

POLYDEX PHARMACEUTICALS LIMITED

QUARTERLY DISCLOSURE REPORT

OCTOBER 31, 2014

UNAUDITED

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

INDEX

ITEM I	Name of Issuer	Page	3
ITEM II	Share Structure	Page	3
ITEM III	Consolidated Financial Statements		
	Interim Financial Statements	Page	4-9
	Notes to Interim Financial Statements	Page	10-19
ITEM IV	Management Discussion and Analysis	Page	20-29
ITEM V	Legal Proceedings	Page	30
ITEM VI	Defaults Upon Senior Securities	Page	30
ITEM VII	Other Information	Page	30
ITEM VIII	Exhibits	Page	30
ITEM IX	Certifications	Page	31-32

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

ITEM I NAME OF ISSUER

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

ITEM II SHARES OUTSTANDING

Preferred Stock – Class A

(i)	Period end date	October 31, 2014
(ii)	Authorized	100,000 shares at \$0.10 each
(iii)	Issued and outstanding	None
(iv)	Freely tradable shares (public float)	None
(v)	Number of shareholders of record	None

Preferred Stock – Class B

(i)	Period end date	October 31, 2014
(ii)	Authorized	899,400 shares at \$0.0167 each
(iii)	Issued and outstanding	899,400 shares
(iv)	Freely tradable shares (public float)	None
(v)	Number of shareholders of record	1

Common Stock

(i)	Period end date	October 31, 2014
(ii)	Authorized	10,000,000 shares
(iii)	Issued and outstanding	3,225,478 shares
(iv)	Freely tradable shares (public float)	2,394,837
(v)	Number of shareholders of record	244

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

ITEM III INTERIM FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

TABLE OF CONTENTS

Consolidated Balance Sheets October 31, 2014 and January 31, 2014 (Unaudited)	5-6
Consolidated Statements of Operations and Comprehensive Income (Loss) Three and Nine months ended October 31, 2014 and 2013 (Unaudited)	7
Consolidated Statements of Shareholders' Equity Nine months ended October 31, 2014 and 2013 (Unaudited)	8
Consolidated Statements of Cash Flows Nine months ended October 31, 2014 and 2013 (Unaudited)	9
Notes to Consolidated Financial Statements (Unaudited)	10-19

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
October 31, 2014
UNAUDITED

(Expressed in United States dollars)

	October 31	January 31
	2014	2014
	(Unaudited)	(Unaudited)
Assets		
Current assets:		
Cash	\$ 494,687	\$ 359,664
Investments available for sale (note 3)	96,362	50,883
Trade accounts receivable	937,912	1,107,657
Due from shareholders	-	20,000
Inventories		
Finished goods	692,280	774,213
Work in progress	95,348	56,087
Raw materials	<u>262,398</u>	<u>276,720</u>
Prepaid expenses and other current assets	<u>135,193</u>	<u>83,157</u>
Total current assets	2,714,180	2,639,496
Property, plant and equipment, net	3,393,896	3,102,497
Due from estate of former shareholder	<u>20,903</u>	<u>20,903</u>
	<u>\$ 6,128,979</u>	<u>\$ 5,762,896</u>

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
October 31, 2014
UNAUDITED

(Expressed in United States dollars)

	October 31	January 31
	2014	2014
	(Unaudited)	(Unaudited)
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 655,194	\$ 496,150
Accrued liabilities	400,532	414,134
Income taxes payable	4,375	883
Other loans payable (note 4)	619,094	615,305
Customer deposits	115,551	161,811
Current portion of capital lease obligations	41,012	8,641
Current portion of due to shareholder	36,000	36,000
Total current liabilities	1,871,758	1,732,924
Long-term debt (note 5)	437,526	433,515
Capital lease obligations	87,783	16,296
Due to shareholder	417,847	442,321
	943,156	892,132
Total liabilities	2,814,914	2,625,056
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, 2014 - 899,400)	15,010	15,010
3,225,478 common shares (January 31, 2014 - 3,225,478)	53,734	53,734
Contributed surplus	23,643,466	23,643,466
Deficit	(21,506,978)	(21,745,366)
Accumulated other comprehensive income	1,108,833	1,170,996
	3,314,065	3,137,840
	\$ 6,128,979	\$ 5,762,896

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
October 31, 2014
UNAUDITED

(Expressed in United States dollars)

	Three Months Ended October 31 2014 (Unaudited)	Three Months Ended October 31 2013 (Unaudited)	Nine Months Ended October 31 2014 (Unaudited)	Nine Months Ended October 31 2013 (Unaudited)
Sales	\$ 1,301,083	\$ 1,319,100	\$ 3,984,288	\$ 4,625,497
Cost of goods sold	1,039,825	1,065,014	3,158,578	3,508,552
Gross profit	261,258	254,086	825,710	1,116,945
Expenses				
General and administrative	133,362	170,926	441,722	495,655
Interest expense, net	24,688	22,145	68,142	55,338
Selling and promotion	16,227	14,047	46,724	41,323
Research and development	-	-	469	499
Depreciation	2,605	2,204	8,403	7,543
Foreign exchange (gain) loss	(22,160)	(2,258)	17,086	(3,474)
Interest and other income	(117)	(78)	(424)	(533)
Total expenses	154,605	206,986	582,122	596,351
Net income before income taxes	106,653	47,100	243,588	520,594
Income taxes	2,000	800	5,200	2,000
Net income for the period	104,653	46,300	238,388	518,594
Unrealized gain (loss) on investments available for sale	450	(103)	345	(475)
Currency translation adjustment	(164,568)	(59,338)	(62,508)	(171,256)
Comprehensive income for the period	\$ (59,465)	\$ (13,141)	\$ 176,225	\$ 346,863
Per share information:				
Income per common share:				
Basic	0.03	0.01	0.07	0.16
Diluted	0.03	0.01	0.07	0.15
Weighted average number of common shares used in computing net loss per share for the period:				
Basic	3,225,478	3,172,846	3,225,478	3,172,846
Diluted	3,424,351	3,492,268	3,449,010	3,395,664

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
October 31, 2014
UNAUDITED

(Expressed in United States dollars)

	Nine Months Ended October 31 2014	Nine Months Ended October 31 2013
	(Unaudited)	(Unaudited)
Preferred Shares:		
Balance, beginning and end of period	\$ 15,010	\$ 15,010
Common Shares:		
Balance, beginning and end of period	\$ 53,734	\$ 52,855
Contributed Surplus:		
Balance, beginning and end of period	\$ 23,643,466	\$ 23,592,545
Deficit:		
Balance, beginning of period	\$ (21,745,366)	\$ (22,404,288)
Net income for the period	238,388	472,301
Balance, end of period	\$ (21,506,978)	\$ (21,931,987)
Accumulated Other Comprehensive Income:		
Balance, beginning of period	\$ 1,170,996	\$ 1,648,779
Unrealized gain on investments available for sale	345	(372)
Currency translation adjustment for the period	(62,508)	(111,919)
Balance, end of period	\$ 1,108,833	\$ 1,536,488

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
October 31, 2014
UNAUDITED

(Expressed in United States dollars)

	Nine Months Ended October 31 2014	Nine Months Ended October 31 2013
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operating activities:		
Net income for the period	238,388	518,594
Add (deduct) items not affecting cash:		
Depreciation and amortization	104,618	80,598
Deferred loan expenses	9,366	6,639
Net change in non-cash working capital balances related to operations	209,240	196,227
Cash provided by operating activities	561,612	802,058
Investing activities:		
Additions to property, plant and equipment	(441,231)	(251,971)
Proceeds (Acquisition) of investments available for sale	(46,859)	(534)
Cash used in investing activities	(488,090)	(252,505)
Financing activities:		
Repayment of long-term debt	-	(188,742)
Proceeds from long term debt refinancing	-	457,466
Proceeds (Repayment) of capital lease obligations, net	106,881	(8,328)
Decrease in due to shareholder	(24,474)	(21,288)
Increase (decrease) in bank indebtedness	-	(229,741)
Cash provided by (used in) financing activities	82,407	9,367
Effect of exchange rate changes	(20,906)	(15,668)
Net increase (decrease) in cash and cash equivalents	135,023	543,252
Cash, beginning of year	359,664	4,241
Cash, end of period	494,687	547,493

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2014
 UNAUDITED

ITEM III NOTES TO INTERIM FINANCIAL STATEMENTS

1. Basis of Presentation:

The information contained in the interim consolidated financial statements is condensed from that which would appear in annual consolidated financial statements. The interim consolidated financial statements included herein should be read in conjunction with the unaudited financial statements, and notes thereto, and other financial information contained in the 2014 Annual Report for the fiscal year ended January 31, 2014 as found on the Polydex Pharmaceuticals Limited (the "Company") website, www.polydex.com. The unaudited interim consolidated financial statements as of October 31, 2014 and 2013 include all normal recurring adjustments which management considers necessary for a fair presentation. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the entire fiscal year. The interim consolidated financial statements include the accounts and transactions of the Company and its majority owned subsidiaries in which the Company has equal to or more than a 50% ownership interest and exercises control.

Management has reviewed subsequent events, and there were no material subsequent events since December 15, 2014 that would require recognition or note disclosures in these financial statements.

Going Concern

These financial statements have been prepared on 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. As can be seen from the table below, the Company's operating results and cash flow generation for the past 5 years have been inconsistent. As a result of the operations in fiscal years 2011 and 2010 and the inconsistent results for 2012, 2013 and 2014, the Company was in violation of its debt service loan covenant related to its long-term debt, which resulted in a reclassification of this debt as a current liability as at January 31, 2013, January 31, 2012, 2011 and 2010. During the first quarter of fiscal year 2014, Dextran Products Limited finalized long term private financing in the amount of Cdn \$500,000 to replace the operating loan and the equipment loan previously provided by its bank (see note 5). The Company's continuance as a going concern is dependent on its ability to obtain additional financing and continued support from certain related companies.

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
	\$	\$	\$	\$	\$
Net Income (loss) from operations -	840,197	(293,303)	323,298	(537,030)	(2,003,977)
Cash flow from operations -	881,482	53,069	460,672	48,417	(371,212)

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

Management continues to be focused on fulfilling its large and growing order book, and to improving its production capabilities including necessary capital improvements. Those capital investments combined with strong customer relationships and related demand for product, including partnership in the development of new products, has resulted in improved financial returns in the third quarter of fiscal year 2015, and mitigating to some extent the financial impact caused by the significant production issues of the first and second quarters.

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.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

2. Significant Accounting Policies:

Basis of consolidation

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

Cash and cash equivalents

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

Use of estimates

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

Inventories

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

Investments available for sale

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

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

Property, plant and equipment and patents and intangible assets

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

Buildings 15 years
Machinery and equipment 3 to 10 years

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

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

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

Revenue recognition

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

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

Comprehensive income

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

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

Shipping and handling costs

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

Research and development

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

Foreign currency translation

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

Derivative financial instruments

The Company's Canadian subsidiary enters into foreign exchange contracts from time to time, to manage exposure to currency rate fluctuations related to expected future cash flows. The Company does not engage in speculative trading of derivative financial instruments. The foreign exchange contracts are not designated as hedging instruments, and as a result all foreign exchange contracts are marked to market and the resulting gains and losses are recorded in the consolidated statements of operations in each reporting period. Unrealized gains and losses are included in accrued liabilities in the consolidated balance sheets and in net change in non-cash working capital balances related to operations in the consolidated statements of cash flows. For the three months and nine months ended October 31, 2015 the Company has not entered into any derivative financial instruments.

Stock options

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

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

Income taxes

The Company accounts for income taxes by recognizing deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statement or tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities.

Effects of changes in enacted tax laws on deferred tax assets and liabilities are reflected as adjustments to tax expense in the period of enactment. Deferred tax assets may be reduced if deemed necessary based on a judgmental assessment of available evidence, by a valuation allowance for the amount of any tax benefits which are more likely, based on current circumstances, not expected to be realized.

Income (loss) per common share

Basic earnings (loss) per common share is computed using the average number of common shares outstanding of 3,225,478 for the three and nine months ended October 31, 2014 and 3,172,846 for the three and nine months ended October 31, 2013. Diluted earnings (loss) per common share is computed using the 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 223,532 were included in the computation of year to date diluted earnings per share as at October 31, 2014, and 198,873 incremental shares were included for the three months ended October 31, 2014. Options to purchase common shares of 222,818 were included in the computation of year to date diluted earnings per share as at October 31, 2013, and 319,422 incremental shares were included for the three months ended October 31, 2013.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

3. Investments Available For Sale:

Investments available for sale consist of the following:

	October 31 2014	January 31 2014
Investments available for sale	\$ 96,362	\$ 50,883

The investments consist of a Canadian short-term bond fund with maturity dates extending from one to five years and a yield rate of 18%, and an international bond fund with a year to date yield rate of 2.49%. Investments available for sale are stated at fair market value, based on quoted market prices. An unrealized loss of \$345 has been included in accumulated other comprehensive income

4. Other Loans and Advances:

	October 31 2014	January 31 2014
Supply agreement advance	\$ 250,000	\$ 250,000
Term promissory note	157,574	153,597
Demand promissory note	70,195	66,163
Other loan	141,325	145,545
	\$ 619,094	\$ 615,305

The term promissory note includes accrued interest and was due June 1, 2014 but has been extended while repayment terms are being negotiated. 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 6%. 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 December 15, 2014.

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

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

5. Long Term Debt and Capital Lease Obligations:

(a) Mortgage Debt

	October 31 2014	January 31 2014
Mortgage loan of Cdn \$500,000 payable in monthly payments of Cdn \$ 3,333. (U.S. \$2,957) interest only with interest rate of 8%, maturing in April 2015	\$ 443,616	\$ 448,914
Less deferred acquisition costs	(6,090)	(15,399)
	\$ 437,526	\$ 433,515

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. The decrease in value is due to the decreased value of the Canadian dollar as compared to its value at January 31, 2014, partially offset by expensing of the deferred acquisition costs. No principal payments have been made against this loan balance, and the mortgage holder has indicated that the loan will be renewed in April 2015 provided the mortgage remains in good standing at the time of renewal.

Interest expense for the mortgage loan was \$26,617 for the nine months ending October 31, 2014.

(b) Capital lease obligations consist of the following:

	October 31 2014	January 31 2014
Obligation (Cdn. \$12,448) under a capital lease for office equipment, repayable in quarterly installments of Cdn. \$1,951 bearing interest at 9.42% and maturing in fiscal 2017	\$ 11,044	\$ 15,440
Obligation (Cdn. \$132,717) under a capital lease for plant equipment, repayable in monthly installments of Cdn \$4,085 bearing interest at 12.67% and maturing in fiscal 2018	117,751	
Obligation (Cdn. \$10,578) under a capital lease for office equipment, repayable in monthly installments of Cdn. \$336 bearing interest at 8.98% and maturing in fiscal 2017	---	9,497
	128,795	24,937
Less current portion	41,012	8,641
	\$ 87,783	\$ 16,296

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

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

	\$
2016	50,415
2017	48,684
2018	43,492
2019	14,123
Total minimum lease payments	157,089
Less amount representing imputed interest	28,294
	128,795

Interest expense for the year for capital lease obligations for the nine months ending October 31, 2014 was \$3,732.(2013 - \$1,547)

6. Commitments and Contingencies:

The Company's subsidiary, Dextran Products Limited, is committed to the costs of installation related to the new resin column approximating \$25,000.

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

There were no other material commitments or contingencies outstanding as at October 31, 2014.

7. Stock-based Employee Compensation:

The Company maintains an incentive share option plan for management personnel for options to purchase up to 956,800 common shares. The Company also issues options to certain consultants for services provided to the Company.

All options granted have terms of five years and vest immediately. At October 31, 2014, the Company had 354,000 options outstanding at exercise prices ranging from \$0.12 to \$0.82 and a weighted average exercise price of \$0.35. The options expire on dates between January 31, 2015 and January 31, 2019, and entitle the holder of an option to acquire one common share of the Company.

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2014
 UNAUDITED

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, 2014 to October 31, 2014, because there were no options granted during this period. Similarly, no stock-based employee compensation expense was recorded during the period from February 1, 2013 to October 31, 2013, because there were no options granted during that period.

Segmented Information:

Total revenue by significant customer:

	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 2013
Customer A	\$ 707,588	\$ 962,470
Customer B	600,172	471,565
Customer C	475,624	438,800
Customer D	221,618	503,763
Customer E	120,320	241,920
Customer F	102,825	172,890
	\$ 2,228,147	\$ 2,791,408

Sales by geographic destination:

	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 2013
Europe	\$ 1,523,446	\$ 1,978,764
United States	\$ 1,289,471	\$ 1,231,385
Other	\$ 480,636	\$ 655,657
Pacific Rim	\$ 362,937	\$ 271,114
Canada	\$ 327,905	\$ 488,577
	\$ 3,984,288	\$ 4,625,497

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

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 October 31, 2014 interim consolidated financial statements and notes thereto included elsewhere in this report. Operating results for the nine months ended October 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2015. For further information, refer to the Polydex Pharmaceuticals Limited Annual Report on our website www.polydex.com for the fiscal year ended January 31, 2014. 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 2015:

As can be seen from the comments below, the third quarter results show significant improvement over the first and second quarters of fiscal 2015. Production in the first and second quarters was impacted by failures of essential but ageing equipment, and by unexpected issues such as insufficient water pressure provided by the local municipality. However, delivery and installation of new essential equipment allowed for much improved production in the third quarter. The Company has invested over \$441,000 year to date in fiscal 2015, and fully intends to implement further upgrades and replacements over time as additional funds become available, eventually reducing or even eliminating the types of equipment problems that have occurred in the past

The Company is gratified by unprecedented customer demand, and confident that over time such investments will allow it to meet the need for its unique and profitable products. 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.

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2014
 UNAUDITED

Results of Operations

Nine and three months ended October 31, 2014 compared to nine and three months ended October 31, 2013:

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Variance	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 2013	Variance
Net Income	\$104,653	\$46,300	126%	\$238,388	\$518,594	(54)%
Net Income per Share						
Basic:	\$0.03	\$0.01		\$0.07	\$0.16	
Diluted:	\$0.03	\$0.01		\$0.07	\$0.15	

The increase in net income for the third quarter of fiscal 2015 is due to reduced expenses compared to fiscal year 2014. These reductions were augmented by the decrease in value of the Canadian dollar, which also generated foreign exchange gains in the third quarter. The decrease in net income for the year to date of fiscal 2015 is a result of equipment issues that occurred in the first and second quarters. The 2015 year to date also did not have the benefit of a large shipment of high margin powdered product that occurred in the first quarter of fiscal 2014.

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Variance	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 2013	Variance
Sales	\$1,301,083	\$1,319,100	(1)%	\$3,984,288	\$4,625,497	(14)%

The lower sales for the year to date of fiscal year 2015, compared to the comparable periods in 2014, resulted from equipment issues that lowered production volumes primarily in the first and second quarters of fiscal 2015. The slightly lower sales in the third quarter of fiscal year 2015 compared to 2014 is due primarily to the decreased value of the Canadian dollar

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2014
 UNAUDITED

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Variance	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 2013	Variance
Gross Profit	\$261,258	\$254,086	3%	\$825,710	\$1,116,945	(26)%
Percentage of sales	20.1%	19.3%		20.7%	24.1%	

The slight increase in gross margin in the third quarter of fiscal year 2015 compared to the third quarter of fiscal year 2014, is due to product mix, which favored higher margin products, and the decrease in value of the Canadian dollar. Though the year to date of fiscal 2015 also benefitted from the decreased value of the Canadian dollar, this was offset by the lowered level of sales and the production issues of the first and second quarters. A decrease in the value of the Canadian dollar decreases direct costs, which are incurred primarily in Canadian dollars, when translated to United States dollars.

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Variance	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 2013	Variance
Selling, promotion, general and administrative expenses	\$149,586	\$184,973	(19)%	\$488,446	\$536,978	(9)%

The decrease during the third quarter and year to date of fiscal year 2014 in selling, promotion, general and administrative expenses is due primarily to continued overall cost reductions, especially mailing and production costs associated with the annual meeting and report, as well as the continued decrease in the value of the Canadian dollar compared to the United States dollar.

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2014
 UNAUDITED

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Variance	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 2013	Variance
Research and Development expenditures	\$ --	\$ --	-- %	\$ 469	\$ 499	(6)%

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

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Variance	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 2013	Variance
Depreciation and amortization expense	\$55,685	\$27,729	101%	\$113,984	\$87,237	31%

The increase in depreciation and amortization for fiscal year 2015 is due to the significant asset acquisitions that occurred in the third quarter and year to date of fiscal 2015 as compared to the corresponding periods of fiscal 2014. This is partially offset by the decrease in value of the Canadian dollar. Included in depreciation and amortization expense are allocations to cost of goods sold in the amount of \$96,217 for the year to date of fiscal year 2015 (2014 - \$73,055).

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2014
 UNAUDITED

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Variance	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 2013	Variance
Interest Expense	\$24,688	\$22,145	11%	\$68,142	\$55,338	23%

Interest expense increased in the third quarter of fiscal 2015 due to financing of the new resin column that occurred in that quarter. Interest expense was less in the year to date of fiscal year 2014 compared to fiscal year 2015 due to the long term debt/mortgage that didn't occur until the second quarter of fiscal 2014, as well as the above.

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Variance	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 2013	Variance
Foreign exchange (gain) loss	\$(22,160)	\$(2,258)	(880)%	\$ 17,086	\$(3,474)	592%

During the first two quarters of fiscal 2015 the United States dollar decreased against the Canadian dollar, as compared to the third quarter of 2015 when the United States dollar increased in comparison to the United States dollar. These fluctuations required adjustments to the net asset of the monetary accounts of the Company's subsidiary Dextran Products Limited, resulting in the foreign exchange gain for the third quarter and the net loss for the overall year to date as noted above. The foreign exchange losses for the third quarter and year to date of fiscal year 2014 were due to the decrease in value of the United States dollar compared to the Canadian dollar that occurred at various times during the third quarter and year to date of fiscal year 2014.

POLYDEX PHARMACEUTICALS LIMITED
 QUARTERLY REPORT
 OCTOBER 31, 2014
 UNAUDITED

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Variance	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 2013	Variance
Impairment of due from shareholder loan	\$ --	\$ --	--	\$ --	\$ --	--

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 the loan, which includes the license agreement for the manufacture of Iron Dextran mentioned above, and will make further adjustments as necessary.

	Three Months Ended October 31, 2014	Three Months Ended October 31, 2013	Variance	Nine Months Ended October 31, 2014	Nine Months Ended October 31, 201	Variance
Interest and other income	\$ 117	\$ 78	50%	\$ 424	\$ 533	(20)%

The increase in interest and other income in the third quarter and decrease in the year to date of fiscal year 2015 compared to the third quarter and year to date of fiscal year 2014 are primarily due to the timing of dividends declared from the Company's investments.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

Liquidity and Capital Resources

As of October 31, 2014, the Company had cash of \$494,687 compared to cash of \$359,664 at January 31, 2014. In the third quarter of fiscal year 2015, the Company generated cash of \$318,829 in its operating activities, compared to generating cash of \$248,357 for the third quarter of fiscal year 2013. The generation of cash from operations during the third quarter of fiscal year 2015 is due to slightly increased margins and the decrease in value of the Canadian dollar compared to the third quarter of fiscal 2014.

The Company's working capital decreased to \$842,422 and a working capital ratio of 1.45 to 1 as of October 31, 2014, compared to \$910,235 and 1.53 to 1 as of January 31, 2014.

As of October 31, 2014, the Company had accounts receivable of \$937,912 and inventory of \$1,050,026 compared to \$1,107,657 and \$1,018,135 respectively at January 31, 2014 and \$1,004,162 and \$1,031,959 respectively at October 31, 2013. The decrease in accounts receivable is due to the decreased sales during the comparable nine month period.

At October 31, 2014, the Company had accounts payable of \$655,194 compared to \$496,150 at January 31, 2014 and \$535,894 at October 31, 2013. The increase in accounts payable compared to January 31, 2014 was due to the timing of supplier payments.

Earnings before interest, taxes, depreciation and amortization (EBITDA) decreased to \$416,348 for the nine months ended October 31, 2014 compared to \$656,530 for the nine months ended October 31, 2013. This decrease is due to the lower sales and gross margins experienced throughout fiscal year 2015 to date.

During the third quarter of fiscal year 2015, capital expenditures amounted to \$100,306 compared to \$24,849 in the third quarter of fiscal year 2014. Significant capital expenditures are expected for late fiscal year 2015 and early fiscal 2016.

The change in accumulated other comprehensive income of the Company is primarily attributable to the currency translation adjustment of Dextran Products. Dextran Products' functional currency is the Canadian dollar. This currency translation adjustment arises from the translation of Dextran Products' financial statements to U.S. dollars.

The long term debt is related to the mortgage loan obtained in the first quarter of fiscal 2014. Its principal did not change except for a decrease due to the lessening in value of the Canadian dollar, combined with the amortization of acquisition costs. Capital lease obligations increased from January 31, 2014 primarily due to a lease for the acquisition of a resin column.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

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

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

Related Party Transactions

In August 1997, the Company loaned the late Thomas C. Usher, its Vice-Chairman, Director of Research and Development, a member of its Board of Directors and the beneficial owner of greater than 5% of the outstanding common shares of the Company, \$691,500 at an interest rate equal to the prime rate of Toronto Dominion Bank plus 1.50% (the "Loan"). Repayment of the Loan has occurred primarily through offsets by the Company against royalty payments due Thomas C. Usher pursuant to an intellectual property license agreements that expired January 31, 2014. The amount outstanding under the Loan as of October 31, 2014 was \$226,221, as compared to \$218,340 at January 31, 2014, including accrued interest. The Company has taken a cumulative provision of \$455,318 at October 31, 2014 (January 31, 2014 - \$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 October 31, 2014, pursuant to a non-interest bearing loan with no specific repayment terms. The outstanding amount of this loan has not changed from January 31, 2014. The amounts continue to remain owing from the estate of Thomas C. Usher.

As of October 31, 2014, 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 \$182,447 at October 31, 2014, based on the closing price of the Company's common shares on the Pink Sheets quotation service on October 31, 2014. The Company intends to continue to hold the pledged assets as collateral until the amounts owing discussed above are repaid.

The Company had a commitment to pay an amount equal to one year's salary, \$110,000, to Thomas C. Usher's estate. The amount owing on this commitment as at October 31, 2014 is \$7,764 (January 31, 2014 - \$8,494).

The Company also has an outstanding loan payable to Ruth Usher, a former director and the widow of Thomas C. Usher. The amount due from the Company pursuant to this loan decreased to \$453,822 at October 31, 2014 from \$478,321 at January 31, 2014 due to monthly payments by the Company, less interest charges.

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Critical Accounting Policies

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

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

Revenue Recognition

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

Allowance for Doubtful Accounts

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

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

Long-Lived Assets

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

Deferred Tax Assets

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

Changes in Accounting Policies

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

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

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

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

ITEM IX CERTIFICATIONS

I, George G. Usher, certify that:

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

December 15, 2014

/s/ George G. Usher

Chairman, President and Chief Executive Officer
Polydex Pharmaceuticals Limited

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2014
UNAUDITED

ITEM IX CERTIFICATIONS (Continued)

I, John A. Luce, certify that:

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

December 15, 2014

/s/ John A. Luce

Chief Financial Officer
Polydex Pharmaceuticals Limited