POLYDEX PHARMACEUTICALS LIMITED

ANNUAL REPORT

JANUARY 31, 2016

UNAUDITED

INDEX

PART A GENERAL COMPANY INFORMATION

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

Incorporated under the laws of the Commonwealth of the Bahamas, June 14, 1979

PART B SHARE STRUCTURE

Preferred Stock – Class A

(i) Period end date	January 31, 2016
(ii) Authorized	100,000 shares at $0.10 each
(iii) Issued and outstanding	None
(iv) Freely tradable shares (public float)	None
(v) Number of shareholders of record	None

Preferred Stock – Class B

(i) Period end date	January 31, 2016
(ii) Authorized	899,400 shares at $0.0167 each
(iii) Issued and outstanding	899,400 shares
(iv) Freely tradable shares (public float)	None
(v) Number of shareholders of record	1

Common Stock

(i) Period end date	January 31, 2016
(ii) Authorized	10,000,000 shares
(iii) Issued and outstanding	3,380,478 shares
(iv) Freely tradable shares (public float)	2,417,437 shares
(v) Number of shareholders of record	237

Transfer Agent

Computershare
211 Quality Circle, Suite 210
College Station Texas
USA 77845

PART C BUSINESS INFORMATION

Introduction

Polydex Pharmaceuticals Limited (the "Company") is engaged in the development, manufacture and marketing of biotechnology-based products for the human pharmaceutical market, and also manufactures bulk pharmaceutical intermediates for the worldwide veterinary pharmaceutical industry. The Company focuses on the manufacture and sale of Dextran and derivative products, including Iron Dextran and Dextran Sulphate, and other specialty chemicals. Dextran, a generic name applied to certain synthetic compounds formed by bacterial growth on sucrose, is a polymer or giant molecule. The name Polydex combines the words "polymer" and "dextran".

The Company was incorporated under the laws of the Commonwealth of the Bahamas on June 14, 1979 as Polydex Chemicals Limited, and changed its name on March 28, 1984.

The company conducts its business operations through its two wholly-owned subsidiaries. Dextran Products Limited, incorporated in Canada in 1966 ("Dextran Products"), manufactures and sells Dextran and Dextran derivative products including Iron Dextran while Chemdex Inc ("Chemdex") which is incorporated in the state of Kansas, United States, sells Iron Dextran for the US market.

Products and Sales

Iron Dextran

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

Dextran Sulphate

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

Patents, Trademarks and Licenses

Cellulose Sulphate

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

During fiscal year ended January 31, 2001, a patent bearing U.S. patent number 6,063,773 was issued to the Company and co-inventors entitled "Cellulose Sulphate for use as Antimicrobial and Contraceptive Agent". Various clinical trials with respect to the safety and efficacy of this product have been completed.

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

Low Molecular Weight Dextran

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

The Company is a party to a Research Agreement with the University of British Columbia, and a number of Canadian hospitals. Under the terms of this Research Agreement, the Company agreed to provide equipment and funding for continuing research on a low molecular weight dextran, initially studied for a cystic fibrosis treatment, in exchange for an exclusive worldwide license to manufacture, distribute and sell any products developed from the research. Two patents with respect to research products were issued by the United States Patent and Trademark Office in 1996. U.S. patent number 5,441,938 is held jointly by the University of British Columbia and the Company, and U.S. patent number 5,514,665 is held by the University of British Columbia and licensed to the Company. Rights to the low molecular weight dextran were licensed to BCY LifeSciences, Inc. of Canada in 1999. Under this license agreement, BCY LifeSciences will pay a royalty to both the Company and the University of British Columbia based on sales and sublicensing revenue in return for the exclusive right to sublicense, manufacture, distribute and sell developed products. In February 2005, BCY Lifesciences sublicensed the low molecular weight dextran to ALIGN Pharmaceuticals, a private United States based company.

Iron Dextran

Effective February 1, 1995, the Company entered into an agreement with Novadex Corp., an affiliated company, under which Novadex granted the Company the exclusive worldwide license to use a certain process developed by Novadex for producing Iron Dextran. This process allowed the Company to produce Iron Dextran at a lower cost than would otherwise be possible given the Company's plant and equipment. The license agreement expired when the related patent expired in January 31, 2014. The Company paid a license fee based on production volumes until the patent expired. During July 1999, Novadex was liquidated, and all of its assets and liabilities, including the above-referenced license agreement, were assumed by its sole shareholder, the former Vice Chairman of the Company, Thomas C. Usher, who passed away on February 26, 2005. Since the licence agreement and the related patent are now expired, the technology relating to the process described above now belongs to the Company, with no further obligation to make royalty payments.

Suppliers

Dextran Products

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

The Company is dependent upon a single source for a certain raw material used in the production of Dextran Sulphate. Such supply was adequate in fiscal year 2016, and no shortages are anticipated in the near term. However, any curtailment in availability of such raw material could be accompanied by production or other delays as well as increased raw material costs, with consequent adverse effect on the Company's results of operations. The Company has initiated an outsourcing program for the product involved and so any adverse effect will be mitigated once the program is fully operational which is expected in the latter part of fiscal year 2017. The Company has no other long-term contracts with its suppliers.

Order Book and Seasonality

The Company's order book as at January 31, 2016 was higher than levels seen in previous years due to the economy continuing to show recovery as well as customers' increasing demand. The bulk liquid product sold by Dextran Products is primarily targeted to the swine industry where modern animal husbandry techniques maintain most animals indoors. Certain producers in less developed countries may raise animals outdoors thereby reducing the amount of product required but such markets are small and decreasing in size as they modernize. Therefore the Company does not believe that seasonality is material to its financial results as a whole. The Company's sale of Dextran Sulphate is not subject to seasonality.

Competition

The Company is the only Canadian manufacturer of Iron Dextran. The other major suppliers of Iron Dextran are located in Europe, although there exist several smaller European and Chinese sources of Iron Dextran. Dextran Sulphate is manufactured by one manufacturer in Europe. With regard to Iron Dextran and Dextran Sulphate, the Company competes on the basis of quality, service and price.

Environmental Compliance

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

Employees

As of March 31, 2016, the Company employed 23 employees, of whom 14 were engaged in production, 6 in quality control, 3 in administration, marketing and sales activities. None of the Company's employees are covered by collective bargaining agreements. Management considers its relations with employees to be in good standing.

Research and Development

During the fiscal years ended January 31, 2016, 2015 and 2014, the Company expended $573, $2,644, and $2,932 respectively. Research and development expenditures resulted primarily from legal fees related to patent acquisition and maintenance. During the fiscal years ended January 31, 2016, 2015 and 2014, the Company did not recognize any investment tax credit benefits.

PART D MANAGEMENT STRUCTURE AMD FINANCIAL INFORMATION

BOARD OF DIRECTORS

Name and Occupation	Age	Year First Elected Director
DEREK JOHN MICHAEL LEDERER, Chartered Accountant. Mr. Lederer is a partner with the public accounting firm Truster Zweig LLP. Previously he had his own public accounting firm since 1970, and is a former adjunct professor at York University in Toronto, Ontario.	**73**	**1998**
JOSEPH BUCHMAN. Now retired, Mr. Buchman was a Financial Services Representative with Metlife Financial Services, where he served in various capacities beginning in 1979. He has acted as the former vice-president of an investment firm in charge of operations and finance, and is well acquainted with the investment community and its requirements	**76**	**1983**
MARTIN LIPPER has an extensive background in business and finance, including roles as the director of research for securities firms involved in mergers and acquisitions. He is currently serving as a director of another public company.	**81**	**2010**
GEORGE G. USHER. Mr. Usher has served as Chairman of the Board since January 27, 1998, President and Chief Executive Officer of the Company since 1993 and 1996, respectively, and Vice President of Dextran Products Limited, a subsidiary of the Company, since 1987. Previously, Mr. Usher was employed by the Company in various positions since 1982.	**57**	**1988**

EXECUTIVE OFFICERS

Name	Age	Title
George G. Usher	57	Chairman of the Board, President and Chief Executive Officer
John A. Luce	69	Chief Financial Officer
Sharon L. Wardlaw	63	Chief Operating Officer, Secretary and Treasurer

SELECTED FINANCIAL DATA

The following selected historical consolidated financial and other data are qualified by reference to, and should be read in conjunction with, the consolidated financial statements and notes thereto included elsewhere in this report. The Company's consolidated financial statements are prepared in accordance with United States generally accepted accounting principles. All amounts are in United States dollars.

	Fiscal year ended January 31,				
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	2016	2015	2014	2013	2012
Sales from continuing operations	**6,040,369**	5,376,027	5,963,784	5,192,969	6,165,754
Net income (loss) from continuing operations	**1,277,500**	578,212	658,922	(422,849)	231,668
Net income (loss) per common share	**0.38**	0.17	0.21	(0.13)	0.07
Total assets	**5,817,866**	5,678,284	5,762,896	5,555,977	5,531,211
Long term borrowings	**611,080**	874,441	928,565	731,217	811,802

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

As of September 12, 2008, the Company's common shares were delisted from the NASDAQ Capital Market. Subsequent to that date, the shares have been listed and traded on the OTC Bulletin Board and the Pink OTC Markets Inc through April 2015. The Company's common shares trade under the symbol "POLXF."

The reported high and low closing prices of the Company's common shares as reported on the OTC Pink Sheets for each full quarterly period within the two most recent fiscal years of the Company were as follows:

Fiscal Year 2016 **fiscal quarter ended:**	**High**	**Low**
April 30, 2015	$ 0.96	0.88
July 31, 2015	1.49	0.77
October 31, 2015	2.17	1.35
January 31, 2016	2.82	1.13

Fiscal Year 2015 **fiscal quarter ended:**	**High**	**Low**
April 30, 2014	$ 1.15	0.68
July 31, 2014	1.10	1.00
October 31, 2014	0.75	0.72
January 31, 2015	0.72	0.71

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

As of January 31, 2016 there were approximately 237 holders of record of the Company's common shares.

The Company has paid no dividends in the past and does not consider likely the payment of any dividends in the foreseeable future.

During the year ended January 31, 2016, the Company issued 75,000 common shares related to options exercised by certain Directors of the Company. The Company did not make any repurchases of its common shares and does not currently have a plan to repurchase any of its common shares.

FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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Schwartz Levitsky Feldman llp
CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS
TORONTO • MONTREAL

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Shareholders of
Polydex Pharmaceuticals Limited (the "Company")

We have reviewed the accompanying consolidated financial statements of Polydex Pharmaceuticals Limited which comprise the consolidated balance sheets as of January 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income(loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

/s/SCHWARTZ LEVITSKY FELDMAN LLP

Toronto, Ontario, Canada | Chartered Accountants
April 28, 2016 | Licensed Public Accountants

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POLYDEX PHARMACEUTICALS LIMITED

Consolidated Balance Sheets

(Expressed in United States dollars)

(See Independent Accountant's Review Report)

	January 31 2016	January 31 2015
	(Unaudited)	(Unaudited)
Assets		
Current assets:		
Cash	$ 942,555	$ 491,116
Investments available for sale (note 5)	79,123	87,277
Trade accounts receivable	854,749	980,431
Due from shareholders (note 7(iii))	3,000	10,218
Inventories (note 3)	890,603	978,039
Prepaid expenses and other current assets	65,664	74,270
Total current assets	2,835,694	2,621,351
Property, plant and equipment, net (note 4)	2,769,489	3,036,030
Deferred taxes (note 13(b))	191,780	---
Due from estate of former shareholder (note 7(i))	20,903	20,903
	$ 5,817,866	$ 5,678,284

See accompanying notes.

On behalf of the Board:

Derek Lederer, Director Joseph Buchman, Director

POLYDEX PHARMACEUTICALS LIMITED

Consolidated Balance Sheets

(Expressed in United States dollars)

(See Independent Accountant's Review Report)

		January 31 2016		January 31 2015
		(Unaudited)		(Unaudited)

Liabilities and Shareholders' Equity

Current liabilities:				
Accounts payable	$	475,709	$	531,095
Accrued liabilities (note 9)		452,660		365,793
Income taxes payable (note 13)		3,991		4,275
Other loans and advances (note 6)		138,825		595,982
Customer deposits		41,040		67,664
Current portion of long-term debt (note 8a)		39,352		---
Current portion of capital lease obligations (note 8b)		31,471		33,323
Current portion of due to shareholder (note 7(ii))		36,000		36,000
Total current liabilities		1,219,048		1,634,132
Long-term debt (note 8a)		174,842		390,658
Capital lease obligations (note 8b)		51,280		73,175
Due to shareholder (note 7(ii))		384,958		410,608
Total liabilities		1,830,128		2,508,573
Related party transactions (note 7)				
Commitments and contingencies (note 19)				
Subsequent events (note 20)				
Shareholders' equity:				
Share capital (note 10)				
Authorized:				
100,000 Class A preferred shares of $0.10 each				
899,400 Class B preferred shares of $0.0167 each				
10,000,000 common shares of $0.0167 each				
Issued and outstanding:				
899,400 Class B preferred shares (January 31, 2015 - 899,400)		15,010		15,010
3,380,478 common shares (January 31, 2015 - 3,305,478)		56,323		55,070
Contributed surplus		23,792,519		23,708,452
Deficit		(19,889,654)		(21,167,154)
Accumulated other comprehensive income (note 18)		13,540		558,333
		3,987,738		3,169,711
	$	5,817,866	$	5,678,284

See accompanying notes.

Consolidated Statements of Shareholders' Equity

(Expressed in United States dollars)

(See Independent Accountant's Review Report)

	Preferred Shares $	Common Shares $	Contributed Surplus $	Deficit $	Accumulated Other Comprehensive Income $	Total Shareholders' Equity $
Balance, January 31, 2013 (Unaudited)	15,010	52,855	23,592,545	(22,404,288)	1,648,779	2,904,901
Common share options issued			31,800			31,800
Common share options exercised		879	19,121			20,000
Comprehensive income (loss):						
Net income for the year				658,922		658,922
Unrealized loss on investments available for sale					(88)	(88)
Currency translation adjustment					(477,695)	(477,695)
Balance, January 31, 2014 (Unaudited)	15,010	53,734	23,643,466	(21,745,366)	1,170,996	3,137,840
Common share options issued			46,322			46,322
Common share options exercised		1,336	18,664			20,000
Comprehensive income (loss):						
Net income for the year				578,212		578,212
Realized gain on investments available for sale					(19,847)	(19,847)
Unrealized gain on investments available for sale					2,195	2,195
Currency translation adjustment					(595,011)	(595,011)
Balance, January 31, 2015 (Unaudited)	15,010	55,070	23,708,452	(21,167,154)	558,333	3,169,711
Common share options issued			76,320			76,320
Common share options exercised		1,253	7,747			9,000
Comprehensive income (loss):						
Net income for the year				1,277,500		1,277,500
Unrealized gain on investments available for sale					(790)	(790)
Currency translation adjustment					(544,003)	(544,003)
Balance, January 31, 2016 (Unaudited)	15,010	56,323	23,792,519	(19,889,654)	13,540	3,987,738

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED

Consolidated Statements of Operations and Comprehensive Income (Loss)
(Expressed in United States dollars)
(See Independent Accountant's Review Report)

Year ended January 31	2016	2015	2014
	$	$	$
	(Unaudited)	(Unaudited)	(Unaudited)
Sales	6,040,369	5,376,027	5,963,784
Cost of goods sold	4,587,655	4,137,966	4,515,901
Gross profit	1,452,714	1,238,061	1,447,883
Expenses			
General and administrative (note 10b)	850,305	640,503	711,384
Selling and promotion	52,044	68,746	61,492
Interest expense, net (note 6, 7, 8a & 8b)	42,560	79,173	67,017
Amortization of loan acquisition costs	---	12,228	9,847
Depreciation	7,842	10,812	9,567
Research and development (note 12)	573	2,644	2,932
Foreign exchange gain	(194,104)	(138,795)	(73,543)
Interest and other income	(382,906)	(20,562)	(835)
Total expenses	376,314	654,749	787,861
Income before income taxes	1,076,400	583,312	660,022
Income taxes (note 13)			
Current	5,500	5,100	1,100
Deferred taxes (recovery)	(206,600)	---	---
	(201,100)	5,100	1,100
Net Income	1,277,500	578,212	658,922
Realized gain on investments taken to income statement	---	(19,847)	---
Unrealized gain (loss) on investments available for sale	(790)	2,195	(88)
Currency translation adjustment	(544,003)	(595,011)	(477,695)
Comprehensive income (loss) for the year	732,707	-34,451	181,139
Per share information:			
Income per common share:			
Basic	0.38	0.17	0.21
Diluted	0.37	0.16	0.20
Weighted average number of common shares used in computing net income per share for the period:			
Basic	3,342,978	3,265,478	3,186,004
Diluted	3,485,177	3,481,795	3,372,369

See accompanying notes.

Consolidated Statements of Cash Flows

(Expressed in United States dollars)

(See Independent Accountant's Review Report)

Year ended January 31	2016	2015	2014
	$	$	$
	(Unaudited)	(Unaudited)	(Unaudited)
Cash provided by (used in):			
Operating activities:			
Net income	1,277,500	578,212	658,922
Add (deduct) items not affecting cash:			
Depreciation	203,034	121,555	100,749
Deferred loan acquisition costs	2,642	12,228	9,847
Licence fee charged to due from shareholder (note 12)	-	-	35,608
Deferred income tax recovery	(206,600)	-	-
Options issued in exchange for services (note 10b)	76,320	46,322	31,800
Net change in non-cash working capital balances related to operations (note 14)	(392,041)	(11,974)	(110,994)
Cash provided by (used in) in operating activities	960,855	746,343	725,932
Investing activities:			
Additions to property, plant and equipment	(199,989)	(367,707)	(294,404)
Increase in investments available for sale	--	(46,183)	(817)
Cash used in investing activities	(199,989)	(413,890)	(295,221)
Financing activities:			
Repayment of loan payable	(153,834)	-	(186,628)
Repayment of capital lease obligations	(31,854)	(17,677)	(9,681)
Decrease in due to shareholder, net	(25,649)	(31,710)	(30,014)
Decrease in long-term bank indebtedness	-	-	(218,922)
Proceeds from long-term debt	-	-	452,621
Exercise of common share options	9,000	10,000	-
Cash provided by (used in) financing activities	(202,337)	(39,387)	7,376
Effect of exchange rate changes	(107,090)	(161,614)	(82,664)
Net increase in cash	451,439	131,452	355,423
Cash, beginning of year	491,116	359,664	4,241
Cash, end of year	942,555	491,116	359,664

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Polydex Pharmaceuticals Limited, the ("Company"), is incorporated in the Commonwealth of the Bahamas and carries on business in Canada and the United States. Its principal business activities, carried on through subsidiaries, include the manufacture and sale of veterinary pharmaceutical products and specialty chemicals. These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are 100% owned. The subsidiaries are: Dextran Products Limited; Chemdex, Inc.; Polydex Chemicals (Canada) Limited; and Novadex International Limited. All inter-company accounts and transactions have been eliminated on consolidation.

Cash

This consists of cash held at a financial institution.

Use of estimates

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

Inventories

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

Investments available for sale

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

All revenue is 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 of product by the customer.

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

Shipping and handling costs

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

Research and development

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

Foreign currency translation

The functional currency of the Company's Canadian operations has been determined to be the Canadian dollar. All asset and liability accounts of these companies have been translated into United States dollars using the current exchange rates at the consolidated balance sheet dates. 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 other comprehensive income (loss) within shareholders' equity.

Derivative financial instruments

The Company's Canadian subsidiary from time to time enters into foreign exchange contracts to manage exposure to currency rate fluctuations related to expected future cash flows. The Company does not engage in speculative trading of derivative financial instruments. The foreign exchange contracts are not designated as hedging instruments, and as a result all foreign exchange contracts are marked to market and the resulting gains and losses are recorded in the consolidated statements of operations in each reporting period. Unrealized gains and losses are included in accrued liabilities in the consolidated balance sheets and in net change in non-cash working capital balances related to operations in the consolidated statements of cash flows. For fiscal years 2016 and 2015 the Company has not entered into any derivative financial instruments.

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 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.

Stock options

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

Income per common share

Basic income per common share is computed using the average number of shares outstanding of 3,342,978 for the year ended January 31, 2016, 3,265,478 for the year ended January 31, 2015, and 3,186,004 for the year ended January 31, 2014. Diluted income per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock. In 2016 incremental shares of 142,199 were included in the calculation of diluted income per common share. In 2015 incremental shares of 216,317 were included in the calculation of diluted income per common share. In 2014 incremental shares of 186,365 were included in the calculation of income per common share.

(Expressed in US Dollars)

3. INVENTORIES

Inventories consist of the following:

	2016	2015
	$	$
Finished goods	**462,142**	643,963
Work-in-process	**172,211**	79,778
Raw materials	**256,250**	254,298
	890,603	978,039

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2016			2015		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
	$	**$**	**$**	$	$	$
Land and buildings	**3,922,215**	**1,216,528**	**2,705,687**	4,321,811	1,233,734	3,088,077
Machinery and equipment	**8,001,161**	**6,794,991**	**1,206,170**	8,594,503	7,387,798	1,206,705
	11,923,376	**8,011,519**	**3,911,857**	12,916,314	8,621,532	4,294,782
Less: Impairment Adjustment	**(1,142,368)**		**(1,142,368)**	(1,258,752)		(1,258,752)
	10,781,008	**8,011,519**	**2,769,489**	11,657,562	8,621,532	3,036,030

Included in machinery and equipment are assets under capital lease with a total cost of $208,217 (2015 - $212,163) and accumulated depreciation of $46,711 (2015 - $26,610). Depreciation of $193,760 was charged to cost of sales in fiscal 2016 (2015 - $110,743). Assets not available for use amounted to $949,928 (2015 - $2,751,529).

(Expressed in US Dollars)

5. INVESTMENTS AVAILABLE FOR SALE

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

	2016 **$**	2015 $
TD short term bond fund consisting of Canadian government and Corporate bonds maturing in the next 1-5 years, currently yielding 2.65%	**32,076**	39,899
5 year global fixed income fund class A, with an average maturity of 3.95 years and a yield to maturity of 1.70%	**47,047**	47,378
	79,123	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 2017 and onwards. Accordingly the investments available for sale were classified as part of current assets as at January 31, 2016.

6. OTHER LOANS AND ADVANCES

Other loans payable consist of the following:

	2016 **$**	2015 $
Supply agreement advance	**---**	250,000
Term promissory note	**---**	141,476
Demand promissory note	**---**	63,181
Advance from customer	**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 promissory notes and repayment of the principal balances based on fixed pricing until the combined loan balance was repaid. As at October 31, 2015 the Company met its commitments on the supply agreement and repaid the principal balances. The collateral mortgage and general security agreement which were pledged as security have since been removed.

(Expressed in US Dollars)

6. OTHER LOANS AND ADVANCES (cont'd)

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. During the third quarter of fiscal 2016 the Company completed its obligation to provide raw materials and technological advice and has therefore recognized $250,000 as income. Upon registration of this new product with the US Food and Drug Administration, a second payment of $250,000 will become due. The agreement is for a period of ten years, renewable for another ten years, and provides the customer with exclusive rights to this new product in the United States.

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

7. RELATED PARTY TRANSACTIONS

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

	2016 $	2015 $
Amounts due from estate of former shareholder *[i]*	**20,903**	20,903
Amounts due to shareholder *[ii]*	**(420,958)**	(446,608)
Amounts due from shareholders *[iii]*	**3,000**	10,218

[i] Amounts due from estate of former shareholder (the "Estate") bear interest at the United States banks' prime lending rate plus 1.50% (2016 – 4.75% - 5.00% ; 2015 – 4.75%), except for an amount of $250,000 (2015 – $250,000) which is non-interest bearing. In 2016, 2015 and 2014, a reserve equal to the interest income was taken to offset this interest. These amounts have no fixed terms of repayment. The Estate has pledged 243,263 shares of the Company as collateral for this loan, and the Company has determined that no further reserve amount is required. The Company will continue to hold the pledged assets as collateral until the loan is repaid. The Company also had a commitment to pay a death benefit of $110,000 to the Estate. At January 31, 2016, a balance of $6,962 is still to be paid to the Estate and has been accrued in these financial statements. See also "Iron Dextran Process" under Note 12.

[ii] Amounts due to shareholder are unsecured and bear interest at the United States bank prime lending rate plus 1.50% (2016 – 4.75%-5.00%; 2015 – 4.75%; 2014 – 4.75%). Based on the current rate of interest, the principal repayment on this loan for fiscal 2017 will be approximately $36,000 (2016 - $36,000). This loan may not be called and has no fixed maturity date.

(Expressed in US Dollars)

7. RELATED PARTY TRANSACTIONS (cont'd)

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

	$
2017	36,000
2018	36,000
2019	36,000
2020	36,000
2021	36,000
Thereafter	240,958
	420,958
Less: Current portion	**36,000**
	384,958

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

	2016 $	2015 $	2014 $
Interest expense	**20,656**	21,896	23,478

[iii] During the year ended January 31, 2016 three shareholder/directors exercised their options and each purchased 25,000 common shares of the Company (note 10a). There is a balance due from one shareholder in an amount receivable of $3,000 related to these options. The amount was received subsequent to year end.

At January 31, 2015 two shareholder/directors exercised their options and purchased 80,000 common shares of the Company (note 10a). Balance due from shareholders includes an amount receivable of $10,000 related to these options. The amount was received subsequent to year end.

(Expressed in US Dollars)

8. LONG TERM DEBT

[a] Bank indebtedness consists of the following:

		January 31 2016		January 31 2015
Bank term loan payable in monthly installments of Cdn $ 5,547 (U.S. $3,960) principal and interest at the Canadian banks' fixed rate of 4.20%	$	**214,194**	$	---
Mortgage loan of Cdn $500,000 payable in monthly payments of Cdn $ 3,333 (U.S. $2,622) interest only with interest rate of 8%, repaid during year		**---**		393,360
Less deferred acquisition costs		**---**		(2,702)
Less: current portion		**39,352**		---
Long term portion of debt	**$**	**174,842**	$	390,658

During January 2016 the Company's subsidiary Dextran Products Limited located in Toronto, Canada, obtained a term loan from a Canadian bank for Cdn $300,000 (USD – $214,194) to replace the existing mortgage loan. This term loan is for 60 months at a rate of prime plus 1.5% (2016- 4.20%). Dextran Products Limited also obtained an operating loan facility of Cdn $300,000 (USD – $214,194) for working capital purposes, of which none was utilized at January 31, 2016. This Canadian operating facility bears interest at the Canadian banks' prime lending rate plus 3.00% (2016 –4.50%), Bank indebtedness is collateralized by a general security agreement over the Company's assets and a collateral mortgage of Cdn $500,000 on the Dextran Products Limited building.

The former mortgage loan also related to Dextran Products Limited and was secured by a first mortgage on the Company's property supported by a general security agreement as well as a pledge against its accounts receivables.

Interest expense for the year for long-term debt was $30,767 (2015 - $35,660).

(Expressed in US Dollars)

8. LONG TERM DEBT (cont'd)

Principal repayments on the bank loan are as follows:

	$
2017	**39,353**
2018	**41,024**
2019	**42,765**
2020	**44,580**
2021	**46,472**
	214,194

[b] Capital lease obligations consist of the following:

	2016 **$**	2015 $
Obligation under a capital lease, repayable in monthly installments of Cdn. $4,085 bearing interest at 12.67% and maturing in fiscal 2019.	**63,791**	98,010
Obligation under a capital lease, repayable in quarterly installments of Cdn. $1,618 bearing interest at 9.42% and maturing in fiscal 2022.	**18,960**	8,488
	82,751	106,498
Less current portion	**31,471**	33,323
Capital lease obligation long term	**51,280**	73,175

(Expressed in US Dollars)

8. LONG TERM DEBT (cont'd)

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

	$
2017	**39,620**
2018	**39,620**
2019	**7,536**
2020	**4,620**
2021	**4,620**
2022	**1,155**
Total minimum lease payments	**97,171**
Less amount representing imputed interest	**14,420**
	82,751

Interest expense for the year for capital lease obligations was $12,418 (2015 - $7,492)

9. ACCRUED LIABILITIES

	2016 **$**	2015 $
Payroll and related taxes payable	**330,748**	233,922
Utilities and taxes	**53,079**	48,911
Professional fees payable	**28,574**	25,585
Death benefit payable	**6,962**	7,764
Others	**33,297**	49,611
	452,660	365,793

10. SHARE CAPITAL

[a] Share capital issued and outstanding

[i] Class A preferred shares

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

[ii] Class B preferred shares

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

[iii]Common shares

During the year ended January 31, 2016, 75,000 common share options were exercised and 75,000 common shares were issued for $9,000.

During the year ended January 31, 2015, 80,000 common share options were exercised and 80,000 common shares were issued for $20,000.

During the year ended January 31, 2014, 52,632 common share options were exercised and 52,632 common shares were issued for $20,000.

[b] Share option plan

The Company maintains an incentive share option plan for management personnel for 749,168 options to purchase common shares. The Company also issues options to certain consultants for services provided to the Company.

All options granted have a term of five years and vest immediately. At January 31, 2016, the Company had 297,000 options outstanding at exercise prices ranging from $0.31 to $1.80 and a weighted average exercise price of $0.81. The options, which are exercisable one year after being granted and expire on dates between January 31, 2017 and January 31, 2021, entitle the holder of an option to acquire one common share of the Company.

On January 31, 2016, 53,000 common share options were issued to the independent directors and to officers of the Company. These options were valued at $76,320 and were included in general and administrative expense. The fair value for these options was estimated at the date of grant using the

(Expressed in US Dollars)

10. SHARE CAPITAL (cont'd)

[b] Share option plan (cont'd)

Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 2.0%; dividend yield of nil; volatility factor of 3.19, and an expected life of five years.

On January 31, 2015, 85,000 common share options were issued to the independent directors and to officers of the Company. These options were valued at $46,322 and were included in general and administrative expense. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 1.50%; dividend yield of nil; volatility factor of 1.46, and an expected life of five years.
.
Details of the outstanding options, which are all currently exercisable, are as follows:

	Share options			**Weighted average exercise price per share**		
	2016	2015	2014	**2016**	2015	2014
	#	#	#	$	$	$
Options outstanding, beginning of year	**319,000**	354,000	379,948	**0.49**	0.35	0.29
Granted	**53,000**	85,000	53,000	**1.80**	0.72	0.82
Exercised	**(75,000)**	(80,000)	(52,632)	**0.12**	0.25	0.38
Expired	**---**	(40,000)	(26,316)	**---**	0.25	0.38
Options outstanding, end of year	**297,000**	319,000	354,000	**0.81**	0.49	0.35

(Expressed in US Dollars)

10. SHARE CAPITAL (cont'd)

[b] Share option plan (cont'd)

Weighted average fair value of options granted during the year	**$1.80**	$0.72	$0.82

The following table summarizes information relating to the options outstanding at January 31, 2016:

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (months)
1.80	53,000	60
0.72	85,000	48
0.82	53,000	36
0.31	53,000	24
0.47	53,000	12
	297,000	27

11. VETERINARY LABORATORIES, INC.

Sparhawk Laboratories, Inc.

In 2004 the Company sold to Sparhawk Laboratories, Inc. the assets of its subsidiary, Veterinary Laboratories, Inc. including its interest in a joint venture with Sparhawk. As part of this sale, Chemdex, Inc. entered into a supply agreement with Sparhawk to supply ferric hydroxide and hydrogenated dextran solution to Sparhawk on an exclusive basis in the United States for 10 years. Prior to this agreement expiring during fiscal year 2014, in July 2013 the Company renewed this agreement and also received an advance to participate in the development of a new product exclusive to Sparhawk (see note 6 above). The Company is not exposed to any potential losses due to this agreement.

(Expressed in US Dollars)

12. LICENSE AGREEMENTS AND RESEARCH AND DEVELOPMENT

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

	2016	2015	2014
	$	$	$
Research and development expenditures	**573**	2,644	2,932
Less: Investment tax credits	—	—	—
Research and development expense	**573**	2,644	2,932

Iron Dextran process

The Company had an agreement with the Estate which granted the Company the exclusive worldwide license to use a certain process for producing Iron Dextran. This license agreement expired January 31, 2014. The Company paid a license fee based on production volumes. No license fees were incurred during the year ended January 31, 2016 and 2015 [2014 – $35,608]. Those payments were applied to the balance owing by the Estate *[note 7[i]]* and no further fees are required in the future.

13. INCOME TAXES

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

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

	2016	2015	2014
	$	$	$
Bahamas	---	(2,185)	(2,439)
Canada	**1,054,215**	564,487	681,580
United States	**22,185**	21,010	881
	1,076,400	583,312	660,022

(Expressed in US Dollars)

13. INCOME TAXES (cont'd)

During fiscal 2006, the tax residency of the parent company, Polydex Pharmaceuticals Limited, was determined to be Canada, for the years 1999 to the present. Due to the losses incurred in the Company during that period, no income taxes payable were incurred. The provision for (recovery of) income taxes consists of the following:

	2016 $	2015 $	2014 $
Provision for income taxes based on Canadian statutory income tax rates (2016 – 25%, 2015 – 25%, 2014 – 25%)	**263,554**	141,122	165,395
Decrease in valuation allowance	**(433,505)**	(240,581)	(225,360)
Tax and exchange rate changes on deferred tax items	**156,929**	86,569	59,636
Recognition of deferred tax asset	**(206,600)**	---	---
Expired tax losses and other	**(9,041)**	(1,574)	(11,422)
Items not deductible for tax	**22,063**	14,464	11,751
	(206,600)	—	—
Provision for income taxes based on United States income tax rates (2016 – 22%, 2015 – 22%, 2014 – 22%)	**4,215**	3,992	194
Utilization of previously unrecognized tax losses	---	1,108	906
Decrease in valuation allowance and other	**1,285**	---	---
	5,500	5,100	1,100
Provision for (recovery of) income taxes	**(201,100)**	5,100	**1,100**

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

	2016 $	2015 $	2014 $
US current tax expense	**5,500**	5,100	1,100
Canadian deferred tax recovery	**(206,600)**	—	—
Income taxes (recovery)	**(201,100)**	5,100	1,100

(Expressed in US Dollars)

13. INCOME TAXES (cont'd)

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

	2016	2015	2014
	$	$	$
Deferred tax assets			
Canadian			
Non-capital losses	**478,334**	890,553	1,114,126
Unclaimed research and development expenses	**214,745**	236,624	270,042
Excess of tax value over carrying value of depreciable assets	**167,348**	232,789	316,509
Net capital losses *[note 13[c]]*	**109,138**	120,257	137,241
Other items	**39,508**	24,109	34,004
United States			
Net operating loss carryforwards	--	668	2,139
	1,009,073	1,505,000	1,874,061
Less valuation allowance	**817,293**	1,505,000	1,874,061
Net deferred tax assets	**191,780**	---	—

(Expressed in US Dollars)

13. INCOME TAXES (cont'd)

[c] The parent Company has non-capital loss carryforwards available to reduce future years' income for tax purposes totaling approximately $1,921,000. These non-capital losses expire as stated below.

Year of expiry	$
2026	339,000
2027	366,000
2028	257,000
2029	236,000
2030	199,000
2031	111,000
2032	54,000
2033	62,000
2034	119,000
2035	51,000
2036	127,000
Total	1,921,000

A Canadian subsidiary also has deductions relating to scientific research and experimental development credits amounting to approximately $859,000. It also has net capital losses available for carryforward of approximately $437,000 available to offset future taxable capital gains. These potential deductions and net capital losses have an indefinite carryforward period.

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

(Expressed in US Dollars)

14. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	2016	2015	2014
	$	$	$
Decrease (increase) in assets			
Trade accounts receivable	**38,132**	(10,580)	(266,021)
Inventories	**(3,225)**	(97,342)	(29,967)
Due from shareholders/directors	**7,218**	9,782	(20,000)
Prepaid expenses and other current assets	**2,393**	(491)	13,472
	44,518	(98,631)	(302,516)
Increase (decrease) in liabilities			
Accounts payable	**(6,766)**	109,175	(147,227)
Accrued liabilities	**25,843**	(4,561)	(51,111)
Other loan payable	**(433,410)**	62,646	298,607
Customer deposits	**(21,942)**	(83,995)	87,590
Income taxes	**(284)**	3,392	3,663
	(392,041)	(11,974)	(110,994)

Cash paid during the year for interest was $77,280 (2015 – $79,173; 2014 – $67,017). Cash paid during the year for income taxes was $3,160 (2015 – $1,710; 2014 – NIL).

(Expressed in US Dollars)

15. SEGMENTED INFORMATION

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

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

	2016	2015	2014
	$	$	$
Total revenue by significant customer:			
Customer A	**1,531,847**	1,011,139	1,322,825
Customer B	**834,780**	758,058	594,703
Customer C	**614,360**	604,440	576,200
Customer D	**499,569**	349,085	528,502
Customer E	**9,550**	19,910	277,610
	3,490,106	2,742,632	3,299,840

	2016	2015	2014
	$	$	$
Sales by geographic destination:			
Europe	**2,526,477**	1,935,917	2,544,935
United States	**2,075,192**	1,679,817	1,722,078
Canada	**640,877**	622,349	642,831
Other	**511,675**	607,325	726,125
Pacific Rim	**286,148**	530,619	327,814
	6,040,369	5,376,027	5,963,784

All the Company's long lived assets are located in Canada and USA.

(Expressed in US Dollars)

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments has been determined based on available market information and appropriate valuation methodologies.

The carrying values of cash, trade accounts receivable, interest receivable and accounts payable approximate their fair values as at January 31, 2016 and 2015 because of the short period to maturity of these financial instruments.

The estimated fair values of the bank indebtedness, due to shareholder, long-term debt and capital lease obligations are not materially different from the carrying values for financial statement purposes as at January 31, 2016 and 2015. The estimated fair value of the amount due from shareholder is not determinable because the amount has no fixed terms of repayment.

Cash and investments available for sale have been classified as level 1 on the fair value hierarchy, since their fair values are based on quoted market prices.

17. OTHER DISCLOSURES

[a] Concentration of accounts receivable

As at January 31, 2016, four (2015 – five) customers of the Company comprised 75% (2015 - 73%) of the trade accounts receivable balance. No other customers had trade accounts receivable outstanding at year end that represented more than 10% of the Company's trade accounts receivable balance.

[b] Foreign currency risk

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

18. ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of other accumulated comprehensive income are as follows:	**2016**	2015
	$	$
Unrealized gains on investments available for sale	**2,317**	3,107
Currency translation	**11,223**	555,226
Accumulated other comprehensive income	**13,540**	558,333

19. COMMITMENTS AND CONTINGENCIES

In July of 2013, a subsidiary of the Company, Chemdex Inc., renewed its supply agreement with an existing customer and signed an agreement to supply raw materials for an additional product. The agreement is for a period of ten years, renewable for another ten years, and provides the customer with exclusive rights to these raw materials in the United States (see notes 6 and 11).

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

20. SUBSEQUENT EVENTS

An employee of the Company's subsidiary, Dextran Products Limited, has obtained legal advice in claiming improper termination and harassment. Legal counsel has advised the Company there is no merit to this claim.

21. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASC 606). The update is intended to clarify the principles of recognizing revenue, and to develop a common revenue standard for U.S. GAAP and IFRS that would remove inconsistencies in revenue requirements, leading to improved comparability of revenue recognition practices across entities and industries. ASC Topic 606 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual and interim financial statements for fiscal years beginning after December 15, 2016. Early application is not permitted. The Company is in the process of evaluating the impact of this update.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The update provides guidance about management's responsibility in evaluating whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The Company is in the process of evaluating the impact of this update.

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

SECURITY OWNERSHIP OF 5% OR GREATER HOLDERS

Preferred Shares	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Class B Preferred Shares	George G. Usher Chairman of the Board, Director, President and CEO Polydex Pharmaceuticals Limited 421 Comstock Road Toronto, Ontario, Canada M1L 2H5	899,400	100%
Common Shares	George G. Usher Chairman of the Board, Director, President and CEO Polydex Pharmaceuticals Limited 421 Comstock Road Toronto, Ontario, Canada M1L 2H5	269,713	7.9%
Common Shares	Estate of Thomas C. Usher Peter T. Higgs, Trustee c/o Polydex Pharmaceuticals Limited	243,263	7.2%
Common Shares	Joseph Buchman Director c/o Polydex Pharmaceuticals Limited 421 Comstock Road Toronto, Ontario, Canada M1L 2H5	271,495	8.0%

MANAGEMENT DISCUSSION AND ANALYSIS

The Company's fiscal year ends on January 31st of each year. In this report, fiscal year 2016 refers to the Company's fiscal year ended January 31, 2016. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this report. This discussion may contain forward-looking statements that are dependent upon various risks, uncertainties and other factors that could cause results to differ materially from those expressed herein. The Company's financial statements are prepared in accordance with United States generally accepted accounting principles. All amounts are in United States dollars, unless otherwise denoted.

Overview

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

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

Management Objectives for Fiscal 2017:

Interest in the company's products continued to be high throughout fiscal year 2016 with the Company operating on a 24/7 basis. Outsourcing of dextran sulphate has now started to generate product contributing to a slight increase in sales and profit. The company hopes for further increases once this program is fully operational. Further plant and equipment upgrades will be undertaken as time and resources permit.

Management is grateful to its customers for their patience as the Company moves to increase production in an effort to shorten delivery times of its high quality product.

Management of the company plans to continue with a strict fiscal constraint policy and customer development including new product development based on the core Dextran molecule.

Customer activity appears to be across all parts of the Company's product portfolio with interest in both liquid and powdered product.

The company continues to be the subject of customer audits which provide them assurance of continued high quality.

Overall, management believes that a number of factors will lead to more profitable operations. First, the company appears to be one of a limited number of companies who can produce a high quality rather unique product. This has been confirmed by the customer audits and some customers who started to purchase from China but have now returned to us as a source.

Second, an aggressive utility savings program has been initiated firstly focusing on saving water. The cost of utilities has been steadily increasing and so this is now a primary focus of management.

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Results of Operations

Fiscal year ended January 31, 2016 compared to Fiscal Year ended January 31, 2015 compared to Fiscal Year ended January 31, 2014:

	FY 2016	**FY 2015**	**FY 2014**	**16 v 15**	**15 v 14**
				(% increase(decrease))	
Income before taxes	**$1,076,400**	$583,312	$660,022	**85%**	(12)%
Net Income	**1,277,500**	578,212	658,922	**121%**	(12)%
Income per share	**0.38**	0.17	0.21		

The increase in net profit for the fiscal year 2016 is a result of increased sales, supply management fees, forgiveness of loan interest charges and a deferred tax recovery that were not incurred in fiscal year 2015.

The decrease in net profit for the fiscal year 2015 is a result of decreased sales, partially offset by decreased expenses compared to fiscal year 2014.

Results of Operations (cont'd)

	FY 2016	FY 2015	FY 2014	16 v 15 (% increase (decrease))	15 v 14
Sales	**$6,040,369**	$5,376,027	$5,963,784	**12%**	(10)%

The increased sales for fiscal year 2016 compared to fiscal year 2015 are due to increased customer demand. Customer demand continues to be strong, as shown by the substantial order book at year end.

The lower sales for fiscal year 2015 compared to fiscal year 2014 was primarily due to the decreased value of the Canadian dollar sales in fiscal 2015, which especially impacted the sales value of Canadian customers. Fiscal year 2015 also did not have the benefit of the large, periodic powder order that occurred in fiscal 2014.

	FY 2016	FY 2015	FY 2014	15 v 16 (% increase(decrease))	15 v 14
Gross profit	**$1,452,714**	$1,238,061	$1,447,883	**17%**	(14)%

Gross profit increased in the fiscal year ended January 31, 2016 compared to the prior fiscal year. This was due to increased sales as noted above, while margin percentages also increased as a result of the continued decrease in value of the Canadian dollar.

Gross profit decreased slightly in the fiscal year ended January 31, 2015 compared to the prior fiscal year. This was due to decreased sales as noted above and.fiscal 2015 did not benefit from the periodic, higher margin powder order as mentioned above.

Results of Operations (cont'd)

	FY 2016	FY 2015	FY 2014	16 v 15	15 v 14
				(% increase(decrease))	
Selling, promotion, general and administrative expenses	**$902,349**	$709,249	$772,876	**27%**	(8)%

The increase in fiscal 2016 was due to several factors, including costs of the upgrade of our public reporting to the OTC/QX level, increased options expense due to the increased value of the Company's shares, and overall increased administration costs. This was partially offset by the decrease in value of the Canadian dollar.

Though actual expenses remained consistent from fiscal year 2014, the decrease in fiscal year 2015 resulted primarily from the translation of the large part of these expenses that are denominated in Canadian dollars.

	FY 2016	FY 2015	FY 2014	16 v 15	15 v 14
				(% increase(decrease))	
Research and development	**$573**	$2,644	$2,932	**(78)%**	(10)%

In fiscal year 2010 all of the Company's research into Ushercell was halted, with only some patent expenses being incurred and paid. In fiscal years 2016, 2015 and 2014, research and development was limited to fees related to maintenance of existing patents. At this point, when any new information becomes available, the Company will assess the potential commercial viability of the compound before investing in further research or development.

	FY 2016	FY 2015	FY 2014	16 v 15	15 v 14
				(% increase(decrease))	
Depreciation and amortization	**$203,034**	$121,555	$100,749	**67%**	21%

The increase in depreciation in fiscal year 2016 compared to fiscal year 2015 is primarily due to recognition of a part of the previously unused portion of the building, partially offset by the decrease in value of the Canadian dollar.

The increase in depreciation in fiscal year 2015 compared to fiscal year 2014 is due to the significant asset additions during the year. The increase in 2015 is partially offset by the decrease in value of the Canadian dollar.

Results of Operations (cont'd)

	FY 2016	FY 2015	FY 2014	16 v 15 (% increase(decrease))	15 v 14
Interest expense	**$42,560**	$79,173	$67,017	**(46)%**	18%

The decrease in interest expense in fiscal year 2016 results primarily from the forgiveness of loan interest as part of the Company's negotiations that resulted in the supply agreement noted below.

The increase in interest expense in fiscal year 2015 resulted from a full year of mortgage interest compared to the partial year for fiscal 2014. This is partially offset by the decreased value of the Canadian dollar in fiscal 2015.

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	FY 2016	FY 2015	FY 2014	16 v 15 (% increase(decrease))	15 v 14
Foreign Exchange (gain)	**$(194,104)**	$(138,795)	$(73,543)	**40%**	89%

The Company's Canadian subsidiary, Dextran Products Limited, continued to benefit from the decreasing value of the Canadian dollar throughout fiscal year 2016. The subsidiary continues to have a net asset exposure to the United States dollar.

The Company's Canadian subsidiary, Dextran Products Limited, benefitted from the decreasing value of the Canadian dollar throughout fiscal year 2015.

	FY 2016	FY 2015	FY 2014	16 v 15 (% increase(decrease))	15 v 14
Interest and investment income	**$699**	$20,562	$835		
Supply agreement fees	**382,207**	---	---		
Interest and other income	**$382,906**	$20,562	$835	**1,762%**	2,362%

The decrease in interest and investment income is due to the unrealized decrease in market value of the Company's investments. The supply agreement fees include $250,000 earned in fiscal 2016 related to the supply of materials and technological advice in the development of a new product for a customer in the United States. Supply agreement fees have not occurred in recent previous fiscal years.

Results of Operations (cont'd)

The increase in interest income in fiscal 2015 is due to the realized gain on investments transferred from Comprehensive income. This transfer is necessary in order to capture the real gains that have occurred in these investments.

	FY 2016	FY 2015	FY 2014	16 v 15 (% increase(decrease))	15 v 14
Income tax expense					
Current	**$5,500**	$5,100	$1,100	**8%**	364%
Deferred tax recovery	**(206,600)**	---	---	**100%**	---
	$(201,100)	$5,100	$1,100		

The increase in current income tax expense for fiscal year 2016 is due to the increased profit in the Chemdex, Inc. subsidiary. The deferred tax recovery is a result of recognizing previously unused research and development expenditures in the Canadian subsidiary, Dextran Products Limited.

The increase in income tax expense for fiscal year 2015 is due to the increased profit in the Chemdex, Inc. subsidiary.

Liquidity and Capital Resources

As of January 31, 2016, the Company had cash of $942,555 compared to cash of $491,116 at January 31, 2015. In fiscal year 2016, the Company generated cash of $960,855 in its operating activities, compared to generating cash of $746,343 for fiscal year 2015 and $725,932 for fiscal year 2014. Depreciation and amortization continues to be a large non-cash expense of the Company, and is expected to increase as a result of further investments in plant and equipment in the future.

Working capital increased to $1,616,646 and the current ratio increased to 2.33 to 1 as of January 31, 2016, compared to $987,219 and 1.60 to 1 as of January 31, 2015 and $906,572 and 1.52 to 1 as of January 31, 2014.

As at January 31, 2016 the Company was committed to its agreement to supply raw materials to Sparhawk. Dextran Products Limited was also committed to purchase approximately $90,000 of partially finished product from a contract manufacturer.

At January 31, 2016, the Company had accounts receivable of $854,749 and inventory of $890,603 compared to $980,431 and $978,039 respectively, as at January 31, 2015. Accounts receivable were lower as at January 31, 2016 compared to January 31, 2015 as a result of the timing of customer payments while the decrease in inventory was primarily due to the decrease in the value of the Canadian dollar.

Liquidity and Capital Resources (cont'd)

Accounts payable of $475,709 (2015 - $531,095) at January 31, 2016 was lower than the prior fiscal year end as a result of the timing of supplier payments. During fiscal year 2016, capital expenditures totaled $199,989 as compared to $367,707 in fiscal year 2015. Equipment replacement and improvement expenditures are expected to continue but possibly at increased levels from fiscal 2016 as resources permit.

As at January 31, 2016, the Company's investments consisted of a global fixed income bond fund and a 5 year global fixed income fund, both denominated in Canadian dollars. Unrealized gains and losses will occur as the market interest rates and investment valuations vary. Management does not expect significant gains or losses in the future due to the relatively short term to maturity of the nature of these funds. Management is able to convert a portion of these investments to cash if needed for working capital. As at January 31, 2015, the net income was increased by the amount of accrued gains that had previously been shown in Accumulated other comprehensive income.

The change in accumulated other comprehensive income of the Company is almost entirely attributable to the currency translation adjustment of Dextran Products and realized gain on investments available for sale. Dextran Products' functional currency is the Canadian dollar. This currency translation adjustment arises from the translation of Dextran Products' financial statements to United States dollars.

At the fiscal year end for 2016 the Company's subsidiary, Dextran Products Limited, refinanced its outstanding mortgage loan from a private source to a term loan with a major Canadian bank. This term loan is at lower balance than the previous mortgage balance and with reduced interest rates. An operating loan facility was also obtained. Collateral remained similar but the loans are subject to certain covenants including debt service ratio maintenance and payments to related parties.

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

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

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

Related Party Transactions

In August 1997, the Company loaned the late Thomas C. Usher, its Vice-Chairman, Director of Research and Development, a member of its Board of Directors and the beneficial owner of greater than 5% of the outstanding common shares of the Company, $691,500 at an interest rate equal to the prime rate of Toronto Dominion Bank plus 1.50% (the "Loan"). Repayment of the Loan has occurred in the past 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 January 31, 2016 was $240,130, as compared to $228,940 at January 31, 2015, including accrued interest. The Company has taken a cumulative provision of $458,037 at January 31, 2016 (January 31, 2015 - $447,437) against accrued interest on the Loan and the other amounts receivable from the estate as noted below. Obligations with respect to the Loan transferred to the estate of Thomas C. Usher upon his death in February 2005.

Thomas C. Usher also owed $250,000 to a subsidiary of the Company, Novadex International Limited, as of January 31, 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 January 31, 2016, Thomas C. Usher, now through his estate, had pledged 243,263 common shares of the Company as security for these amounts owing to the Company. These common shares had a market value of $437,873 at January 31, 2016, based on the closing price of the Company's common shares on the Pink Sheets quotation service on January 31, 2016. The Company intends to continue to hold the pledged assets as collateral until the amounts owing discussed above are repaid.

The Company had a commitment to pay an amount equal to one year's salary, $110,000, to Thomas C. Usher's estate. The amount owing on this commitment as at January 31, 2016 is $6,962 (2015 – $7,764).

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 $420,937 at January 31, 2016 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.

PART E ISSUANCE HISTORY

Not applicable.

PART F EXHIBITS

Not applicable.

ISSUER'S CERTIFICATIONS

I, George G. Usher, certify that:

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

April 29, 2016

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

ISSUER'S CERTIFICATIONS (Continued)

I, John A. Luce, certify that:

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

April 29, 2016

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