POLYDEX PHARMACEUTICALS LIMITED

QUARTERLY DISCLOSURE REPORT

JULY 31, 2013

UNAUDITED

INDEX

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
JULY 31, 2013
UNAUDITED

ITEM I NAME OF ISSUER

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ITEM II SHARES OUTSTANDING

Preferred Stock – Class A

(i)	Period end date	July 31, 2013
(ii)	Authorized	100,000 shares at $0.10 each
(iii)	Issued and outstanding	None
(iv)	Freely tradable shares (public float)	None
(v)	Number of shareholders of record	None

Preferred Stock – Class B

(i)	Period end date	July 31, 2013
(ii)	Authorized	899,400 shares at $0.0167 each
(iii)	Issued and outstanding	899,400 shares
(iv)	Freely tradable shares (public float)	None
(v)	Number of shareholders of record	1

Common Stock

(i)	Period end date	July 31, 2013
(ii)	Authorized	10,000,000 shares
(iii)	Issued and outstanding	3,172,846 shares
(iv)	Freely tradable shares (public float)	2,450,820
(v)	Number of shareholders of record	242

ITEM III INTERIM FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
JULY 31, 2013
UNAUDITED

(Expressed in United States dollars)

		July 31 2013 (Unaudited)		January 31 2013 (Unaudited)
Assets				
Current assets:				
Cash and cash equivalents		$ 346,855		$ 4,241
Investments available for sale (note 1)		54,504		56,062
Trade accounts receivable		1,356,630		970,307
Inventories				
Finished goods	727,529		774,213	
Work in progress	75,496		56,087	
Raw materials	248,713	1,051,738	276,720	1,107,020
Income taxes recoverable		-		2,780
Prepaid expenses and other current assets		75,357		105,332
Total current assets		2,885,084		2,245,742
Property, plant and equipment, net		3,326,132		3,245,413
Patents and intangible assets, net		1,291		5,311
Due from estate of former shareholder		56,511		56,511
		$ 6,269,018		$ 5,552,977

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
JULY 31, 2013
UNAUDITED

(Expressed in United States dollars)

	July 31 2013	January 31 2013
	(Unaudited)	(Unaudited)
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ -	$ 229,741
Accounts payable	707,581	701,733
Accrued liabilities	514,975	506,012
Income taxes payable	983	-
Other loans and advances (note 4)	635,416	386,486
Customer deposits	164,886	92,886
Current portion of long-term debt	-	195,498
Current portion of capital lease obligations	9,846	10,141
Current portion of due to shareholder	30,000	13,000
Total current liabilities	2,063,687	2,135,497
Long-term debt (note 5)	463,387	-
Capital lease obligations	10,858	17,244
Due to shareholder	466,175	495,335
	940,420	512,579
Total liabilities	3,004,107	2,648,076
Going concern (note 1)		
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, 2013 - 899,400)	15,010	15,010
3,172,846 common shares (January 31, 2013 - 3,172,846)	52,855	52,855
Contributed surplus	23,592,545	23,592,545
Deficit	(21,931,987)	(22,404,288)
Accumulated other comprehensive income	1,536,488	1,648,779
	3,264,911	2,904,901
	$ 6,269,018	$ 5,552,977

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
JULY 31, 2013
UNAUDITED

(Expressed in United States dollars)

	Three Months Ended July 31 2013	Three Months Ended July 31 2012	Six Months Ended July 31 2013	Six Months Ended July 31 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales	$ 1,866,253	$ 1,107,708	$ 3,306,397	$ 2,311,600
Cost of goods sold	1,464,357	1,022,545	2,443,538	2,165,783
Gross profit	401,896	85,163	862,859	145,817
Expenses				
General and administrative	164,252	153,100	324,720	310,521
Interest expense,net	19,117	12,762	33,193	26,221
Selling and promotion	15,841	9,867	27,276	20,870
Research and development	-	-	501	502
Depreciation	2,742	3,830	5,339	7,605
Foreign exchange (gain) loss	(1,267)	(8,270)	(1,216)	6,400
Interest and other income	(381)	(85)	(455)	(343)
Total expenses	200,304	171,204	389,358	371,776
Net income (Loss) before income taxes	201,592	(86,041)	473,501	(225,959)
Income taxes	800	500	1,200	1,000
Income (Loss) for the period	200,792	(86,541)	472,301	(226,959)
Unrealized gain (loss) on investments available for sale	(372)	171	(372)	(296)
Currency translation adjustment	(68,349)	(61,166)	(111,919)	4,785
Comprehensive income (loss) for the period	$ 132,071	$ (147,536)	$ 360,010	$ (222,470)
Per share information:				
Income (loss) per common share:				
Basic	0.06	(0.03)	0.15	(0.07)
Diluted	0.06	(0.03)	0.14	(0.07)
Weighted average number of common shares used in computing net loss per share for the period:				
Basic	3,172,846	3,172,846	3,172,846	3,172,846
Diluted	3,492,268	3,172,846	3,350,952	3,172,846

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
JULY 31, 2013
UNAUDITED

(Expressed in United States dollars)

		Six Months Ended July 31 2013		Six Months Ended July 31 2012
		(Unaudited)		(Unaudited)
Preferred Shares:				
Balance, beginning and end of period	$	15,010	$	15,010
Common Shares:				
Balance, beginning and end of period		52,855		52,855
Contributed Surplus:				
Balance, beginning and end of period		23,592,545		23,562,866
Deficit:				
Balance, beginning of period	$	(22,404,288)	$	(21,981,439)
Net income (loss) for the period		472,301		(226,959)
Balance, end of period	$	(21,931,987)	$	(22,208,398)
Accumulated Other Comprehensive Income:				
Balance, beginning of period	$	1,648,779	$	1,608,424
Unrealized gain (loss) on investments available for sale		(372)		(296)
Currency translation adjustment for the period		(111,919)		4,785
Balance, end of period	$	1,536,488	$	1,612,913

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
JULY 31, 2013
UNAUDITED

(Expressed in United States dollars)

	Six Months Ended July 31 2013	Six Months Ended July 31 2012
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operating activities:		
Net income (loss) for the period	$ 472,301	$ (226,959)
Add (deduct) items not affecting cash:		
Depreciation and amortization	56,174	122,281
Deferred debt acquisition costs	3,334	-
Net change in non-cash working capital balances related to operations	21,892	294,114
Cash provided by operating activities	553,701	189,436
Investing activities:		
Additions to property, plant and equipment	(227,122)	(55,075)
Proceeds (Acquisition) of investments available for sale	(446)	(7,307)
Cash provided by (used in) investing activities	(227,568)	(62,382)
Financing activities:		
Proceeds from long-term debt refinancing	459,467	
Repayment of long-term debt	(189,567)	(29,518)
Proceeds (repayment) of capital lease obligations	(5,877)	(5,640)
Decrease in due to shareholder	(12,160)	(5,848)
Increase (decrease) in bank indebtedness	(229,741)	(1,990)
Cash provided by (used in) financing activities	22,122	(42,996)
Effect of exchange rate changes	(5,641)	(11,749)
Net increase in cash	342,614	72,309
Cash, beginning of period	4,241	32,339
Cash, end of period	$ 346,855	$ 104,648

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 2013 Annual Report for the fiscal year ended January 31, 2013 as found on the Polydex Pharmaceuticals Limited (the "Company") website, www.polydex.com. The unaudited interim consolidated financial statements as of July 31, 2013 and 2012 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 September 16, 2013 that would require recognition or note disclosures in these financial statements.

Going Concern

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future. For the fiscal year ended January 31, 2013, the Company generated a consolidated net loss of $422,849 and realized negative cash flows from operating activities of $52,371. In 2012, the Company generated a consolidated net income of $231,668 and realized positive cash flow from operations of $465,052. This contrasts with the results for the fiscal year ended January 31, 2011 and 2010, when the Company generated consolidated net losses of $697,658 and $2,144,735 and realized negative cash flows from operating activities of $154,518 and $589,723 respectively for those years. There was an accumulated deficit of $22,404,288 (2012 - $21,981,439). As a result of the operations in fiscal years 2011 and 2010 and the inconsistent results for 2012 and 2013, the Company, through its wholly-owned subsidiary Dextran Products Limited, was in violation of its debt service loan covenant related to its long-term debt, which resulted in a restructuring and reclassification of this debt as a current liability as at January 31, 2013, January 31, 2012, January 31, 2011 and January 31, 2010. Since the year ended January 31, 2013, the Company's subsidiary, Dextran Products Limited, has finalized long term private financing in the amount of Cdn $500,000 (USD $486,760) to replace the operating loan and the equipment loan previously provided by its bank (see note 5 below). The Company has positive working capital of $821,400 as at July 31, 2013 ($110,245 as at January 31, 2013).

Management is presently focused on fulfilling its large and growing order book, and to improving its production capabilities including implementing its planned capital improvements. Strong customer relationships and related demand for product, including partnership in the development of new products, combined with the obtaining of initial capital funding has resulted not only in strong financial returns in the first quarter and year to date of fiscal year 2014, and holds promise for the future.

The Company's ability to continue as a going concern is in doubt as it is dependent on the ability of the Company to attain profitable operations, enabling it to meet the Company's liabilities as they become due and the realization of its business plans. The outcome of these matters is dependent on factors outside the Company's control and cannot be predicted at this time. Should the above expectations fail to occur or not achieve the levels required to meet the Company's profitability and liquidity requirements, management will seek other sources of investment from new or existing investors, creditors and customers.

The accompanying consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future. These financial statements do not include any adjustments relating to the recoverability or classification of assets or the amounts or classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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

Property, plant and equipment and patents and intangible assets

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

Buildings 15 years
Machinery and equipment 3 to 10 years

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

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

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

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

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 six months ended July 31, 2013 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.

Earnings (loss) per common share

Basic earnings (loss) per common share is computed using the weighted average number of common shares outstanding of 3,172,846 for the three months and six months ended July 31, 2013 (2012 - 3,172,846). Diluted earnings (loss) 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 178,106 were included in the computation of year to date diluted earnings per share as at July 31, 2013, and 319,422 incremental shares were included for the three months ended July 31, 2013. No incremental shares were used in the calculation of diluted earnings (loss) per common share for the three and six months ended July 31, 2012 because their effect was anti-dilutive.

3. Investments Available For Sale:

Investments available for sale consist of the following:

		July 31 2013		January 31 2013
Canadian short-term bond fund	$	**54,504**	$	56,062

Canadian short-term bond fund has maturity dates extending from one to five years and a yield rate of 2.02%. Investments available for sale are stated at fair market value, based on quoted market prices. An unrealized loss of $372 has been included in accumulated comprehensive income.

4. Other Loans and Advances:

		July 31 2013		January 31 2013
Term promissory note	$	**162,443**	$	163,191
Demand promissory note		**69,973**		70,295
Other loan		**153,000**		153,000
Supply agreement advance		**250,000**		---
	$	**635,416**	$	386,486

The term promissory note includes accrued interest and is due June 1, 2014. Interest is payable monthly at an annual rate of 5%. The demand promissory note is payable on demand, and includes accrued interest at an annual rate of 5%. Both these notes are secured by a collateral mortgage and general security agreement against the Company's plant and equipment. Both notes are from the same customer, and no repayments have been made to September 15, 2013.

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 an 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. Once this registration has been acquired the advance will cease to be refundable, and 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.

5. Long Term Debt Obligations:

		July 31 2013		January 31 2013
Mortgage loan of Cdn $500,000 payable in monthly payments of Cdn $ 3,333. (U.S. $3,307) interest only with interest rate of 8%, maturing in April 2015	**$**	**486,760**	$	---
Less deferred acquisition costs		**(23,373)**		---
Bank term loan payable in monthly installments of Cdn $4,874 (U.S. $4,836) principal plus interest at the Canadian banks' prime lending rate plus 3% (2013-6%); replaced in April 2013		**---**		195,498
Less current portion		**---**		195,498
	$	**463,387**	$	---

The mortgage loan relates to the Company's subsidiary Dextran Products Limited located in Toronto, Canada and is secured by a general security agreement including Dextran's building and equipment as well as a pledge against its accounts receivables.

6. Commitments and Contingencies:

The Company's subsidiary, Dextran Products Limited, is committed to obtaining a purification system at a cost of approximately $186,000 (Cdn $191,000), half of which is expected to be financed through a capital leasing arrangement.

A subsidiary of the Company, Chemdex, Inc, is continuing its supply agreement with Sparhawk to supply ferric hydroxide and hydrogenated dextran solution on an exclusive basis until 2014. This agreement was renewed and a new product added (see note 4 above).

There were no other material commitments or contingencies outstanding as at July 31, 2013, nor at January 31, 2013.

7. Stock-based Employee Compensation:

The Company maintains an incentive share option plan for management personnel for options to purchase up to 954,950 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 July 31, 2013, the Company had 379,948 options outstanding at exercise prices ranging from $0.12 to $0.47 and a weighted average exercise price of $0.29. The options, which are immediately exercisable and expire on dates between January 31, 2014 and January 31, 2018, 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, 2013 to July 31, 2013, because there were no options granted during this period. Similarly, no stock-based employee compensation expense was recorded during the period from February 1, 2012 to July 31, 2012, because there were no options granted during that period.

8. Segmented Information:

Total revenue by significant customer:

		Six Months Ended July 31, 2013		Six Months Ended July 31, 2012
Customer A	$	**675,406**	$	324,424
Customer B		**353,276**		263,424
Customer C		**320,467**		223,925
Customer D		**314,419**		343,270
Customer E		**277,035**		180,480
Customer F		**198,100**		179,002
	$	**2,138,703**	$	1,514,525

Sales by geographic destination:

		Six Months Ended July 31, 2013		Six Months Ended July 31, 2012
Europe	$	**1,380,461**	$	975,540
United States		**1,047,954**		582,436
Other		**405,285**		428,146
Canada		**355,712**		231,138
Pacific Rim		**116,985**		94,340
	$	**3,306,397**	$	2,311,600

ITEM IV MANAGEMENT DISCUSSION AND ANALYSIS

The Company's fiscal year ends on January 31st of each year. In this report, fiscal year 2014 refers to the Company's fiscal year ended January 31, 2014. The following discussion should be read in conjunction with the July 31, 2013 interim consolidated financial statements and notes thereto included elsewhere in this report. Operating results for the six months ended July 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2014. For further information, refer to the Polydex Pharmaceuticals Limited Annual Report on our website www.polydex.com for the fiscal year ended January 31, 2013. The Company's financial statements are prepared in accordance with United States generally accepted accounting principles. All amounts are in United States dollars, unless otherwise denoted.

Overview

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

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

Management Objectives for Fiscal 2014: During the first six months of fiscal year 2014 the Company has continued to experience high demand from customers resulting in increasing sales, but highlighting the need for improved production facilities. Management has responded with investments in new or upgraded equipment of $227,122, over four times that for the same period of the previous year, and expects to continue these necessary expenditures throughout the remainder of fiscal year 2014. For example, a significant commitment of $186,000 for a new, efficient purification system will not only improve production quality but also reduce production costs. These improvements have been aided by the confidence and support shown by our customers, some of whom have been willing to invest in assuring the long term availability of the high quality products the Company has delivered in the past. The Company has a strong order book, which it intends to meet, although equipment problems remain an unknown until significant progress has been made to the overall improvement of manufacturing equipment and facilities.

Management will continue its commitment to maintaining profitability and to these improvements even though some may have some negative short term impact on production and sales in the remainder of fiscal year 2014.

Results of Operations

Three and six months ended July 31, 2013 compared to three and six months ended July 31, 2012:

	Three Months Ended July 31, 2013	Three Months Ended July 31, 2012	Variance	Six Months Ended July 31, 2013	Six Months Ended July 31, 2012	Variance
Net Income (Loss)	**$200,792**	**$(86,541)**	**332%**	**$472,301**	**$(226,959)**	**308%**
Income (Loss) per Share basic	**$0.06**	**$(0.03)**		**$0.15**	**$(0.07)**	
Diluted	**$0.06**	**$(0.03)**		**$0.14**	**$(0.07)**	

The net income for the second quarter and year to date of fiscal year 2014 is a result of increased sales and related gross margins compared to the prior year's comparable periods.

	Three Months Ended July 31, 2013	Three Months Ended July 31, 2012	Variance	Six Months Ended July 31, 2013	Six Months Ended July 31, 2012	Variance
Sales	**$1,866,253**	**$1,107,708**	**68%**	**$3,306,397**	**$2,311,600**	**43%**

Sales for the second quarter and year to date of fiscal year 2014 increased from the comparable periods of fiscal year 2013 primarily due to the continuing increase in customer demand. In addition, in the year to date of fiscal year 2013, the Company was unable to meet customer demand due to equipment failures that were not repaired until the third quarter of fiscal 2013 when full production was resumed, and the negative impact on production of equipment upgrades that occurred in the first quarter of fiscal year 2013.

	Three Months Ended July 31, 2013	Three Months Ended July 31, 2012	Variance	Six Months Ended July 31, 2012	Six Months Ended July 31, 2012	Variance
Gross Profit	**$401,896**	**$85,163**	**372%**	**$862,859**	**$145,817**	**492%**
Percentage of sales	**21%**	**8%**		**26%**	**6%**	

The increase in gross margin in the second quarter and year to date of fiscal year 2014 was due to the sales increases mentioned above. This included the sales of higher margin powdered products that occurred especially in the first quarter of fiscal 2014. The second quarter and year to date of fiscal year 2013 was also significantly negatively impacted by production interruptions which not only resulted in decreased sales but also meant that continuing fixed overheads were not as fully absorbed

	Three Months Ended July 31, 2013	Three Months Ended July 31, 2012	Variance	Six Months Ended July 31, 2013	Six Months Ended July 31, 2012	Variance
Selling, promotion, general and administrative expenses	**$180,093**	**$162,967**	**10%**	**$351,996**	**$331,391**	**6%**

The increase in the above expenses compared to the prior year periods is a result of having received refunds of prior years' withholding taxes in the second quarter of fiscal 2013.

	Three Months Ended July 31, 2013	Three Months Ended July 31, 2012	Variance	Six Months Ended July 31, 2013	Six Months Ended July 31, 2012	Variance
Research and Development expenditures	**--**	**--**	**--**	**$501**	**$502**	**--%**

During fiscal year 2010 all of the Company's research into Ushercell was halted, with only some patent expenses being incurred and paid. Further patent fees are also being curtailed, and only minimal research and development expenses related to patent legal fees were incurred in the year to date of fiscal years 2014 and 2013. When any new information on the product becomes available, the Company will assess the potential commercial viability of the compound before investing in further research or development. Since the cessation of the clinical trials for Ushercell, the Company has been reviewing the other projects in its portfolio and actively pursuing their potential for creating new market opportunities. This has resulted in recent small sales of two new Dextran based products. The possibility for larger sales exists, but cannot be predicted at this time.

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	Three Months Ended July 31, 2013	Three Months Ended July 31, 2012	Variance	Six Months Ended July 31, 2013	Six Months Ended July 31, 2012	Variance
Depreciation and amortization expense	**$28,387**	**$61,050**	**(54)%**	**$56,174**	**$122,281**	**(36)%**

The decrease in depreciation and amortization for fiscal year 2014 is due primarily to assets which became fully depreciated, and the decrease in value of the Canadian dollar compared to the United States dollar. Included in depreciation and amortization expense are allocations to cost of goods sold in the amount of $50,835 for fiscal year to date 2014 (2013 - $114,676).

	Three Months Ended July 31, 2013	Three Months Ended July 31, 2012	Variance	Six Months Ended July 31, 2013	Six Months Ended July 31, 2012	Variance
Interest expense	**$19,117**	**$12,762**	**50%**	**$33,193**	**$26,221**	**27%**

Interest expense increased in the year to date of fiscal year 2014 compared to the year to date of fiscal year 2013 due to the large increase in the long term debt/mortgage compared to the bank indebtedness throughout the year to date of fiscal 2013. As this increased debt occurred primarily late in quarter one of fiscal 2014, the increase related to this long term debt is especially apparent when comparing the second quarters of both fiscal years.

	Three Months Ended July 31, 2013	Three Months Ended July 31, 2012	Variance	Six Months Ended July 31, 2013	Six Months Ended July 31, 2012	Variance
Foreign exchange (gain) loss	**$(1,267)**	**$(8,270)**	**(40)%**	**$(1,216)**	**$6,400**	**(70)%**

The small foreign exchange losses for the second quarter and year to date of fiscal year 2014 were due to the relative stability of exchange rates of the Canadian dollar to the United States dollar throughout these periods. This compares to the fluctuating exchange rates incurred in the second quarter and year to date of fiscal 2013.

	Three Months Ended July 31, 2013	Three Months Ended July 31, 2012	Variance	Six Months Ended July 31, 2013	Six Months Ended July 31, 2012	Variance
Impairment of due from shareholder loan	**$ --**	**--**	**0%**	**$ --**	**--**	**0%**

The Company has determined that it is not necessary to recognize a further decrease in the collectability of the loan to the shareholder. The Company will continue to monitor the collateral associated with loan, which includes the license agreement for the manufacture of Iron Dextran mentioned above, and will make future adjustments as necessary.

	Three Months Ended July 31, 2013	Three Months Ended July 31, 2012	Variance	Six Months Ended July 31, 2013	Six Months Ended July 31, 2012	Variance
Interest and other income	**$ 381**	**$85**	**348%**	**$ 455**	**$343**	**33%**

The increase in interest and other income in the second quarter and year to date of fiscal year 2014 compared to the second quarter and year to date of fiscal year 2013 is primarily due to the timing of dividends declared from the Company's investments.

Liquidity and Capital Resources

As of July 31, 2013, the Company had cash of $346,855, compared to cash of $4,241 at January 31, 2013. In the second quarter of fiscal year 2014, the Company generated cash of $401,134 in its operating activities, compared to generating cash of $131,508 for the second quarter of fiscal year 2013. The generation of cash for operations during the second quarter of fiscal year 2014 is due in large part to the changes in working capital balances during the quarter, including advances from customers. Depreciation continues to be a large non-cash expense of the Company.

The Company's working capital increased to $821,399 and a working capital ratio of 1.40 to 1 as of July 31, 2013, compared to $110,245 and 1.05 to 1 as of January 31, 2013. Earnings before interest, taxes, depreciation and amortization (EBITDA) increased to $562,868 for the six months ended July 31, 2013. This compares to the negative EBITDA of $77,457 for the six months ended July 31, 2012.

As of July 31, 2013, the Company had accounts receivable of $1,356,630 and inventory of $1,051,738 compared to $649,019 and $1,201,768 at July 31, 2012. The increase in accounts receivable and the decrease in inventory are both due to the increased sales during the comparable six month periods.

At July 31, 2013, the Company had accounts payable of $707,581 compared to $701,733 at January 31, 2013 and $599,416 at July 31, 2012. The small change in accounts payable compared to January 31, 2013 was due to the timing of supplier payments.

During the second quarter of fiscal year 2014, capital expenditures totaled $206,293 as compared to $16,246 in the second quarter of fiscal year 2013. These expenditures in the second quarter of fiscal 2014 resulted from improvements to the Company's physical plant and equipment, which management expects to continue. Expenditures related to Phase I of the plant refurbishment and expansion plan at Dextran Products in Toronto have been largely completed except for testing and the preparation of operating manuals.

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.

Dextran Products had a Cdn. $250,000 (U.S. $249,300) operating line of credit as at July 31, 2012 and January 31, 2013. This facility and its bank loan of $229,741 as at January 31, 2013, were replaced in April 2013 with a private long term mortgage of Cdn $500,000 (USD $496,130) expiring in April 2015 (see note 5 in the financial statements). In addition, the Company received an advance of $250,000 as a result of signing a long term supply agreement (see note 4 in the financial statements), and also received additional customer deposits of $72,000. This funding allowed early implementation of the Company's planned capital expenditures during the period, and allowed it to take advantage of some unexpected capital expenditure cost saving opportunities.
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The decrease in capital lease obligations from January 31, 2013 is due to continued repayments of principal and interest throughout the period, as well as the decrease in value of the Canadian dollar during 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 and changing prices has had a material effect on its operations or financial results at any time in the last three years.

Related Party Transactions

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"). The Loan was used to partially fund a $1,000,000 payment to the State of Florida in order to allow Thomas C. Usher to regain possession of 430,000 Common Shares of the Company then held by the State as collateral security relating to the liquidation of insurance companies formerly owned by Thomas C. Usher. Repayment of the Loan is accomplished by periodic payments and through offsets by the Company against royalty payments due Thomas C. Usher pursuant to intellectual property license agreements and, in the past, bonus payments, if any, granted to Thomas C. Usher as an employee of the Company. The amount outstanding under the Loan as of July 31, 2013 was $248,022, as compared to $242,259 at January 31, 2013, including accrued interest. The Company has taken a cumulative provision of $441,511 at July 31, 2013 (January 31, 2013 - $435,748) 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.

The Company continues to be obligated to make royalty payments to Mr. Usher's estate pursuant to intellectual property license agreements, and intends to continue to offset such payments against the Receivables. Thomas C. Usher also owed $250,000 to a subsidiary of the Company, Novadex International Limited, as of July 31, 2013, pursuant to a non-interest bearing loan with no specific repayment terms. The outstanding amount of this loan has not changed from January 31, 2013. The amounts continue to remain owing from the estate of Thomas C. Usher.

As of July 31, 2010, 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 $218,936 at July 31, 2013, based on the closing price of the Company's common shares on the Pink Sheets quotation service on July 31, 2013. 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 July 31, 2013 has been reduced to $8,720.

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 $496,147 at July 31, 2013 from $508,335 at January 31, 2013 due to monthly payments by the Company, less interest charges. The Company has increased its repayments to the minimum required $5,000 per month principal and interest.

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.

September 16, 2013

/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.

September 16, 2013

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