

POLYDEX PHARMACEUTICALS LIMITED

ANNUAL REPORT

JANUARY 31, 2019

UNAUDITED

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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, 2019
(ii) Authorized	100,000 shares at \$0.10 each
(iii) Issued and outstanding	None
(iv) Freely tradable shares (public float)	None
(v) Number of shareholders of record	None

Preferred Stock – Class B

(i) Period end date	January 31, 2019
(ii) Authorized	899,400 shares at \$0.0167 each
(iii) Issued and outstanding	899,400 shares
(iv) Freely tradable shares (public float)	None
(v) Number of shareholders of record	1

Common Stock

(i) Period end date	January 31, 2019
(ii) Authorized	10,000,000 shares
(iii) Issued and outstanding	3,419,478 shares
(iv) Freely tradable shares (public float)	2,561,166 shares
(v) Number of shareholders of record	221

Transfer Agent

Computershare
PO Box 30170
College Station Texas
USA 77842-3170

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PART C BUSINESS INFORMATION

Introduction

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

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

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

Products and Sales

Iron Dextran

Iron Dextran is a derivative of Dextran produced by complexing iron with Dextran. Iron Dextran is injected into most pigs at birth as a treatment for anemia. The Company sells Iron Dextran to independent distributors and wholesalers primarily in Europe, the Far East, South America and Canada. Chemdex, Inc. has United States FDA approval for the manufacture and sale of Iron Dextran for veterinary use. On March 4, 2004, Sparhawk Laboratories Inc. (“Sparhawk”) and Chemdex entered into an exclusive Supply Agreement under which Sparhawk agreed to purchase 100% of its product needs for bulk Iron Dextran solution from Chemdex for a period of 10 years, and Chemdex agreed to sell such products in the United States exclusively to Sparhawk, subject to minimum purchase requirements. Concurrently with the Supply Agreement, the Company sold its finished product veterinary pharmaceutical business to Sparhawk. In July 2013 Chemdex, Inc., signed an agreement with Sparhawk to provide raw materials and technological advice for a new product and renew the existing supply agreement noted above. Under the terms of the agreement the customer will endeavor to obtain registration for the new product. During the third quarter of fiscal 2016 the Company completed its obligation to provide raw materials and technological advice and has therefore recognized \$250,000 as income. Once registration for this new product has been acquired, a second payment of \$250,000 will become due. The agreement is for a period of ten years, renewable for another ten years, and provides the customer with exclusive rights to these raw materials in the United States.

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Dextran Sulphate

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

Patents, Trademarks and Licenses

Cellulose Sulphate

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

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

Low Molecular Weight Dextran

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

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

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Suppliers

Dextran Products

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

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

Order Book and Seasonality

Customer ordering patterns have become more immediate compared with the blanket orders more commonly seen in prior years. However the current production schedule is healthy and is continuing to meet significant customer demand well into July 2019. 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.

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Environmental Compliance

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

Employees

As of March 31, 2019, the Company employed 23 employees, of whom 12 were engaged in production, 6 in quality control, 4 in administration, marketing and sales activities, and one in research and development. 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, 2019, 2018 and 2017, the Company expended \$0, \$4,029, and \$598 respectively. Research and development expenditures resulted primarily from legal fees related to patent acquisition and maintenance. During the fiscal years ended January 31, 2019, 2018 and 2017 the Company did not recognize any investment tax credit benefits.

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PART D MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

BOARD OF DIRECTORS

<u>Name and Occupation</u>	<u>Age</u>	<u>Year First Elected Director</u>
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.	77	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	79	1983
MARTIN LIPPER has an extensive background in business and finance, including roles as the director of research for securities firms involved in mergers and acquisitions. He is currently serving as a director of another public company.	84	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.	60	1988

EXECUTIVE OFFICERS

<u>Name</u>	<u>Age</u>	<u>Title</u>
George G. Usher	60	Chairman of the Board, President and Chief Executive Officer
David P. Jamestee	53	Chief Financial Officer
Sharon L. Wardlaw	66	Chief Operating Officer, Secretary and Treasurer

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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,

	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>	<u>(Unaudited)</u>
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
	\$	\$	\$	\$	\$
Sales from continuing operations	4,942,621	5,279,040	6,621,330	6,040,369	5,376,027
Net income	230,946	448,005	669,259	1,277,500	578,212
Net income per common share	0.07	0.13	0.20	0.38	0.17
Total assets	7,057,743	7,328,939	6,705,604	5,817,866	5,678,284
Long term borrowings	525,997	640,141	521,547	611,080	874,441

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 2019. 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 2019

fiscal quarter ended:

	High	Low
April 30, 2018	\$ 1.36	1.14
July 31, 2018	1.14	1.01
October 31, 2018	1.18	0.84
January 31, 2019	0.93	0.80

Fiscal Year 2018

fiscal quarter ended:

	High	Low
April 30, 2017	\$ 1.78	1.28
July 31, 2017	1.40	1.21
October 31, 2017	1.45	0.87
January 31, 2018	1.31	1.00

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

As of January 31, 2019 there were approximately 221 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, 2019 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.

POLYDEX PHARMACEUTICALS LIMITED

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UNAUDITED

(Expressed in US Dollars)

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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chwartz Levitsky Feldman llp

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS
TORONTO • MONTREAL



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 (the "Company") which comprise the consolidated balance sheets as of January 31, 2019 and 2018, and the consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for the years ended January 31, 2019, 2018, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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, 2019 and 2018, and the results of its operations and its cash flows for the years ended January 31, 2019, 2018, and 2017 in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Schwartz Levitsky Feldman llp".

Toronto, Ontario
April 30, 2019

Chartered 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 2019 \$ (Unaudited)	January 31 2018 \$ (Unaudited)
Assets		
Current assets:		
Cash	1,593,728	632,502
Investments available for sale (note 5)	-	651,299
Trade receivable	1,011,959	1,539,891
Due from shareholders (note 7[iii])	-	6,045
Inventories (note 3)	1,078,781	1,037,953
Prepaid expenses and other current assets	71,042	71,835
Total current assets	3,755,510	3,939,525
Non-current assets:		
Property, plant and equipment, net (note 4)	3,218,830	3,368,511
Deferred taxes (note 13[b])	62,500	-
Due from estate of former shareholder (note 7[i])	20,903	20,903
	7,057,743	7,328,939

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 2019 \$ (Unaudited)	January 31 2018 \$ (Unaudited)
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	370,552	424,812
Accrued liabilities (note 9)	260,521	279,612
Income taxes payable	1,933	880
Other advances (note 6)	75,825	113,625
Current portion of bank debt (note 8[a])	63,898	62,016
Current portion of capital lease obligations (note 8[b])	4,141	3,382
Current portion of due to shareholder (note 7[ii])	36,000	36,000
Total current liabilities	812,870	920,327
Non-current liabilities:		
Long-term bank debt (note 8[a])	206,538	292,461
Capital lease obligations (note 8[b])	5,747	11,344
Due to shareholder (note 7(ii))	313,712	336,336
Total liabilities	1,338,867	1,560,468
Related party transactions (note 7)		
Commitments (note 19)		
Shareholders' equity:		
Share capital (note 10)		
Authorized:		
100,000 Class A preferred shares of \$0.10 each		
899,400 Class B preferred shares of \$0.0167 each		
10,000,000 common shares of \$0.0167 each		
Issued and outstanding:		
899,400 Class B preferred shares (January 31, 2018 - 899,400)	15,010	15,010
3,419,478 common shares (January 31, 2018 - 3,419,478)	56,975	56,975
Contributed surplus	23,807,078	23,807,078
Deficit	(18,541,444)	(18,772,390)
Accumulated other comprehensive income (note 18)	381,257	661,798
	5,718,876	5,768,471
	7,057,743	7,328,939

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED

Consolidated Statements of Shareholders' Equity

(Expressed in US dollars)

(See Independent Practitioner's Review Engagement Report)

	Preferred Shares \$	Common Shares \$	Contributed Surplus \$	Deficit \$	Accumulated Other Comprehensive Income (Loss) \$	Total Shareholders' Equity \$
						(Unaudited)
Balance, January 31, 2016 (Unaudited)	15,010	56,323	23,792,519	(19,889,654)	13,540	3,987,738
Common share options issued	-	326	8,840	-	-	9,166
Comprehensive income (loss):						
Net income for the year	-	-	-	669,259	-	669,259
Unrealized loss on investments available for sale	-	-	-	-	(9,779)	(9,779)
Currency translation adjustment	-	-	-	-	384,333	384,333
Balance, January 31, 2017 (Unaudited)	15,010	56,649	23,801,359	(19,220,395)	388,094	5,040,717
Common share options exercised	-	326	5,719	-	-	6,045
Comprehensive income (loss):						
Net income for the year	-	-	-	448,005	-	448,005
Unrealized loss on investments available for sale	-	-	-	-	(22,241)	(22,241)
Currency translation adjustment	-	-	-	-	295,945	295,945
Balance, January 31, 2018 (Unaudited)	15,010	56,975	23,807,078	(18,772,390)	661,798	5,768,471
Common share options exercised	-	-	-	-	-	-
Comprehensive income (loss):						
Net income for the year	-	-	-	230,946	-	230,946
Loss on investment recognized in net income	-	-	-	-	29,703	29,703
Currency translation adjustment	-	-	-	-	(310,244)	(310,244)
Balance, January 31, 2019 (Unaudited)	15,010	56,975	23,807,078	(18,541,444)	381,257	5,718,876

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED

Consolidated Statements of Operations and Comprehensive Income

(Expressed in US dollars)

(See Independent Practitioner's Review Engagement Report)

Year ended January 31	2019	2018	2017
	\$	\$	\$
	(Unaudited)	(Unaudited)	(Unaudited)
Sales	4,942,621	5,279,040	6,621,330
Cost of goods sold	4,014,691	3,983,724	4,803,969
Gross profit	927,930	1,295,316	1,817,361
Expenses			
General and administrative (note 10[b])	623,036	655,829	764,960
Selling and promotion	59,895	54,546	55,715
Interest expense (note 7, 8[a] & 8[b])	34,980	33,751	37,971
Depreciation	7,521	7,692	7,826
Research and development (note 12)	-	4,029	598
Foreign exchange loss	10,444	75,849	101,618
Realized loss on sale of investments	26,404	-	-
Interest and other income	(4,096)	(18,169)	(7,249)
Total expenses	758,184	813,527	961,439
Income before income taxes	169,746	481,789	855,922
Income taxes (recovery) (note 13[a])			
Current	1,300	11,621	3,993
Deferred tax expense (recovery)	(62,500)	22,163	182,670
	(61,200)	33,784	186,663
Net Income	230,946	448,005	669,259
Loss on investment recognized in net income	29,703	-	-
Unrealized loss on investments	-	(22,241)	(9,779)
Currency translation adjustment	(310,244)	295,945	384,333
Comprehensive income (loss) for the year	(49,595)	721,709	1,043,813
Per share information:			
Income per common share:			
Basic	0.07	0.13	0.20
Diluted	0.07	0.13	0.19
Weighted average number of common shares used in computing net income per share for the year:			
Basic	3,419,478	3,409,728	3,390,228
Diluted	3,457,004	3,466,649	3,504,508

POLYDEX PHARMACEUTICALS LIMITED

Consolidated Statements of Cash Flows

(Expressed in US dollars)

(See Independent Practitioner's Review Engagement Report)

Year ended January 31	2019	2018	2017
	\$	\$	\$
	(Unaudited)	(Unaudited)	(Unaudited)
Cash provided by (used in):			
Operating activities:			
Net income	230,946	448,005	669,259
Add (deduct) items not affecting cash:			
Depreciation	275,292	250,202	218,251
Deferred income tax (recovery)	(62,500)	22,163	182,670
Gain on disposal of equipment	(764)	(1,500)	-
Loss on investments available for sale	26,404	-	-
Net change in non-cash working capital balances related to operations (note 14)	264,610	(430,501)	(541,901)
Cash provided by operating activities	733,988	288,369	528,279
Investing activities:			
Additions to property, plant and equipment	(339,836)	(374,614)	(295,409)
Increase in investments available for sale	(3,332)	(16,931)	(540,037)
Proceeds from sale of investments available for sale	618,554	-	-
Proceeds from sale of equipment	764	1,500	-
Cash provided by (used in) investing activities	276,150	(390,045)	(835,446)
Financing activities:			
Repayment of loan payable	(61,722)	(45,804)	(41,952)
Repayment of capital lease obligations	(3,915)	(41,618)	(33,550)
Decrease in due to shareholder, net	(22,602)	(24,278)	(24,344)
Proceeds from long-term debt	-	193,678	-
Exercise of common share options	-	6,045	9,166
Cash provided by (used in) financing activities	(88,239)	88,023	(90,680)
Effect of exchange rate changes	39,327	(7,059)	108,506
Net increase (decrease) in cash	961,226	(20,712)	(289,341)
Cash, beginning of year	632,502	653,214	942,555
Cash, end of year	1,593,728	632,502	653,214

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

Cash

This consists of cash held at a financial institution.

Trade receivable

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

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Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates relate to the allowance for unrecoverable amounts relating to trade receivable and shareholder loans, useful lives of property, plant and equipment, valuation allowances relating to deferred taxes, inventory obsolescence and asset impairment charges.

Inventories

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

Investments available for sale

Investments available for sale consisted of medium-term fixed income investments and were stated at fair value based on quoted market prices. Interest income is included in other income in the consolidated statements of operations as it is earned. Changes in fair 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 matures. At the end of the fiscal year ended January 31, 2019 the company disposed of all the investments.

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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 as follows:

Buildings	15 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.

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 recognized when title and risk of ownership of products pass to the customer, collectability is reasonably assured and the price is fixed or determinable. Title and risk of ownership pass 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.

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 and unrealized gains or losses on fair value adjustments to available for sale investments.

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Shipping and handling costs

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

Research and development

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

Foreign currency translation

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

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, 2019 and 2018.

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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 3,419,478 for the year ended January 31, 2019, 3,409,728 for the year ended January 31, 2018, and 3,390,228 for the year ended January 31, 2017. Diluted income per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock. In 2019 incremental shares of 37,526 were included in the calculation of diluted income per common share. In 2018 incremental shares of 56,921 were included in the calculation of diluted income per common share. In 2017 incremental shares of 114,280 were included in the calculation of income per common share.

3. INVENTORIES

Inventories consist of the following:

	2019	2018
	\$	\$
Finished goods	513,397	519,279
Work-in-process	319,623	175,661
Raw materials	245,761	343,013
	<u>1,078,781</u>	<u>1,037,953</u>

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

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4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2019			2018		
	Cost \$	Accumulated Depreciation \$	Net Book Value \$	Cost \$	Accumulated Depreciation \$	Net Book Value \$
Land and buildings	4,290,785	1,626,569	2,664,216	4,562,815	1,613,271	2,949,544
Machinery and equipment	9,370,109	7,596,633	1,773,476	9,711,188	7,990,667	1,720,521
	13,660,894	9,223,202	4,437,692	14,274,003	9,603,938	4,670,065
Less: Impairment Adjustment	(1,218,862)		(1,218,862)	(1,301,554)		(1,301,554)
	12,442,032	9,223,202	3,218,830	12,972,449	9,603,938	3,368,511

Included in machinery and equipment are assets under capital lease with a total cost of \$231,086 (2018 – 237,231; 2017 - \$224,123) and accumulated depreciation of \$47,372 (2018 - \$31,656; 2017 - \$29,907). Depreciation of \$267,771 was charged to cost of sales in fiscal 2019 (2018 - \$242,510; 2017 - \$210,426). Assets not available for use included in property, plant and equipment amounted to \$478,013 (2018 - \$1,273,590; 2017 - \$1,203,216) and have been impaired. Buildings, machinery and equipment were last impaired in 2010; differences in the impairment adjustment are due to foreign exchange differences. Impairment adjustments are not reversed.

5. INVESTMENTS AVAILABLE FOR SALE

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

	2019 \$	2018 \$
TD short term bond fund consisting of Canadian government and Corporate bonds.	-	321,868
5 year global fixed income fund class A.	-	329,431
	-	651,299

During the year the company sold its investments available for sale. The company realized a loss of \$26,404 including \$29,703 of previous unrealized losses reported. Proceeds from the sale of these investments will be used in the next year to invest in guaranteed interest contracts.

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6. OTHER ADVANCES

Other advances consist of the following:

	2019	2018
	\$	\$
Customer advance	75,825	113,625

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

7. RELATED PARTY TRANSACTIONS

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

	2019	2018
	\$	\$
Amounts due from estate of former shareholder, net of impairment [i]	20,903	20,903
Amounts due to shareholder [ii]	(349,712)	(372,336)
Amounts due from shareholders [iii]	-	6,045

[i] Amounts due from estate of former shareholder (the “Estate”) bear interest at the United States bank prime lending rate plus 1.5% (2019 – 6.00%-7.00%; 2018 – 5.25%-6.00%), except for an amount of \$250,000 (2018 – \$250,000) which is non-interest bearing. In 2019, 2018 and 2017, a reserve equal to the interest income was entered to offset this interest. These amounts have no fixed terms of repayment. The Estate has pledged 243,263 shares of the Company as collateral for this loan, and the Company has determined that no further reserve amount is required. The Company will continue to hold the pledged shares as collateral until the loan is repaid. The Company also had a commitment to pay a death benefit of \$110,000 to the Estate. At January 31, 2019, a balance of \$6,962 is still to be paid to the Estate. See Note 9.

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7. RELATED PARTY TRANSACTIONS (cont'd)

[ii] Amounts due to shareholder, which are payable in monthly amounts of \$5,000 CAD, are unsecured and bear interest at the United States bank prime lending rate plus 1.5% (2019 – 6.00%-7.00%; 2018 – 5.25% - 6.00%). Based on the current rate of interest, the principal repayment on this loan for fiscal 2020 will be approximately \$36,000 (2019 - \$36,000). This loan may not be called and has no fixed maturity date.

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

	\$
2020	36,000
2021	36,000
2022	36,000
2023	36,000
2024	36,000
Thereafter	169,712
	349,712
Less: Current portion	36,000
	313,712

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

	2019	2018	2017
	\$	\$	\$
Interest expense	23,317	21,719	20,571

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

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

At January 31, 2017 three shareholder/directors exercised their options and each purchased 6,500 common shares of the Company (note 10[a]).

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8. LONG TERM DEBT OBLIGATIONS

[a] Bank term loans consist of the following:

	2019	2018
	\$	\$
Bank term loan #1 payable in monthly installments of Cdn \$5,594 (U.S. \$4,261) principal and interest at the Canadian bank's fixed rate of 4.98%	97,159	152,480
Bank term loan #2 payable in monthly installments of Cdn \$2,527 (U.S. \$2,056) principal and interest at the Canadian bank's fixed rate of 3.97%	173,277	201,997
	270,436	354,477
Less: current portion	63,898	62,016
	206,538	292,461

Bank term loan #1 was arranged in January 2016 for 60 months at a fixed rate of prime plus 1.50% (2019 and 2018 - 4.20%). On January 29, 2019 the loan was renewed at a fixed rate of 4.98 % per annum maturing January 29, 2021.

Bank term loan #2 was arranged in December 2017 for 120 months at a fixed rate of prime plus 1.50% (2019 and 2018 - 3.97%).

The Company also obtained an operating loan facility of Cdn \$300,000 (USD – \$228,537) for working capital purposes, which was not utilized at January 31, 2019 and 2018. This Canadian operating facility bears interest at the Canadian bank's prime lending rate plus 2.15% (2019 - 3.95%; 2018 - 3.40%).

Bank debt and facility are collateralized by a general security agreement over the Company's assets and a collateral mortgage of Cdn \$500,000 (USD – \$380,894) on the Company's building located in Toronto, Canada.

The Company was in compliance with all covenants as of January 31, 2019.

Interest expense for the year on the loan was \$10,503 (2018 - \$7,760).

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8. LONG TERM DEBT OBLIGATIONS (cont'd)

[a] Principal repayments on the bank loans are as follows:

	\$
2020	63,898
2021	66,948
2022	17,892
2023	18,580
2024	19,366
Thereafter	83,752
	270,436

[b] Capital lease obligations consist of the following:

	2019	2018
	\$	\$
Obligation under a capital lease, repayable in monthly installments of Cdn. \$4,085 (U.S. \$3,323) bearing interest at 12.67% and matured in fiscal 2019.	-	139
Obligation under a capital lease, repayable in quarterly installments of Cdn. \$1,618 (U.S. \$1,316) bearing interest at 9.42% and maturing in fiscal 2022.	9,888	14,587
	9,888	14,726
<u>Less current portion</u>	4,141	3,382
	5,747	11,344

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

	\$
2020	4,930
2021	4,930
2022	1,233
Total minimum lease payments	11,093
Less amount representing imputed interest	1,205
	9,888

Interest expense for the year on capital lease obligations was \$1,160 (2018 - \$4,272).

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9. ACCRUED LIABILITIES

	2019	2018
	\$	\$
Payroll and related taxes payable	145,681	195,315
Professional fees payable	47,695	27,192
Utilities and taxes	54,860	892
Death benefit payable	6,962	6,962
Others	5,323	49,251
	260,521	279,612

10. SHARE CAPITAL

[a] Share capital issued and outstanding

[i] Class A preferred shares

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

[ii] Class B preferred shares

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

[iii] Common shares

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

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

During the year ended January 31, 2017, 19,500 common share options were exercised and 19,500 common shares were issued for \$9,166.

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10. SHARE CAPITAL (cont'd)

[b] Share option plan

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

All options granted have a term of five years and vest immediately. At January 31, 2019, the Company had 138,000 options outstanding at exercise prices ranging from \$0.72 to \$1.80 and a weighted average exercise price of \$1.13. The options, which are exercisable one year after being granted and expire on dates between January 31, 2020 and January 31, 2021, entitle the holder of an option to acquire one common share of the Company.

No options were granted during the year ended January 31, 2019, 2018 and 2017.

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

	<u>Share options</u>			<u>Weighted average exercise price per share</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
	#	#	#	\$	\$	\$
Options outstanding, beginning of year	191,000	244,000	297,000	1.05	0.89	0.81
Granted	-	-	-	-	-	-
Exercised	-	(19,500)	(19,500)	-	0.31	0.47
Expired	(53,000)	(33,500)	(33,500)	0.82	0.31	0.47
Options outstanding, end of year	138,000	191,000	244,000	1.13	1.05	0.89
Weighted average fair value of options granted during the year				\$ -	\$ -	\$ -

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10. SHARE CAPITAL (cont'd)

[b] Share option plan (cont'd)

The following table summarizes information relating to the options outstanding at January 31, 2019:

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (months)
1.80	53,000	24
0.72	85,000	12
	138,000	17

11. SPARHAWK LABORATORIES, INC.

Sparhawk Laboratories, Inc.

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

12. RESEARCH AND DEVELOPMENT

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

	2019	2018	2017
	\$	\$	\$
Research and development expenditures	-	4,029	598
Less: Investment tax credits	-	-	-
Research and development expense	-	4,029	598

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13. INCOME TAXES

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

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

	2019 \$	2018 \$	2017 \$
Bahamas	-	-	-
Canada	164,065	491,638	839,075
United States	5,681	(9,849)	16,847
	169,746	481,789	855,922

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

	2019 \$	2018 \$	2017 \$
Provision for income taxes based on			
Canadian statutory income tax rates (2019 – 25%, 2018 – 25%, 2017 – 25%)	41,016	122,910	209,769
Increase (decrease) in valuation allowance	(93,712)	(33,947)	53,631
Tax and exchange rate changes on deferred tax items	(16,290)	(60,216)	(77,085)
Expired tax losses and other	6,390	1,178	(6,895)
Items not deductible for tax	96	3,859	3,250
	(62,500)	33,784	182,670
Provision for income taxes based on			
United States income tax rates (2019 – 19%, 2018 – 19%, 2017 – 19%)	(1,420)	(1,871)	3,201
Change in future tax rate	-	-	792
Decrease in valuation allowance and other	120	1,871	-
	1,300	-	3,993
Provision for (recovery of) income taxes	(61,200)	33,784	186,663

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13. INCOME TAXES (cont'd)

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

	2019	2018	2017
	\$	\$	\$
US current tax expense	1,300	-	3,993
Canadian current tax expense	-	11,621	-
Canadian deferred tax recovery (expense)	(62,500)	22,163	182,670
Income taxes (recovery)	(61,200)	33,784	186,663

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

	2019	2018	2017
	\$	\$	\$
Deferred tax assets			
Canadian			
Non-capital losses	452,574	539,753	545,623
Unclaimed research and development expenses	-	-	32,072
Excess of tax value over carrying value of depreciable assets	225,542	156,521	163,683
Net capital losses <i>[note 13[c]]</i>	123,672	124,346	117,475
Other items	2,490	15,668	34,057
United States			
Net operating loss carryforwards	1,367	689	-
	805,645	836,977	892,910
Less valuation allowance	743,145	836,977	870,924
Net deferred tax assets	62,500	-	21,986

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13. INCOME TAXES (cont'd)

[c] The parent Company has non-capital loss carryforwards available to reduce future years' income for tax purposes in Canada totaling approximately \$1,810,000. These non-capital losses expire as stated below.

<u>Year of expiry</u>	<u>\$</u>
2027	281,000
2028	276,000
2029	254,000
2030	214,000
2031	119,000
2032	58,000
2033	67,000
2034	127,000
2035	55,000
2036	204,000
2037	<u>155,000</u>
Total	<u>1,810,000</u>

The parent Company also has net capital losses available for carryforward of approximately \$989,000 available to offset future taxable capital gains. These potential deductions and net capital losses have an indefinite carryforward period.

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

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14. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2019	2018	2017
	\$	\$	\$
Decrease (increase) in assets			
Trade receivable	431,511	(353,894)	(182,228)
Due from shareholders	6,045	(6,045)	3,000
Inventories	(107,123)	178,401	(197,024)
Prepaid expenses and other current assets	(3,048)	451	1,686
	321,025	(181,087)	(374,566)
Increase (decrease) in liabilities			
Accounts payable	(27,361)	(42,719)	(67,674)
Accrued liabilities	32,642	(160,744)	(57,050)
Income taxes payable	1,133	(2,530)	(639)
Other advances	(68,829)	(43,421)	(41,972)
	(62,415)	(249,414)	(167,335)
	264,610	(430,501)	(541,901)

Cash paid during the year for interest was \$34,980 (2018 – \$33,751; 2017 – \$37,971). Cash paid during the year for income taxes was \$1,300 (2018 – \$11,621; 2017 – \$4,109).

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15. SEGMENTED INFORMATION

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

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

	2019	2018	2017
	\$	\$	\$
Total sales by significant customer:			
Customer A	658,233	407,100	456,544
Customer B	608,000	561,850	452,899
Customer C	557,047	512,163	751,676
Customer D	407,781	81,402	1,094,138
Customer E	398,043	820,886	541,483
Customer F	13,060	593,637	762,168
	2,642,164	2,977,038	4,058,908

	2019	2018	2017
	\$	\$	\$
Sales by geographic destination:			
Europe	2,264,617	1,877,270	2,167,374
United States	1,657,167	1,739,498	2,974,476
Other	562,330	610,773	806,435
Canada	419,857	825,639	536,435
Pacific Rim	38,650	225,860	136,610
	4,942,621	5,279,040	6,621,330

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

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16. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Level 1

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

Level 2

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

Level 3

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

The carrying values of cash, trade receivable, accounts payable and advances approximate their fair values as at January 31, 2019 and 2018 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, 2019 and 2018. The fair value of the amount due from the estate of the former shareholder (Note 7[i]) is not determinable because the amount has no fixed terms of repayment.

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

There have been no changes in Level 1, Level 2, and Level 3 and no changes in valuation techniques for these assets or liabilities for the period ended January 31, 2019.

17. OTHER DISCLOSURES

[a] Concentration of accounts receivable

As at January 31, 2019, three (2018 – two) customers of the Company comprised 59% (2018 - 47%) of the trade accounts 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.

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17. OTHER DISCLOSURES (cont'd)

[b] Foreign currency risk

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

18. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of other accumulated comprehensive income are as follows:	2019	2018
	\$	\$
Unrealized loss on investments available for sale	-	(29,703)
Currency translation	381,257	691,501
Accumulated other comprehensive income	381,257	661,798

19. COMMITMENTS

In July of 2013, a subsidiary of the Company, Chemdex Inc., renewed its supply agreement with an existing customer and signed an agreement to supply raw materials for an additional product. During the third quarter of fiscal 2016 the Company completed its obligation to provide raw materials and technological advice and has therefore recognized \$250,000 as income. Upon registration of this new product with the US Food and Drug Administration, a second payment of \$250,000 will become due. The agreement is for a period of ten years, renewable for another ten years, and provides the customer with exclusive rights to these raw materials in the United States (see note 11).

The Company has committed to purchase approximately \$200,000 of partially finished products from a contract manufacturer.

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20. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases (ASC 842)*. Under this new standard, lessees will need to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments. The asset will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. This new guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is in the process of evaluating the impact of this update.

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

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SECURITY OWNERSHIP OF 5% OR GREATER HOLDERS

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

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MANAGEMENT DISCUSSION AND ANALYSIS

The Company's fiscal year ends on January 31st of each year. In this report, fiscal year 2019 refers to the Company's fiscal year ended January 31, 2019. 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 Product in Canada. Chemdex, Inc. in the United States, a wholly owned subsidiary, provides raw materials to Sparhawk pursuant to a definitive supply agreement.

Management Objectives for Fiscal 2020:

Overall the years results were not as expected but in light of events management is satisfied given what transpired. Sales dollars declined due to continued predatory pricing and problems with production of powder product. The company faced delayed production for four months due to production equipment failure. If not for the increase in equipment repairs and depreciation gross margins would have been consistent with the previous year.

In the first quarter of fiscal 2020 management has taken an aggressive approach to outsource drying of product to accelerate production and therefore sales. It has also increased efforts to bring the new spray dryer on line to assist in preventing further recurrences.

Management is still hopeful that the registration of a new product in the United States will result in \$250,000 of additional supply agreement income in fiscal 2021 or 2022.

There are a number of factors that management believes will have a positive impact in fiscal 2020, including investments in plant upgrades of a new Purified Water System. This is all part of our continued focus on quality, productivity and efficiency and efforts to control utility costs and general costs of production.

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The Company begins the new year with cash of \$1.6 million and accounts receivable of a further \$1.0 million. This will allow the Company to continue to prudently invest in more efficient production equipment that should lead to either further cost savings or cost containment.

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Results of Operations

Fiscal year ended January 31, 2019 compared to Fiscal Year ended January 31, 2018 compared to Fiscal Year ended January 31, 2017:

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>19 v 18</u> (% increase(decrease))	<u>18 v 17</u>
Income before taxes	\$169,746	\$481,789	\$855,922	(65)%	(44)%
Net Income	230,946	448,005	669,259	(48)%	(33)%
Income per share	0.07	0.13	0.20		

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

Net income decreased significantly in fiscal year 2018 primarily due to decreased sales especially in the United States where one customer suffered from predatory pricing. The increase in the Canadian dollar also impacted expenses, partially offset by decreased foreign exchange losses.

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>19 v 18</u> (% increase (decrease))	<u>18 v 17</u>
Sales	\$4,942,621	\$5,279,040	\$6,621,330	(6)%	(20)%

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

Sales for the fiscal year ended January 31, 2018 were lower than 2017 primarily due to predatory pricing in the United States and Europe. The Company is hopeful that registration of a new product expected in fiscal 2020 will help to mitigate this issue.

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Results of Operations (cont'd)

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>19 v 18</u> (% increase(decrease))	<u>18 v 17</u> (% increase(decrease))
Gross profit	\$927,930	\$1,295,316	\$1,817,361	(28)%	(29)%

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

Gross profit percentage for the fiscal year 2018 was higher due to sales of higher margin product and production efficiencies introduced by management.

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>19 v 18</u> (% increase(decrease))	<u>18 v 17</u> (% increase(decrease))
Selling, promotion, general and administrative expenses	\$682,931	\$710,375	\$820,675	(4)%	(13)%

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

The decrease in fiscal 2018 is primarily due to reduced legal and settlement fees related to the employee termination lawsuit which was concluded in fiscal year 2017.

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>19 v 18</u> (% increase(decrease))	<u>18 v 17</u> (% increase(decrease))
Research and development	\$-	\$4,029	\$598	(100)%	574%

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

The increase in fiscal year 2018 is due to activities related to the development of water recycling and utility processes.

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	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>19 v 18</u> (% increase(decrease))	<u>18 v 17</u>
Depreciation	\$275,292	\$250,202	\$218,251	10%	15%

Depreciation expense continues to increase as the company remains committed to capital investment to further improve plant efficiencies.

Depreciation expenses increased in fiscal year 2018 compared to fiscal 2017 due to the significant investments in production equipment incurred during the period, especially the new boiler that was installed in the third quarter, as well as the increased value of the Canadian dollar.

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>19 v 18</u> (% increase(decrease))	<u>18 v 17</u>
Interest expense	34,980	\$33,751	\$37,971	4%	(11)%

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

Interest expense was lower in fiscal 2018 as the second bank loan financing was not secured until late in the fourth quarter. In addition, interest charges decreased due to the decreasing balances of the Company's equipment lease agreements.

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>19 v 18</u> (% increase(decrease))	<u>18 v 17</u>
Foreign exchange loss (gain)	\$10,444	\$75,849	\$101,618	(86)%	(25)%

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

Though foreign exchange remains a significant Company expense, it decreased in fiscal year 2018 primarily due to the amalgamation, which eliminated the intercompany exposure to the United States dollar. Throughout fiscal year 2018, the Company experienced foreign exchange losses due to the increased value of the Canadian dollar compared to fiscal year 2017. The subsidiary continues to have a net asset exposure to the United States dollar.

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	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>19 v 18</u> (% increase(decrease))	<u>18 v 17</u>
Interest and investment income	\$4,096	\$18,169	\$7,249	(77)%	151%

Investment income decreased in the current year as a result of the sale of investments in the current year.

The increase in interest and investment income in fiscal 2018 and 2017 is partially due to a special dividend that is paid periodically on the global fixed income fund, as well as the additional amounts invested during those fiscal years.

	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>19 v 18</u> (% increase(decrease))	<u>18 v 17</u>
Income tax expense					
Current	\$1,300	\$11,621	\$3,993	(89)%	191%
Deferred tax expense (recovery)	(62,500)	22,163	182,670	(382)%	(88)%
	(\$61,200)	\$33,784	\$186,663		

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

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Liquidity and Capital Resources

As of January 31, 2019, the Company had cash of \$1,593,728 compared to cash of \$632,502 at January 31, 2018. In fiscal year 2019, the Company generated cash of \$733,988 in its operating activities, compared to generating cash of \$288,369 for fiscal year 2018 and \$528,279 for fiscal year 2017. 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 decreased to \$2,942,640 but the current ratio increased to 4.62 to 1 as of January 31, 2019, compared to \$3,019,198 and 4.28 to 1 as of January 31, 2018 and \$2,460,415 and 3.15 to 1 as of January 31, 2017.

As at January 31, 2019 the Company was committed to its agreement to supply raw materials to Sparhawk. The Company was also committed to purchase approximately \$200,000 of partially finished product from a contract manufacturer.

At January 31, 2019, the Company had accounts receivable of \$1,011,959 and inventory of \$1,078,781 compared to \$1,539,891 and \$1,037,953 respectively, as at January 31, 2018. Accounts receivable were lower as at January 31, 2019 compared to January 31, 2018 as a result of the timing of customer payments while the increase in inventory was primarily related to anticipated sale at the end of the year that wasn't shipped until the current year.

Accounts payable of \$370,522 (2018 - \$424,812) at January 31, 2019 was lower than the prior fiscal year end as a result of the timing of supplier payments. During fiscal year 2019, capital expenditures totaled \$339,836 as compared to \$374,614 in fiscal year 2018. Equipment replacement and improvement expenditures are expected to continue as resources permit.

As at January 31, 2019, the Company's investments held in the previous year were cashed. A small gain resulted as the funds increased in value over previously unrealized losses. The investments were invested in guaranteed interest contracts in fiscal 2020 in order to avoid market and investment valuation variances experienced in prior years. Management has also maintained the ability to convert any portion of these investments to cash if needed for working capital.

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Liquidity and Capital Resources (cont'd)

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, 2019 was \$285,081 as compared to \$267,210 at January 31, 2018, including accrued interest. The Company has taken a cumulative provision of \$514,178 at January 31, 2019 (January 31, 2018 - \$496,307) 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, 2018, pursuant to a non-interest bearing loan with no specific repayment terms.

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

As of January 31, 2019, Thomas C. Usher, now through his estate, had pledged 243,263 common shares of the Company as security for these amounts owing to the Company. These common shares had a market value of \$194,610 at January 31, 2019, based on the closing price of the Company's common shares on the Pink Sheets quotation service on January 31, 2019. The Company intends to continue to hold the pledged assets as collateral until the amounts owing discussed above are repaid.

The Company had a commitment to pay an amount equal to one year's salary, \$110,000, to Thomas C. Usher's estate. The amount owing on this commitment as at January 31, 2019 is \$6,962 (2018 - \$6,962).

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Related Party Transactions (cont'd)

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 \$349,712 at January 31, 2019 from \$372,336 at January 31, 2018 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.

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PART E ISSUANCE HISTORY

Not applicable.

PART F EXHIBITS

Not applicable.

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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, 2019

/s/ George G. Usher

Chairman, President and Chief Executive Officer
Polydex Pharmaceuticals Limited

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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, 2019

/s/ David Jamestee
Chief Financial Officer
Polydex Pharmaceuticals Limited