POLYDEX PHARMACEUTICALS LIMITED

QUARTERLY DISCLOSURE REPORT

OCTOBER 31, 2013

UNAUDITED

INDEX

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
OCTOBER 31, 2013
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, 2013
(ii)	Authorized	100,000 shares at $0.10 each
(iii)	Issued and outstanding	None
(iv)	Freely tradable shares (public float)	None
(v)	Number of shareholders of record	None

Preferred Stock – Class B

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

Common Stock

(i)	Period end date	October 31, 2013
(ii)	Authorized	10,000,000 shares
(iii)	Issued and outstanding	3,172,846 shares
(iv)	Freely tradable shares (public float)	2,450,820
(v)	Number of shareholders of record	241

ITEM III INTERIM FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2013
UNAUDITED

(Expressed in United States dollars)

		October 31 2013		January 31 2013
		(Unaudited)		(Unaudited)
Assets				
Current assets:				
Cash and cash equivalents		$ 547,493		$ 4,241
Investments available for sale (note 1)		53,662		56,062
Trade accounts receivable		1,004,162		970,307
Inventories				
Finished goods	723,515		774,213	
Work in progress	56,287		56,087	
Raw materials	252,157	1,031,959	276,720	1,107,020
Income taxes recoverable		-		2,780
Prepaid expenses and other current assets		60,324		105,332
Total current assets		2,697,600		2,245,742
Property, plant and equipment, net		3,279,142		3,245,413
Patents and intangible assets, net		-		5,311
Due from estate of former shareholder		56,511		56,511
		$ 6,033,253		$ 5,552,977

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2013
UNAUDITED

(Expressed in United States dollars)

	October 31 2013	January 31 2013
	(Unaudited)	(Unaudited)
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ -	$ 229,741
Accounts payable	535,894	701,733
Accrued liabilities	485,534	506,012
Income taxes payable	1,783	-
Other loans and advances (note 4)	628,616	386,486
Customer deposits	164,886	92,886
Current portion of long-term debt	-	195,498
Current portion of capital lease obligations	6,004	10,141
Current portion of due to shareholder	30,000	13,000
Total current liabilities	1,852,717	2,135,497
Long-term debt (note 5)	459,787	-
Capital lease obligations	11,938	17,244
Due to shareholder	457,047	495,335
	928,772	512,579
Total liabilities	2,781,489	2,648,076
Going concern (note 1)		
Commitments and contingencies (note 6)		
Shareholders' equity:		
Capital stock		
Authorized:		
100,000 Class A preferred shares of $0.10 each		
899,400 Class B preferred shares of $0.0167 each		
10,000,000 common shares of $0.0167 each		
Issued and outstanding:		
899,400 Class B preferred shares (January 31, 2013 - 899,400)	15,010	15,010
3,172,846 common shares (January 31, 2013 - 3,172,846)	52,855	52,855
Contributed surplus	23,592,545	23,592,545
Deficit	(21,885,694)	(22,404,288)
Accumulated other comprehensive income	1,477,047	1,648,779
	3,251,763	2,904,901
	$ 6,033,252	$ 5,552,977

See accompanying notes.

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

(Expressed in United States dollars)

	Three Months Ended October 31 2013	Three Months Ended October 31 2012	Nine Months Ended October 31 2013	Nine Months Ended October 31 2012
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales	$ 1,319,100	$ 1,385,226	$ 4,625,497	$ 3,696,826
Cost of goods sold	1,065,014	1,293,852	3,508,552	3,459,635
Gross profit	254,086	91,374	1,116,945	237,191
Expenses				
General and administrative	170,926	175,567	495,655	486,092
Interest expense,net	22,145	14,042	55,338	40,263
Selling and promotion	14,047	12,831	41,323	33,701
Research and development	-	-	499	505
Depreciation	2,204	4,133	7,543	11,738
Foreign exchange (gain) loss	(2,258)	14,252	(3,474)	20,652
Interest and other income	(78)	(267)	(533)	(610)
Total expenses	206,986	220,558	596,351	592,341
Net income (Loss) before income taxes	47,100	(129,184)	520,594	(355,150)
Income taxes	800	4,400	2,000	5,400
Income (Loss) for the period	46,300	(133,584)	518,594	(360,550)
Unrealized gain (loss) on investments available for sale	(103)	30	(475)	(266)
Currency translation adjustment	(59,338)	25,324	(171,256)	30,109
Comprehensive income (loss) for the period	$ (13,141)	$ (108,230)	$ 346,863	$ (330,707)
Per share information:				
Income (loss) per common share:				
Basic	0.01	(0.04)	0.16	(0.11)
Diluted	0.01	(0.04)	0.15	(0.11)
Weighted average number of common shares used in computing net loss per share for the period:				
Basic	3,172,846	3,172,846	3,172,846	3,172,846
Diluted	3,492,268	3,172,846	3,395,664	3,172,846

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

(Expressed in United States dollars)

		Nine Months Ended October 31 2013		Nine Months Ended October 31 2012
		(Unaudited)		(Unaudited)
Preferred Shares:				
Balance, beginning and end of period	$	15,010	$	15,010
Common Shares:				
Balance, beginning and end of period		52,855		52,855
Contributed Surplus:				
Balance, beginning and end of period		23,592,545		23,580,674
Deficit:				
Balance, beginning of period	$	(22,404,288)	$	(21,981,439)
Net income (loss) for the period		518,594		(360,550)
Balance, end of period	$	(21,885,694)	$	(22,341,989)
Accumulated Other Comprehensive Income:				
Balance, beginning of period	$	1,648,779	$	1,608,424
Unrealized gain (loss) on investments available for sale		(476)		(266)
Currency translation adjustment for the period		(171,256)		30,109
Balance, end of period	$	1,477,047	$	1,638,267

See accompanying notes.

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

(Expressed in United States dollars)

	Nine Months Ended October 31 2013	Nine Months Ended October 31 2012
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operating activities:		
Net income (loss) for the period	$ 518,594	$ (360,550)
Add (deduct) items not affecting cash:		
Depreciation and amortization	80,598	170,558
Deferred debt acquisition costs	6,639	-
Net change in non-cash working capital balances related to operations	196,227	137,066
Cash provided by operating activities	802,058	(52,926)
Investing activities:		
Additions to property, plant and equipment	(251,971)	(66,666)
Proceeds (Acquisition) of investments available for sale	(534)	(7,609)
Cash provided by (used in) investing activities	(252,505)	(74,275)
Financing activities:		
Proceeds from long-term debt refinancing	457,466	
Repayment of long-term debt	(188,742)	(44,300)
Proceeds (repayment) of capital lease obligations	(8,328)	(8,526)
Decrease in due to shareholder	(21,288)	(8,722)
Increase (decrease) in bank indebtedness	(229,741)	201,074
Cash provided by (used in) financing activities	9,367	139,526
Effect of exchange rate changes	(15,668)	(2,399)
Net increase in cash	543,252	9,926
Cash, beginning of period	4,241	32,339
Cash, end of period	$ 547,493	$ 42,265

See accompanying notes.

ITEM III NOTES TO INTERIM FINANCIAL STATEMENTS

1. Basis of Presentation:

The information contained in the interim consolidated financial statements is condensed from that which would appear in annual consolidated financial statements. The interim consolidated financial statements included herein should be read in conjunction with the unaudited financial statements, and notes thereto, and other financial information contained in the 2013 Annual Report for the fiscal year ended January 31, 2013 as found on the Polydex Pharmaceuticals Limited (the "Company") website, www.polydex.com. The unaudited interim consolidated financial statements as of October 31, 2013 and 2012 include all normal recurring adjustments which management considers necessary for a fair presentation. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the entire fiscal year. The interim consolidated financial statements include the accounts and transactions of the Company and its majority owned subsidiaries in which the Company has equal to or more than a 50% ownership interest and exercises control.

Management has reviewed subsequent events, and there were no material subsequent events since December 10, 2013 that would require recognition or note disclosures in these financial statements.

Going Concern

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize assets and discharge liabilities in the normal course of business for the foreseeable future. For the fiscal year ended January 31, 2013, the Company generated a consolidated net loss of $422,849 and realized negative cash flows from operating activities of $52,371. In 2012, the Company generated a consolidated net income of $231,668 and realized positive cash flow from operations of $465,052. This contrasts with the results for the fiscal year ended January 31, 2011 and 2010, when the Company generated consolidated net losses of $697,658 and $2,144,735 and realized negative cash flows from operating activities of $154,518 and $589,723 respectively for those years. There was an accumulated deficit of $22,404,288 (2012 - $21,981,439). As a result of the operations in fiscal years 2011 and 2010 and the inconsistent results for 2012 and 2013, the Company, through its wholly-owned subsidiary Dextran Products Limited, was in violation of its debt service loan covenant related to its long-term debt, which resulted in a restructuring and reclassification of this debt as a current liability as at January 31, 2013, January 31, 2012, January 31, 2011 and January 31, 2010. Since the year ended January 31, 2013, the Company's subsidiary, Dextran Products Limited, has finalized long term private financing in the amount of Cdn $500,000 (USD $479,524) to replace the operating loan and the equipment loan previously provided by its bank (see note 5 below). The Company has positive working capital of $844,884 as at October 31, 2013 ($110,245 as at January 31, 2013).

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

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

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

2. Significant Accounting Policies:

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

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

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

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

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

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

Buildings 15 years
Machinery and equipment 3 to 10 years

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

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

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

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

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

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

Shipping and handling costs

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

Research and development

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

Foreign currency translation

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

Derivative financial instruments

The Company's Canadian subsidiary enters into foreign exchange contracts from time to time, to manage exposure to currency rate fluctuations related to expected future cash flows. The Company does not engage in speculative trading of derivative financial instruments. The foreign exchange contracts are not designated as hedging instruments, and as a result all foreign exchange contracts are marked to market and the resulting gains and losses are recorded in the consolidated statements of operations in each reporting period. Unrealized gains and losses are included in accrued liabilities in the consolidated balance sheets and in net change in non-cash working capital balances related to operations in the consolidated statements of cash flows. For the three months and nine months ended October 31, 2013 the Company has not entered into any derivative financial instruments.

Stock options

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

Income taxes

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

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

Income (loss) per common share

Basic earnings (loss) per common share is computed using the average number of common shares outstanding of 3,172,846 for the three and nine months ended October 31, 2013 and 2012. 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 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. No incremental shares were used in the calculation of diluted earnings (loss) per common share for the three and nine months ended October 31, 2012 because their affect was anti-dilutive.

3. Investments Available For Sale:

Investments available for sale consist of the following:

		October 31 2013		January 31 2013
Canadian short-term bond fund	$	**53,662**	$	56,062

Canadian short-term bond fund has maturity dates extending from one to five years and a yield rate of 1.98%. Investments available for sale are stated at fair market value, based on quoted market prices. An unrealized loss of $475 has been included in accumulated other comprehensive income (2012 – loss of $266).

4. Other Loans and Advances:

		October 31 2013		January 31 2013
Term promissory note	$	**162,038**	$	163,191
Demand promissory note		**69,798**		70,295
Other loan		**146,780**		153,000
Supply agreement advance		**250,000**		---
	$	**628,616**	$	386,486

The term promissory note includes accrued interest and is due June 1, 2014. Interest is payable monthly at an annual rate of 5%. The demand promissory note is payable on demand, and includes accrued interest at an annual rate of 5%. Both these notes are secured by a collateral mortgage and general security agreement against the Company's plant and equipment. Both notes are from the same customer, and no repayments have been made to December 10, 2013.

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

In July 2013, a subsidiary of the Company, Chemdex, Inc., signed an agreement with an existing customer to provide raw materials for a new product and renew an existing supply agreement for an existing product. Under the terms of the agreement the customer will endeavor to obtain registration for the new product. Once this registration has been acquired the advance will cease to be refundable, and a second payment of $250,000 will become due. The agreement is for a period of ten years, renewable for another ten years, and provides the customer with exclusive rights to these raw materials in the United States

5. Long Term Debt Obligations:

		October 31 2013		January 31 2013
Mortgage loan of Cdn $500,000 payable in monthly payments of Cdn $ 3,333. (U.S. $3,196) interest only with interest rate of 8%, maturing in April 2015	**$**	**479,524**	$	---
Less deferred acquisition costs		**(19,737)**		---
Bank term loan payable in monthly installments of Cdn $4,874 (U.S. $4,674) principal plus interest at the Canadian banks' prime lending rate plus 3% (2013-6%); replaced in April 2013		**---**		195,498
Less current portion		**---**		195,498
	$	**459,787**	$	---

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

6. Commitments and Contingencies:

The Company's subsidiary, Dextran Products Limited, is committed to obtaining approximately $300,000 of manufacturing equipment from various suppliers, a portion of which is expected to be financed through a capital leasing arrangement. Dextran is also obligated under a lease agreement for photocopying/printing equipment with quarterly payments of principal and interest of $1,871 until June 2016.

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

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

7. Stock-based Employee Compensation:

The Company maintains an incentive share option plan for management personnel for options to purchase up to 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, 2013, the Company had 379,948 options outstanding at exercise prices ranging from $0.12 to $0.47 and a weighted average exercise price of $0.29. The options expire on dates between January 31, 2014 and January 31, 2018, and entitle the holder of an option to acquire one common share of the Company.

The Company uses the fair value method to account for awards of stock-based employee compensation. No stock-based employee compensation expense was recorded during the period from February 1, 2013 to October 31, 2013, because there were no options granted during this period. Similarly, no stock-based employee compensation expense was recorded during the period from February 1, 2012 to October 31, 2012, because there were no options granted during that period.

8. Segmented Information:

Total revenue by significant customer:

	Nine Months Ended October 31, 2013	Nine Months Ended October 31, 2012
Customer A	$ 962,470	$ 739,052
Customer B	503,763	394,270
Customer C	471,565	496,637
Customer D	438,800	510,204
Customer E	241,920	180,480
Customer F	172,890	267,874
	$ 2,791,408	$ 2,588,517

Sales by geographic destination:

	Nine Months Ended October 31, 2013	Nine Months Ended October 31, 2012
Europe	$ 1,978,764	$ 1,325,773
United States	$ 1,231,385	$ 1,076,698
Other	$ 655,657	$ 603,118
Canada	$ 488,577	$ 517,437
Pacific Rim	$ 271,114	$ 173,800
	$ 4,625,497	$ 3,696,826

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, 2013 interim consolidated financial statements and notes thereto included elsewhere in this report. Operating results for the nine months ended October 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2014. For further information, refer to the Polydex Pharmaceuticals Limited Annual Report on our website www.polydex.com for the fiscal year ended January 31, 2013. All amounts are in United States dollars, unless otherwise denoted.

Overview

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

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

Management Objectives for Fiscal 2014: During the first nine months of fiscal year 2014 the Company has continued to experience high demand from customers resulting in increasing sales during the first two quarters but equipment problems in the third quarter, including the failure of essential production equipment resulted in reduced production and sales. Management is addressing the need for new or upgraded equipment with the investment of $251,791 year to date of fiscal year 2014 and scheduled expenditures of approximately an additional $300,000 in late fiscal 2014 and early 2015. Management's goal is to implement further upgrades and replacements over time as additional funds become available, eventually reducing or even eliminating the types of problems that have occurred in the past. Management is encouraged by the patience and support of our customers both new and longer term, as evidenced by their willingness to invest in assuring the long term availability of the high quality products the Company has consistently delivered. The Company continues to enjoy a strong order book, and is working diligently to fulfill its commitments, though equipment problems may continue to remain an issue for the immediate future.

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

Research and development of the Company's human pharmaceutical products is coordinated at Dextran Products. Ushercell is a high molecular weight Cellulose Sulphate that was envisioned for topical vaginal use primarily in the prevention of unplanned pregnancies, as well as the transmission of sexually transmitted diseases. Further work in this area has been suspended pending attempts at finding a partner willing to fund further development. The Company never received any financial gain from this project, and as a result, there is no immediate or direct effect on sales or revenues.

Results of Operations

Nine and three months ended October 31, 2013 compared to nine and three months ended October 31, 2012:	**Three Months Ended October 31, 2013**	**Three Months Ended October 31, 2012**	**Variance**	**Nine Months Ended October 31, 2013**	**Nine Months Ended October 31, 2012**	**Variance**
Net Income (loss)	**$46,300**	**$(133,584)**	**135%**	**$518,594**	**$(360,550)**	**244%**
Net Income (loss) per Share						
Basic:	**$0.01**	**$(0.04)**		**$0.16**	**$(0.11)**	
Diluted:	**$0.01**	**--**		**$0.15**	**--**	

The increase in net income for the third quarter and year to date of fiscal year 2014 is a result of increased margins compared to the third quarter and year to date of fiscal year 2013, and increased sales in the year to date of fiscal year 2014.

	Three Months Ended October 31, 2013	**Three Months Ended October 31, 2012**	**Variance**	**Nine Months Ended October 31, 2013**	**Nine Months Ended October 31, 2012**	**Variance**
Sales	**$1,319,100**	**$1,385,226**	**(5)%**	**$4,625,497**	**$3,696,826**	**25%**

The lower sales for the year to date of fiscal year 2013, compared to the comparable period in 2014, were impacted by several unexpected equipment failures that resulted in lowered production volumes. The lower sales in the third quarter of fiscal year 2014 compared to 2013 resulted from the breakdown of essential production equipment that impacted production and therefore sales for approximately 2 weeks. Replacement equipment has been scheduled for installation in late fiscal 2014 or early fiscal 2015.

	Three Months Ended October 31, 2013	Three Months Ended October 31, 2012	Variance	Nine Months Ended October 31, 2013	Nine Months Ended October 31, 2012	Variance
Gross Profit	**$254,086**	**$91,374**	**178%**	**$1,116,945**	**$237,191**	**371%**
Percentage of sales	**19.3%**	**6.6%**		**24.1%**	**6.4%**	

The increase in gross margin in the year to date of fiscal year 2014 compared to the year to date of fiscal year 2013, is due to several factors including increased sales, improved pricing, and product mix which favored higher margin products. Fiscal 2013 also suffered from decreased sales, which resulted from equipment failures as noted above, and an exceptionally large waste disposal charge which also resulted from the equipment issues. The third quarter margins of fiscal 2014 also benefitted from lower utility costs, while both periods benefitted from the decreased value of the Canadian dollar. 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, 2013	Three Months Ended October 31, 2012	Variance	Nine Months Ended October 31, 2013	Nine Months Ended October 31, 2012	Variance
Selling, promotion, general and administrative expenses	**$184,973**	**$188,398**	**(2)%**	**$536,978**	**$519,793**	**3%**

The increase during the year to date of fiscal year 2014 in selling, promotion, general and administrative expenses is due primarily to the refund of withholding taxes paid in prior years and received in the second and third quarters of fiscal year 2013. The decrease in the third quarter is also due to the decrease in value of the Canadian dollar compared to the United States dollar.

	Three Months Ended October 31, 2013	Three Months Ended October 31, 2012	Variance	Nine Months Ended October 31, 2013	Nine Months Ended October 31, 2012	Variance
Research and Development expenditures	**$ --**	**$ --**	**-- %**	**$ 499**	**$ 505**	**(59)%**

During fiscal year 2010 all of the Company's research into Ushercell was halted, with only some patent expenses being incurred and paid. Further patent fees are also being curtailed, and only minimal research and development expenses related to patent legal fees have been incurred in the third quarter and year to date of fiscal year 2014 and 2013. When any new information on the product becomes available, the Company will assess the potential commercial viability of the compound before investing in further research or development. Since the cessation of the clinical trials for Ushercell, the Company has been reviewing the other projects in its portfolio and actively pursuing their potential for creating new market opportunities.

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	Three Months Ended October 31, 2013	Three Months Ended October 31, 2012	Variance	Nine Months Ended October 31, 2013	Nine Months Ended October 31, 2012	Variance
Depreciation and amortization expense	**$ 24,424**	**$61,231**	**(60)%**	**$80,598**	**$122,281**	**(34)%**

The decrease in depreciation and amortization for fiscal year 2014 is due to assets becoming fully depreciated, combined with the decrease in value of the Canadian dollar. Depreciation will continue to decrease in future years on assets currently in service as these assets also become fully depreciated. Included in depreciation and amortization expense are allocations to cost of goods sold in the amount of $73,055 for the year to date of fiscal year 2014 (2013 - $152,790).

	Three Months Ended October 31, 2013	Three Months Ended October 31, 2012	Variance	Nine Months Ended October 31, 2013	Nine Months Ended October 31, 2012	Variance
Interest Expense	**$22,145**	**$14,042**	**58%**	**$55,338**	**$40,263**	**(37)%**

Interest expense increased in the year to date of fiscal year 2014 compared to the year to date of fiscal year 2013 due to the large increase in the long term debt/mortgage compared to the bank indebtedness throughout the year to date of fiscal 2013. This increase in debt occurred late in quarter one of fiscal 2014.

	Three Months Ended October 31, 2013	Three Months Ended October 31, 2012	Variance	Nine Months Ended October 31, 2013	Nine Months Ended October 31, 2012	Variance
Foreign exchange (gain) loss	**$(2,258)**	**$14,252**	**178%**	**$ (3,474)**	**$ 20,652**	**771%**

The foreign exchange gains for the third quarter and year to date of fiscal year 2014 compared to the same periods of fiscal year 2013 were due to the lower value of the Canadian dollar compared to the United States dollar that occurred at various times during the third quarter and year to date of fiscal year 2014.

	Three Months Ended October 31, 2013	Three Months Ended October 31, 2012	Variance	Nine Months Ended October 31, 2013	Nine Months Ended October 31, 2012	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, 2013	Three Months Ended October 31, 2012	Variance	Nine Months Ended October 31, 2013	Nine Months Ended October 31, 2012	Variance
Interest and other income	**$ 78**	**$ 267**	**(10)%**	**$ 533**	**$ 610**	**(25)%**

The decrease in interest and other income in the third quarter and year to date of fiscal year 2014 compared to the third quarter and year to date of fiscal year 2013 is due to the decrease in yield rates attributed to the investments shown in note 3 above, and the timing of dividends declared from the Company's investments.

Liquidity and Capital Resources

As of October 31, 2013, the Company had cash of $547,493 compared to cash of $4,241 at January 31, 2013. In the third quarter of fiscal year 2014, the Company generated cash of $248,357 in its operating activities, compared to expending cash of $241,235 for the third quarter of fiscal year 2013. The generation of cash from operations during the third quarter of fiscal year 2014 is due to increased margins and the decrease in value of the Canadian dollar compared to the third quarter of fiscal 2012.

The Company's working capital increased to $844,884 and a working capital ratio of 1.46 to 1 as of October 31, 2013, compared to $110,245 and 1.05 to 1 as of January 31, 2013.

As of October 31, 2013, the Company had accounts receivable of $1,004,162 and inventory of $1,031,959 compared to $970,307 and $1,107,020 respectively at January 31, 2013 and $1,024,629 and $1,249,367 respectively at October 31, 2012. The increase in accounts receivable and the decrease in inventory are both due to the increased sales during the comparable nine month period.

At October 31, 2013, the Company had accounts payable of $535,894 compared to $701,733 at January 31, 2013 and $837,236 at October 31, 2012. The decrease in accounts payable compared to January 31, 2013 was due to the decrease in inventory and the timing of supplier payments.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased to $656,530 for the nine months ended October 31, 2013 compared to negative $144,329 for the nine months ended October 31, 2012. This increase is due to the higher sales and gross margins experienced throughout fiscal year 2013 to date, compared to the equipment problems incurred in the year to date of fiscal year 2013.

During the third quarter of fiscal year 2014, capital expenditures amounted to $24,849 compared to $11,591 in the third quarter of fiscal year 2013. Significant capital expenditures are expected for late fiscal year 2014 and early fiscal 2015.

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

Dextran Products had a Cdn. $250,000 (U.S. $249,300) operating line of credit as at July 31, 2012 and January 31, 2013. This facility and its bank loan of $229,741 as at January 31, 2013, were replaced in April 2013 with a private long term mortgage of Cdn $500,000 (USD $479,524) expiring in April 2015 (see note 5 in the financial statements). In addition, the Company received an advance of $250,000 as a result of signing a long term supply agreement (see note 4 in the financial statements), and also received additional customer deposits of $72,000. This funding allowed early implementation of the Company's planned capital expenditures during the period, and allowed it to take advantage of some unexpected capital expenditure cost saving opportunities.

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 its acquisition costs. Capital lease obligations decreased from January 31, 2013 due to the continuation of regular payments of principal and interest throughout the period.

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

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

Related Party Transactions

In August 1997, the Company loaned the late Thomas C. Usher, its Vice-Chairman, Director of Research and Development, a member of its Board of Directors and the beneficial owner of greater than 5% of the outstanding common shares of the Company, $691,500 at an interest rate equal to the prime rate of Toronto Dominion Bank plus 1.50% (the "Loan"). The Loan was used to partially fund a $1,000,000 payment to the State of Florida in order to allow Thomas C. Usher to regain possession of 430,000 Common Shares of the Company then held by the State as collateral security relating to the liquidation of insurance companies formerly owned by Thomas C. Usher. Repayment of the Loan is accomplished by periodic payments and through offsets by the Company against royalty payments due Thomas C. Usher pursuant to intellectual property license agreements and, in the past, bonus payments, if any, granted to Thomas C. Usher as an employee of the Company. The amount outstanding under the Loan as of October 31, 2013 was $251,003 as compared to $242,259 at January 31, 2013, including accrued interest. The Company has taken a cumulative provision of $444,492 at October 31, 2013 (January 31, 2013 - $435,748) against accrued interest on the Loan and the other amounts receivable from the estate as noted below. Obligations with respect to the Loan transferred to the estate of Thomas C. Usher upon his death in February 2005.

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

As of October 31, 2013, 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 $233,532 at October 31, 2013, based on the closing price of the Company's common shares on the Pink Sheets quotation service on October 31, 2013. The Company intends to continue to hold the pledged assets as collateral until the amounts owing discussed above are repaid.

The Company had a commitment to pay an amount equal to one year's salary, $110,000, to Thomas C. Usher's estate. The amount owing on this commitment as at October 31, 2013 is $8,721.

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 $487,020 at October 31, 2013 from $508,335 at January 31, 2013 due to monthly payments by the Company, less interest charges. The Company has increased its repayments to the minimum required $5,000 per month principal and interest.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Critical Accounting Policies

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

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

Revenue Recognition

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

Allowance for Doubtful Accounts

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

Long-Lived Assets

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

Deferred Tax Assets

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

Changes in Accounting Policies

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

ITEM V LEGAL PROCEEDINGS

The Company is not party to any pending legal proceedings.

ITEM VI DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM VII OTHER INFORMATION

Not applicable.

ITEM VIII EXHIBITS

Not applicable

ITEM IX CERTIFICATIONS

I, George G. Usher, certify that:

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

December 10, 2013

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

ITEM IX CERTIFICATIONS (Continued)

I, John A. Luce, certify that:

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

December 10, 2013

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