POLYDEX PHARMACEUTICALS LIMITED

ANNUAL REPORT

JANUARY 31, 2017

UNAUDITED

INDEX

POLYDEX PHARMACEUTICALS LIMITED
ANNUAL REPORT
JANUARY 31, 2017
UNAUDITED

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, 2017
(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, 2017
(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, 2017
(ii) Authorized	10,000,000 shares
(iii) Issued and outstanding	3,399,978 shares
(iv) Freely tradable shares (public float)	2,561,166 shares
(v) Number of shareholders of record	227

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

Order Book and Seasonality

The Company's order book as at January 31, 2017 was consistent with previous years, with greater interest in powdered products. Fiscal 2017 also included a large order from one customer that is placed about every 2 years. The bulk liquid product is primarily targeted to the swine industry where modern animal husbandry techniques maintain most animals indoors. Certain producers may raise animals outdoors which may reduce the amount of product required but such markets are small. Therefore the Company does not believe that seasonality is material to its financial results as a whole. The Company's sale of powdered products 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, 2017, the Company employed 22 employees, of whom 13 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, 2017, 2016 and 2015, the Company expended $598, $573, and $2,644 respectively. Research and development expenditures resulted primarily from legal fees related to patent acquisition and maintenance. During the fiscal years ended January 31, 2017, 2016 and 2015, 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.	**75**	**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	**77**	**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.	**82**	**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.	**58**	**1988**

EXECUTIVE OFFICERS

Name	Age	Title
George G. Usher	58	Chairman of the Board, President and Chief Executive Officer
John A. Luce	70	Chief Financial Officer
Sharon L. Wardlaw	64	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)
	2017	2016	2015	2014	2013
Sales from continuing operations	**6,621,330**	6,040,369	5,376,027	5,963,784	5,192,969
Net income (loss) from continuing operations	**669,259**	1,277,500	578,212	658,922	(422,849)
Net income (loss) per common share	**0.20**	0.38	0.17	0.21	(0.13)
Total assets	**6,705,604**	5,817,866	5,678,284	5,762,896	5,555,977
Long term borrowings	**521,547**	611,080	874,441	928,565	731,217

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

The Company`s shares are listed and traded on the OTC Bulletin Board and the Pink OTC Markets Inc through April 2017. 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 2017 **fiscal quarter ended:**	**High**	**Low**
April 30, 2016	$ 1.97	1.33
July 31, 2016	1.92	1.09
October 31, 2016	1.65	1.16
January 31, 2017	1.88	1.35

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

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, 2017 there were approximately 227 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, 2017, the Company issued 19,500 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)

TABLE OF CONTENTS

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

SLF

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, 2017 and 2016, and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity, and cash flows for the years ended January 31, 2017, 2016, 2015, 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 consolidated 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 consolidated 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.

Schwartz Levitsky Feldman llp

Toronto, Ontario, Canada
April 26, 2017

Chartered Accountants
Licensed Public Accountants

2300 Yonge Street, Suite 1500, Box 2434
Toronto, Ontario M4P 1E4
Tel: 416 785 5353
Fax: 416 785 5663

POLYDEX PHARMACEUTICALS LIMITED

Consolidated Balance Sheets

(Expressed in United States dollars)

(See Independent Accountant's Review Report)

	January 31 2017	January 31 2016
	(Unaudited)	(Unaudited)
Assets		
Current assets:		
Cash	$ 653,214	$ 942,555
Investments available for sale (note 5)	620,578	79,123
Trade accounts receivable	1,103,759	854,749
Due from shareholders (note 7(iii))	-	3,000
Inventories (note 3)	1,157,574	890,603
Prepaid expenses and other current assets	68,630	65,664
Total current assets	3,603,755	2,835,694
Property, plant and equipment, net (note 4)	3,058,960	2,769,489
Deferred taxes (note 13(b))	21,986	191,780
Due from estate of former shareholder (note 7(i))	20,903	20,903
	$ 6,705,604	$ 5,817,866

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 2017		January 31 2016
		(Unaudited)		(Unaudited)
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable	$	443,717	$	475,709
Accrued liabilities (note 9)		426,582		452,660
Income taxes payable		3,350		3,991
Other advances and deposits (note 6)		151,225		179,865
Current portion of long-term debt (note 8a)		44,157		39,352
Current portion of capital lease obligations (note 8b)		38,309		31,471
Current portion of due to shareholder (note 7(ii))		36,000		36,000
Total current liabilities		1,143,340		1,219,048
Long-term debt (note 8a)		144,041		174,842
Capital lease obligations (note 8b)		16,889		51,280
Due to shareholder (note 7(ii))		360,617		384,958
Total liabilities		1,664,887		1,830,128
Related party transactions (note 7)				
Commitments (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, 2016 - 899,400)		15,010		15,010
3,399,978 common shares (January 31, 2016 - 3,380,478)		56,649		56,323
Contributed surplus		23,801,359		23,792,519
Deficit		(19,220,395)		(19,889,654)
Accumulated other comprehensive income (note 18)		388,094		13,540
		5,040,717		3,987,738
	$	6,705,604	$	5,817,866

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 (Loss) $	Total Shareholders' Equity $
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 loss 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 loss 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
Common share options issued			-			-
Common share options exercised		326	8,840			9,166
Comprehensive income (loss):						
Net income for the year				669,259		669,259
Unrealized loss on investments available for sale					(9,779)	(9,779)
Currency translation adjustment					384,333	384,333
Balance, January 31, 2017 (Unaudited)	15,010	56,649	23,801,359	(19,220,395)	388,094	5,040,717

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	**2017**	**2016**	**2015**
	$	**$**	**$**
	(Unaudited)	(Unaudited)	(Unaudited)
Sales	6,621,330	6,040,369	5,376,027
Cost of goods sold	4,803,969	4,587,655	4,137,966
Gross profit	1,817,361	1,452,714	1,238,061
Expenses			
General and administrative (note 10b)	764,960	850,305	640,503
Selling and promotion	55,715	52,044	68,746
Interest expense, net (note 7, 8a & 8b)	37,971	42,560	79,173
Amortization of loan acquisition costs	---	---	12,228
Depreciation	7,826	7,842	10,812
Research and development (note 12)	598	573	2,644
Foreign exchange loss (gain)	101,618	(194,104)	(138,795)
Interest and other income	(7,249)	(382,906)	(20,562)
Total expenses	961,439	376,314	654,749
Income before income taxes	855,922	1,076,400	583,312
Income taxes (note 13)			
Current	3,993	5,500	5,100
Deferred tax expense (recovery)	182,670	(206,600)	---
	186,663	(201,100)	5,100
Net Income	669,259	1,277,500	578,212
Realized gain on investments taken to income statement	---	---	(19,847)
Unrealized gain (loss) on investments available for sale	(9,779)	(790)	2,195
Currency translation adjustment	384,333	(544,003)	(595,011)
Comprehensive income (loss) for the year	1,043,813	732,707	(34,451)
Per share information:			
Income per common share:			
Basic	0.20	0.38	0.17
Diluted	0.19	0.37	0.16
Weighted average number of common shares used in computing net income per share for the period:			
Basic	3,390,228	3,342,978	3,265,478
Diluted	3,504,508	3,485,177	3,481,795

See accompanying notes.

Consolidated Statements of Cash Flows

(Expressed in United States dollars)

(See Independent Accountant's Review Report)

Year ended January 31	2017	2016	2015
	$	$	$
	(Unaudited)	(Unaudited)	(Unaudited)
Cash provided by (used in):			
Operating activities:			
Net income	669,259	1,277,500	578,212
Add (deduct) items not affecting cash:			
Depreciation	218,251	203,034	121,555
Deferred loan acquisition costs	-	2,642	12,228
Deferred income tax (recovery)	182,670	(206,600)	-
Options issued in exchange for services (note 10b)	-	76,320	46,322
Net change in non-cash working capital balances related to operations (note 14)	(541,901)	(392,041)	(11,974)
Cash provided by operating activities	528,279	960,855	746,343
Investing activities:			
Additions to property, plant and equipment	(295,409)	(199,989)	(367,707)
Increase in investments available for sale	(540,037)	--	(46,183)
Cash used in investing activities	(835,446)	(199,989)	(413,890)
Financing activities:			
Repayment of loan payable	(41,952)	(153,834)	-
Repayment of capital lease obligations	(33,550)	(31,854)	(17,677)
Decrease in due to shareholder, net	(24,344)	(25,649)	(31,710)
Exercise of common share options	9,166	9,000	10,000
Cash provided by (used in) financing activities	(90,680)	(202,337)	(39,387)
Effect of exchange rate changes	108,506	(107,090)	(161,614)
Net increase (decrease) in cash	(289,341)	451,439	131,452
Cash, beginning of year	942,555	491,116	359,664
Cash, end of year	653,214	942,555	491,116

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, a Canadian company; Chemdex, Inc., a US company; Polydex Chemicals (Canada) Limited, a Canadian company; and Novadex International Limited, a Bahamian company. All inter-company accounts and transactions have been eliminated on consolidation.

Cash

This consists of cash held at a financial institution.

Use of estimates

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

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

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.

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. Share capital is recorded at historical rates. Revenue and expense items are translated using the average exchange rates for the year. The resulting gains and losses have been reported separately as other comprehensive income (loss) within shareholders' equity.

Income taxes

The Company accounts for income taxes by recognizing deferred tax assets and liabilities for the expected future tax consequences of transactions that have been included in the consolidated financial 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 at the substantively enacted tax rate at year end.

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

(Expressed in US Dollars)

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 3,390,228 for the year ended January 31, 2017, 3,342,978 for the year ended January 31, 2016, and 3,265,478 for the year ended January 31, 2015. 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 2017 incremental shares of 114,280 were included in the calculation of diluted income per common share. 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 income per common share.

3. INVENTORIES

Inventories consist of the following:

	2017	2016
	$	$
Finished goods	**852,704**	462,142
Work-in-process	**69,567**	172,211
Raw materials	**235,303**	256,250
	1,157,574	890,603

(Expressed in US Dollars)

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2017			2016		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
	$	**$**	**$**	$	$	$
Land and buildings	**4,274,484**	**1,414,810**	**2,859,674**	3,922,215	1,216,528	2,705,687
Machinery and equipment	**8,858,010**	**7,429,090**	**1,428,920**	8,001,161	6,794,991	1,206,170
	13,132,494	**8,843,900**	**4,288,594**	11,923,376	8,011,519	3,911,857
Less: Impairment Adjustment	**(1,229,634)**		**(1,229,634)**	(1,142,368)		(1,142,368)
	11,902,860	**8,843,900**	**3,058,960**	10,781,008	8,011,519	2,769,489

Included in machinery and equipment are assets under capital lease with a total cost of $224,123 (2016 - $208,217) and accumulated depreciation of $29,907 (2016 - $46,711). Depreciation of $210,426 was charged to cost of sales in fiscal 2017 (2016 - $193,760). Assets not available for use amounted to $1,203,216 (2016 - $1,117,824). Property, plant and equipment were last impaired in 2010; differences in the impairment adjustment are due to foreign exchange differences. Impairment adjustments cannot be reversed.

5. INVESTMENTS AVAILABLE FOR SALE

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

	2017	2016
	$	$
TD short term bond fund consisting of Canadian government and Corporate bonds maturing in the next 1-5 years, currently yielding 2.39%	**307,312**	32,076
5 year global fixed income fund class A, with an average maturity of 3.57 years and a yield to maturity of 1.62%	**313,266**	47,047
	620,578	79,123

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 2018 and onwards. Accordingly the investments available for sale were classified as part of current assets as at January 31, 2017.

(Expressed in US Dollars)

6. OTHER ADVANCES AND DEPOSITS

Other loans payable consist of the following:

	2017	2016
	$	$
Customer advance	**126,225**	138,825
Customer deposit	**25,000**	41,040
	151,225	179,865

The advance and deposit from customers are non-interest bearing, unsecured, and are repayable on demand.

7. RELATED PARTY TRANSACTIONS

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

	2017	2016
	$	$
Amounts due from estate of former shareholder, net of impairment *[i]*	**20,903**	20,903
Amounts due to shareholder *[ii]*	**(396,617)**	(420,958)
Amounts due from shareholders *[iii]*	**--**	3,000

[i] Amounts due from estate of former shareholder (the "Estate") bear interest at the United States bank prime lending rate plus 1.5% (2017 – 5.00%-5.25% ; 2016 – 4.75%-5.00%), except for an amount of $250,000 (2016 – $250,000) which is non-interest bearing. In 2017, 2016 and 2015, a reserve equal to the interest income was entered to offset this interest. These amounts have no fixed terms of repayment. The Estate has pledged 243,263 shares of the Company as collateral for this loan, and. the Company has determined that no further reserve amount is required. The Company will continue to hold the pledged 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, 2017, a balance of $6,962 is still to be paid to the Estate. See Note 9.

(Expressed in US Dollars)

7. RELATED PARTY TRANSACTIONS (cont'd)

[ii] Amounts due to shareholder are unsecured and bear interest at the United States bank prime lending rate plus 1.5% (2017 – 5.00%-5.25%; 2016 – 4.75% - 5.00%). Based on the current rate of interest, the principal repayment on this loan for fiscal 2018 will be approximately $36,000 (2017 - $36,000). This loan may not be called and has no fixed maturity date.

The Company was in compliance with all covenants as of January 31, 2017.

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

	$
2018	36,000
2019	36,000
2020	36,000
2021	36,000
2022	36,000
Thereafter	216,617
	396,617
Less: Current portion	**36,000**
	360,617

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

	2017 $	2016 $	2015 $
Interest expense	**20,571**	20,656	21,896

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

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

(Expressed in US Dollars)

8. LONG TERM DEBT OBLIGATIONS

[a] Bank term loan consists of the following:

		January 31 2017		January 31 2016
Bank term loan payable in monthly installments of Cdn $5,547 (U.S. $4,263) principal and interest at the Canadian banks' fixed rate of 4.20%	$	**188,198**	$	214,194
Less: current portion		**44,157**		39,352
	$	**144,041**	$	174,842

The bank term loan was arranged in January 2016 for 60 months at a fixed rate of prime plus 1.5% (2017 and 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, 2017 and 2016. This Canadian operating facility bears interest at the Canadian banks' prime lending rate plus 3.00% (2017-4.70%; 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 (USD – $384,261) on the Dextran Products Limited building.

Interest expense for the year on the loan was $8,714 (2016 - $30,767).

Principal repayments on the bank loan are as follows:

	$
2018	**44,157**
2019	**46,032**
2020	**47,986**
2021	**50,023**
	188,198

(Expressed in US Dollars)

8. LONG TERM DEBT OBLIGATIONS (cont'd)

[b] Capital lease obligations consist of the following:

	2017 **$**	2016 $
Obligation under a capital lease, repayable in monthly installments of Cdn. $4,085 (U.S. $3,139) bearing interest at 12.67% and maturing in fiscal 2019.	**37,949**	63,791
Obligation under a capital lease, repayable in quarterly installments of Cdn. $1,618 (U.S. $1,243) bearing interest at 9.42% and maturing in fiscal 2022.	**17,249**	18,960
	55,198	82,751
Less current portion	**38,309**	31,471
	16,889	51,280

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

	$
2018	**42,645**
2019	**8,111**
2020	**4,972**
2021	**4,972**
2022	**1,243**
Total minimum lease payments	**61,943**
Less amount representing imputed interest	**6,745**
	55,198

Interest expense for the year on capital lease obligations was $8,686 (2016 - $12,418)

(Expressed in US Dollars)

9. ACCRUED LIABILITIES

	2017 $	2016 $
Payroll and related taxes payable	**273,630**	330,748
Utilities and taxes	**48,419**	53,079
Professional fees payable	**52,929**	28,574
Death benefit payable	**6,962**	6,962
Others	**44,642**	33,297
	426,582	452,660

10. SHARE CAPITAL

[a] Share capital issued and outstanding

[i] Class A preferred shares

The Class A preferred shares will carry dividends, will be convertible into common shares of the Company and will be 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, 2017, 19,500 common share options were exercised and 19,500 common shares were issued for $9,166.

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.
.

(Expressed in US Dollars)

10. SHARE CAPITAL (cont'd)

[b] Share option plan

The Company maintains an incentive share option plan for management personnel for 729,668 options to purchase common shares. The Company also issues options to certain consultants for services provided to the Company.

All options granted have a term of five years and vest immediately. At January 31, 2017, the Company had 244,000 options outstanding at exercise prices ranging from $0.31 to $1.80 and a weighted average exercise price of $0.89. The options, which are exercisable one year after being granted and expire on dates between January 31, 2018 and January 31, 2021, entitle the holder of an option to acquire one common share of the Company.

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

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 Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 2.0%; dividend yield of nil; volatility factor of 134%, 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**		
	2017	2016	2015	**2017**	2016	2015
	#	#	#	$	$	$
Options outstanding, beginning of year	**297,000**	319,000	354,000	**0.81**	0.49	0.35
Granted	**--**	53,000	85,000	**--**	1.80	0.72
Exercised	**(19,500)**	(75,000)	(80,000)	**0.47**	0.12	0.25
Expired	**(33,500)**	---	(40,000)	**0.47**	--	0.25
Options outstanding, end of year	**244,000**	297,000	319,000	**0.89**	0.81	0.49
Weighted average fair value of options granted during the year				$ **--**	$1.80	$0.72

(Expressed in US Dollars)

10. SHARE CAPITAL (cont'd)

[b] Share option plan (cont'd)

The following table summarizes information relating to the options outstanding at January 31, 2017:

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (months)
1.80	53,000	48
0.72	85,000	36
0.82	53,000	24
0.31	53,000	12
	244,000	31

11. VETERINARY LABORATORIES, INC.

Sparhawk Laboratories, Inc.

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

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:

	2017 $	2016 $	2015 $
Research and development expenditures	**598**	573	2,644
Less: Investment tax credits	—	—	—
Research and development expense	**598**	573	2,644

Iron Dextran process

No license fees were incurred during the year ended January 31, 2017, 2016 and 2015.

(Expressed in US Dollars)

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:

	2017	2016	2015
	$	$	$
Bahamas	**---**	---	(2,185)
Canada	**839,075**	1,054,215	564,487
United States	**16,847**	22,185	21,010
	855,922	1,076,400	583,312

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:

	2017	2016	2015
	$	$	$
Provision for income taxes based on Canadian statutory income tax rates (2017 – 25%, 2016 – 25%, 2015 – 25%)	**209,769**	263,554	141,122
Increase (decrease) in valuation allowance	**53,631**	(687,707)	(240,581)
Tax and exchange rate changes on deferred tax items	**(77,085)**	204,531	86,569
Expired tax losses and other	**(6,895)**	(9,041)	(1,574)
Items not deductible for tax	**3,250**	22,063	14,464
	182,670	(206,600)	—
Provision for income taxes based on United States income tax rates (2017 – 19%, 2016 – 22%, 2015 – 22%)	**3,201**	4,215	3,992
Change in future tax rate	**792**	---	---
Utilization of previously unrecognized tax losses		---	1,108
Decrease in valuation allowance and other		1,285	---
	3,993	5,500	5,100
Provision for (recovery of) income taxes	**186,663**	(201,100)	5,100

(Expressed in US Dollars)

13. INCOME TAXES (cont'd)

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

	2017	2016	2015
	$	$	$
US current tax expense	**3,993**	5,500	5,100
Canadian deferred tax recovery	**182,670**	(206,600)	—
Income taxes (recovery)	**186,663**	(201,100)	5,100

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

	2017	2016	2015
	$	$	$
Deferred tax assets			
Canadian			
Non-capital losses	**545,623**	478,334	890,553
Unclaimed research and development expenses	**32,072**	214,745	236,624
Excess of tax value over carrying value of depreciable assets	**163,683**	167,348	232,789
Net capital losses *[note 13[c]]*	**117,475**	109,138	120,257
Other items	**34,057**	39,508	24,109
United States			
Net operating loss carryforwards	--	--	668
	892,910	1,009,073	1,505,000
Less valuation allowance	**870,924**	817,293	1,505,000
Net deferred tax assets	**21,986**	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 $2,182,000. These non-capital losses expire as stated below.

Year of expiry	$
2026	365,000
2027	394,000
2028	276,000
2029	255,000
2030	214,000
2031	119,000
2032	58,000
2033	67,000
2034	128,000
2035	55,000
2036	128,000
2037	123,000
Total	2,182,000

A Canadian subsidiary also has deductions relating to scientific research and experimental development credits amounting to approximately $128,000. It also has net capital losses available for carryforward of approximately $470,000 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:

	2017	2016	2015
	$	$	$
Decrease (increase) in assets			
Trade accounts receivable	**(182,228)**	38,132	(10,580)
Inventories	**(197,024)**	(3,225)	(97,342)
Due from shareholders	**3,000**	7,218	9,782
Prepaid expenses and other current assets	**1,686**	2,393	(491)
	(374,566)	44,518	(98,631)
Increase (decrease) in liabilities			
Accounts payable	**(67,674)**	(6,766)	109,175
Accrued liabilities	**(57,050)**	25,843	(4,561)
Other advances and deposits	**(41,972)**	(455,352)	(21,349)
Income taxes	**(639)**	(284)	3,392
	(541,901)	(392,041)	(11,974)

Cash paid during the year for interest was $37,971 (2016 – $77,280; 2015 – $79,173). Cash paid during the year for income taxes was $4,109 (2016 – $3,160; 2015 – $1,710).

(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:

	2017	2016	2015
	$	$	$
Total revenue by significant customer:			
Customer A	**1,094,138**	834,780	758,058
Customer B	**762,168**	9,550	19,910
Customer C	**751,676**	1,531,847	1,011,139
Customer D	**541,483**	614,360	604,440
Customer E	**456,544**	499,569	349,085
	3,606,009	**3,490,106**	2,742,632

	2017	2016	2015
	$	$	$
Sales by geographic destination:			
United States	**2,974,476**	2,075,192	1,679,817
Europe	**2,167,374**	2,526,477	1,935,917
Other	**806,435**	511,675	607,325
Canada	**536,435**	640,877	622,349
Pacific Rim	**136,610**	286,148	530,619
	6,621,330	6,040,369	5,376,027

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

(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 and accounts payable approximate their fair values as at January 31, 2017 and 2016 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, 2017 and 2016. The 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, 2017, three (2016 – four) customers of the Company comprised 46% (2016 - 75%) of the trade accounts receivable balance. No other customers had trade accounts receivable balances outstanding at year end that represented more than 10% of the Company's trade accounts receivable balance.

[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:	**2017** $	2016 $
Unrealized gain (loss) on investments available for sale	**(7,462)**	2,317
Currency translation	**395,556**	11,223
Accumulated other comprehensive income	**388,094**	13,540

19. COMMITMENTS

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

The Company's subsidiary, Dextran Products Limited has committed to purchase approximately $175,500 of partially finished product from a contract manufacturer.

20. SUBSEQUENT EVENTS

Subsequent to January 31, 2017 and with the approval of the Company's directors, the process of amalgamation of Polydex Pharmaceuticals Limited with its subsidiaries Dextran Products Limited and Polydex Chemicals (Canada) Limited was initiated. To facilitate this amalgamation Polydex Pharmaceuticals Limited and Polydex Chemicals Canada Limited will continue as Ontario corporations. The amalgamation is scheduled to occur on May 1, 2017.

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. Technical corrections and improvements to Topic 606 were outlined in ASU 2016-20 issued by the FASB in December 2016. In August 2015, the FASB issued ASU 2015-14, which delays the effective date of ASU 2014-09 by one year: the new standard is effective for annual and interim financial statements for fiscal years beginning after December 15, 2017. Early application is not permitted. The Company is in the process of evaluating the impact of this update.

21. RECENT ACCOUNTING PRONOUNCEMENTS (cont'd):

In January 2016, the FASB issued ASU 2016-01, *Recognition and measurement of financial assets and liabilities*. The update makes improvements to how entities account for equity investments, present and disclose financial instruments, and measure the valuation allowance on deferred tax assets related to available-for-sale debt securities. This update is effective for annual and interim financial statements for fiscal years beginning year after December 15, 2017.

In August 2016, the FASB issued ASU 2016-15, *Classification of certain cash receipts and payments.* This update provides guidance about eight specific cash flow issues, including debt prepayment or debt extinguishment costs and proceeds from the settlement of insurance claims. This update is effective for annual and interim financial statements for fiscal years beginning year after December 15, 2017. 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.

22. COMPARATIVE FIGURES

Certain figures for 2016 have been reclassified to conform to the presentation adopted in the current year's 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	Wendy Scheven Vancouver, Canada	174,641	5.14%

MANAGEMENT DISCUSSION AND ANALYSIS

The Company's fiscal year ends on January 31st of each year. In this report, fiscal year 2017 refers to the Company's fiscal year ended January 31, 2017. 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 and sale of bulk pharmaceutical intermediates and biotechnology based products for the worldwide veterinary and human pharmaceutical industry through its wholly owned subsidiary Dextran Products Limited in Canada. Chemdex, Inc. in the United States, also a wholly owned subsidiary, provides raw materials to Sparhawk pursuant to a definitive supply agreement

Management Objectives for Fiscal 2017:

Outsourcing of Dextran Sulphate production has been well received by customers and contributed towards greater overall production output. Delays in delivery are being reduced and the Company hopes to reduce them even further through customer interaction and careful planning.

With significant customer activity across all parts of the Company`s product portfolio, the Company will continue to produce high quality existing products while investigating new markets for the Dextran based molecule. Several opportunities have been presented and are being actively pursued. Success cannot be predicted at this time

Results of Operations

Fiscal year ended January 31, 2017 compared to Fiscal Year ended January 31, 2016 compared to Fiscal Year ended January 31, 2015:

	FY 2017	FY 2016	FY 2015	17 v 16	16 v 15
				(% increase(decrease))	
Income before taxes	**$855,922**	$1,076,400	$583,312	**(20)%**	85%
Net Income	**669,259**	1,277,500	578,212	**(48)%**	121%
Income per share	**0.20**	0.38	0.17		

The decrease in net profit for the fiscal year 2017 is primarily due to foreign exchange losses compared to gains in 2016 and supply management fees of $382,207 which occurred in fiscal year 2016 but did not occur in fiscal 2017. Fiscal 2017 also incurred a deferred tax expense compared to the deferred tax recovery that occurred in 2016.

The increase in net profit for the fiscal year 2016 compared to 2015 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.

	FY 2017	FY 2016	FY 2015	17 v 16	16 v 15
				(% increase (decrease))	
Sales	**$6,621,330**	$6,040,369	$5,376,027	**10%**	12%

The increased sales for fiscal year 2017 compared to fiscal year 2016 is partially due to a large powdered product sale in the fourth quarter. The increase occurred in spite of the loss of a major customer part way through the year. Sales also benefitted from the increased value of the Cdn dollar throughout fiscal 2017.

The increased sales for fiscal year 2016 compared to fiscal year 2015 was due to increased customer demand.

Fiscal year 2015 also did not have the benefit of the large, periodic powder order that occurred in fiscal 2014.

Results of Operations (cont'd)

	FY 2017	**FY 2016**	**FY 2015**	**17 v 16**	**16 v 15**
				(% increase(decrease))	
Gross profit	**$1,817,361**	$1,452,714	$1,238,061	**25%**	17%

Gross profit increased in the fiscal year ended January 31, 2017 compared to the prior fiscal year. This was due to increased sales as noted above, while margin percentages increased significantly partially as a result of a periodic high margin powder sale in the fourth quarter.

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.

	FY 2017	**FY 2016**	**FY 2015**	**17 v 16**	**16 v 15**
				(% increase(decrease))	
Selling, promotion, general and administrative expenses	**$820,675**	$902,349	$709,249	**(9)%**	27%

The decrease in fiscal 2017 compared to fiscal 2016 was due primarily to the elimination of options expense in fiscal 2017,

The increase in fiscal 2016 compared to fiscal 2015 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.

	FY 2017	**FY 2016**	**FY 2015**	**17 v 16**	**16 v 15**
				(% increase(decrease))	
Research and development	**$598**	$573	$2,644	**4%**	(78)%

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 2017, 2016 and 2015, 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.

Results of Operations (cont'd)

	FY 2017	FY 2016	FY 2015	17 v 16	16 v 15
				(% increase(decrease))	
Depreciation and amortization	**$218,251**	$203,034	$121,555	**7%**	67**%**

The increase in depreciation in fiscal year 2017 compared to fiscal year 2016 is due to the significant additions to plant equipment during fiscal 2017, as well as the increase in value of the Canadian dollar compared to the prior year.

The increase in depreciation in fiscal year 2016 compared to fiscal year 2015 was 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.

	FY 2017	FY 2016	FY 2015	17 v 16	16 v 15
				(% increase(decrease))	
Interest expense	**37,971**	$42,560	$79,173	**(11)%**	(46)%

The decrease in interest expense in fiscal year 2017 results primarily from the lower interest rate incurred for a full year of the bank loan.

The decrease in interest expense in fiscal year 2016 results primarily from the forgiveness of loan interest as part of the Company's negotiations.

	FY 2017	FY 2016	FY 2015	17 v 16	16 v 15
				(% increase(decrease))	
Foreign exchange loss (gain)	**$101,618**	$(194,104)	$(138,795)	**(152)%**	40%

Throughout fiscal year 2017, the Company's Canadian subsidiary, Dextran Products Limited, experienced foreign exchange losses due to the increased value of the Canadian dollar compared to 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 2016 compared to fiscal 2015.

Results of Operations (cont'd)

	FY 2017	FY 2016	FY 2015	17 v 16	16 v 15
				(% increase(decrease))	
Interest and investment income	**$7,249**	$699	$20,562		
Supply agreement fees	**---**	382,207	---		
Interest and other income	**$7,249**	$382,906	$20,562	**(98)%**	1,762%

The increase in interest and investment income is partially due to a special dividend that is paid periodically on the global fixed income fund, as well as the additional amounts invested during the year. No supply agreement fees were received in fiscal 2017.

The decrease in interest and investment income in fiscal 2016 compared to fiscal 2015 was 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 previous fiscal years.

	FY 2017	FY 2016	FY 2015	17 v 16	16 v 15
				(% increase(decrease))	
Income tax expense					
Current	**$3,993**	$5,500	$5,100	**(27)%**	8%
Deferred tax recovery	**182,670**	(206,600)	---	**(1,884)%**	100%
	$186,663	$(201,100)	$5,100		

The increase in income tax expense for fiscal year 2017 is due to the recognition of the utilization of research and development tax credits recognized in 2016 in the Canadian subsidiary, Dextran Products Limited.

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.

Liquidity and Capital Resources

As of January 31, 2017, the Company had cash of $653,214 compared to cash of $942,555 at January 31, 2016. However the Company invested excess cash of $538,000 (CAD $700,000) into saleable investments during fiscal 2017. In fiscal year 2017, the Company generated cash of $528,279 in its operating activities, compared to generating cash of $960,855 for fiscal year 2016 and $746,343 for fiscal year 2015. 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 continuing in the future.

Working capital increased to $2,460,415 and the current ratio increased to 3.15 to 1 as of January 31, 2017, compared to $1,616,646 and 2.33 to 1 as of January 31, 2016 and $987,219 and 1.60 to 1 as of January 31, 2015.

As at January 31, 2017 the Company was committed to its agreement to supply raw materials to Sparhawk. Dextran Products Limited was also committed to purchase approximately $175,500 of partially finished product from a contract manufacturer.

At January 31, 2017, the Company had accounts receivable of $1,103,759 and inventory of $1,157,574 compared to $854,749 and $890,603 respectively, as at January 31, 2016. Accounts receivable were higher as at January 31, 2017 compared to January 31, 2016 as a result of the timing of customer payments while the increase in inventory was primarily due to the increase in the value of the Canadian dollar.

Accounts payable of $443,717 (2016 - $475,709) at January 31, 2017 was lower than the prior fiscal year end as a result of the timing of supplier payments. During fiscal year 2017, capital expenditures totaled $295,409 as compared to $199,899 in fiscal year 2016. Equipment replacement and improvement expenditures are expected to continue but possibly at increased levels from fiscal 2017 as resources permit.

As at January 31, 2017, 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.

Liquidity and Capital Resources (cont'd)

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 (loss) 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, 2017 was $252,533 as compared to $240,130 at January 31, 2016, including accrued interest. The Company has taken a cumulative provision of $481,630 at January 31, 2017 (January 31, 2016 - $469,227) 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, 2017, pursuant to a non-interest bearing loan with no specific repayment terms.

Related Party Transactions (cont'd)

The outstanding amount of this loan has not changed from January 31, 2016. The amounts continue to remain owing from the estate of Thomas C. Usher.

As of January 31, 2017, 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 $445,171 at January 31, 2017, based on the closing price of the Company's common shares on the Pink Sheets quotation service on January 31, 2017. 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, 2017 is $6,962 (2016 – $6,962).

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 $396,592 at January 31, 2017 from $420,937 at January 31, 2016 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 28, 2017

/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 28, 2017

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