

POLYDEX PHARMACEUTICALS LIMITED

QUARTERLY DISCLOSURE REPORT

JULY 31, 2021

UNAUDITED

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
JULY 31, 2021
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ITEM I NAME OF ISSUER

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ITEM II SHARES OUTSTANDING

Preferred Stock – Class A

(i)	Period end date	July 31, 2021
(ii)	Authorized	100,000 shares at \$0.10 each
(iii)	Issued and outstanding	None
(iv)	Freely tradable shares (public float)	None
(v)	Number of shareholders of record	None

Preferred Stock – Class B

(i)	Period end date	July 31, 2021
(ii)	Authorized	899,400 shares at \$0.0167 each
(iii)	Issued and outstanding	899,400 shares
(iv)	Freely tradable shares (public float)	None
(v)	Number of shareholders of record	1

Common Stock

(i)	Period end date	July 31, 2021
(ii)	Authorized	10,000,000 shares
(iii)	Issued and outstanding	3,432,478 shares
(iv)	Freely tradable shares (public float)	2,561,166
(v)	Number of shareholders of record	213

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ITEM III INTERIM FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
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(Expressed in United States dollars)

	July 31	January 31
	2021	2021
	(Unaudited)	(Unaudited)
Assets		
Current assets:		
Cash	\$856,617	\$1,314,284
Investments held to maturity (note 3)	331,327	320,977
Trade accounts receivable	1,159,982	952,518
Government grant receivables	29,617	72,914
Inventories		
Finished goods	367,967	427,239
Work in progress	18,666	94,315
Raw materials	<u>276,811</u>	<u>269,961</u>
Prepaid expenses and other current assets	59,028	96,129
Total current assets	3,100,015	3,548,337
Investments held to maturity (note 3)	756,721	730,930
Property, plant and equipment, net	3,433,213	3,409,113
Deferred taxes (note 8)	62,500	62,500
Due from estate of former shareholder	20,903	20,903
	<u>7,373,352</u>	<u>7,771,783</u>

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
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(Expressed in United States dollars)

	July 31	January 31
	2021	2021
	(Unaudited)	(Unaudited)
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$327,976	\$610,725
Accrued liabilities	173,927	205,114
Income taxes payable	471	2,348
Other loans and advances (note 4)	51,190	51,190
Current portion of long-term debt (note 5a)	19,222	18,376
Current portion of lease liabilities (note 5b)	5,269	4,887
Current portion of due to shareholder	60,756	57,480
Total current liabilities	638,811	950,120
Long-term debt (note 5a)	118,436	124,966
Lease liabilities (note 5b)	12,264	14,591
Due to shareholder	174,221	207,903
	304,921	347,460
Total liabilities	943,732	1,297,580
Commitments and contingencies (note 6)		
Shareholders' equity:		
Capital stock		
Authorized:		
100,000 Class A preferred shares of \$0.10 each		
899,400 Class B preferred shares of \$0.0167 each		
10,000,000 common shares of \$0.0167 each		
Issued and outstanding:		
899,400 Class B preferred shares (January 31, 2021 - 899,400)	15,010	15,010
3,432,478 common shares (January 31, 2021 - 3,432,478)	57,192	57,192
Contributed surplus	23,816,221	23,816,221
Deficit	(18,307,298)	(18,078,856)
Accumulated other comprehensive income	848,495	664,636
	6,429,620	6,474,203
	\$7,373,352	\$7,771,783

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
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(Expressed in United States dollars)

	Three Months Ended July 31 2021	Three Months Ended July 31 2020	Six Months Ended July 31 2021	Six Months Ended July 31 2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales	\$1,340,644	\$1,377,747	2,187,537	2,217,069
Cost of goods sold	1,211,043	1,080,888	2,035,087	1,766,932
Gross profit	129,601	296,859	152,450	450,137
Expenses				
General and administrative	147,431	137,270	285,224	273,307
Selling and promotion	9,709	19,717	16,438	27,504
Interest expense, net	4,783	5,973	9,704	12,687
Depreciation	2,313	2,191	4,589	4,319
Foreign exchange (gain) loss	3,025	71,347	74,274	18,208
Interest and other income	(4,625)	(4,824)	(9,337)	(9,412)
Total expenses	162,636	231,674	380,892	326,613
Income before income taxes	(33,035)	65,185	(228,442)	123,524
Provision for income taxes (note 8)				
Current	-	723	-	723
Deferred	-	-	-	-
	-	723	-	723
Net income (loss) for the period	(33,035)	64,462	(228,442)	122,801
Unrealized gain (loss) on investments	-	-	-	-
Currency translation adjustment	(77,072)	(43,914)	183,859	(43,914)
Comprehensive income for the period	(\$110,107)	\$20,548	(\$44,583)	\$78,887
Per share information:				
Earnings per common share:				
Basic	(0.01)	0.02	(0.07)	0.04
Diluted	(0.01)	0.02	(0.07)	0.04
Weighted average number of common shares used compute net income per share for the period:				
Basic	3,432,478	3,432,478	3,432,478	3,432,478
Diluted	3,432,478	3,432,478	3,432,478	3,432,478

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
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(Expressed in United States dollars)

	Six Months Ended July 31 2021	Six Months Ended July 31 2020
	(Unaudited)	(Unaudited)
Preferred Shares:		
Balance, beginning and end of period	\$15,010	\$15,010
Common Shares:		
Balance, beginning and end of period	\$57,192	\$57,192
Contributed Surplus:		
Balance, beginning and end of period	\$23,816,221	\$23,816,221
Deficit:		
Balance, beginning of period	(\$18,078,856)	(\$18,290,557)
Net profit for the period	(228,442)	122,801
Balance, end of period	(\$18,307,298)	(\$18,167,756)
Accumulated Other Comprehensive Income:		
Balance, beginning of period	\$664,636	\$383,189
Unrealized gain on investments available for sale	-	-
Currency translation adjustment for the period	183,859	(43,914)
Balance, end of period	\$848,495	\$339,275

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
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(Expressed in United States dollars)

	Six Months Ended July 31 2021	Six Months Ended July 31 2020
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operating activities:		
Net profit for the period	(\$228,442)	\$122,801
Add (deduct) items not affecting cash:		
Depreciation and amortization	164,298	138,012
Deferred income taxes (note 8)	---	-
Net change in non-cash working capital balances related to operations	(289,211)	561,777
Cash provided by operating activities	(353,355)	822,590
Investing activities:		
Additions to property, plant and equipment	(101,173)	(130,033)
Decrease in due from shareholder	-	-
Increase in investments available for sale	(9,337)	(7,802)
Proceeds (Acquisition) of investments available for sale	-	-
Cash used in investing activities	(110,510)	(137,835)
Financing activities:		
Repayment of long-term debt	(9,364)	(31,633)
Proceeds (Repayment) of capital lease obligations, net	(2,452)	(2,005)
Decrease in due to shareholder	(30,406)	(24,259)
Cash used in financing activities	(42,222)	(57,897)
Effect of exchange rate changes	48,420	44,318
Net increase in cash and cash equivalents	(457,667)	671,176
Cash, beginning of year	1,314,284	370,236
Cash, end of period	\$856,617	\$1,041,412

See accompanying notes.

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ITEM III NOTES TO INTERIM FINANCIAL STATEMENTS

1. Basis of Presentation:

The information contained in the interim consolidated financial statements is condensed from that which would appear in annual consolidated financial statements. The interim consolidated financial statements included herein should be read in conjunction with the unaudited financial statements, and notes thereto, and other financial information contained in the Annual Report for the fiscal year ended January 31, 2021 as found on the Polydex Pharmaceuticals Limited (the “Company”) website, www.polydex.com. The unaudited interim consolidated financial statements as of July 31, 2021 and 2020 include all normal recurring adjustments which management considers necessary for a fair presentation. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the entire fiscal year. The interim consolidated financial statements include the accounts and transactions of the Company and its majority owned subsidiaries in which the Company has equal to or more than a 50% ownership interest and exercises control.

Management has reviewed subsequent events, and there were no material subsequent events since July 31, 2021 that would require recognition or note disclosures in these financial statements.

2. Significant Accounting Policies:

Basis of consolidation

The interim consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are 100% owned. All inter-company accounts and transactions have been eliminated on consolidation.

Cash and cash equivalents

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

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 quarter end, substantially all of the receivables were insured and no allowance was required.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at

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the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates relate to the allowance for doubtful accounts, depreciation and amortization rates, and asset impairment charges.

Inventories

Inventories of raw materials are stated at the lower of cost and net realizable value, cost being determined on a first-in, first-out basis. Work-in-process and finished goods are valued at the lower of cost and net realizable value, and include the cost of raw materials, direct labor and fixed and variable 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 at 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 and patents and intangible assets

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets commencing when available for use as follows:

- Buildings 15 to 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. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Impairment losses are not reversible.

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,

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such as taxes assessed by a governmental authority. Revenue is recognized when title and risk of ownership of products pass to the customer. Title and risk of ownership pass to the customer pursuant to the applicable sales contract, either upon shipment of product or upon receipt by the customer.

Product sold in bulk quantities is tested, prior to release for shipment, to ensure that it meets customer specifications, and in many cases, customers receive samples for their own testing. Approval is obtained from the customer prior to shipping. Further purchases by a customer of a bulk product with the same specifications do not require approvals.

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 included in cost of goods sold.

Research and development

Research and development costs are expensed as incurred and are stated net of investment tax credits earned.

Foreign currency translation

The functional currency of the Company's Canadian operations has been determined to be the Canadian dollar. All asset and liability accounts of the Company except capital stock have been translated into United States dollars using the current exchange rates at the interim consolidated balance sheet dates. Share capital is recorded at historical rates. Revenue and expense items are translated using the average exchange rates for the period. The resulting gains and losses have been reported separately as accumulated other comprehensive income (loss) within shareholders' equity.

Derivative financial instruments

The Company's Canadian operations from time to time enters into foreign exchange contracts, to manage exposure to currency rate fluctuations related to expected future cash flows. The Company does not engage in speculative trading of derivative financial instruments. The foreign exchange contracts are not designated as hedging instruments, and as a result all foreign exchange contracts are marked to market and the resulting gains and losses are recorded in the consolidated statements of operations in each reporting period. Unrealized gains and losses are included in accrued liabilities in the consolidated balance sheets and in net change in non-cash working capital balances related to operations in the consolidated statements of cash flows. For the fiscal period ended July 31, 2021 the Company has not entered into any derivative financial instruments.

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Stock options

The Company uses the fair value accounting methodology to apply recognition provisions to employee stock options granted, modified or settled. Compensation expense is recorded at the date stock options are granted. The amount of compensation expense is determined by estimating the fair value of the options granted using the Black-Scholes option pricing model.

Income taxes

The Company accounts for income taxes by recognizing deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial 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.

Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to tax expense in the period of enactment. Deferred tax assets may be reduced if deemed necessary based on a judgmental assessment of available evidence, by a valuation allowance for the amount of any tax benefits which are more likely, based on current circumstances, not expected to be realized.

Income per common share

Basic earnings per common share is computed using the weighted average number of common shares outstanding of 3,432,478 for the three months and six months ended July 31, 2021 (2020 - 3,432,478). Diluted earnings per common share is computed using the weighted average number of common shares outstanding adjusted for the incremental shares, using the treasury stock method, attributed to outstanding options to purchase common stock. No incremental shares were used in the calculation of year to date diluted earnings per share as at July 31, 2021 and no incremental shares were included for the six months ended July 31, 2020. No incremental shares were used in the calculation of diluted earnings per share for the three months ended July 31, 2021, and no incremental shares were included for the three months ended July 31, 2020.

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3. Investments Held-to-Maturity:

Investments available for sale, at fair value, consist of the following:

	July 31 2021	January 31 2021
	\$	\$
Guaranteed interest contracts with interest rates varying from 0.5% to 2.55% per annum and varying maturities from December 2021 to February 2027	1,088,048	1,051,907
	1,088,048	1,051,097

Contractual maturities of investments held-to-maturity at July 31, 2021 are as follows:

	Net Carrying Amount	
Due in one year or less	331,327	
Due beyond one year	756,721	
	1,088,048	

4. Other loans and advances:

Other loans and advances consist of the following:

	July 31 2021	January 31 2021
	\$	\$
Customer advance	51,190	51,190
	51,190	51,190

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

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5. Long term debt obligations:

[a] Bank term loans consist of the following:

	July 31 2021	January 31 2021
	\$	\$
Bank term loan payable in monthly installments of Cdn \$2,527 (U.S. \$2,028) principal and interest at the Canadian bank's fixed rate of 3.97%	137,658	143,342
Less: current portion	19,222	18,376
	118,436	124,966

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

The Company also obtained an operating loan facility of Cdn \$300,000 (USD – \$240,732) for working capital purposes, of which none was utilized at January 31, 2021 and July 31, 2021. This Canadian operating facility bears interest at the Canadian bank's prime lending rate plus 2.15%.

Bank indebtedness and facility are collateralized by a general security agreement over the Company's assets and a collateral mortgage of Cdn \$500,000 (USD – \$373,023) on the Company's building located in Toronto, Canada.

The company was in compliance with all covenants as of July 31, 2021.

Interest expense for the six months ended July 31, 2021 on the loans was \$2,850 (2020 - \$2,900).

Principal repayments on the bank loan are as follows:

	\$
2022	19,222
2023	19,999
2024	20,807
2025	21,489
2026	22,524
Thereafter	33,617
	137,658

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[b] Finance lease obligations consist of the following:

	July 31 2021	January 31 2021
	\$	\$
Lease liability, repayable in quarterly instalments of \$2,134 (U.S. \$1,712) bearing interest at 10.15 % and maturing in 2024	17,534	19,478
Less current portion	5,269	4,887
	12,264	14,591

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

	\$
2022	6,853
2023	6,853
2024	6,853
Total minimum lease payments	20,559
Less amount representing imputed interest	3,025
	17,534

Interest expense for the six months ended July 31, 2021 for finance lease obligations was \$976 (2020 - \$635).

6. Commitments and Contingencies:

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. The agreement is for a period of ten years, renewable for another ten years, and provides the customer with exclusive rights to these raw materials in the United States.

The Company has committed to purchase approximately \$300,000 of partially finished product from a contract manufacturer.

There were no other material commitments or contingencies outstanding as of July 31, 2021.

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7. Stock-based Employee Compensation:

The Company uses the fair value method to account for awards of stock-based employee compensation. No stock-based employee compensation expense was recorded during the period from February 1, 2021 to July 31, 2021, because there were no options granted during this period. Similarly, no stock-based employee compensation expense was recorded during the period from February 1, 2020 to July 31, 2020, because there were no options granted during that period.

8. Provision for Income Taxes

The Company's income tax provision for July 31, 2021 relates to income taxes owing at its United State's subsidiary Chemdex, Inc.

9. Segmented Information:

Total revenue by significant customer:

	Six Months Ended July 31 2021	Six Months Ended July 31 2020
	\$	\$
Customer A	414,720	521,859
Customer B	402,300	276,500
Customer C	297,000	-
Customer D	272,400	196,075
Customer E	-	216,398
Customer F	-	140,881
Customer G	-	130,510
	1,386,420	1,482,222

Sales by geographic destination:

	Six Months Ended July 31 2021	Six Months Ended July 31 2020
	\$	\$
United States	1,473,227	1,253,654
Europe	562,197	662,028
Other	140,589	141,340
Canada	4,202	160,047
Pacific Rim	6,822	--
	2,187,537	2,217,069

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ITEM IV MANAGEMENT DISCUSSION AND ANALYSIS

The Company's fiscal year ends on January 31st of each year. In this report, fiscal year 2022 refers to the Company's fiscal year ending January 31, 2022. The following discussion should be read in conjunction with the July 31, 2021 interim consolidated financial statements and notes thereto included elsewhere in this report. Operating results for the three and six months ended July 31, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2022 For further information, refer to the Polydex Pharmaceuticals Limited Annual Report on our website, www.polydex.com. The Company's financial statements are prepared in substantial accordance with United States generally accepted accounting principles. All amounts are in United States dollars, unless otherwise denoted.

Overview

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

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

Management Objectives for Fiscal 2022:

While the results for the second quarter show an improvement from the first quarter, management regrets it has been unable to regain profitability mainly due to factors that continue to be beyond its control, namely the ongoing supply chain and business disruptions due to the COVID pandemic and the outbreak of the African Swine Fever. Management considers the current quarter's results acceptable in light of the continued impact that the COVID pandemic is having on the worldwide economy.

The effects of African Swine Fever reduced herd sizes in China and are still noticed in Germany as well. The company continues to try to mitigate the effects by moving product and has received orders from Europe so sales have remained fairly consistent with the previous year. The company continues to explore new markets for its Powdered products and also Native Dextran for industrial uses. Management is actively pursuing new markets and collaborations in an intensive effort to return to profitability for fiscal 2022.

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Management endorses its continued cautious and careful approach to cash management which puts it in a strong position for some time while weathering a pandemic and a significant African Swine Fever outbreak.

Results of Operations

Three and six months ended July 31, 2021 compared to three and six months ended July 31, 2020:

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Variance	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020	Variance
Net Income	\$(33,035)	\$64,462	(151)%	\$(228,442)	\$122,801	(186)%
Income per Share:						
Basic	\$(0.01)	\$0.02		\$(0.07)	\$0.04	
Diluted	\$(0.01)	\$0.02		\$(0.07)	\$0.04	

The decrease in net income for the second quarter continues to be due to the decrease in liquid product sales due to African Swine Fever and an approximate \$56,000 increase in the foreign exchange loss due to the strengthening of the Canadian dollar.

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Variance	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020	Variance
Sales	\$1,340,644	\$1,377,747	(3)%	\$2,187,537	\$2,217,069	(1)%

Sales in the second quarter of fiscal 2022 decreased slightly compared to the second quarter of fiscal 2021. The decrease in sales for the year to date of fiscal 2022 compared to fiscal 2021 is primarily due to change in product mix.

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	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Variance	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020	Variance
Gross Profit	\$129,601	\$296,859	(54)%	\$152,450	\$450,137	(66)%
Percentage of sales	9.7%	22%		7.0%	20%	

The decrease in gross profit percentage and dollar amounts in the second quarter and year to date of fiscal year 2022 were primarily due to a drop in sales of more profitable powdered and liquid product from a year ago. Shipping costs during the pandemic have also increased and thus reduced margins. Raw materials continued to be a concern in Q2 with some instability of delivery but due to management's regular communication with suppliers this seems to be less of an issue on a go forward basis. COVID 19 continues to impact the cost of certain raw materials that ultimately affect our gross profit. It is important to remember, however, the COVID 19 situation is extremely fluid and so management continues to monitor the situation closely.

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Variance	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020	Variance
Selling, promotion, general and administrative expenses	\$157,140	\$156,987	--%	\$301,662	\$300,811	--%

There was little change in these items as they are mainly fixed costs.

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Variance	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020	Variance
Depreciation and amortization expense	\$82,585	\$70,293	17%	\$164,298	\$138,012	20%

Depreciation and amortization increased comparing both the current quarter and year to date figures to the prior fiscal periods. The increases are a result of the companies continued commitment to make capital improvements to ensure efficiency and that the quality of product remains high.

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	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Variance	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020	Variance
Interest expense	\$4,783	\$5,973	(20)%	\$9,704	\$12,687	(24)%

The decrease in interest expense in the second quarter of fiscal year 2022 continues to be due to the decreased value in the Canadian dollar as the company continues to pay down loans. The drop in US prime rate also affects the drop in interest paid on the shareholder loan.

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Variance	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020	Variance
Foreign exchange (gain) loss	\$3,025	\$71,347	(96)%	\$74,274	\$18,208	408%

The foreign exchange loss for the second quarter of fiscal year 2022 was due to the strengthened Canadian dollar from the first quarter of the year. The volatility of these exchange rates increase or decrease the value of exchange affected amounts in the Company's Canadian division, Dextran Products, especially U.S. denominated sales.

	Three Months Ended July 31, 2021	Three Months Ended July 31, 2020	Variance	Six Months Ended July 31, 2021	Six Months Ended July 31, 2020	Variance
Interest and investment income	\$4,625	\$ 4,824	(4)%	\$9,337	\$9,412	(1)%

Interest and other income decreased slightly in the current quarter and year to date. The company invests in a series of guaranteed interest rate contracts. As the contracts mature the renewal interest rates are lower than the rates when funds were first invested. These contracts provide consistent and steady returns with no risk of capital erosion.

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Liquidity and Capital Resources

As of July 31, 2021, the Company had cash and investments of \$1,944,665 compared to cash and investments of \$2,366,191 at January 31, 2021. In the first six months of fiscal year 2022 the Company used cash of \$353,355 in its operating activities, compared to \$822,590 generated for the six months of fiscal year 2021. The decrease in the generation of cash for operations during the current year is primarily due to timing of receivables collections as well as greater reduction of accounts payable.

The Company's working capital decreased to \$2,465,027 from \$2,598,217 as at January 31, 2021. The working capital ratio increased to 4.86 to 1 as of July 31, 2021 compared to 3.73 to 1 as of January 31, 2021.

As of July 31, 2021, the Company had accounts receivable of \$1,159,982 and inventory of \$663,444 compared to \$952,518 and \$791,515 respectively at January 31, 2021 and \$853,361 and \$976,597 respectively at July 31, 2020. Accounts receivable increased in the current fiscal year due to the timing of receipts, while inventory decreased slightly due to fewer orders.

At July 31, 2021, the Company had accounts payable of \$327,976 compared to \$610,725 at January 31, 2021 and \$350,671 at July 31, 2020. Accounts payable decreased due to timing of payments.

During the second quarter of fiscal year 2022, capital expenditures totaled \$139,091 as compared to \$72,266 in the second quarter of fiscal year 2021. Expenditures in the second quarter of fiscal 2022 related to plant equipment. Additional expenditures on capital equipment are possible for the remainder of fiscal 2022.

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

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

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

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Related Party Transactions

The amount due from shareholder as of July 31, 2021 was \$327,813 as compared to \$320,196 at January 31, 2021, including accrued interest. The Company has taken a cumulative provision of \$556,910 at July 31, 2021 (January 31, 2021 \$549,293) against accrued interest on the Loan and the other amounts receivable from the estate as noted below. Obligations with respect to the Loan transferred to the estate of Thomas C. Usher upon his death in February 2005.

Thomas C. Usher also owed \$250,000 to a subsidiary of the Company, Novadex International Limited, as of July 31, 2021, pursuant to a non-interest bearing loan with no specific repayment terms. The outstanding amount of this loan has not changed from January 31, 2021. The amounts continue to remain owing from the estate of Thomas C. Usher.

As of July 31, 2021, 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 \$240,830 at July 31, 2021, based on the closing price of the Company's common shares on the Pink Sheets quotation service on July 31, 2021. 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. There is no amount owing on this commitment as at July 31, 2021 (January 31, 2021 – \$697).

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 \$234,977 as at July 31, 2021 from \$265,362 at January 31, 2021 due to monthly payments by the Company, less interest charges.

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Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Critical Accounting Policies

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

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

Revenue Recognition

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

Allowance for Doubtful Accounts

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

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Long-Lived Assets

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

Deferred Tax Assets

The Company has recorded a valuation allowance on deferred tax assets where there is uncertainty as to the ultimate realization of the future tax deduction. The Company has incurred capital losses, which are only deductible against capital gains. It is not certain that Dextran Products will realize capital gains in the future to use these Canadian capital loss deductions.

Changes in Accounting Policies

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

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ITEM V LEGAL PROCEEDINGS

Not applicable.

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ITEM VI DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM VII OTHER INFORMATION

Not applicable.

ITEM VIII EXHIBITS

Not applicable

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ITEM IX CERTIFICATIONS

I, George G. Usher, certify that:

1. I have reviewed this quarterly disclosure statement of Polydex Pharmaceuticals Limited;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

September 15, 2021

/s/ George G. Usher

Chairman, President and Chief Executive Officer
Polydex Pharmaceuticals Limited

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ITEM IX CERTIFICATIONS (Continued)

I, David P.M. Jamestee, certify that:

1. I have reviewed this quarterly disclosure statement of Polydex Pharmaceuticals Limited;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

September 15, 2021

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