POLYDEX PHARMACEUTICALS LIMITED

QUARTERLY DISCLOSURE REPORT

JULY 31, 2019

UNAUDITED

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QUARTERLY REPORT
JULY 31, 2019
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INDEX

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ITEM I NAME OF ISSUER

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ITEM II SHARES OUTSTANDING

Preferred Stock – Class A

(i)	Period end date	July 31, 2019
(ii)	Authorized	100,000 shares at $0.10 each
(iii)	Issued and outstanding	None
(iv)	Freely tradable shares (public float)	None
(v)	Number of shareholders of record	None

Preferred Stock – Class B

(i)	Period end date	July 31, 2019
(ii)	Authorized	899,400 shares at $0.0167 each
(iii)	Issued and outstanding	899,400 shares
(iv)	Freely tradable shares (public float)	None
(v)	Number of shareholders of record	1

Common Stock

(i)	Period end date	July 31, 2019
(ii)	Authorized	10,000,000 shares
(iii)	Issued and outstanding	3,419,478 shares
(iv)	Freely tradable shares (public float)	2,561,166
(v)	Number of shareholders of record	221

POLYDEX PHARMACEUTICALS LIMITED
QUARTERLY REPORT
JULY 31, 2019
UNAUDITED

ITEM III INTERIM FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

TABLE OF CONTENTS

POLYDEX PHARMACEUTICALS LIMITED

CONSOLIDATED BALANCE SHEETS

JULY 31, 2019

UNAUDITED

(Expressed in United States dollars)

		July 31 2019		January 31 2019
		(Unaudited)		(Unaudited)
Assets				
Current assets:				
Cash		$1,264,189		$1,593,728
Investments available for sale (note 3)		614,859		-
Trade accounts receivable		903,514		1,011,959
Inventories				
Finished goods	904,649		513,397	
Work in progress	133,997		319,623	
Raw materials	271,166	1,309,812	245,761	1,078,781
Prepaid expenses and other current assets		36,048		71,042
Total current assets		4,128,422		3,755,510
Property, plant and equipment, net		3,296,066		3,218,830
Deferred taxes (note 9)		62,500		62,500
Due from estate of former shareholder		20,903		20,903
		$7,507,891		$7,057,743

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
JULY 31, 2019
UNAUDITED

(Expressed in United States dollars)

	July 31 2019	January 31 2019
	(Unaudited)	(Unaudited)
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$579,784	$370,552
Accrued liabilities	220,112	260,521
Income taxes payable	2,652	1,933
Other loans and advances (note 4)	75,825	75,825
Current portion of long-term debt (note 5a)	65,307	63,898
Current portion of capital lease obligations (note 5b)	4,087	4,141
Current portion of due to shareholder	44,000	36,000
Total current liabilities	991,767	812,870
Long-term debt (note 5a)	173,142	206,538
Capital lease obligations (note 5b)	21,135	5,747
Due to shareholder	295,010	313,712
	489,287	525,997
Total liabilities	1,481,054	1,338,867
Commitments and contingencies (note 6)		
Susequent events (note 7)		
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, 2019 - 899,400)	15,010	15,010
3,419,478 common shares (January 31, 2019 - 3,419,478)	56,975	56,975
Contributed surplus	23,807,078	23,807,078
Deficit	(18,224,764)	(18,541,444)
Accumulated other comprehensive income	372,538	381,257
	6,026,837	5,718,876
	$7,507,891	$7,057,743

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
JULY 31, 2019
UNAUDITED

(Expressed in United States dollars)

	Three Months Ended July 31 2019	Three Months Ended July 31 2018	Six Months Ended July 31 2019	Six Months Ended July 31 2018
	(Unaudited)	(Unaudited)	**(Unaudited)**	**(Unaudited)**
Sales	$1,243,883	$1,267,481	2,465,367	2,747,786
Cost of goods sold	884,867	996,644	1,781,723	2,235,812
Gross profit	359,016	270,837	683,644	511,974
Expenses				
General and administrative	162,849	154,664	306,582	301,760
Interest expense,net	9,346	9,309	18,031	18,809
Selling and promotion	16,382	11,963	24,464	34,071
Depreciation	2,131	2,303	3,689	4,827
Foreign exchange (gain) loss	51,161	33,434	19,830	(10,728)
Interest and other income	(3,468)	(1,585)	(6,353)	(2,462)
Total expenses	238,401	210,088	366,243	346,277
Income before income taxes	120,615	60,749	317,401	165,697
Provision for income taxes (note 9)				
Current	721	600	721	600
Deferred	-	-	-	-
	721	600	721	600
Net income (loss) for the period	**119,894**	**60,149**	**316,680**	**165,097**
Unrealized gain (loss) on investments	-	(631)	-	(2,589)
Currency translation adjustment	126,742	(41,616)	(8,719)	(294,034)
Comprehensive income for the period	$246,636	$17,902	$307,961	($131,526)
Per share information:				
Earnings per common share:				
Basic	0.04	0.02	0.09	0.05
Diluted	0.03	0.02	0.09	0.05
Weighted average number of common shares used compute net income per share for the period:				
Basic	3,419,478	3,419,478	3,419,478	3,419,478
Diluted	3,447,282	3,459,969	3,442,867	3,469,261

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
JULY 31, 2019
UNAUDITED

(Expressed in United States dollars)

	Six Months Ended July 31 2019	Six Months Ended July 31 2018
	(Unaudited)	(Unaudited)
Preferred Shares:		
Balance, beginning and end of period	$15,010	$15,010
Common Shares:		
Balance, beginning and end of period	$56,975	$56,975
Contributed Surplus:		
Balance, beginning and end of period	$23,807,078	$23,807,078
Deficit:		
Balance, beginning of period	($18,541,444)	($18,772,389)
Net profit for the period	316,680	165,097
Balance, end of period	($18,224,764)	($18,607,292)
Accumulated Other Comprehensive Income:		
Balance, beginning of period	$381,257	$661,798
Unrealized gain on investments available for sale	-	(2,589)
Currency translation adjustment for the period	(8,719)	(294,034)
Balance, end of period	$372,538	$365,175

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
JULY 31, 2019
UNAUDITED

(Expressed in United States dollars)

	Six Months Ended July 31 2019	Six Months Ended July 31 2018
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operating activities:		
Net profit for the period	$316,680	$165,097
Add (deduct) items not affecting cash:		
Depreciation and amortization	139,424	145,888
Deferred income taxes (note 9)	---	-
Net change in non-cash working capital balances related to operations	78,882	628,419
Cash provided by operating activities	534,986	939,404
Investing activities:		
Additions to property, plant and equipment	(221,073)	(157,327)
Decrease in due from shareholder	-	-
Increase in investments available for sale	(6,353)	(2,462)
Proceeds (Acquisition) of investments available for sale	(603,083)	-
Cash used in investing activities	(830,509)	(159,789)
Financing activities:		
Repayment of long-term debt	(31,277)	(30,561)
Proceeds (Repayment) of capital lease obligations, net	(2,862)	(2,000)
Decrease in due to shareholder	(10,702)	(11,935)
Cash used in financing activities	(44,841)	(44,496)
Effect of exchange rate changes	10,825	10,500
Net increase in cash and cash equivalents	(329,539)	745,619
Cash, beginning of year	1,593,728	632,502
Cash, end of period	$1,264,189	$1,378,121

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 Annual Report for the fiscal year ended January 31, 2019 as found on the Polydex Pharmaceuticals Limited (the "Company") website, www.polydex.com. The unaudited interim consolidated financial statements as of July 31, 2019 and 2018 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 except as noted in note 7, there were no other material subsequent events since July 31, 2019 that would require recognition.

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 Guaranteed Interest Contracts, 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 to 25 years
Machinery and equipment 3 to 10 years

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

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

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

Revenue recognition

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

Product sold in bulk quantities is tested, prior to release for shipment, to ensure that it meets customer specifications, and in many cases, customers receive samples for their own testing. Approval is obtained from the customer prior to shipping.

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 period. The resulting gains and losses have been reported separately as accumulated other comprehensive income within shareholders' equity.

Derivative financial instruments
The Company's Canadian operations from time to time enters into foreign exchange contracts, to manage exposure to currency rate fluctuations related to expected future cash flows. The Company does not engage in speculative trading of derivative financial instruments. The foreign exchange contracts are not designated as hedging instruments, and as a result all foreign exchange contracts are marked to market and the resulting gains and losses are recorded in the consolidated statements of operations in each reporting period. Unrealized gains and losses are included in accrued liabilities in the consolidated balance sheets and in net change in non-cash working capital balances related to operations in the consolidated statements of cash flows. For the fiscal period ended July 31, 2019 the Company has not entered into any derivative financial instruments.

Stock options
The Company uses the fair value accounting methodology to apply recognition provisions to 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 statements or tax returns. Deferred income taxes are provided using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities.

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

Earnings per common share

Basic earnings per common share is computed using the weighted average number of common shares outstanding of 3,419,478 for the three months and six months ended July 31, 2019 (2018 - 3,419,478). Diluted earnings per common share is computed using the weighted average number of common shares outstanding adjusted for the incremental shares, using the treasury stock method, attributed to outstanding options to purchase common stock. Options to purchase common shares of 23,389 were included in the computation of year to date diluted earnings per share as at July 31, 2019, and 49,803 incremental shares were included for the six months ended July 31, 2018. Options to purchase common shares of 27,803 were included in the computation of diluted earnings per share for the three months ended July 31, 2018 and 40,491 incremental shares were included for the three months ended July 31, 2018.

3. Investments Available For Sale:

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

	July 31 2019 $	January 31 2019 $
Guaranteed interest contracts with interest rates varying from 1.9% to 2.55% per annum and varying maturities from February 2020 to February 2027	**614,859**	-
	614,859	-

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 2020 and onwards. Accordingly the investments available for sale were classified as part of current assets as at July 31, 2019.

4. Other loans and advances:

Other loans and advances consist of the following:

	July 31 2019 $	January 31 2019 $
Customer advance	**75,825**	75,825

The advance from a customer is non-interest bearing, unsecured, and is repayable on demand.

5. Long term debt obligations:

[a] Bank term loans consist of the following:

	July 31 2019 $	January 31 2019 $
Bank term loan #1 payable in monthly installments of Cdn $5,594 (U.S. $4,255) principal and interest at the Canadian bank's fixed rate of 4.98%	**73,618**	97,159
Bank term loan #2 payable in monthly installments of Cdn $2,527 (U.S. $1,922) principal and interest at the Canadian bank's fixed rate of 3.97%	**164,831**	173,227
	238,449	270,436
Less: current portion	**65,307**	63,898
	173,142	206,898

Bank term loan #1 was arranged in January 2016 for 60 months at a fixed rate of prime plus 1.50% (2019 – 4.20%). On January 29, 2019 the loan was renewed at a fixed rate of 4.98% per annum maturing January 29, 2021.

Bank term loan #2 was arranged in December 2017 for 120 months at a fixed rate of prime plus 1.50% (2019 and 2018 - 3.97%).

The Company also obtained an operating loan facility of Cdn $300,000 (USD – $228,172) for working capital purposes, of which none was utilized at January 31, 2019 and July 31, 2019. This Canadian operating facility bears interest at the Canadian bank's prime lending rate plus 2.15%.

Bank indebtedness and facility are collateralized by a general security agreement over the Company's assets and a collateral mortgage of Cdn $500,000 (USD – $380,373) on the Company's building located in Toronto, Canada.

The company was in compliance with all covenants as of July 31, 2019.

Interest expense for the six months on the loans was $5,458 (2018 - $7,050).

Principal repayments on the bank loan are as follows:

	$
2020	**65,307**
2021	**42,656**
2022	**18,220**
2023	**18,956**
2024	**19,335**
Thereafter	**73,975**
	238,449

[b] Capital lease obligations consist of the following:

	July 31 2019	January 31 2019
	$	$
Obligation (Cdn. $16,737) under a capital lease, repayable in quarterly installments of $1,260 (U.S. $958) bearing interest at 9.42% and maturing in 2021	**--**	13,039
Obligations (Cdn. $34,423) under capital leases, repayable in quarterly installments of $2,134 (U.S. $1,623) bearing interest at 10.15 % and maturing in 2024	**25,222**	-
Less current portion	**(4,087)**	(3,949)
	21,135	9,090

Future minimum annual lease payments on the capital lease obligations including interest are as follows:

	$
2020	**6,495**
2021	**6,495**
2022	**6,495**
2023	**6,495**
2024	**6,495**
Total minimum lease payments	**32,473**
Less amount representing imputed interest	**7,251**
	25,222

Interest expense for the 6 months ended July 31, 2019 for capital lease obligations was $658 (2018 - $448).

6. Commitments and Contingencies:

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

The Company has committed to purchase approximately $300,000 of partially finished product from a contract manufacturer.

7. Subsequent Events

The company received notification to appear in court on August 23, 2019 relating to charges under the Ontario Occupational Health and Safety Act. The charges related to an incident with an outside contractor during the plant shutdown in August 2018. The company has retained legal counsel to attend to these charges. At this hearing a subsequent court date was set for October 3, 2019 to determine if a preliminary hearing will proceed. The outcome of these charges is not determinable at this time and no further disclosure or recognition is considered necessary by management.

Significant capital improvements were made during the annual maintenance shutdown occurring in August that resulted in a three week plant shutdown. This may impact sales in the next quarter.

8. Stock-based Employee Compensation:

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, 2019 to July 31, 2019, because there were no options granted during this period. Similarly, no stock-based employee compensation expense was recorded during the period from February 1, 2018 to July 31, 2018, because there were no options granted during that period.

9. Provision for Income Taxes

The Company's income tax provision for July 31, 2019 relates to income taxes owing at its United State's subsidiary Chemdex, Inc.

10. Segmented Information:

Total revenue by significant customer:

	Six Months Ended July 31 2019	Six Months Ended July 31 2018
	$	$
Customer A	**516,804**	--
Customer B	**430,859**	253,291
Customer C	**334,338**	100,116
Customer D	**190,428**	192,531
Customer E	**108,971**	325,678
Customer F	**81,233**	324,997
Customer G	**--**	608,000
	1,662,633	1,804,613

Sales by geographic destination:

	Six Months Ended July 31 2019	Six Months Ended July 31 2018
	$	$
United States	**1,184.913**	958,626
Europe	**570,955**	1,479,051
Canada	**335,179**	102,999

Other	**252,545**	204,610
Pacific Rim	**121,775**	2,500
	2,465,367	2,747,786

ITEM IV MANAGEMENT DISCUSSION AND ANALYSIS

The Company's fiscal year ends on January 31st of each year. In this report, fiscal year 2020 refers to the Company's fiscal year ending January 31, 2020. The following discussion should be read in conjunction with the July 31, 2019 interim consolidated financial statements and notes thereto included elsewhere in this report. Operating results for the three and six months ended July 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2020 For further information, refer to the Polydex Pharmaceuticals Limited Annual Report on our website, www.polydex.com. The Company's financial statements are prepared in substantial accordance with United States generally accepted accounting principles. All amounts are in United States dollars, unless otherwise denoted.

Overview

The Company is engaged in the manufacture of bulk pharmaceutical intermediates for the worldwide veterinary pharmaceutical industry and also the manufacture and marketing of biotechnology-based products for the human pharmaceutical market. The Company conducts its business operations through its wholly-owned subsidiary Chemdex, Inc. and its corporate division operating as Dextran Products. (On May 1, 2017 Dextran Products Limited and Polydex Chemicals (Canada) Limited were amalgamated into the parent company Polydex Pharmaceuticals Limited).

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

Management Objectives for Fiscal 2020:

Management is pleased with the results for the second quarter of fiscal 2020 as well as the year to date due to the increase in margin that resulted from the increase in sales of powdered product. We have been focusing on this for some time and will continue to do so in the future.

Significant funds were invested in production equipment during our regular third quarter shutdown as a preventative action.

Product development for new markets is being reviewed by customers and authorities although timing for sales cannot be predicted at this time.

Results of Operations

Three and six months ended July 31, 2019 compared to three and six months ended July 31, 2018:

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018	Variance	Six Months Ended July 31, 2019	Six Months Ended July 31, 2018	Variance
Net Income (loss)	**$119,894**	**$60,149**	**99%**	**$316,680**	**$165,097**	**92%**
Income per Share:						
Basic	**$0.04**	**$0.02**		**$0.09**	**$0.05**	
Diluted	**$0.03**	**$0.02**		**$0.09**	**$0.05**	

The increase in net income for the first quarter and the year to date of fiscal 2019 compared to the year to date net income of fiscal 2018 is due primarily to increased gross margins. If not for an increase in the value of the Canadian dollar subsequent to the year end this net profit improvement would have been higher.

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018	Variance	Six Months Ended July 31, 2019	Six Months Ended July 31, 2018	Variance
Sales	**$1,243,883**	**$1,267,481**	**(2)%**	**$2,465,367**	**$2,747,786**	**(11)%**

Sales in the second quarter of fiscal 2019 were comparable to the second quarter of fiscal 2018. The decrease in sales for the year to date of fiscal 2019 compared to fiscal 2018 is primarily due to change in product mix.

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018	Variance	Six Months Ended July 31, 2019	Six Months Ended July 31, 2018	Variance
Gross Profit	**$359,016**	**$270,837**	**32%**	**$683,644**	**$511,974**	**33%**
Percentage of sales	**29%**	**21%**		**28%**	**19%**	

The increase in gross margin percentage and dollar amounts in the second quarter and year to date of fiscal year 2019 were primarily due to large powdered orders completed. This was one of our objectives for fiscal 2020 to increase powdered production.

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018	Variance	Six Months Ended July 31, 2019	Six Months Ended July 31, 2018	Variance
Selling, promotion, general and administrative expenses	**$179,231**	**$166,627**	**8%**	**$330,043**	**$335,841**	**(2)%**

The increase in the second quarter of fiscal 2019 is a result of the timing of a commission payment and increases in reporting and compliance costs. The decrease in the year to date 2019 compared to fiscal 2018 is primarily due to the change in foreign exchange rates in the first quarter of the year compared to the year end rate.

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018	Variance	Six Months Ended July 31, 2019	Six Months Ended July 31, 2018	Variance
Research and Development expenditures	**---**	**---**	**---**	**---**	**---**	**---**

During fiscal year 2010 all of the Company's research into Ushercell was halted, with only some patent expenses being incurred and paid. Since that time further patent fees have been curtailed, with only smaller patent maintenance fees being expensed as incurred.

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018	Variance	Six Months Ended July 31, 2019	Six Months Ended July 31, 2018	Variance
Depreciation and amortization expense	**$71,220**	**$72,318**	**(1.5)%**	**$139,424**	**$145,888**	**(4.5)%**

Depreciation and amortization decreased as a result of management's change in accounting policy for the estimate of the useful life of the new building. The amortization period for the new building was changed from fifteen to twenty-five years. Depreciation was also impacted by the increase in value of the Canadian dollar

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018	Variance	Six Months Ended July 31, 2019	Six Months Ended July 31, 2018	Variance
Interest expense	**$9,346**	**$9,309**	**0.3%**	**$18,031**	**$18,809**	**(4)%**

Interest expense decreased year to date of fiscal year 2019 compared to 2018 as the company continues to pay down loans.

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018	Variance	Six Months Ended July 31, 2019	Six Months Ended July 31, 2018	Variance
Foreign exchange (gain) loss	**$51,161**	**$33,434**	**53%**	**$19,830**	**$(10,728)**	**???%**

The volatility of these exchange rates increase or decrease the value of exchange affected amounts in the Company's Canadian division, Dextran Products, especially U.S. denominated sales.

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018	Variance	Six Months Ended July 31, 2019	Six Months Ended July 31, 2018	Variance
Interest and investment income	**$3,468**	**$ 1,585**	**119%**	**$6,353**	**$2,462**	**158%**

Interest and other income increased in the current quarter and year to date. The company realized a loss on the disposition of investments at the end of the last fiscal year and invested the remaining proceeds in a series of guaranteed interest rate contracts in the current fiscal year. These contracts provide consistent and steady returns with no risk of capital erosion.

	Three Months Ended July 31, 2019	Three Months Ended July 31, 2018	Variance	Six Months Ended July 31, 2019	Six Months Ended July 31, 2018	Variance
Income tax expense						
Current	**$721**	**$600**		**$721**	**$600**	
Deferred	**---**	**---**		**---**	**---**	
Income taxes	**$721**	**$600**	**20%**	**$721**	**$600**	**20%**

The current tax provision for the three months and year to date ended July 31, 2019 relates to income taxes in the Company’s United States subsidiary, Chemdex, Inc.

Liquidity and Capital Resources

As of July 31, 2019, the Company had cash and investments of $1,878,378, compared to cash and investments of $1,593,728 at January 31, 2019. In the first six months of fiscal year 2020, the Company generated cash of $534,986 in its operating activities, compared to $939,404 for the six months of fiscal year 2019. The decrease in the generation of cash for operations during the current year is primarily due to timing of receivables collections and an increase in payables to suppliers for powdered orders shipped in the current quarter.

The Company's working capital increased to $3,136,656 from $2,942,640 as at January 31, 2019. The working capital ratio decreased to 4.16 to 1 as of July 31, 2019 compared to 4.62 to 1 as of January 31, 2019.

As of July 31, 2019, the Company had accounts receivable of $903,514 and inventory of $1,309,812 compared to $1,011,959 and $1,078,781 respectively at January 31, 2019 and $965,408 and $1,0174,322 respectively at July 31, 2018. Accounts receivable decreased due to the timing of receipts, while inventory increased in anticipation of future orders.

At July 31, 2019, the Company had accounts payable of $579,784 compared to $370,552 at January 31, 2019 and $598,796 at July 31, 2018. Accounts payable increased due to a shipment of raw materials received at the end of June for drying.

During the second quarter of fiscal year 2020, capital expenditures totaled $142,834 as compared to $114,228 in the second of fiscal year 2019. Expenditures in the second quarter of fiscal 2020 related to plant equipment. Additional expenditures on capital equipment are possible for the remainder of fiscal 2020.

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

The increase in capital lease obligations from January 31, 2019 is due to new capital leases for office equipment in the first quarter of 2019. Despite this addition overall long term debt decreased as a result of continued loan repayments.

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

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

Related Party Transactions

The amount due from shareholder as of July 31, 2019 was $295,121 as compared to $285,081 at January 31, 2019, including accrued interest. The Company has taken a cumulative provision of $524,218 at July 31, 2019 (January 31, 2019 $514,178) 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 July 31, 2019, pursuant to a non-interest bearing loan with no specific repayment terms. The outstanding amount of this loan has not changed from January 31, 2019. The amounts continue to remain owing from the estate of Thomas C. Usher.

As of July 31, 2019, 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 $265,157 at July 31, 2019, based on the closing price of the Company's common shares on the Pink Sheets quotation service on July 31, 2019. The Company intends to continue to hold the pledged assets as collateral until the amounts owing discussed above are repaid.

The Company had a commitment to pay an amount equal to one year's salary, $110,000, to Thomas C. Usher's estate. The amount owing on this commitment as at July 31, 2019 remained at $6,962 (January 31, 2019 – $6,962).

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 $338,989 as at July 31, 2019 from $349,691 at January 31, 2019 due to monthly payments by the Company, less interest charges.

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 substantial 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. The Company 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

Charges under the Ontario Occupational Health and Safety Act – See note 7.
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ITEM VI DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM VII OTHER INFORMATION

Not applicable.

ITEM VIII EXHIBITS

Not applicable

ITEM IX CERTIFICATIONS

I, George G. Usher, certify that:

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

September 16, 2019

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