully to maintain our COVID-19 protocols surrounding cleaning and staff safety.

Given the uncertainty for the future and over the past several years, the Company ("Polydex") has been considering several corporate options. On April 26, 2023 Polydex and Biospectra Canada Ltd. and Biospectra, Inc. (together "Biospectra") signed a Plan of Arrangement by which Biospectra will acquire all of the outstanding common shares and preferred shares of the Company for total consideration of $6,940,000 (of which $15,020 will be paid for the 899,400 Class B Preferred shares). There are a total of 3,432,478 common shares outstanding. The price per common share is US$2.017.

A Special Shareholders Meeting will be held on a date to be announced to vote on the acquisition.

The Polydex Board has carefully considered the Arrangement and the terms of the Arrangement Agreement and has unanimously concluded that:

(i) the Arrangement is in the best interest of Polydex;
(ii) the terms of the Arrangement Agreement treat stakeholders of Polydex equitably and fairly, including the Shareholders in the context of their respective rights under the Articles;
(iii) the terms and conditions of the Arrangement Agreement, including the representations, warranties and covenants contained therein and the conditions to the completion of the Arrangement, are reasonable in light of the applicable circumstances; and
(iv) the Consideration to be received by the holders of Polydex Shares pursuant to the Arrangement and the Arrangement Agreement is fair to the holders of Polydex Shares.

In reaching its conclusions, the Polydex Board a) consulted with Polydex's management and legal counsel, b) received a Fairness Opinion of the arrangement and c) considered a number of factors.

The Polydex Board reviewed Polydex's current and historical financial condition, capital needs, liquidity, results of operations, business and competitive position, as well as Polydex's future business plans and potential long-term value, taking into account its future prospects and costs. Based on this review and the surrounding circumstances, the Polydex Board concluded the Arrangement was the most favourable alternative available to the Polydex Shareholders.

The Company will seek an interim order approving the deal from the Ontario Court of Justice. Following receipt of a favorable interim order, the Company will call a meeting of shareholders to obtain shareholder approval. Shareholders will receive a Notice of Meeting and Information Circular prior to such meeting. The Polydex Board unanimously recommends approval of the transaction.

Once the Arrangement is approved by shareholders at the shareholder meeting, the Company will then seek a final order from the Ontario Court of Justice approving the Arrangement and authorizing its closing.

Results of Operations

Fiscal year ended January 31, 2023 compared to Fiscal Year ended January 31, 2022 compared to Fiscal Year ended January 31, 2021:

	FY 2023	FY 2022	FY 2021	23 v 22	22 v 21
				(% increase (decrease))	
Income (loss) before taxes	**$(764,250)**	$(488,118)	$210,207	**57%**	(332)%
Net Income (Loss)	**(766,374)**	(551,627)	211,702	**39%**	(361)%
Income (Loss) per share	**(0.22)**	(0.16)	0.06		

The combination of both lower sales and less powdered sales resulted in a decrease in net income for the current year. Wage subsidies that lowered operating costs ended in the prior year. The swine fever epidemic in China and later in Germany impacted things as well.

	FY 2023	FY 2022	FY 2021	23 v 22	22 v 21
				(% increase (decrease))	
Sales	**$4,404,489**	$4,229,126	$4,856,169	**4%**	(13)%

Sales increases for the fiscal year ended January 31, 2023 are a result of higher volume powder sales.

Sales decreases for fiscal year ended January 31, 2022 are a result of a soft Iron Dextran Market. Powdered sales were also not as strong in the current year, partly due to the timing of the shipments. The decreases are also a result of the change in product mix.

	FY 2023	FY 2022	FY 2021	23 v 22	22 v 21
				(% increase (decrease))	
Gross profit	**$211,621**	$253,005	$970,302	**(16)%**	(74)%

Gross profit percentage for the fiscal year 2023 was 4.8 % compared to 6 % in 2022. Wage subsidies that lowered operating costs ended in the prior year. Shipping costs and supply chain issues have also reduced margins. COVID-19 and African Swine Fever continue to affect gross profit as a result of increased costs and lack of liquid sales.

	FY 2023	FY 2022	FY 2021	23 v 22	22 v 21
				(% increase (decrease))	
Selling, promotion, general and administrative expenses	**$847,104**	$647,753	$618,380	**31%**	5%

The increase in fiscal 2023 is due primarily to increased professional fees and insurance costs. Wage subsidies ended in the prior fiscal year also contributing to the increase in administrative expenses in the current year.

The increase in fiscal 2022 is due primarily to decreases to wage subsidies received as well as increased insurance and management travel costs in the current fiscal year. These increases were offset by decreased commissions.

	FY 2023	FY 2022	FY 2021	23 v 22	22 v 21
				(% increase (decrease))	
Depreciation	**$328,164**	$330,502	$290,270	**(1)%**	14%

Depreciation expense decreased in the current year. During fiscal year 2023, capital expenditures totaled $171,064 as compared to $151,800 in fiscal year 2022. This will impact depreciation in subsequent periods. The Company continues to invest in equipment and remains committed to further improve plant efficiencies as resources permit.

	FY 2023	FY 2022	FY 2021	23 v 22	22 v 21
				(% increase (decrease))	
Interest expense	**$16,853**	$18,413	$23,660	**(8)%**	(22)%

Interest expense in fiscal 2023 continued to decrease as loans are paid down. The bank term loan was paid in full on December 5, 2022. The reduction in interest expense was somewhat offset by the increase in the interest rate on the shareholder loan which is based on the US prime rate + 1.5%. The US prime rate increased steadily during the year from 4.75% at the start of the year to 9.0% as of the year end.

Interest expense in fiscal 2022 continued to decrease as loans are paid down. Payments to reduce a loan to a shareholder were also increased resulting in lower interest costs as principal is paid down sooner.

	FY 2023	FY 2022	FY 2021	22 v 21	22 v 21
				(% increase (decrease))	
Foreign exchange loss	**$120,353**	$84,584	$128,466	**42%**	(34)%

The increased foreign exchange loss in fiscal 2023 resulted from the Canadian dollar weakening during the current fiscal year.

The decreased foreign exchange loss in fiscal 2022 resulted from the Canadian dollar being stronger than it was in the prior year.

The volatility of these exchange rates affects amounts in the Company's Canadian division, Dextran Products, which has sales predominantly in US dollars.

	FY 2023	FY 2022	FY 2021	23 v 22	22 v 21
				(% increase (decrease))	
Interest and investment income	**$15,945**	$18,716	$19,296	**(15)%**	(3)%

Investment income in the current year is solely from interest earned on guaranteed interest rate contracts. When investing funds, the Company used a laddered approach to the maturity dates of these contracts. As contracts mature the current interest rates on renewal are significantly less than originally invested rates due to market conditions so interest in future years is expected to decrease as more contracts mature. The Company also redeemed contracts towards the end of the fiscal year further contributing to the decrease in investment income. The effect of these redemptions will be seen more in the upcoming fiscal year. The Company values a steady return and high liquidity with no risk of capital erosion over the investment return on this excess cash held by the Company .

	FY 2023	FY 2022	FY 2021	23 v 22	22 v 21
				(% increase (decrease))	
Income tax expense (recovery)					
Current tax expense (recovery)	**$2,124**	$1,009	$(1,495)	111**%**	167 %
Deferred tax expense	**-**	62,500	-	**(100)%**	100 %
	$2,124	$63,500	$(1,495)		

The current income tax expense changes were from corrections to prior year provisions from its US operations. The Company continues to utilize available losses carry forward balance as noted in Note 12 of the financial statements.

Management derecognized the deferred tax asset in the fiscal year ended 2022 given the continued impact of the African Swine Fever on global pig herds and the uncertainty over the magnitude of future profits.

Liquidity and Capital Resources

As of January 31, 2023, the Company had cash and investments of $946,579 compared to $2,105,505 at January 31, 2022. Although separately disclosed and excluded from operating activities the investments are guaranteed and highly liquid and can be cashed at any time without penalty or loss of capital. In fiscal year 2023, the Company utilized cash of $850,318 in its operating activities, compared to utilizing cash of $84,503 for fiscal year 2022 and generating cash of $1,264,468 for fiscal year 2021. 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 $1,729,813 and the current ratio was 3.20 to 1 as of January 31, 2023, compared to $2,245,637 and 3.23 to 1 as of January 31, 2022 and $2,598,217 and 3.73 to 1 as of January 31, 2021.

As at January 31, 2023 the Company was committed to its agreement to supply raw materials to Sparhawk. The Company was also committed to purchase approximately $1,755,000 of partially finished product from a contract manufacturer.

At January 31, 2023, the Company had accounts receivable of $809,017 and inventory of $1,211,208 compared to $774,289 and $1,111,885 respectively, as at January 31, 2022. Accounts receivable were higher as at January 31, 2023 compared to January 31, 2022 as a result of the timing of customer payments. The increase in inventory was primarily related to a shipment that was completed early in February.

Accounts payable of $537,018 (2022 - $716,976) at January 31, 2023 was lower than the prior fiscal year end as a result of the timing of supplier payments. During fiscal year 2023 capital expenditures totaled $171,064 as compared to $151,800 in fiscal year 2022. 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, 2023 was $359,023 as compared to $335,741 at January 31, 2022, including accrued interest. The Company has taken a cumulative provision of $588,120 at January 31, 2023 (January 31, 2022 - $564,838) 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, 2021, pursuant to a non-interest-bearing loan with no specific repayment terms. During the year, Novadex was wound up and the loan was transferred to the Company.

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, 2023, Thomas C. Usher, now through his estate, had pledged 238,093 common shares of the Company as security for these amounts owing to the Company. These common shares had a market value of $130,951 at January 31, 2023 based on the closing price of the Company's common shares on the Pink Sheets quotation service on January 31, 2023. 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 has been fully paid as of January 31, 2022.

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. The estate has not been wound up as of January 31, 2023.

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 $147,569 at January 31, 2023 from $204,681 at January 31, 2022 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, 2023

/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, 2023

/s/ David Jamestee
Chief Financial Officer
Polydex Pharmaceuticals Limited