# POLYDEX PHARMACEUTICALS LIMITED

*QUARTERLY DISCLOSURE REPORT*

*OCTOBER 31, 2015*

*UNAUDITED*

# POLYDEX PHARMACEUTICALS LIMITED
# QUARTERLY REPORT
# OCTOBER 31, 2015
## UNAUDITED

## INDEX

## ITEM I NAME OF ISSUER

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## ITEM II SHARES OUTSTANDING

Preferred Stock – Class A

| | | |
|---|---|---|
| (i) | Period end date | October 31, 2015 |
| (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 | October 31, 2015 |
| (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 | October 31, 2015 |
| (ii) | Authorized | 10,000,000 shares |
| (iii) | Issued and outstanding | 3,330,478 shares |
| (iv) | Freely tradable shares (public float) | 2,417,437 |
| (v) | Number of shareholders of record | 240 |

## ITEM III INTERIM FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

**TABLE OF CONTENTS**

# POLYDEX PHARMACEUTICALS LIMITED
## CONSOLIDATED BALANCE SHEETS
## October 31, 2015
## UNAUDITED

(Expressed in United States dollars)

| | | October 31 2015 (Unaudited) | | January 31 2015 (Unaudited) |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash | $ | 1,144,373 | $ | 491,116 |
| Investments available for sale (note 3) | | 84,298 | | 87,277 |
| Trade accounts receivable | | 849,095 | | 980,431 |
| Due from shareholders | | | | 10,218 |
| Inventories | | | | |
| Finished goods | 523,811 | | 774,213 | |
| Work in progress | 82,867 | | 56,087 | |
| Raw materials | 231,183 | 837,861 | 276,720 | 978,039 |
| Prepaid expenses and other current assets | | 112,863 | | 74,270 |
| Total current assets | | 3,028,490 | | 2,621,351 |
| Property, plant and equipment, net | | 2,998,682 | | 3,036,030 |
| Due from estate of former shareholder | | 20,903 | | 20,903 |
| | $ | 6,048,075 | $ | 5,678,284 |

See accompanying notes.

# POLYDEX PHARMACEUTICALS LIMITED
## CONSOLIDATED BALANCE SHEETS
## October 31, 2015
## UNAUDITED

(Expressed in United States dollars)

| | October 31 2015 (Unaudited) | January 31 2015 (Unaudited) |
|---|---|---|
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 549,867 | $ 531,094 |
| Accrued liabilities | 310,119 | 365,793 |
| Income taxes payable | 4,991 | 4,275 |
| Other loans payable (note 4) | 138,825 | 595,982 |
| Customer deposits | 46,365 | 67,664 |
| Current portion of capital lease obligations | 33,874 | 33,323 |
| Current portion of due to shareholder | 36,000 | 36,000 |
| Total current liabilities | 1,120,041 | 1,634,132 |
| Long-term debt (note 10a) | 373,805 | 390,658 |
| Capital lease obligations (note 10b) | 45,784 | 73,175 |
| Due to shareholder (note 8) | 390,161 | 410,608 |
| | 809,750 | 874,441 |
| Total liabilities | 1,929,791 | 2,508,573 |
| 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 |
| 3,330,478 common shares (January 31, 2015 - 3,305,478) | 55,488 | 55,070 |
| Contributed surplus | 23,711,034 | 23,708,452 |
| Deficit | (20,024,363) | (21,167,154) |
| Accumulated other comprehensive income | 361,115 | 558,333 |
| | 4,118,284 | 3,169,711 |
| | $ 6,048,075 | $ 5,678,284 |

See accompanying notes.

# POLYDEX PHARMACEUTICALS LIMITED
## CONSOLIDATED STATEMENTS OF OPERATIONS
## October 31, 2015
## UNAUDITED

(Expressed in United States dollars)

| | Three Months Ended October 31 2015 | Three Months Ended October 31 2014 | Nine Months Ended October 31 2015 | Nine Months Ended October 31 2014 |
|---|---|---|---|---|
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| **Sales** | $ 1,422,392 | $ 1,301,083 | $ 4,663,370 | $ 3,984,288 |
| Cost of goods sold | 1,192,971 | 1,039,825 | 3,469,445 | 3,158,578 |
| **Gross profit** | 229,421 | 261,258 | 1,193,925 | 825,710 |
| **Expenses** | | | | |
| General and administrative | 140,997 | 133,362 | 419,426 | 441,722 |
| Interest expense,net (note 4) | 17,333 | 24,688 | 18,167 | 68,142 |
| Selling and promotion | 15,143 | 16,227 | 35,424 | 46,724 |
| Research and development | - | - | 584 | 469 |
| Depreciation | 1,898 | 2,605 | 6,026 | 8,403 |
| Foreign exchange (gain) loss | 10,346 | (22,160) | (45,250) | 17,086 |
| Interest and other income | (369,001) | (117) | (389,743) | (424) |
| Total expenses | (183,284) | 154,605 | 44,634 | 582,122 |
| Net income (Loss) before income taxes | 412,705 | 106,653 | 1,149,291 | 243,588 |
| Income taxes | 4,600 | 2,000 | 6,500 | 5,200 |
| **Income for the period** | 408,105 | 104,653 | 1,142,791 | 238,388 |
| Unrealized gain (loss) on investments available for sale | (319) | 450 | (1,031) | 345 |
| Currency translation adjustment | 39,365 | (164,568) | (196,187) | (62,508) |
| Comprehensive income for the period | $ 447,151 | $ (59,465) | $ 945,573 | $ 176,225 |
| Per share information: | | | | |
| Income per common share: | | | | |
| Basic | 0.12 | 0.03 | 0.34 | 0.07 |
| Diluted | 0.12 | 0.03 | 0.33 | 0.07 |
| Weighted average number of common shares used in computing net loss per share for the period: | | | | |
| Basic | 3,317,978 | 3,225,478 | 3,315,478 | 3,225,478 |
| Diluted | 3,524,117 | 3,424,351 | 3,486,897 | 3,449,010 |

# POLYDEX PHARMACEUTICALS LIMITED
## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
## October 31, 2015
## UNAUDITED

(Expressed in United States dollars)

| | | Nine Months Ended October 31 2015 | | Nine Months Ended October 31 2014 |
|---|---|---|---|---|
| | | (Unaudited) | | (Unaudited) |
| Preferred Shares: | | | | |
| Balance, beginning and end of period | $ | 15,010 | $ | 15,010 |
| Common Shares: | | | | |
| Balance, beginning of period | | 55,070 | | 53,734 |
| Shares issued | | 418 | | --- |
| Balance, of period | $ | 55,488 | $ | 53,734 |
| Contributed Surplus: | | | | |
| Balance, beginning of period | | 23,708,452 | | 23,643,466 |
| Common shares issued | | 2,582 | | - |
| Balance, end of period | $ | 23,711,034 | $ | 23,643,466 |
| Deficit: | | | | |
| Balance, beginning of period | $ | (21,167,154) | $ | (21,745,366) |
| Net profit for the period | | 1,142,791 | | 238,388 |
| Balance, end of period | $ | (20,024,363) | $ | (21,506,978) |
| Accumulated Other Comprehensive Income: | | | | |
| Balance, beginning of period | $ | 558,333 | $ | 1,170,996 |
| Unrealized loss on investments available for sale | | (1,031) | | 345 |
| Currency translation adjustment for the period | | (196,187) | | (62,508) |
| Balance, end of period | $ | 361,115 | $ | 1,108,833 |

See accompanying notes.

# POLYDEX PHARMACEUTICALS LIMITED
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## October 31, 2015
## UNAUDITED

(Expressed in United States dollars)

| | Nine Months Ended October 31 2015 | Nine Months Ended October 31 2014 |
|---|---|---|
| | (Unaudited) | (Unaudited) |
| Cash provided by (used in): | | |
| Operating activities: | | |
| Net profit (loss) for the period | 1,142,791 | 238,388 |
| Add (deduct) items not affecting cash: | | |
| Depreciation and amortization | 80,528 | 104,618 |
| Deferred loan expenses | (6,396) | 9,366 |
| Net change in non-cash working capital balances related to operations | (292,775) | 209,240 |
| **Cash provided by operating activities** | 924,148 | 561,612 |
| **Investing activities:** | | |
| Additions to property, plant and equipment | (128,876) | (441,231) |
| Proceeds (Acquisition) of investments available for sale | (468) | (46,859) |
| **Cash used in investing activities** | (129,344) | (488,090) |
| **Financing activities:** | | |
| Proceeds (Repayment) of capital lease obligations, net | (24,470) | 106,881 |
| Decrease in due to shareholder | (20,447) | (24,474) |
| Exercise of common share options | 3,000 | - |
| **Cash provided by (used in) financing activities** | (41,917) | 82,407 |
| Effect of exchange rate changes | (99,630) | (20,906) |
| **Net increase (decrease) in cash and cash equivalents** | 653,257 | 135,023 |
| Cash, beginning of year | 491,116 | 359,664 |
| **Cash, end of period** | 1,144,373 | 494,687 |

See accompanying notes.

## 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 2015 Annual Report for the fiscal year ended January 31, 2015 as found on the Polydex Pharmaceuticals Limited (the "Company") website, www.polydex.com. The unaudited interim consolidated financial statements as of October 31, 2015 and 2014 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 December 15, 2015 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 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 fixed income mutual funds, 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 annually 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.

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 year. 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 enters into foreign exchange contracts from time to time, 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 three months and nine months ended October 31, 2015 the Company has not entered into any derivative financial instruments.

Stock options

The Company uses the fair value accounting to apply recognition provisions to its 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 statement or tax returns. Deferred income taxes are provided for 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 (loss) per common share

Basic earnings per common share is computed using the weighted average number of common shares outstanding of 3,317,978 for the three months ended October 31, 2015 and 3,315,478 for the nine months ended October 31, 2015, as compared to the 3,225,478 for the three and nine months ended October 31, 2014. 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. Options to purchase common shares of 122,581 were included in the computation of year to date diluted earnings per share as at October 31, 2015, and 87,861 incremental shares were included for the three months ended October 31, 2015. Options to purchase common shares of 223,532 were included in the computation of year to date diluted earnings per share as at October 31, 2014, and 198.873 incremental shares were included for the three months ended October 31, 2014.

### 3. Investments Available for sale

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

| | **October 31 2015** | January 31 2015 |
|---|---|---|
| TD short term bond fund consisting of Canadian government and Corporate bonds maturing in the next 1-5 years, yielding 2.7% | **$37,410** | $38,899 |
| 5 year global fixed income fund class A, with an average maturity of 3.95 years and a yield to maturity of 1.93% | **46,888** | 47,378 |
| | **$84,298** | $87,277 |

Investments available for sale are stated at fair value, based on quoted market prices. The Company expects that the investments available for sale may be used for working capital for fiscal 2016 and onwards. Accordingly the investments available for sale were classified as part of current assets as at January 31, 2015 and October 31, 2015.

### 4. Other Loans and Advances:

| | | **October 31 2015** | | January 31 2015 |
|---|---|---|---|---|
| Demand promissory note | $ | **--** | $ | 63,181 |
| Term promissory note | | **--** | | 141,476 |
| Consolidated loan balance | | **--** | | -- |
| Supply agreement advance | | **--** | | 250,000 |
| Other loan | | **138,825** | | 141,325 |
| | $ | **138,825** | $ | 595,982 |

During the second quarter of fiscal year 2016 the Company's subsidiary Dextran Products agreed to supply product to an existing customer in exchange for the forgiveness of accrued interest on the Demand and Term notes and repayment of the remaining loan balances based on fixed pricing until the combined loan balance was repaid. The term promissory note and demand notes included accrued interest to January 31, 2015, and had been accrued at an annual rate of 5% on the term loan and 6% on the demand loan. The agreement also provided for the reclassification of the customer's collateral mortgage and general security agreement against the Company's plant and equipment to a secondary position once a portion of the supply agreement shipments had been met. As at October 31, 2015 the Company had met is commitments on the supply agreement and had repaid the combined loan balance. Removal of the collateral mortgage and general security agreement is currently being finalized.

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

In July 2013, a subsidiary of the Company, Chemdex, Inc., signed a supply agreement with an existing customer to provide raw materials for a new product and renew an existing supply agreement for an existing product. 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 this new raw material product in the United States.

## 5. Long Term Debt and Capital Lease Obligations:

### (a) Mortgage Debt

| | | **October 31 2015** | | **January 31 2015** |
|---|---|---|---|---|
| Mortgage loan of Cdn $500,000 payable in monthly payments of Cdn $ 3,333. (U.S. $2,549) interest only with interest rate of 8%, maturing in April 2017 | **$** | **382,409** | $ | 393,360 |
| Less deferred acquisition costs | | **(8,604)** | | (2,702) |
| | **$** | **373,805** | $ | 390,658 |

The mortgage loan, which was renewed in April 2015 for a period of 2 years, 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. The decrease in value is due to the decreased value of the Canadian dollar as compared to its value at January 31, 2015, and the expensing of the deferred acquisition costs. No principal payments have been made against this loan balance. The increase in deferred acquisition costs is due to a fee of Cdn $15,000 that was incurred as part of the renewal agreement.

Interest expense for the mortgage loan was $23,516 for the nine months ending October 31, 2015.

(b) Capital lease obligations consist of the following:

| | | **October 31 2015** | | January 31 2015 |
|---|---|---|---|---|
| Obligation (Cdn. $5,577) under a capital lease, repayable in quarterly installments of $1,617 bearing interest at 9.42% and maturing in fiscal 2017 | **$** | **4,265** | $ | 8,488 |
| Obligation (Cdn. $98,576) under a capital lease, repayable in quarterly installments of $3,400 bearing interest at 12.67% and maturing in fiscal 2018 | | **75,393** | | 98,010 |
| | | **79,658** | | 106,498 |
| Less current portion | | **(33,874)** | | (33,323) |
| | **$** | **45,784** | $ | 73,175 |

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

| | $ |
|---|---|
| 2017 | 41,968 |
| 2018 | 37,491 |
| 2019 | 9,372 |
| Total minimum lease payments | 88,831 |
| Less amount representing imputed interest | 9,173 |
| | 79,658 |

Interest expense for the year for capital lease obligations for the nine months ending October 31, 2015 was $8,937 (2014 - $3,732)

## 6. Commitments and Contingencies:

The Company's subsidiary, Dextran Products Limited, is committed to the costs of installation related to the new resin column approximating $80,000.

A subsidiary of the Company, Chemdex, Inc, is continuing its supply agreement with Sparhawk to supply ferric hydroxide and hydrogenated dextran solutions on an exclusive basis until 2023. This agreement was renewed and a new product added (see note 4 above).

There were no other material commitments or contingencies outstanding as at October 31, 2015.

## 7. Stock-based Employee Compensation:

The Company maintains an incentive share option plan for management personnel for options to purchase up to 799,168 common shares. The Company also issues options to certain consultants for services provided to the Company.

All options granted have terms of five years and vest immediately. At October 31, 2015, the Company had 294,000 options outstanding at exercise prices ranging from $0.12 to $0.82 and a weighted average exercise price of $0.52. The options expire on dates between January 31, 2016 and January 31, 2020, and entitle the holder of an option to acquire one common share of the Company.

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, 2015 to October 31, 2015, because there were no options granted during this period. Similarly, no stock-based employee compensation expense was recorded during the period from February 1, 2014 to October 31, 2014, because there were no options granted during that period.

## 8. Segmented Information:

Total revenue by significant customer:

| | Nine Months Ended October 31, 2015 | Nine Months Ended October 31, 2014 |
|---|---|---|
| Customer A | $ 1,371,736 | $ 707,588 |
| Customer B | 633,099 | 600,172 |
| Customer C | 445,469 | 475,624 |
| Customer D | 311,605 | 221,618 |
| Customer E | 298,510 | 102,825 |
| Customer F | 184,320 | 120,320 |
| | $ 3,244,739 | $ 2,228,147 |

Sales by geographic destination:

| | Nine Months Ended October 31, 2015 | Nine Months Ended October 31, 2014 |
|---|---|---|
| Europe | $ 2,204,110 | $ 1,523,446 |
| United States | 1,449,084 | 1,289,471 |
| Other | 523,615 | 480,636 |
| Canada | 401,058 | 327,905 |
| Pacific Rim | 85,503 | 362,937 |
| | $ 4,663,370 | $ 3,984,288 |

## ITEM IV MANAGEMENT DISCUSSION AND ANALYSIS

*The Company's fiscal year ends on January 31st of each year. In this report, fiscal year 2015 refers to the Company's fiscal year ended January 31, 2015. The following discussion should be read in conjunction with the October 31, 2015 interim consolidated financial statements and notes thereto included elsewhere in this report. Operating results for the nine months ended October 31, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2016. For further information, refer to the Polydex Pharmaceuticals Limited Annual Report on our website www.polydex.com for the fiscal year ended January 31, 2015. 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 2016:*

With fewer production issues due to increased vigilance, management is turning its attention to conservation of utilities. The cost of these have been steadily increasing and now constitute a significant part of overhead. Recent grants offer incentives to make conservation even more attractive. Initial discussions have suggested an investment of about $80.000 could provide savings of about $80,000 per year. The Company is being assisted by Partners in Project Green, a local organization, who have made introductions to consultants to accelerate the project.

Customer demand remains high and the Company has hired two more individuals to expand the production team. Production of Dextran Sulphate is being outsourced. It is expected this will increase capacity of other products at the Toronto facility in fiscal 2017.

### Results of Operations

| *Nine and three months ended October 31, 2015 compared to nine and three months ended October 31, 2014:* | Three Months Ended October 31, 2015 | Three Months Ended October 31, 2014 | Variance | Nine Months Ended October 31, 2015 | Nine Months Ended October 31, 2014 | Variance |
|---|---|---|---|---|---|---|
| **Net Income** | $418,105 | $104,656 | 300% | $1,142,791 | $238,388 | 379% |
| **Net Income per Share** | | | | | | |
| **Basic:** | $0.12 | $0.03 | | $0.34 | $0.07 | |
| **Diluted:** | $0.12 | $0.03 | | $0.33 | $0.07 | |

The increase in net income for the third quarter of fiscal 2016 is primarily due to reduced expenses compared to fiscal year 2015. These reductions were augmented by the decrease in value of the Canadian dollar, which also generated foreign exchange gains in the third quarter. The increase in net income for the year to date of fiscal 2016 is a result of increased sales as well as decreased expenses. The year to date of fiscal 2015 also suffered from equipment issues that occurred in the first and second quarters.

| | Three Months Ended October 31, 2015 | Three Months Ended October 31, 2014 | Variance | Nine Months Ended October 31, 2015 | Nine Months Ended October 31, 2014 | Variance |
|---|---|---|---|---|---|---|
| **Sales** | $1,422,392 | $1,301,083 | 9% | $4,663,370 | $3,984,288 | 17% |

Sales increased slightly in the third quarter of fiscal year 2016 compared to 2015 in spite of the significant volume of Canadian dollar sales that suffered from the decreased value of the Canadian dollar compared to the United States dollar throughout the period. The year to date sales of fiscal 2015 also suffered from production issues that lowered its sales compared to fiscal 2016 which did not incur such problems.

| | Three Months Ended October 31, 2015 | Three Months Ended October 31, 2014 | Variance | Nine Months Ended October 31, 2015 | Nine Months Ended October 31, 2014 | Variance |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| **Gross Profit** | **$229,421** | **$261,258** | **(12)%** | **$1,193,925** | **$825,710** | **46%** |
| **Percentage of sales** | **16.1%** | **20.1%** | | **25.6%** | **20.7%** | |

The gross margin in the third quarter of fiscal year 2016 decreased due to the fixed pricing established in the supply agreement earlier in the fiscal year. This pricing was in Canadian dollars, and consequently reduced sales when converted to United States dollars for the financial statements. That agreement has now been completed. The year to date of fiscal 2016 was not as affected by significant production issues as were incurred in the first and second quarters of fiscal 2015.

| | **Three Months Ended October 31, 2015** | **Three Months Ended October 31, 2014** | **Variance** | **Nine Months Ended October 31, 2015** | **Nine Months Ended October 31, 2014** | **Variance** |
|---|---|---|---|---|---|---|
| **Selling, promotion, general and administrative expenses** | **$109,331** | **$149,586** | **(27)%** | **$454,850** | **$488,446** | **(7)%** |

The decrease during the third quarter and year to date of fiscal year 2016 in selling, promotion, general and administrative expenses is due primarily to the continued decrease in the value of the Canadian dollar compared to the United States dollar.

| | **Three Months Ended October 31, 2015** | **Three Months Ended October 31, 2014** | **Variance** | **Nine Months Ended October 31, 2015** | **Nine Months Ended October 31, 2014** | **Variance** |
|---|---|---|---|---|---|---|
| **Research and Development expenditures** | **$ --** | **$ --** | **-- %** | **$ 584** | **$ 469** | **25%** |

The Company is maintaining a minimal level of research and development, while concentrating on expanding its customer base with derivatives of existing products. Research and development is consisting solely of legal fees necessary to maintain its cellulose patents.

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| | Three Months Ended October 31, 2015 | Three Months Ended October 31, 2014 | Variance | Nine Months Ended October 31, 2015 | Nine Months Ended October 31, 2014 | Variance |
|---|---|---|---|---|---|---|
| **Depreciation and amortization expense** | **$26,173** | **$52,600** | **(50)%** | **$80,528** | **$104,618** | **(23)%** |

The decrease in depreciation and amortization for fiscal year 2016 is due to the decrease in value of the Canadian dollar. Included in depreciation and amortization expense are allocations to cost of goods sold in the amount of $74,503 for the year to date of fiscal year 2016 (2015 - $96,217).

| | Three Months Ended October 31, 2015 | Three Months Ended October 31, 2014 | Variance | Nine Months Ended October 31, 2015 | Nine Months Ended October 31, 2014 | Variance |
|---|---|---|---|---|---|---|
| **Interest Expense** | **$17,333** | **$24,688** | **(30)%** | **$18,167** | **$68,142** | **(73)%** |

Interest expense decreased in the second quarter of fiscal year 2016 compared to 2015 due primarily to the decrease in value of the Canadian dollar as well as continued repayments of the long term debts. Interest expense decreased in the year to date of fiscal 2016 due primarily to the forgiveness of loan interest in the second quarter related to previously accrued interest on a term and demand loan from a customer (see note 4 above).

| | Three Months Ended October 31, 2015 | Three Months Ended October 31, 2014 | Variance | Nine Months Ended October 31, 2015 | Nine Months Ended October 31, 2014 | Variance |
|---|---|---|---|---|---|---|
| **Foreign exchange (gain) loss** | **$10,346** | **$(22,160)** | **(53)%** | **$ (45,250)** | **$ 17,086** | **592%** |

The foreign exchange loss in the third quarter of fiscal 2016 was due primarily to the substantial amount of accounts receivable at the end of the quarter that were denominated in Canadian dollars in the Company's subsidiary, Dextran Products Limited. The gain for the year to date was attributable primarily to significant sales in United States dollars that were incurred primarily in the first and second quarters of fiscal 2016.

Fluctuations in the value of the Canadian dollar compared to the United States dollar resulted in the gain in the third quarter of fiscal 2015 and the loss in the year to date of fiscal 2015.

| | Three Months Ended October 31, 2015 | Three Months Ended October 31, 2014 | Variance | Nine Months Ended October 31, 2015 | Nine Months Ended October 31, 2014 | Variance |
|---|---|---|---|---|---|---|
| **Interest and other income** | **$369,001** | **$117** | **3,152%** | **$389,743** | **$424** | **918%** |

The increase in interest and other income in the third quarter and of fiscal year 2016 compared to the third quarter of fiscal year 2015 is primarily due to the income recognition of the deposit for the supply of materials and technological advice in the development of a new product, and a supply agreement with that same customer that was completed in the quarter, as well as other amounts related to supply agreement fees from another customer that were also earned during the quarter. The year to date of fiscal 2016 was also due to supply agreement fees earned in the during the second quarter of fiscal 2016 (see note 5 above).

**Liquidity and Capital Resources**

As of October 31, 2015, the Company had cash of $1,144,373 compared to cash of $491,116 at January 31, 2015. In the third quarter of fiscal year 2016, the Company generated cash of $902,557 in its operating activities, compared to generating cash of $318,829 for the third quarter of fiscal year 2015. The generation of cash from operations during the third quarter of fiscal year 2016 benefitted substantially from supply agreement fees earned in the quarter.

The Company's working capital increased to $1,908,449 and a working capital ratio of 2.70 to 1 as of October 31, 2015, compared to $990,612 and 1.61 to 1 as of January 31, 2015.

As of October 31, 2015, the Company had accounts receivable of $849,095 and inventory of $837,861 compared to $980,431 and $978,039 respectively at January 31, 2015 and $937,912 and $1,050,026 respectively at October 31, 2014. The decrease in accounts receivable is primarily due to the decreased value of the Canadian dollar.

At October 31, 2015, the Company had accounts payable of $549,867 compared to $531,094 at January 31, 2015 and $655,194 at October 31, 2014. The increase in accounts payable compared to January 31, 2015 was due to the timing of supplier payments.

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased to $1,247,986 for the nine months ended October 31, 2015 compared to $416,348 for the nine months ended October 31, 2014. This increase is due to the increased sales and gross margins experienced throughout fiscal year 2016 to date, as well as the supply agreement fees, interest forgiveness and completion of the Company's product development commitments.

During the third quarter of fiscal year 2016, capital expenditures amounted to $128,876 compared to $441,231 in the third quarter of fiscal year 2015. Capital expenditures are expected at a similar rate as the year to date for the remainder of fiscal year 2016.

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.

The long term debt is related to the mortgage loan obtained in the first quarter of fiscal 2014. Its principal did not change but its carrying value decreased due to the lessening in value of the Canadian dollar, combined with the amortization of acquisition costs. Capital lease obligations decreased from January 31, 2015 due to required payments of principal and interest, and the decreased value of the Canadian dollar throughout the period.

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 has had a material effect on its operations or financial results at any time in the last three 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"). Repayment of the Loan has occurred primarily through offsets by the Company against royalty payments due Thomas C. Usher pursuant to an intellectual property license agreements that expired January 31, 2014. The amount outstanding under the Loan as of October 31, 2015 was $237,203, as compared to $228,940 at January 31, 2015, including accrued interest. The Company has taken a cumulative provision of $466,300 at October 31, 2015 (January 31, 2015 - $458,037) 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 October 31, 2015, pursuant to a non-interest bearing loan with no specific repayment terms. The outstanding amount of this loan has not changed from January 31, 2015. The amounts continue to remain owing from the estate of Thomas C. Usher.

As of October 31, 2015, 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 $484,093 at October 31, 2015, based on the closing price of the Company's common shares on the Pink Sheets quotation service on October 30, 2014. 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 October 31, 2015 is $7,457 (January 31, 2015 – $7,764).

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 $426,140 at October 31, 2015 from $446,586 at January 31, 2015 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.

***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.

**ITEM V LEGAL PROCEEDINGS**

The Company is not party to any pending legal proceedings.

**ITEM VI DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM VII OTHER INFORMATION**

Not applicable.

**ITEM VIII EXHIBITS**

Not applicable

**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.

December 15, 2015

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

**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.

December 15, 2015

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