POLYDEX PHARMACEUTICALS LIMITED

QUARTERLY DISCLOSURE REPORT

OCTOBER 31, 2018

UNAUDITED

INDEX

ITEM I NAME OF ISSUER

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ITEM II SHARES OUTSTANDING

Preferred Stock – Class A

(i)	Period end date	October 31, 2018
(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, 2018
(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, 2018
(ii)	Authorized	10,000,000 shares
(iii)	Issued and outstanding	3,419,478
(iv)	Freely tradable shares (public float)	2,386,525
(v)	Number of shareholders of record	220

ITEM III INTERIM FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2018
UNAUDITED

(Expressed in United States dollars)

		October 31 2018		January 31 2018
		(Unaudited)		(Unaudited)
Assets				
Current assets:				
Cash		$1,263,056		$632,502
Investments available for sale (note 3)		608,069		651,299
Trade accounts receivable		967,919		1,539,891
Due from shareholders		-		6,045
Inventories				
Finished goods	479,284		519,279	
Work in progress	231,910		175,661	
Raw materials	271,768	982,962	343,013	1,037,953
Prepaid expenses and other current assets		32,495		71,835
Total current assets		3,854,501		3,939,525
Property, plant and equipment, net		3,226,114		3,368,511
Due from estate of former shareholder		20,903		20,903
		$7,101,518		$7,328,939

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED BALANCE SHEETS
OCTOBER 31, 2018
UNAUDITED

(Expressed in United States dollars)

	October 31 2018	January 31 2018
	(Unaudited)	(Unaudited)
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$501,623	$424,813
Accrued liabilities	223,303	279,612
Income taxes payable	1,932	880
Other loans and advances (note 4)	88,425	113,625
Current portion of long-term debt	63,105	62,016
Current portion of capital lease obligations	4,041	3,382
Current portion of due to shareholder	36,000	36,000
Total current liabilities	918,429	920,328
Long-term debt (note 5a)	223,093	292,461
Capital lease obligations (note 5b)	6,811	11,344
Due to shareholder	318,866	336,336
	548,770	640,141
Total liabilities	1,467,199	1,560,469
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, 2018 - 899,400)	15,010	15,010
3,419,978 common shares (January 31, 2018 - 3,419,978)	56,974	56,974
Contributed surplus	23,807,078	23,807,078
Deficit	(18,572,661)	(18,772,390)
Accumulated other comprehensive income	327,918	661,798
	5,634,319	5,768,470
	$7,101,518	$7,328,939

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS
OCTOBER 31, 2018
UNAUDITED

(Expressed in United States dollars)

	Three Months Ended October 31 2018	Three Months Ended October 31 2017	Nine Months Ended October 31 2018	Nine Months Ended October 31 2017
	(Unaudited)	(Unaudited)	**(Unaudited)**	**(Unaudited)**
Sales	$1,158,846	$1,434,587	3,906,632	3,969,294
Cost of goods sold	957,533	1,098,556	3,193,345	3,047,732
Gross profit	201,313	336,031	713,287	921,562
Expenses				
General and administrative	136,796	147,141	438,556	443,270
Selling and promotion	12,907	11,593	46,978	37,336
Interest expense,net	9,372	8,331	28,181	25,239
Depreciation	1,159	1,977	5,986	5,709
Research and development	--	--	--	--
Foreign exchange (gain) loss	6,640	(65,148)	(4,088)	18,779
Interest and other income	(893)	(2,224)	(3,355)	(5,010)
Total expenses	165,981	101,670	512,258	525,323
Income before income taxes	35,332	234,361	201,029	396,239
Provision for income taxes (note 8)				
Current	700	217	1,300	11,504
Deferred	-	413	-	21,940
	700	630	1,300	33,444
Net income for the period	**34,632**	**233,731**	**199,729**	**362,795**
Unrealized gain (loss) on investments	(1,934)	(668)	(4,523)	(3,198)
Currency translation adjustment	(35,323)	(45,315)	(329,357)	120,516
Comprehensive income for the period	($2,625)	$187,748	($134,151)	$480,113
Per share information:				
Earnings per common share:				
Basic	0.01	0.07	0.06	0.11
Diluted	0.01	0.07	0.06	0.10
Weighted average number of common shares used compute net income per share for the period:				
Basic	3,399,978	3,399,978	3,419,478	3,399,978
Diluted	3,451,044	3,486,590	3,463,939	3,501,355

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
OCTOBER 31, 2018
UNAUDITED

(Expressed in United States dollars)

	Nine Months Ended October 31 2018	Nine Months Ended October 31 2017
	(Unaudited)	(Unaudited)
Preferred Shares:		
Balance, beginning and end of period	$15,010	$15,010
Common Shares:		
Balance, beginning and end of period	$56,974	$56,649
Contributed Surplus:		
Balance, beginning and end of period	$23,807,078	$23,801,359
Deficit:		
Balance, beginning of period	($18,772,390)	($19,220,395)
Net profit for the period	199,729	362,795
Balance, end of period	($18,572,661)	($18,857,600)
Accumulated Other Comprehensive Income:		
Balance, beginning of period	$661,798	$388,094
Unrealized gain on investments available for sale	(4,523)	(3,198)
Currency translation adjustment for the period	(329,357)	120,516
Balance, end of period	$327,918	$505,412

See accompanying notes.

POLYDEX PHARMACEUTICALS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
OCTOBER 31, 2018
UNAUDITED

(Expressed in United States dollars)

	Nine Months Ended October 31 2018	Nine Months Ended October 31 2017
	(Unaudited)	(Unaudited)
Cash provided by (used in):		
Operating activities:		
Net profit for the period	$199,729	$362,795
Add (deduct) items not affecting cash:		
Depreciation and amortization	215,540	181,644
Deferred income taxes (note 9)	-	21,940
Net change in non-cash working capital balances related to operations	553,037	(179,183)
Cash provided by operating activities	968,306	387,196
Investing activities:		
Additions to property, plant and equipment	(291,622)	(353,280)
Proceeds (Acquisition) of investments available for sale	(2,462)	(4,935)
Cash used in investing activities	(294,084)	(358,215)
Financing activities:		
Repayment of long-term debt	(45,899)	(32,877)
Proceeds (Repayment) of capital lease obligations, net	(2,956)	(28,258)
Decrease in due to shareholder	(17,449)	(17,979)
Cash used in financing activities	(66,304)	(79,114)
Effect of exchange rate changes	22,636	(45,900)
Net increase in cash and cash equivalents	630,554	(96,033)
Cash, beginning of year	632,502	653,215
Cash, end of period	$1,263,056	$557,182

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 2018 Annual Report for the fiscal year ended January 31, 2018 as found on the Polydex Pharmaceuticals Limited (the "Company") website, www.polydex.com. The unaudited interim consolidated financial statements as of October 31, 2018 and 2017 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 October 31, 2018 that would require recognition or note disclosures in these financial statements.

2. Significant Accounting Policies:

<u>Basis of consolidation</u>
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.

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

<u>Use of estimates</u>
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.

<u>Inventories</u>
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, 2018 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 per common share is computed using the weighted average number of common shares outstanding of 3,419,478 for the three and nine months ended October 31, 2018 (2017 – 3,399,978). . 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 44,461 were included in the computation of year to date diluted earnings per share as at October 31, 2018, and 101,377 incremental shares were included for the nine months ended October 31, 2017. Options to purchase common shares of 31,566 were included in the computation of diluted earnings per share for the three months ended October 2018 and 88,612 incremental shares were included for the three months ended October 31, 2107.

3. Investments Available for sale

Investments available for sale consist of the following:

	October 31 2018 $	January 31 2018 $
TD short term bond fund consisting of Canadian government and Corporate bonds maturing in the next 1-5 years, currently yielding 1.33%	**300,304**	321,868
5 year global fixed income fund class A, with an average maturity of 3.95 years and a yield to maturity of 0.14%	**307,765**	329,431
	608,069	651,299

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 2019 and onwards. Accordingly the investments available for sale were classified as part of current assets as at October 31, 2018. An unrealized loss of $1,934 has been included in accumulated other comprehensive income for the three month period October 31, 2018 (2017 – ($668)).

4. Other loans and advances:

Other loans and advances consist of the following:

	October 31 2018 $	January 31 2018 $
Customer advance	**88,425**	113,625

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:

	October 31 2018 $	January 31 2018 $
Bank term loan #1 payable in monthly installments of Cdn $5,547 (U.S. $4,221) principal and interest at the Canadian bank's fixed rate of 4.20%	**109,093**	152,480
Bank term loan #2 payable in monthly installments of Cdn $2,527 (U.S. $1,923) principal and interest at the Canadian bank's fixed rate of 3.97%	**177,105**	201,997
	286,198	354,477
Less: current portion	**63,105**	62,016
	223,093	292,461

Bank term loan #1 was arranged in January 2016 for 60 months at a fixed rate of prime plus 1.5% (2018 – 6.50%).

Bank term loan #2 was arranged December 2017 for 120 months at a fixed rate of prime plus 1.5% (2018 – 3.97%). This loan was acquired in order to finance the replacement of an existing boiler that failed in fiscal 2018.

The company also has an operating loan facility of Cdn $300,000 (USD – $228,275) for working capital purposes, of which none was utilized at October 31, 2018 and January 31, 2018. This Canadian operating facility bears interest at the Canadian banks' prime lending rate plus 3.00%.

Interest expense for the nine months ended October 31, 2018 for the bank loan was $9,720 (2017 - $5,499).

Principal repayments on the bank loan are as follows:

	$
2019	**63,105**
2020	**65,880**
2021	**31,157**
2022	**18,409**
2023	**19,153**
Thereafter	**88,494**
Total	**286,198**

[b] Capital lease obligations consist of the following:

	October 31 2018	January 31 2018
	$	$
Obligation (Cdn. $19,100) under a capital lease, repayable in quarterly installments of $1,231 bearing interest at 9.42% and maturing in fiscal 2021	**15,153**	14,587
Obligation (Cdn. $171) under a capital lease, repayable in monthly installments of $3,323 bearing interest at 12.67% and has matured	**-**	139
	10,852	14,726
Less current portion	**4,041**	3,382
	6,811	11,344

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

	$
2019	**4,923**
2020	**4,923**
2021	**2,462**
Total minimum lease payments	**12,308**
Less amount representing imputed interest	**1,456**
	10,852

Interest expense for the 9 months ended October 31, 2018 for capital lease obligations was $899 (2017 - $1,196)

6. Commitments and Contingencies:

In July 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 $160,000 of partially finished product from a contract manufacturer.

There were no other material commitments or contingencies outstanding as at October 31, 2018.

7. 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, 2018 to October 31, 2018, because there were no options granted during this period. Similarly, no stock-based employee compensation expense was recorded during the period from February 1, 2017 to October 31, 2017, because there were no options granted during that period.

8. Provision for Income Taxes

The Company's income tax provision for October 31, 2018 relates to income taxes owing at its United State's subsidiary, Chemdex Inc.

9. Segmented Information:

Total revenue by significant customer:

	Nine Months Ended Oct 31 2018	Nine Months Ended Oct 31 2017
	$	$
Customer A	**608,000**	561,850
Customer B	**498,045**	346,170
Customer C	**407,781**	85,683
Customer D	**318,281**	310,350
Customer E	**185,945**	245,760
Customer F	**180,794**	691,920
Customer G	**5,940**	452,100
	2,204,786	2,693,833

Sales by geographic destination:

	Nine Months Ended Oct 31 2018	Nine Months Ended Oct 31 2017
	$	$
Europe	**1,897,143**	1,217,327
United States	**1,409,585**	1,483,543
Other	**362,670**	449,371
Canada	**204,834**	698,654
Pacific Rim	**32,400**	120,400
	3,906,632	3,969,294

ITEM IV MANAGEMENT DISCUSSION AND ANALYSIS

The Company's fiscal year ends on January 31st of each year. In this report, fiscal year 2019 refers to the Company's fiscal year ended January 31, 2019. The following discussion should be read in conjunction with the October 31, 2018 interim consolidated financial statements and notes thereto included elsewhere in this report. Operating results for the nine months ended October 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending January 31, 2019. 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).

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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 Inc. in the United States provides ferric hydroxide and hydrogenated dextran to a customer pursuant to a definitive supply agreement.

Management Objectives for Fiscal 2019:

Water and other utility conservation is an ongoing objective to reduce overhead and progress is beginning to be noted. Product registrations activity also continues targeting markets in the United States, Europe and the Far East although regulatory approval cannot be determined.

Results in the current quarter were affected by unscheduled repairs to our spray dryer that resulted in a delay of powder production but production is expected to soon return to normal levels and thankfully without the loss of orders or customers. Results were also impacted by currency exchange variability and increased depreciation due to recently installed new equipment. Depreciation continues to be a significant non-cash item but is due to our commitment to improve our plant equipment in an effort to minimize unscheduled maintenance.

Results of Operations

Nine and three months ended October 31, 2018 compared to nine and three months ended October 31, 2017:	**Three Months Ended October 31, 2018**	**Three Months Ended October 31, 2017**	**Variance**	**Nine Months Ended October 31, 2018**	**Nine Months Ended October 31, 2017**	**Variance**
Net Income	**$34,632**	**$233,731**	**(85%)**	**$199,729**	**$362,795**	**(45%)**
Net Income per Share						
Basic:	**$0.01**	**$0.07**		**$0.06**	**$0.11**	
Diluted:	**$0.01**	**$0.07**		**$0.06**	**$0.10**	

The decrease in net income for the third quarter of fiscal 2019 compared to the third quarter of fiscal 2018 is due to decreased sales from the spray dryer not operating resulting in reduced sales of powder products. The decrease in net income for the year to date of fiscal 2019 compared to the year to date of fiscal 2018 is due to decreased sales and sales margins, partially offset by foreign exchange variations.

	Three Months Ended October 31, 2018	**Three Months Ended October 31, 2017**	**Variance**	**Nine Months Ended October 31, 2018**	**Nine Months Ended October 31, 2017**	**Variance**
Sales	**$1,158,846**	**$1,434,587**	**(19%)**	**$3,906,632**	**$3,969,294**	**(2%)**

Sales during the third quarter of fiscal 2019 were lower compared the sales in the third quarter of fiscal 2018 as a result of the extended maintenance shutdown and production issues with the spray dryer. However year to date sales for the third quarter of fiscal 2019 only decreased slightly from fiscal 2018 due to first quarter 2019.

	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Variance	Nine Months Ended October 31, 2018	Nine Months Ended October 31, 2017	Variance
Gross Profit	**$201,313**	**$336,031**	**(40)%**	**$713,287**	**$921,562**	**(23%)**
Percentage of sales	**17.4%**	**23.4%**		**18.3%**	**23.2%**	

Gross profit percentages in the third quarter and year to date of fiscal 2019 decreased compared to the prior fiscal periods due to delays in powder production, increased depreciation expense and the increased value of the Canadian dollar compared to comparable periods in fiscal 2018.

	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Variance	Nine Months Ended October 31, 2018	Nine Months Ended October 31, 2017	Variance
Selling, promotion, general and administrative expenses	**$149,703**	**$158,734**	**(6%)**	**$485,534**	**$480,606**	**1%**

These expenses decreased in the third quarter of fiscal 2019 due to no commissions in the quarter.

	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Variance	Nine Months Ended October 31, 2018	Nine Months Ended October 31, 2017	Variance
Research and Development expenditures	**$ --**	**$ --**	**-- %**	**$ --**	**$ 600**	**(100%)**

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

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	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Variance	Nine Months Ended October 31, 2018	Nine Months Ended October 31, 2017	Variance
Depreciation and amortization expense	**$70,190**	**$64,216**	**9%**	**$215,540**	**$181,644**	**19%**

Depreciation and amortization increased for the three months and nine months ending October 31 2018 compared to the three and nine months ended October 31, 2017. This was primarily due to the substantial increase in fixed assets acquired in the third and fourth quarters of fiscal 2018 and has continued into fiscal 2019.

Included in depreciation and amortization expense are allocations to cost of goods sold in the amount of $209,554 for fiscal year to date 2019 (2018 - $175,935).

	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Variance	Nine Months Ended October 31, 2018	Nine Months Ended October 31, 2017	Variance
Interest Expense	**$9,372**	**$8,331**	**12%**	**$28,181**	**$25,239**	**12%**

Interest expense increased in the third quarter and year to date of fiscal year 2019 compared to 2018 due to the increase in long term debts due primarily to the second bank term loan acquired in the fourth quarter of fiscal 2018.

	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Variance	Nine Months Ended October 31, 2018	Nine Months Ended October 31, 2017	Variance
Foreign exchange (gain) loss	**$6,640**	**$(65,148)**	**110%**	**$(4,088)**	**$18,779**	**(121%)**

The foreign exchange loss in the third quarter of fiscal 2019 was due primarily to the increase in value of the Canadian dollar compared to the United States dollar during the period, while the gain for the year to date in fiscal 2019 was attributable primarily to fluctuations in exchange rates throughout the period.

The third quarter and year to date of fiscal 2018 includes a onetime adjustment of approximately $82,000 related to the amalgamation that reduced the Company's Canadian division's exposure to the United States dollar. Future foreign exchange gains or losses will incorporate only those assets and liabilities to which the Canadian division is exposed..

	Three Months Ended October 31, 2018	Three Months Ended October 31, 2017	Variance	Nine Months Ended October 31, 2018	Nine Months Ended October 31, 2017	Variance
Interest and investment income	**$893**	**$1,074**	**(17%)**	**$3,355**	**$3,860**	**(13%)**
Gain on disposal of equipment	**--**	**1,150**		**--**	**1,150**	
Interest and other income	**$893**	**$2,224**	**(60%)**	**$3,355**	**$5,010**	**(33%)**

Interest and investment income fluctuates depending on the timing of dividend reinvestments declared that are related to the two investments held by the Company, as well as variations in their market values and exchange rates. During the third quarter of fiscal 2018 the Company purchased a new truck and disposed of a fully depreciated truck, resulting in the gain shown above.

Liquidity and Capital Resources

As of October 31, 2018, the Company had cash of $1,263,056 compared to cash of $632,502 at January 31, 2018. In the first nine months of fiscal year 2019, the Company generated cash of $968,306 in its operating activities, compared to $387,196 for the nine months of fiscal year 2018. The increase in generation of cash from operations during the first nine months of fiscal year 2019 is primarily due to collection of receivables, and the significant foreign exchange loss that had resulted in the net income during the first nine months of fiscal 2019.

The Company's working capital decreased slightly to $2,936,072 and a working capital ratio of 4.20 to 1 as of October 31, 2018, compared to $3,019,197 and 4.28 to 1 as of January 31, 2018.

As of October 31, 2018, the Company had accounts receivable of $967,919 and inventory of $982,962 compared to $1,539,891 and $1,037,953 respectively at January 31, 2018 and $1,272,597 and $1,051,135 respectively at October 31, 2017. The decrease in accounts receivable is primarily due to the timing of customer payments.

At October 31, 2018, the Company had accounts payable of $501,623 compared to $424,813 at January 31, 2018 and $420,970 at October 31, 2017. The increase in accounts payable from January 31, 2018 was due to the timing of supplier payments.

During the third quarter of fiscal year 2019, capital expenditures amounted to $134,295 compared to $243,312 in the third quarter of fiscal year 2018. Expenditures in the third quarter of fiscal 2019 related to building and plant equipment. Additional expenditures on capital equipment are possible for the remainder of fiscal 2019.

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

The decrease in capital lease obligations from January 31, 2018 is due to continued repayments 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

The amount due from shareholder as of October 31, 2018 was $280,203 as compared to $267,210 at January 31, 2018, including accrued interest. The Company has taken a cumulative provision of $509,300 at October 31, 2018 (January 31, 2018 - $496,307) against accrued interest on the Loan and the other amounts receivable from the estate as noted below. Obligations with respect to the Loan transferred to the estate of Thomas C. Usher upon his death in February 2005.

Thomas C. Usher also owed $250,000 to a subsidiary of the Company, Novadex International Limited, as of October 31, 2018, pursuant to a non-interest bearing loan with no specific repayment terms. The outstanding amount of this loan has not changed from January 31, 2018. The amounts continue to remain owing from the estate of Thomas C. Usher.

As of October 31, 2018, 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 $218,937 at October 31, 2018, based on the closing price of the Company’s common shares on the Pink Sheets quotation service on October 31, 2018. 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, 2018 is $6,962 (January 31, 2018 - $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 $354,845 at October 31, 2018 from $372,314 at January 31, 2018 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 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

Not applicable.

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 17, 2018

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

ITEM IX CERTIFICATIONS (Continued)

I, David P.M. Jamestee, 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 17, 2018

/s/ David P.M. Jamestee
Chief Financial Officer
Polydex Pharmaceuticals Limited