

POLYDEX PHARMACEUTICALS LIMITED

QUARTERLY DISCLOSURE REPORT

APRIL 30, 2016

UNAUDITED

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

INDEX

ITEM I	Name of Issuer	Page	3
ITEM II	Share Structure	Page	3
ITEM III	Consolidated Financial Statements		
	Interim Financial Statements	Page	4-9
	Notes to Interim Financial Statements	Page	10-17
ITEM IV	Management Discussion and Analysis	Page	18-25
ITEM V	Legal Proceedings	Page	26
ITEM VI	Defaults Upon Senior Securities	Page	26
ITEM VII	Other Information	Page	26
ITEM VIII	Exhibits	Page	26
ITEM IX	Certifications	Page	27-28

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

ITEM I NAME OF ISSUER

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

ITEM II SHARES OUTSTANDING

Preferred Stock – Class A

(i)	Period end date	April 30, 2016
(ii)	Authorized	100,000 shares at \$0.10 each
(iii)	Issued and outstanding	None
(iv)	Freely tradable shares (public float)	None
(v)	Number of shareholders of record	None

Preferred Stock – Class B

(i)	Period end date	April 30, 2016
(ii)	Authorized	899,400 shares at \$0.0167 each
(iii)	Issued and outstanding	899,400 shares
(iv)	Freely tradable shares (public float)	None
(v)	Number of shareholders of record	1

Common Stock

(i)	Period end date	April 30, 2016
(ii)	Authorized	10,000,000 shares
(iii)	Issued and outstanding	3,380,478 shares
(iv)	Freely tradable shares (public float)	2,417,437
(v)	Number of shareholders of record	230

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

ITEM III INTERIM FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

TABLE OF CONTENTS

Consolidated Balance Sheets April 30, 2016 and January 31, 2016 (Unaudited)	5-6
Consolidated Statements of Operations and Comprehensive Income Three months ended April 30, 2016 and 2015 (Unaudited)	7
Consolidated Statements of Shareholders' Equity Three months ended April 30, 2016 and 2015 (Unaudited)	8
Consolidated Statements of Cash Flows Three months ended April 30, 2016 and 2015 (Unaudited)	9
Notes to Consolidated Financial Statements (Unaudited)	10-17

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
APRIL 30, 2016
UNAUDITED

(Expressed in United States dollars)

	April 30 2016	January 31 2016
	(Unaudited)	(Unaudited)
Assets		
Current assets:		
Cash	\$805,689	\$942,555
Investments available for sale (note 3)	327,048	79,123
Trade accounts receivable	1,030,292	854,749
Due from shareholders	-	3,000
Inventories		
Finished goods	636,609	462,142
Work in progress	177,716	172,211
Raw materials	<u>304,723</u>	<u>256,250</u>
Prepaid expenses and other current assets	43,341	65,664
Total current assets	3,325,418	2,835,694
Property, plant and equipment, net	3,066,281	2,769,489
Deferred taxes (note 8)	214,064	191,780
Due from estate of former shareholder	20,903	20,903
	<u>\$6,626,666</u>	<u>\$5,817,866</u>

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
APRIL 30, 2016
UNAUDITED

(Expressed in United States dollars)

	April 30 2016	January 31 2016
	(Unaudited)	(Unaudited)
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$613,990	\$475,709
Accrued liabilities	461,054	452,660
Income taxes payable	1,332	3,991
Other loans payable (note 4)	138,825	138,825
Customer deposits	39,677	41,040
Current portion of long-term debt	44,384	39,352
Current portion of capital lease obligations	36,225	31,471
Current portion of due to shareholder	36,000	36,000
Total current liabilities	1,371,487	1,219,048
Long-term debt (note 5a)	183,887	174,842
Capital lease obligations (note 5b)	47,761	51,280
Due to shareholder	378,569	384,958
	610,217	611,080
Total liabilities	1,981,704	1,830,128
Commitments and contingencies (note 6)		
Shareholders' equity:		
Capital stock		
Authorized:		
100,000 Class A preferred shares of \$0.10 each		
899,400 Class B preferred shares of \$0.0167 each		
10,000,000 common shares of \$0.0167 each		
Issued and outstanding:		
899,400 Class B preferred shares (January 31, 2015 - 899,400)	15,010	15,010
3,305,478 common shares (January 31, 2015 - 3,225,478)	56,323	56,323
Contributed surplus	23,792,519	23,792,519
Deficit	(19,813,846)	(19,889,654)
Accumulated other comprehensive income	594,956	13,540
	4,644,962	3,987,738
	\$6,626,666	\$5,817,866

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
APRIL 30, 2016
UNAUDITED

(Expressed in United States dollars)

	Three Months Ended April 30 2016	Three Months Ended April 30 2015
	(Unaudited)	(Unaudited)
Sales	\$1,457,975	\$1,561,177
Cost of goods sold	1,051,903	1,004,809
Gross profit	406,072	556,368
Expenses		
General and administrative	131,519	139,655
Interest expense, net	10,080	19,260
Selling and promotion	7,266	11,061
Depreciation	2,824	2,085
Research and development	603	600
Foreign exchange loss	176,253	62,238
Interest and other income	(371)	(158)
Total expenses	328,174	234,741
Income before income taxes	77,898	321,627
Provision for income taxes (note 8)	2,090	1,900
Net income for the period	75,808	319,727
Unrealized gain (loss) on investments available for sale	(709)	(675)
Currency translation adjustment	582,125	249,864
Comprehensive income for the period	\$657,224	\$568,916
Per share information:		
Earnings per common share:		
Basic	0.02	0.10
Diluted	0.02	0.09
Weighted average number of common shares used in computing net income per share for the period:		
Basic	3,380,478	3,305,478
Diluted	3,551,311	3,509,683

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
APRIL 30, 2016
UNAUDITED

(Expressed in United States dollars)

	Three Months Ended April 30 2016	Three Months Ended April 30 2015
	(Unaudited)	(Unaudited)
Preferred Shares:		
Balance, beginning and end of period	\$15,010	\$15,010
Common Shares:		
Balance, beginning and end of period	\$56,323	\$55,070
Contributed Surplus:		
Balance, beginning and end of period	\$23,792,519	\$23,708,452
Deficit:		
Balance, beginning of period	(\$19,889,654)	(\$21,167,154)
Net profit for the period	75,808	319,727
Balance, end of period	(\$19,813,846)	(\$20,847,427)
Accumulated Other Comprehensive Income:		
Balance, beginning of period	\$13,540	\$558,333
Unrealized gain on investments available for sale	(709)	(675)
Currency translation adjustment for the period	582,125	249,864
Balance, end of period	\$594,956	\$807,522

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
APRIL 30, 2016
UNAUDITED

(Expressed in United States dollars)

	Three Months Ended April 30 2016	Three Months Ended April 30 2015
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operating activities:		
Net profit for the period	\$75,808	\$319,727
Add (deduct) items not affecting cash:		
Depreciation and amortization	54,426	27,618
Deferred loan acquisition costs (net)	-	(12,153)
Net change in non-cash working capital balances related to operations	(145,018)	(313,600)
Cash provided by operating activities	(14,784)	21,592
Investing activities:		
Additions to property, plant and equipment	(30,330)	(19,626)
Proceeds (Acquisition) of investments available for sale	(230,750)	(159)
Cash used in investing activities	(261,080)	(19,785)
Financing activities:		
Repayment of long-term debt	(10,418)	-
Proceeds (Repayment) of capital lease obligations, net	(8,076)	(8,133)
Decrease in due to shareholder	(6,389)	(6,968)
Cash used in financing activities	(24,883)	(15,101)
Effect of exchange rate changes	163,881	75,838
Net increase in cash and cash equivalents	(136,866)	62,544
Cash, beginning of year	942,555	491,116
Cash, end of period	\$805,689	\$553,660

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

ITEM III NOTES TO INTERIM FINANCIAL STATEMENTS

1. Basis of Presentation:

The information contained in the interim consolidated financial statements is condensed from that which would appear in annual consolidated financial statements. The interim consolidated financial statements included herein should be read in conjunction with the unaudited financial statements, and notes thereto, and other financial information contained in the Annual Report for the fiscal year ended January 31, 2016 as found on the Polydex Pharmaceuticals Limited (the “Company”) website, www.polydex.com. The unaudited interim consolidated financial statements as of April 30, 2016 and 2015 include all normal recurring adjustments which management considers necessary for a fair presentation. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the entire fiscal year. The interim consolidated financial statements include the accounts and transactions of the Company and its majority owned subsidiaries in which the Company has equal to or more than a 50% ownership interest and exercises control.

Management has reviewed subsequent events, and there were no material subsequent events since June 14, 2016 that would require recognition or note disclosures in these financial statements.

2. Significant Accounting Policies:

Basis of consolidation

The interim consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company accounts and transactions have been eliminated on consolidation.

Cash and cash equivalents

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

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates relate to the allowance for doubtful accounts, depreciation and amortization rates, and asset impairment charges.

Inventories

Inventories of raw materials are stated at the lower of cost and net realizable value, cost being determined on a first-in, first-out basis. Work-in-process and finished goods are valued at the lower

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

of cost and net realizable value, and include the cost of raw materials, direct labor and fixed and variable overhead expenses.

Investments available for sale

Investments available for sale consist of Canadian medium term investments, and are stated at fair market value based on quoted market prices. Interest income is included in other income in the consolidated statement of operations as it is earned. Changes in market values during the holding period are reported as unrealized gain (loss) on investments available for sale and are included in other comprehensive income (loss). Realized gains (losses) are reclassified from accumulated other comprehensive income (loss) on a specific item basis when the security is sold or matured.

Property, plant and equipment and patents and intangible assets

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

Buildings 15 years

Machinery and equipment 3 to 10 years

Patents and intangible assets are recorded at cost and are amortized on a straight-line basis over their estimated useful lives of ten years. Intangible assets consist of intellectual property, government licenses and government license applications.

Useful life is the period over which the asset is expected to contribute to the Company's future cash flows. The Company reviews the recoverability of its long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset from the expected future pre-tax cash flows of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value.

Costs related to plant refurbishments and equipment upgrades that represent improvements to existing facilities are capitalized. Costs related to repair and maintenance of buildings and equipment are expensed. The Company has no major planned maintenance activity.

Revenue recognition

Revenue results from sales of bulk manufactured products. Revenue is recognized when title and risk of ownership of products pass to the customer. Title and risk of ownership pass to the customer pursuant to the applicable sales contract, either upon shipment of product or upon receipt by the customer.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

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

Comprehensive income

The Company discloses comprehensive income in their financial statements. In addition to items included in net income, comprehensive income includes items currently charged or credited directly to shareholders' equity, such as foreign currency translation adjustments.

Shipping and handling costs

Shipping and handling costs incurred by the Company for shipment of products to customers are included in cost of goods sold.

Research and development

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

Foreign currency translation

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

Derivative financial instruments

The Company's Canadian subsidiary 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 quarter ended April 30, 2016 the Company has not entered into any derivative financial instruments.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

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 3,380,478 for the three months ended April 30, 2016 (2015 – 3,305,478). Diluted earnings per common share is computed using the weighted average number of common shares outstanding adjusted for the incremental shares, using the treasury stock method, attributed to outstanding options to purchase common stock. 170,833 incremental shares were used in the calculation of diluted earnings per common share for the period ending April 30, 2016 (2015 – 204,205).

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

3. Investments Available For Sale:

Investments available for sale consist of the following:

	April 30 2016	January 31 2016
Investments available for sale	\$ 327,292	\$ 79,123

The investments consist of a Canadian short-term bond fund with maturity dates extending from one to five years and a yield rate of 0.20%, and an international bond fund with a yield rate of 1.91%. Investments available for sale are stated at fair market value, based on quoted market prices. An unrealized loss of \$709 has been included in accumulated other comprehensive income.

4. Other Loan Payable:

	April 30 2016	January 31 2016
Advance from customer	\$ 138,825	\$ 138,825

The advance from customer is a non-interest bearing advance to be used for working capital.

5. Long Term Debt and Capital Lease Obligations:

[a] Bank indebtedness consists of the following:

	April 30 2016	January 31 2016
Bank term loan payable in monthly installments of Cdn \$ 5,547 (U.S. \$4,421) principal and interest at the Canadian bank's fixed rate of 4.20%	\$ 228,271	\$ 214,194
Less: current portion	44,384	39,352
	\$ 183,887	\$ 174,842

The bank term loan relates to the Company's subsidiary Dextran Products Limited located in Toronto, Canada and is secured by a general security agreement including Dextran's building and equipment as well as a pledge against its accounts receivables. Interest expense for the 3 months ended April 30, 2016 for the bank loan was \$2,362 (2015 - \$10,824)

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

Principal repayments on the bank loan are as follows:

	\$
2017	44,384
2018	46,268
2019	48,016
2020	50,279
2021	39,324
	228,271

[b] Capital lease obligations consist of the following:

	April 30 2016	January 31 2016
Obligation (Cdn. \$25,564) under a capital lease, repayable in quarterly installments of \$1,289 bearing interest at 9.42% and maturing in fiscal 2017	\$ 20,373	\$ 63,791
Obligation (Cdn. \$79,822) under a capital lease, repayable in monthly installments of \$3,255 bearing interest at 12.67% and maturing in fiscal 2018	63,613	18,960
Less current portion	(36,225)	(31,471)
	\$ 47,761	\$ 51,280

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

	\$
2017	44,222
2018	37,711
2019	5,156
2020	5,156
2021	5,156
Total minimum lease payments	97,171
Less amount representing imputed interest	13,185
	83,986

Interest expense for the 3 months ended April 30, 2016 for capital lease obligations was \$2,653 (2015 - \$3,314)

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

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's subsidiary, Dextran Products Limited has committed to purchase approximately \$90,000 of partially finished product from a contract manufacturer.

An employee of the Company's subsidiary, Dextran Products Limited, filed a claim alleging improper termination and harassment. Our legal counsel has advised us there is no merit to this claim.

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, 2016 to April 30, 2016, because there were no options granted during this period. Similarly, no stock-based employee compensation expense was recorded during the period from February 1, 2015 to April 30, 2015, because there were no options granted during that period.

8. Provision for Income Taxes

The Company's income tax provision relates to income taxes owing at its subsidiary Chemdex, Inc. There is no provision for deferred income taxes at this early date in the fiscal year.

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 APRIL 30, 2016
 UNAUDITED

9. Segmented Information:

Total revenue by significant customer:

	Three Months Ended April 30 2016	Three Months Ended April 30 2015
Customer A	\$ 292,461	\$ 275,136
Customer B	244,322	230,540
Customer C	92,459	150,834
Customer D	57,600	--
Customer E	--	185,750
	\$ 686,842	\$ 842,260

Sales by geographic destination:

	Three Months Ended April 30 2016	Three Months Ended April 30 2015
Europe	\$ 713,959	\$ 515,533
United States	425,044	630,890
Other	192,535	197,295
Canada	92,862	219,459
Pacific Rim	33,575	--
	\$ 1,457,975	\$ 1,561,177

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

ITEM IV MANAGEMENT DISCUSSION AND ANALYSIS

The Company's fiscal year ends on January 31st of each year. In this report, fiscal year 2017 refers to the Company's fiscal year ending January 31, 2017. The following discussion should be read in conjunction with the April 30, 2016 interim consolidated financial statements and notes thereto included elsewhere in this report. Operating results for the three months ended April 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2017. For further information, refer to the Polydex Pharmaceuticals Limited Annual Report on our website, www.polydex.com. The Company's financial statements are prepared in accordance with United States generally accepted accounting principles. All amounts are in United States dollars, unless otherwise denoted.

Overview

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

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

Management Objectives for Fiscal 2017:

There were several factors that impacted the financial results for the first quarter of fiscal 2017, most of which were substantially beyond the control of management. First the sales mix scheduled to include high margin powder product and related sales suffered from delayed receipt of product from its contract production source, though this shipped in the second quarter. Second, and most importantly, the increase in value of the Canadian dollar throughout the first quarter compared to its year end value resulted in significant exchange losses related to the Company's major manufacturing subsidiary in Toronto, Canada. At this point in time these issues appear to be leading to a correction in the second quarter, though exchange rates will continue to be of concern. Third, significant depreciation has commenced on a portion of the previously unused portion of the Company's manufacturing facility, which was not being depreciated in the first quarter of fiscal 2016.

Management will continue its focus on high quality product delivery and customer service, while at the same time controlling costs. For example, a longer term project related to the recycling

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 APRIL 30, 2016
 UNAUDITED

of the large amount of water utilized in our production process will incur implantation costs, significant cost savings and more efficient production is expected.

Results of Operations

Three months ended April 30, 2016 compared to three months ended April 30, 2015:

	Three Months Ended April 30 2016	Three Months Ended April 30 2015	Variance
Net Profit	\$75,808	\$319,727	(76)%
Income per Share:			
Basic	\$0.02	\$0.10	
Diluted	\$0.02	\$0.09	

The decrease in net profit for the first quarter of fiscal year 2017 is primarily a result of sales product mix and the impact of foreign exchange losses due to the increase in value of the Canadian dollar during the quarter.

	Three Months Ended April 30 2016	Three Months Ended April 30 2015	Variance
Sales	\$1,457,975	\$1,561,177	(7)%

Sales decreased slightly for the first quarter of fiscal year 2017 from the comparable period for the first quarter of fiscal year 2016 due primarily to the timing of a large powder shipment originally scheduled for shipment in April but shipped in May.

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 APRIL 30, 2016
 UNAUDITED

	Three Months Ended April 30 2016	Three Months Ended April 30 2015	Variance
Gross profit	\$406,072	\$556,368	(27)%
Percentage of sales	28%	36%	

The decrease in gross profit in the first quarter of fiscal year 2017 was due to the sales product mix, which contained less of the higher margin powder products, and increased depreciation compared to the first quarter of fiscal 2016.

	Three Months Ended April 30, 2016	Three Months Ended April 30, 2015	Variance
Selling, promotion, general and administrative expenses	\$138,785	\$150,716	(8)%

The decrease during the first quarter of fiscal year 2017 in selling, promotion, general and administrative expenses is due to management's continued focus on cost containment as well as the decreased value of the Canadian dollar compared to the comparable period of fiscal 2016.

	Three Months Ended April 30, 2016	Three Months Ended April 30, 2015	Variance
Research and development expenditures	\$603	\$600	--%

During fiscal year 2010 all of the Company's research into Ushercell was halted, with only some patent expenses being incurred and paid, as occurred in the first quarter of fiscal 2016. Since that time further patent fees have been curtailed, with only smaller patent maintenance fees being expensed as incurred.

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 APRIL 30, 2016
 UNAUDITED

	Three Months Ended April 30, 2016	Three Months Ended April 30, 2015	Variance
Depreciation and amortization expense	\$54,426	\$27,618	97%

The increase in depreciation and amortization resulted from depreciation related to the inclusion of a portion of the previously inactive building that occurred in the last quarter of fiscal 2016. The first quarter of fiscal 2016 also did not include depreciation related to administrative equipment obtained in the last quarter of fiscal 2016. Included in depreciation and amortization expense are allocations to cost of goods sold in the amount of \$51,602 for the first quarter of fiscal year 2017 (2016 - \$25,533).

	Three Months Ended April 30, 2016	Three Months Ended April 30, 2015	Variance
Interest expense	\$10,080	\$19,260	(48)%

The significant decrease in interest expense in the first quarter of fiscal year 2017 is primarily due to the mortgage loan refinancing that occurred in the last quarter of fiscal 2016, as well as the decreased value of the Canadian dollar compared to the first quarter of fiscal 2016.

	Three Months Ended April 30, 2016	Three Months Ended April 30, 2015	Variance
Foreign exchange loss	\$176,253	\$62,238	183%

The substantial increase in the foreign exchange loss for the first quarter of fiscal year 2017 compared to the first quarter of fiscal year 2015 was due to the increased value of the Canadian dollar as at April 30, 2016 versus the fiscal year end value of the United States dollar. This decreases the net asset value of exchange affected amounts in the Company's Canadian subsidiary, Dextran Products Limited.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

	Three Months Ended April 30, 2016	Three Months Ended April 30, 2015	Variance
Interest and other income	\$371	\$158	135%

Interest and other income increased slightly compared to the prior year due to the timing of investment receipts.

Liquidity and Capital Resources

As of April 30, 2016, the Company had cash of \$805,689, compared to cash of \$942,555 at January 31, 2016. In the first quarter of fiscal year 2017, the Company expended cash of \$14,784 in its operating activities, compared to generating cash of \$313,600 for the first quarter of fiscal year 2016. The decrease in the generation of cash for operations during the first quarter of fiscal year 2017 is primarily due to the timing of receivables collections and the increase in inventory during the period. Depreciation continues to be a non-cash expense of the Company.

The Company's working capital increased to \$1,953,931 and a working capital ratio of 2.42 to 1 as of April 30, 2016, compared to \$1,619,754 and 2.33 to 1 as of January 31, 2016.

As of April 30, 2016, the Company had accounts receivable of \$1,030,292 and inventory of \$1,119,048 compared to \$854,749 and \$890,603 respectively at January 31, 2016 and \$1,252,680 and \$1,131,804 respectively at April 30, 2015. Accounts receivable increased due to the timing of collections, while inventory increased due to shipments that occurred after the end of the quarter.

Accounts payable increased to \$613,990 at April 30, 2016, compared to \$475,709 at January 31, 2016 and \$535,161 at April 30, 2015 due to the timing of payments.

During the first quarter of fiscal year 2017, capital expenditures totaled \$30,330 as compared to \$19,626 in the first quarter of fiscal year 2016. The increase was due primarily to equipment purchased related to the water recycling project. Additional expenditures on capital equipment are planned for the remainder of fiscal 2017.

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.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

The increase in long term debt is related entirely to the increased value of the Canadian dollar compared to the United States dollar at January 31, 2016. Its principal balance actually decreased by Cdn \$13,565 during the quarter. Capital lease obligations decreased from January 31, 2016 due to loan repayments during the period partially offset by the increased value of the Canadian dollar as at April 30, 2016.

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

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

Related Party Transactions

The amount outstanding under the due from shareholder as of April 30, 2016 was \$243,103 as compared to \$240,130 at January 31, 2016, including accrued interest. The Company has taken a cumulative provision of \$472,200 at April 30, 2016 (January 31, 2016 469,227) against accrued interest on the Loan and the other amounts receivable from the estate as noted below. Obligations with respect to the Loan transferred to the estate of Thomas C. Usher upon his death in February 2005.

Thomas C. Usher also owed \$250,000 to a subsidiary of the Company, Novadex International Limited, as of April 30, 2016, pursuant to a non-interest bearing loan with no specific repayment terms. The outstanding amount of this loan has not changed from January 31, 2016. The amounts continue to remain owing from the estate of Thomas C. Usher.

As of April 30, 2016, Thomas C. Usher, now through his estate, had pledged 243,263 common shares of the Company as security for these amounts owing to the Company. These common shares had a market value of \$467,065 at April 30, 2016, based on the closing price of the Company's common shares on the Pink Sheets quotation service on April 30, 2016. The Company intends to continue to hold the pledged assets as collateral until the amounts owing discussed above are repaid.

The Company had a commitment to pay an amount equal to one year's salary, \$110,000, to Thomas C. Usher's estate. The amount owing on this commitment as at April 30, 2016 is \$6,962 (January 31, 2016 – \$6,962).

The Company also has an outstanding loan payable to Ruth Usher, a former director and the widow of Thomas C. Usher. The amount due from the Company pursuant to this loan decreased to

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

\$414,548 April 30, 2016 from \$420,937 at January 31, 2016 due to monthly payments by the Company, less interest charges.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Critical Accounting Policies

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

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

Revenue Recognition

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

Allowance for Doubtful Accounts

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

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

Long-Lived Assets

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

Deferred Tax Assets

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

Changes in Accounting Policies

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

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

ITEM V LEGAL PROCEEDINGS

An employee of the Company's subsidiary, Dextran Products Limited, has filed a claim alleging improper termination and harassment. The Company's legal counsel has advised that there is no merit to this claim.

ITEM VI DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM VII OTHER INFORMATION

Not applicable.

ITEM VIII EXHIBITS

Not applicable

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

ITEM IX CERTIFICATIONS

I, George G. Usher, certify that:

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

June 14, 2016

/s/ George G. Usher

Chairman, President and Chief Executive Officer
Polydex Pharmaceuticals Limited

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
APRIL 30, 2016
UNAUDITED

ITEM IX CERTIFICATIONS (Continued)

I, John A. Luce, certify that:

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

June 14, 2016

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