FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

POLYDEX PHARMACEUTICALS LTD/BAHAMAS
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 31, 2005

Commission file number: 1-8366

POLYDEX PHARMACEUTICALS LIMITED

(Exact Name of Registrant as Specified in Its Charter)

Commonwealth of the Bahamas	**None**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
421 Comstock Road, Toronto, Ontario, Canada	**M1L 2H5**
(Address of Principal Executive Offices)	(Zip Code)

Registrant' s telephone number, including area code **(416) 755-2231**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered

Common Shares, $.0167 par value **Boston Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

Common Shares, $.0167 par value
(Title of Class)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant' s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☐ No ☒

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☒

The aggregate market value of the Registrant' s voting common shares held by non-affiliates of the Registrant, based upon the $6.98 per share closing price of the Registrant' s common shares on July 30, 2004 (the last business day of the Registrant' s most recently completed second fiscal quarter), was approximately $16,331,106 (for this purpose, the Registrant has assumed that directors, executive officers and holders of more than 10% of the Company' s common stock are affiliates).

The number of common shares of the Registrant outstanding as of April 28, 2005 was 3,042,296.

Portions of the Registrant' s Notice of Annual Meeting and Proxy Statement for the Registrant' s Annual Meeting of Members, scheduled to be held on July 8, 2005, are incorporated by reference into Part III of this Report.

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains various "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which represent the Company' s expectations or beliefs concerning future events, including, but not limited to statements regarding the Company' s future growth, results of operations, liquidity and capital resources, expectations of regulatory approvals and the commencement of sales of products. The Company has tried to identify such forward-looking statements by use of words such as "believes," "anticipates," "intends," "plans," "will," "should," "expects" and similar expressions, but these words are not the exclusive means of identifying such statements. The Company cautions that these and similar statements in this Annual Report on Form 10-K and in previously filed periodic reports including reports filed on Forms 10-K and 10-Q are further qualified by various risks, uncertainties and other factors that could cause actual results to differ materially from those expressed in, or implied by, the forward-looking statements. These factors include, without limitation, changing market conditions, the progress of clinical trials and the results obtained, the establishment of new corporate alliances, the impact of competitive products and pricing, and the timely development, regulatory approval and market acceptance of the Company' s products, as well as the other risks discussed herein, none of which can be assured. The forward-looking statements contained herein speak only as to the date of this report. Except as otherwise required by federal securities laws, the Company undertakes no obligation to publicly update or revise any forward-looking statements or the risk factors described in this Annual Report on Form 10-K, whether as a result of new information, future events, changed circumstances or any other reason after the date of this report.

PART I

ITEM 1. BUSINESS

Introduction

Polydex Pharmaceuticals Limited (the "Company") is engaged in the research, development, manufacture and marketing of biotechnology-based products for the human pharmaceutical market, and also manufactures bulk pharmaceutical intermediates for the worldwide veterinary pharmaceutical industry. The Company focuses on the manufacture and sale of Dextran and derivative products, including Iron Dextran and Dextran Sulphate, and other specialty chemicals. Dextran, a generic name applied to certain synthetic compounds formed by bacterial growth on sucrose, is a polymer or giant molecule. The name Polydex combines the words "polymer" and "dextran."

The Company was incorporated under the laws of the Commonwealth of the Bahamas on June 14, 1979 as Polydex Chemicals Limited, and changed its name on March 28, 1984. The address of its statutory office in the Bahamas is c/o Higgs & Johnson, 83 Shirley Street, Nassau, Bahamas, telephone (242) 322-8571.

The Company conducts its business operations through its subsidiaries. The manufacture and sale of Dextran and derivative products is conducted through Dextran Products Limited, incorporated in Canada in 1966 ("Dextran Products").

During approximately one month of the Company' s fiscal year ended January 31, 2005 (the "2005 fiscal year"), the Company also engaged in the finished product veterinary pharmaceutical business through its subsidiary Chemdex, Inc., incorporated in Kansas in 1987, which, in turn, conducted its operations through its subsidiary, Veterinary Laboratories, Inc. ("Vet Labs"). On December 1, 1992, Vet Labs and Sparhawk Laboratories Inc. ("Sparhawk") entered into a Joint Venture for the purpose of manufacturing and selling veterinary pharmaceutical products. On March 4, 2004, the Company sold its finished product veterinary pharmaceutical business to Sparhawk. The sale included substantially all of the assets of Vet Labs and its ownership interest in the Joint Venture.

Products and Sales

Iron Dextran

Iron Dextran is a derivative of Dextran produced by complexing iron with Dextran. Iron Dextran is injected into most pigs at birth as a treatment for anemia. The Company sells Iron Dextran to independent distributors and wholesalers primarily in Europe, the United States and Canada, with less significant sales in Pacific Rim countries. Dextran Products has regulatory approval to sell Iron Dextran from Canadian authorities, while Chemdex has United States FDA approval for the manufacture and sale of Iron Dextran for veterinary use. On March 4, 2004, Sparhawk and Chemdex entered into an exclusive Supply Agreement under which Sparkawk agreed to purchase 100% of its product needs for bulk Iron Dextran solution from Chemdex for a period of 10 years, and Chemdex agreed to sell such products in the United States exclusively to Sparhawk, subject to minimum purchase requirements.

Dextran Sulphate

Dextran Sulphate is a specialty chemical derivative of Dextran used in research applications by the pharmaceutical industry and other centers of chemical research. Dextran Sulphate manufactured by the Company is sold primarily to independent distributors and wholesalers in Australia, France, the Netherlands, New Zealand and the United States, where it is used in limited quantities in the manufacture of film, as well as analytical chemical applications. This usage requires no regulatory approval.

Veterinary Products

During approximately one month of the 2005 fiscal year, the Company manufactured sterile injectable products, tablets and boluses, internal and external solutions, ointments and powders through its Vet Labs subsidiary

and the Joint Venture, and Vet Labs also performed contract filling for other industry companies. On March 4, 2004, the Company sold its finished product veterinary pharmaceutical business to Sparhawk. The sale included substantially all of the assets of Vet Labs and its ownership interest in the Joint Venture.

Patents, Trademarks and Licenses

Cellulose Sulphate

During the fiscal year ended January 31, 1996, a patent for a new method of manufacture of Cellulose Sulphate was purchased for $1 million. The process was patented under U.S. patent number 5,378,828 in June 1995. Prior to development of the patented process the manufacture of the compound required the use of dangerous and environmentally sensitive chemicals. The new method is safer and produces a more consistent product.

During fiscal year 2001 U.S. patent number 6,063,773 was granted to the Company and Co-inventors entitled "Cellulose Sulphate for use as Antimicrobial and Contraceptive Agent". Various clinical trials with respect to the safety and efficacy of this product have been completed or are in process, and further trials are planned by the Company.

Cystic Fibrosis

The Company is a party to a Research Agreement with the University of British Columbia, a number of Canadian hospitals and a company owned by an affiliate. Under the terms of this Research Agreement, the Company agreed to provide equipment and funding for continuing research on cystic fibrosis treatment in exchange for an exclusive worldwide license to manufacture, distribute and sell any products developed from the research. Two patents with respect to research products were issued by the United States in 1996. U.S. patent number 5,441,938 is held jointly by the University of British Columbia and the Company, and U.S. patent number 5,514,665 is held by the University of British Columbia and licensed to the Company. Rights to a certain cystic fibrosis treatment product, a low molecular weight dextran, were licensed to BCY LifeSciences, Inc. of Canada in 1999. Under this license agreement, BCY LifeSciences will pay a royalty to both the Company and the University of British Columbia based on sales and sublicensing revenue in return for the exclusive right to sublicense, manufacture, distribute and sell developed products.

Iron Dextran

Effective February 1, 1995, the Company entered into an agreement with Novadex Corp., an affiliated company, under which Novadex granted the Company the exclusive worldwide license to use a certain process developed by Novadex for producing Iron Dextran. This process allows the Company to produce Iron Dextran at a lower cost than would otherwise be possible given the Company' s plant and equipment. The license agreement expires when the related patent expires in 2014. The Company pays a license fee based on production volumes. Upon the expiration of the license, the technology relating to the process described above will belong to the Company, with no further obligation to make royalty payments. During July 1999, Novadex was liquidated, and all of its assets and liabilities, including the above-referenced license agreement, were assumed by its sole shareholder, the former Vice Chairman of the Company, Thomas C. Usher, who passed away on February 26, 2005. The Company remains obligated under the license agreement to continue license fee payments.

Dextran Sulphate

The Company was granted U.S. patent number 4,855,410 in August 1989 with respect to Dextran Sulphate.

Elastin and Collagen

Certain processes with respect to these materials were patented by the Company under U.S. patent numbers 4,659,740 and 4,784,986 on April 21, 1987 and November 15, 1988, respectively. These patents cover a process whereby the materials are modified in such a way as to penetrate the skin and act as a hydrating agent.

Suppliers

Dextran Products

In the manufacture of Dextran and Dextran derivative products, the Company uses a single supplier for its sugar raw material requirements. The Company also uses a single supplier for its iron requirements with respect to the manufacture of Iron Dextran. Both sugar and iron are readily available from numerous suppliers at competitive prices in the market.

The Company is dependent upon a single source for a certain raw material used in the production of Dextran Sulphate. Such supply was adequate in fiscal year 2005 and no shortages are anticipated in the near term. However, any curtailment in availability of such raw material could be accompanied by production or other delays as well as increased raw material costs, with consequent adverse effect on the Company' s results of operations. The Company has no long-term contracts with any of its suppliers.

Backlog and Seasonality

The Company' s backlog as at January 31, 2005 was approximately $350,000, whereas backlog as at January 31, 2004 was approximately $750,000. All of these orders are expected to be filled within the current fiscal year. The Company' s bulk pharmaceutical intermediate business may be characterized as seasonal in that many end-users of the finished product veterinary pharmaceuticals manufactured from these intermediates require fewer vitamins and other supplements during the summer months when livestock are put out to pasture. However, the Company does not believe that such seasonality is material to its financial results as a whole.

Competition

The Company is the only Canadian manufacturer of Iron Dextran and, as a result of its ownership of Chemdex during fiscal year 2005, the Company was also the only manufacturer of 10% bulk Iron Dextran solution in the United States. The only other major supplier of Iron Dextran is located in Denmark, although there exist several smaller European sources of Iron Dextran. Dextran Sulphate is manufactured by several manufacturers in the U.S. and Europe. With regard to Iron Dextran and Dextran Sulphate, the Company competes on the basis of quality, service and price.

The technology in the field of Dextran and its derivatives is undergoing continuous expansion and development. The manufacture of Dextran and its derivatives may be achieved by different processes and variations (including by means of a process known as glycoside, which is in the public domain). Therefore, the Company does not believe that its licensed, patented process for the production of Iron Dextran gives it any substantial competitive advantage.

On March 4, 2004, the Company sold its finished product veterinary pharmaceutical business to Sparhawk. The sale included substantially all of the assets of Vet Labs and its ownership interest in the Joint Venture. In connection with the sale, Sparhawk and Chemdex entered into an exclusive Supply Agreement under which Sparkawk agreed to purchase 100% of its product needs for bulk Iron Dextran solution from Chemdex for a period of 10 years, and Chemdex agreed to sell such products in the United States exclusively to Sparhawk, subject to minimum purchase requirements.

Environmental Compliance

The Company believes that it is in substantial compliance with all existing applicable foreign, federal, state and local environmental laws and does not anticipate that such compliance will have a material effect on its future capital expenditures, earnings or competitive position.

Employees

As of March 31, 2005, the Company employed 26 employees, of whom 16 were engaged in production, 6 in quality control, 1 in research and development, 2 in administration and 1 in marketing and sales activities. None of the Company' s employees are covered by collective bargaining agreements. Management considers its relations with employees to be good.

Research and Development

During the fiscal years ended January 31, 2005 and 2004, the Company expended $127,847 and $73,635, respectively, on research and development, primarily relating to the development of Cellulose Sulphate. Increases in research and development expenditures are a result of additional product development activities performed by the Company and funded outside of its partnership relationships. During the fiscal years ended January 31, 2005 and 2004, the Company recognized investment tax credit benefits of $13,105 and $12,684, respectively.

Cellulose Sulphate (Ushercell)

Ushercell, the Company' s leading human pharmaceutical compound, is a high molecular weight Cellulose Sulphate envisioned for topical vaginal use primarily in the prevention of transmission of AIDS and other sexually transmitted diseases, as well as unplanned pregnancies.

Research and development with respect to the Company' s Cellulose Sulphate product is being conducted with the assistance and financial support of CONRAD, formerly known as the Contraceptive Research and Development Program, with funding from various private and public sector sources. CONRAD provides direct financial assistance in support of, and/or actually conducts specific research studies involving the Cellulose Sulphate product in conjunction with various public health-oriented entities, such as Family Health International, USAID (The United States Agency for International Development), the World Health Organization, the Centers for Disease Control and the HIV Prevention Trials Network, and many other universities, research centers and philanthropic organizations.

During fiscal year 2005 phase I/II clinical trials were conducted. Highlights of selected completed clinical studies outlined in CONRAD' s Development Plan are as follows:

A clinical study of sexually active women conducted in collaboration with Family Health International in Cameroon, has been completed. The final report concluded that 3.5 ml 6% Cellulose Sulphate gel was as safe and acceptable to users as a placebo compound, and remained acceptable when used four times per day for 14 consecutive days.

A study in collaboration with the World Health Organization of 180 healthy women in Uganda, Nigeria and India has been completed. The final report concluded that twice daily vaginal applications of 6% Cellulose Sulphate appeared to be as safe and well tolerated as the placebo compound also used in the study.

A study conducted by the HIV Prevention Trials Network to establish the safety and tolerance of the product among HIV-infected women, as a precursor to clinical trials designed to assess HIV prevention. One objective of this trial was to study changes in vaginal flora associated with repeated microbicide use. The study was completed in fiscal year 2004, and the report was presented at the 12thConference on Retroviruses and Opportunistic Infections in Boston in February of 2005, indicating that Cellulose Sulphate was not disruptive to the vaginal PH and also resulted in clearance of Bacterial Vaginosis (BV) in patients who had BV at the time of enrollment in this study, concluding with recommendations that further study of the impact of Cellulose Sulphate on BV is warranted.

A Phase I study in collaboration with Family Health International involving 60 healthy women in the United States to assess the safety and acceptability among sexually active and abstinent women of Cellulose Sulphate used intra-vaginally twice daily for 14 consecutive days has been completed. The final report indicates a continued safety and acceptability profile.

Large-scale Phase II human clinical trials of the contraceptive efficacy of Ushercell in the United States began in January and February 2004 in collaboration with the California Family Health Council. One of the two trials was suspended due to lack of enrollment in a study that sought couples desiring pregnancy, but

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willing to postpone conception. The clinical portion of the remaining study involving couples that do not desire a pregnancy is expected to be completed this summer and a report on findings is expected in 2006.

Additionally, the following clinical studies have been commenced or are being actively planned:

A tolerance study of 42 HIV-infected men in collaboration with theInstitute of Tropical Medicine in Belgium has been planned.

A further study planned in collaboration with the University of California to be conducted with 180 sexually active women in Zimbabwe to assess the safety and acceptability of Ushercell in use with a diaphragm has been planned.

A study to determine the effectiveness of Cellulose Sulphate gel as a treatment for Bacterial Vaginosis, a common disorder among reproductive-age women, has been planned, funded and clinical trial supplies have been shipped to Brazil. The trial is expected to commence in April 2005, with a report on findings expected in mid-2006.

A further large-scale Phase III clinical trial is planned to assess the effect of Ushercell on vaginal HIV acquisition. This study design will enroll more than 2,000 sexually active women with a high risk of HIV infection. A projected start timeline has been scheduled for June 2005.

Should continued positive results be generated from this work, the Company has been advised that the funding from CONRAD will continue through Phase III trials. The Company maintains an exclusive worldwide license for this product.

Cystic Fibrosis

Cystic fibrosis is a genetic disease, which causes a cascade of effects, the most severe being a build up of mucus in the lungs. This mucus is difficult to remove and also permits the colonization of bacteria, which then cause secondary infections and often death. Research relating to cystic fibrosis has shown that a special form of Dextran, named by the Company Usherdex 4, is effective in preventing the colonization of bacteria in the mouth and in stimulating the macrophages in the lungs to remove the bacteria present and lessen secondary infections.

As noted above, in 1999, the Company' s cystic fibrosis product was licensed to BCY LifeSciences. In November, 2003 BCY LifeSciences announced its completion of the analysis of a Phase II clinical trial of the product designed to assess the efficacy and safety of the product on pulmonary function in adult cystic fibrosis patients. The results indicated that the product (known as DCF 987) was well tolerated and may have shown positive trends in the improvement of FEV_1(forced expiratory volume in one second), a measure of lung function, and the reduction of Pseudomonas aeruginosa bacterial load in patient sputum. BCY LifeSciences was also granted a patent entitled "Use of Dextran and Other Polysaccharides to Improve Mucus Clearance" by the European Patent Office. The Company will receive royalty payments based upon sales and other revenues upon approval of any developed product pursuant to its license agreement with BCY LifeSciences. In February of 2005, BCY LifeSciences entered into a development agreement with Align Pharmaceuticals to fund and commence the necessary Phase III clinical trials.

Segmented Information

The information regarding the geographic distribution of revenue, operating results and assets set forth in Note 17 to the Company' s Consolidated Financial Statements for the fiscal year ended January 31, 2005 under Item 8 *Financial Statements and Supplementary Data*.

ITEM 2. PROPERTIES

The Company' s wholly-owned subsidiary, Polydex Chemicals (Canada) Limited, maintains its executive and sales offices and its manufacturing plant of approximately 30,000 square feet in Toronto, Ontario, Canada.

The Company owns and operates a fermentation plant in Toronto, Ontario, Canada. This plant has the capacity to simultaneously produce both 10% and 20% Iron Dextran at the rate of up to 11,000 liters per week (there are 1.057 quarts in one liter), and 500 kilograms (there are 2.2 pounds in one kilogram) per month of Dextran Sulphate. Current production is approximately 8,000 liters of Iron Dextran per week and approximately 250 kilos of Dextran Sulphate per quarter.

Management believes that the Company' s facility is adequate for its present requirements. The facility has the capacity for a limited expansion of production of existing and new products. The Company considers its current equipment to be in good condition and suitable for the operations involved.

During approximately one month of the 2005 fiscal year, Vet Labs owned a 55,000 square foot finished product veterinary pharmaceutical manufacturing facility located on eight acres of land in Lenexa, Kansas. On March 4, 2004, the Company sold its finished

product veterinary pharmaceutical business to Sparhawk. The sale included substantially all of the assets of Vet Labs, including this manufacturing facility, and its ownership interest in the Joint Venture.

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings to which the Company or any of its subsidiaries is a party, or to which any of their property is subject.

The litigation involving the Joint Venture, *Sparhawk Laboratories, Inc. v. Veterinary Laboratories, Inc., et al*, Case No. 02CV07426, County of Johnson, State of Kansas, was settled on March 4, 2004, and a Motion of Approval of Settlement and Stipulation of Dismissal with Prejudice was filed with the Court on that date.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the Company' s fourth quarter ended January 31, 2005.

PART II

ITEM 5. MARKET FOR REGISTRANT' S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The principal market for the Company' s common shares is the NASDAQ SmallCap Market. The Company' s common shares trade under the symbol "POLXF." The Company' s common shares also trade on the Boston Stock Exchange under the symbol "PXL."

The reported high and low closing prices of the Company' s common shares as reported on the NASDAQ SmallCap Market for each full quarterly period within the two most recent fiscal years of the Company were as follows (similar prices were quoted on the Boston Stock Exchange):

Fiscal Year 2005

fiscal quarter ended:	**High**	**Low**
April 30, 2004	$ 8.50	6.91
July 31, 2004	7.56	5.78

October 31, 2004	7.65	4.92
January 31, 2005	8.00	5.75

Fiscal Year 2004

fiscal quarter ended:	**High**	**Low**
April 30, 2003	$ 2.67	2.03
July 31, 2003	4.85	2.26
October 31, 2003	6.00	3.20
January 31, 2004	8.62	5.01

The quotations set out above represent the prices for the specific dates between dealers and do not include retail mark-up, mark-down or commission. They do not represent actual transactions.

As of April 28, 2005 there were approximately 361 holders of record of the Company' s common shares.

The Company has paid no dividends in the past and does not consider likely the payment of any dividends in the foreseeable future.

There are no governmental laws, decrees or regulations in the Commonwealth of the Bahamas applicable to the Company that restrict the export or import of capital, including foreign exchange controls, or that affect the remittance of dividends or other payments to nonresident holders of the Company' s common shares. Furthermore, U.S. holders of the Company' s common shares are not subject to taxes under Bahamian law.

The Company did not sell any unregistered common shares during its 2005 fiscal year and does not currently have a plan to repurchase any of its common shares.

ITEM 6. SELECTED FINANCIAL DATA

The following selected historical consolidated financial and other data are qualified by reference to, and should be read in conjunction with, the consolidated financial statements and notes thereto included elsewhere in this report. The Company' s consolidated financial statements are prepared in accordance with United States generally accepted accounting principles. All amounts are in United States dollars.

	Fiscal year ended January 31,				
	2005	2004	2003	2002	2001
Sales from continuing operations	6,372,359	14,092,189	12,786,343	12,167,530	13,646,158
Net income (loss) from continuing operations	1,139,911	(5,999)	(673,741)	(206,880)	131,284
Net income (loss) per common share	0.38	–	(0.22)	(0.07)	0.04
Total assets	10,811,873	10,510,513	9,712,574	10,080,880	11,217,326
Long-term borrowings	833,631	1,013,701	1,188,603	1,724,159	2,031,660

ITEM 7. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's fiscal year ends on January 31st of each year. In this report, fiscal year 2005 refers to the Company's fiscal year ended January 31, 2005. The following discussion should be read in conjunction with the financial statements and notes thereto included elsewhere in this report. The Company's financial statements are prepared in accordance with United States generally accepted accounting principles. All amounts are in United States dollars, unless otherwise denoted. This discussion contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. For a discussion of risks, uncertainties and other factors that could cause actual results to differ materially from those expressed in, or implied by the forward-looking statements, see the discussion of Risk Factors below and "Cautionary Note Regarding Forward-Looking Statements" above.

Overview

The Company is engaged in the research, development, manufacture and marketing of biotechnology-based products for the human pharmaceutical market, and also manufactures bulk pharmaceutical intermediates for the worldwide veterinary pharmaceutical industry. The Company conducts its business operations through its subsidiaries, which operate as strategic business units: Dextran Products and Chemdex.

Dextran Products Business

The manufacture and sale of bulk quantities of Dextran and derivative products for sale to large pharmaceutical companies throughout the world is conducted through a Canadian subsidiary, Dextran Products.

In fiscal year 2006 management intends to continue its focus on the core businesses of Dextran Products that have historically been the backbone of the Company. Opportunities to increase distribution chains for existing Dextran products in certain overseas markets, such as India, China and Russia are being explored by management. Expanding current market opportunities and the potential for new market penetration has led management to make plant refurbishments and the expansion of production capacity a priority for fiscal year 2006 with respect to Dextran Products operations.

Research and development of the Company' s human pharmaceutical products is coordinated at the Dextran Products facility. Ushercell, the Company' s leading human pharmaceutical compound, is a high molecular weight Cellulose Sulphate envisioned for topical vaginal use primarily in the prevention of transmission of AIDS and other sexually transmitted diseases, as well as unplanned pregnancies. Multiple clinical trials have been completed, and additional trials have commenced or are being actively planned, to evaluate various aspects of the use of Cellulose Sulphate as a contraceptive gel with antiviral capabilities. The Company also intends to significantly explore the use of Ushercell as a treatment for Bacterial Vaginosis (BV), the most common vaginal disorder among reproductive-age women. If effective, BV treatment may present an opportunity for commercial viability of Ushercell in advance of the completion of the much lengthier required testing for its use as an antiviral or contraceptive gel.

Chemdex, Vet Labs and the Joint Venture Business

During approximately one month of the 2005 fiscal year, the Company also engaged in the finished product veterinary pharmaceutical business through its United States subsidiary Chemdex, which, in turn, conducted its operations through its subsidiary, Vet Labs. On December 1, 1992, Vet Labs and Sparhawk Laboratories Inc. entered into a Joint Venture for the purpose of manufacturing and selling veterinary pharmaceutical products. On January 13, 2004, the Company, Chemdex and Vet Labs entered into an Asset Purchase Agreement with Sparhawk pursuant to which the Company agreed to sell its finished product veterinary pharmaceutical business, including substantially all of the assets of Vet Labs and its ownership interest in the Joint Venture, to Sparhawk for $5,500,000 in cash. The sale was completed on March 4, 2004. Simultaneously with the closing, Chemdex advanced $350,000 to Sparhawk in exchange for an unsecured subordinated promissory note bearing interest at 13% per annum and a warrant to purchase 4% of the equity of Sparhawk. The promissory note is payable in full on March 4, 2009. Interest is payable annually, but can be deferred and added to the principal balance of the promissory note each year

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at Sparhawk' s discretion. The warrant becomes exercisable on March 5, 2009 and expires at the earlier of payment in full of the promissory note or March 4, 2014. Chemdex also entered into a supply agreement with Sparhawk to supply ferric hydroxide and hydrogenated dextran solution to Sparhawk on an exclusive basis in the United States for 10 years. In connection with the sale, the litigation involving the Joint Venture, *Sparhawk Laboratories, Inc. v. Veterinary Laboratories, Inc., et al*, Case No. 02CV07426, County of Johnson, State of Kansas, was settled, and a Motion of Approval of Settlement and Stipulation of Dismissal with Prejudice was filed with the Court on March 4, 2004.

Management considered the finished goods veterinary pharmaceuticals industry to be a highly competitive, mature industry, and believed that meaningful growth in this industry would require significant investment in new product development. The Company' s investment in this industry through the Joint Venture required the sharing of profits with its partner. Management believed that the Company could expect to obtain a higher return on investment by focusing on its current Dextran Products business and on human pharmaceutical research and development projects. The sale of this business segment resulted in a significant reduction in consolidated sales and gross profits during fiscal year 2005.

Results of Operations

Fiscal Year ended January 31, 2005 compared to Fiscal Year ended January 31, 2004 compared to Fiscal Year ended January 31, 2003

	FY 2005	FY 2004	FY 2003

Net income (loss)	$ 1,139,911	$ (5,999)	$ (673,741)
Earnings (loss) per share	0.38	0.00	(0.22)

The fiscal year 2005 increase in net income is attributable to the gain on sale of the Vet Labs assets. This gain is partially offset by an increased tax provision. The fiscal year 2004 reduction in net loss is attributable to the recovery of income tax expense. In fiscal year 2004, there was a recovery of income taxes of $389,968 as compared to a provision for income taxes of $751,366 in fiscal year 2003, due to the recognition of the tax benefit of the non-operating losses at Chemdex, as described below. The provision for income taxes in fiscal year 2003 significantly exceeded income before income taxes because of the losses incurred at the Company level in the Bahamas, for which no tax recovery is available, and because a full valuation allowance was taken against the deferred tax assets relating to non-operating losses at Chemdex.

Income (loss) before income taxes				**Fiscal Years**	
	FY 2005	**FY 2004**	**FY 2003**	**05 v 04**	**04 v 03**
				(% increase (decrease))	
Consolidated	$ 1,706,777	$ (395,967)	$ 77,625	5,310%	(612)%
Dextran Products	256,169	58,703	872,291	336%	(93)%
Chemdex	2,093,478	(63,029)	(247,682)	3,421%	75%

The fiscal year 2005 improvement in operating results is primarily attributable to the gain on sale of the Vet Labs assets at Chemdex and the reduction in the foreign exchange loss at Dextran Products. The fiscal year 2004 decline in operating results is primarily attributable to the large foreign exchange loss and gross margin decline at Dextran Products due to the decline in the United States dollar relative to the Canadian dollar. The United States dollar continued to decline in value relative to the Canadian dollar during fiscal year 2005, which negatively affected gross margins at Dextran Products, since the majority of its revenue is denominated in United States dollars while the majority of its cost of sales is denominated in Canadian dollars. Therefore, if the value of the Canadian dollar increases in relation to the

United States dollar, margins decrease. Exchange rate fluctuations resulted in a 4% decrease in margins at Dextran Products in fiscal year 2005. Dextran Products realized a foreign exchange gain in fiscal year 2005 because it has a net liability exposure to the United States dollar. During fiscal year 2004, Dextran Products had a significant net asset exposure to the United States dollar because the majority of its accounts

receivable balance and intercompany receivables were denominated in United States dollars, while the majority of its liabilities and expenses are in Canadian dollars. During March 2004, Chemdex repaid its intercompany debt to Dextran Products and advanced additional funds to Dextran Products.

Dextran Products. The fiscal year 2005 increase in income before income taxes is primarily a result of the foreign exchange gain described above. In addition, there is an increase in investment income because of the purchase of marketable securities. These increases were partially offset by a decrease in gross margin and increased selling, general and administrative expenses. The fiscal year 2004 decrease in income before income taxes is a result of the rise in the value of the Canadian dollar, which resulted in the decrease in profit margins described above, as well as an increase in selling, general and administrative expenses, which are stated in United States dollars, and a foreign exchange loss.

Chemdex. The fiscal year 2005 increase in income before income taxes is due to the gain on the sale of the Vet Labs assets. Since March 4, 2004, the only operations for Chemdex have been the supply of raw materials to Sparhawk. The fiscal year 2004 decrease in loss before income taxes is a result of the increase in sales and profit margins.

				Fiscal Years	
Sales	**FY 2005**	**FY 2004**	**FY 2003**	**05 v 04**	**04 v 03**
				(% increase (decrease))	
Consolidated	$ 6,372,359	$ 14,092,189	$ 12,786,343	(55)%	10%
Dextran Products	4,916,213	4,742,519	4,575,359	4%	4%
Percentage of Company sales	77%	34%	36%		
Chemdex	1,456,146	$ 9,349,670	$ 8,210,984	(84)%	14%
Percentage of Company sales	23%	66%	64%		

The significant decrease in sales during fiscal year 2005 is due to the sale of the Vet Labs business on March 4, 2004. This business represented virtually all of the Chemdex operating segment. The majority of the fiscal year 2004 sales increase was attributable to the Chemdex operating segment.

Dextran Products. Demand for Dextran and related products increased in both fiscal year 2005 and fiscal year 2004 due primarily to favorable pricing. Since Dextran Products pricing of product is primarily denominated in United States dollars, the decline in value of the United States dollar relative to the Euro resulted in lower pricing for European agents, increasing demand for the products of Dextran Products. Management expects sales levels to increase slightly in fiscal year 2006 due to increased sales in Europe, absent a significant rise in the value of the United States dollar.

Chemdex. As described above, the finished goods veterinary pharmaceutical business was sold on March 4, 2004 resulting in the significant decline in sales for this operating segment. Under a supply agreement with Sparhawk, Chemdex continues to supply raw materials for the manufacture of bulk iron dextran by Sparhawk. The introduction of three new products in the finished goods veterinary pharmaceutical business accounted for $938,307 of the fiscal year 2004 sales increase.

				Fiscal Years	
Gross profit	**FY 2005**	**FY 2004**	**FY 2003**	**05 v 04**	**04 v 03**
				(% increase (decrease))	
Consolidated	$ 1,984,630	$ 3,349,496	$ 3,257,384	(41)%	3%
Percentage of sales	31%	24%	25%		
Dextran Products	$ 1,504,616	$ 1,539,164	$ 1,889,001	(2)%	(19)%
Percentage of sales	31%	32%	41%		
Chemdex	$ 288,332	$ 1,739,558	$ 1,281,409	(83)%	36%
Percentage of sales	20%	19%	16%		

The fiscal year 2005 decrease in gross profit resulted from the decrease in sales from the Chemdex operating segment due to the sale of the finished goods veterinary pharmaceutical business. The increase in gross profit percentage is a result of the finished goods veterinary pharmaceutical business being a lower margin business

than the Dextran Products operating segment. The fiscal year 2004 increase in gross profit resulted from increased sales at the Chemdex operating segment. The concurrent decline in gross profit percentage is primarily due to declines at the Dextran Products operating segment due to exchange rate fluctuations, which caused a decrease in margins.

Dextran Products. Dextran Products' fiscal year 2005 and 2004 gross profit decrease was due to the significant rise in the Canadian dollar relative to the United States dollar over the two year period. The majority of Dextran Products' costs are incurred in Canadian dollars, while the majority of its sales are in United States dollars. Therefore, as the value of the Canadian dollar rises in relation to the United States dollar, Dextran Products' margins decrease. Exchange rate fluctuations resulted in a 4% and an 8% decrease in margins at Dextran Products in fiscal years 2005 and 2004, respectively. Excluding the impact of exchange rates, Dextran Products realized an increase in margins during fiscal year 2005 due to cost control measures over materials and increased productivity. A modest price increase for certain products also occurred at Dextran Products in fiscal year 2005.

Chemdex. In fiscal year 2005, Chemdex operations consist of approximately one month of results from the finished goods veterinary pharmaceutical business. The fiscal year 2004 increase in gross profit and margin at Chemdex was primarily attributable to the increased sales levels, particularly in the high-margin injectables product line, which resulted in lower average fixed costs.

	Fiscal Years				
	FY 2005	**FY 2004**	**FY 2003**	**05 v 04**	**04 v 03**
				(% increase (decrease))	
Selling, promotion, general and administrative expenses	$ 1,566,746	$ 2,096,108	$ 1,799,292	(25)%	16%

The fiscal year 2005 decrease in selling, promotion, general and administrative expenses is a result of the sale of the finished goods veterinary pharmaceutical business in March, 2004. The Dextran Products operating segment experienced an increase in selling, promotion, general and administrative expenses in fiscal year 2005. These costs were incurred in Canadian dollars, resulting in increased expenses upon translation to United States dollars due to the significant rise in the Canadian dollar as discussed above.

The fiscal year 2004 increase in selling, promotion, general and administrative expenses is a result of three main factors. The cost of the Company' s director and officer liability insurance increased by 144% as compared to fiscal year 2003, due to general market conditions. The Company has not made a claim under any director and officer liability policy. Management salaries at Chemdex also included a full year of salary for the general manager who was hired in the fourth quarter of fiscal year 2003. Finally, the selling, promotion, general and administrative expenses incurred at Dextran Products were incurred in Canadian dollars, resulting in increased expenses upon translation to United States dollars due to the significant rise in the Canadian dollar as discussed above.

Research and development	Fiscal Years				
	FY 2005	FY 2004	FY 2003	05 v 04	04 v 03
				(% increase (decrease))	
Research and development expenditures	$ 127,847	$ 73,635	$ 193,284	74%	(62)%
Investment tax credits	(13,105)	(12,684)	(21,186)	3%	(40)%
Net research and development expense	114,742	60,951	172,098	88%	(65)%

As expected, the Company' s research and development expenditures increased in fiscal year 2005 due to additional product development activities performed by the Company and funded outside of its partnership relationships. The majority of this increase related to funding of the commencement of a pilot clinical study on the use of cellulose sulphate for the treatment of bacterial vaginosis. This clinical study is related to an alternate use of cellulose sulphate and therefore is outside the scope of funding provided by the Company' s research and development partners for the investigation of this product as a contraceptive gel with antiviral properties. The current stage of the cellulose sulphate project is such that a lesser portion of development is being performed in-house and significant funding from research and development partners for the current phase of the project is

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expected to continue at necessary levels for the foreseeable future. The Company' s research and development expenditures are expected to increase in fiscal year 2006 due to additional product development activities the Company expects to perform and fund outside of its partnership relationships.

Funding for the Company' s primary development products is provided directly by third party public and/or private sector groups to the entities carrying out such research. The Company does not take possession or control over these funds. The Company benefits from the results of research projects through the ownership of patents and/or licenses with respect to the products involved. The Company has no commitments to repay the funding or to purchase the results of the research.

Due to continued direct funding of research and development expenses by third party public and/or private sector groups, as well as investment tax credits claimed by Dextran Products, the Company' s research and development expense decreased in fiscal year 2004.

Fiscal Years

	FY 2005	FY 2004	FY 2003	04 v 03	04 v 03
				(% increase (decrease))	
Depreciation and amortization expense	$ 513,095	$ 617,685	$ 572,129	(17)%	8%

The fiscal year 2005 decrease in depreciation and amortization expense is attributable to the sale of the finished goods veterinary pharmaceutical business in March 2004. The fiscal year 2004 increase in depreciation and amortization expense is primarily attributable to new production equipment purchased during fiscal year 2003 at Dextran Products and the increase in the value of the Canadian dollar relative to the United States dollar.

	Fiscal Years				
	FY 2005	FY 2004	FY 2003	05 v 04	04 v 03
				(% increase (decrease))	
Interest expense	$ 91,210	$ 133,382	$ 150,527	(32)%	(11)%

The decrease in interest expense in fiscal year 2005 is primarily attributable to a decrease in long-term debt, as well as the associated decrease in imputed interest due to the continuing repayment of non-interest bearing long-term debt. The share value guarantee payable was paid in full on March 4, 2004 when the Joint Venture operations were sold. The fiscal year 2004 decrease in interest expense is primarily attributable to a decrease in long-term debt, as well as the associated decrease in imputed interest due to the continuing repayment of non-interest bearing long-term debt.

Fiscal Years

	FY 2005	FY 2004	FY 2003	05 v 04	04 v 03
				(% increase (decrease))	
Foreign exchange gain (loss)	$ 46,172	$ (447,602)	$ (113,602)	110%	(294)%

The increase in foreign exchange gain at Dextran Products in fiscal year 2005 was due to the significant decline in Dextran Products' net exposure to the United States dollar. Dextran Products has a net liability exposure to the United States dollar because intercompany payables denominated in United States dollars exceed its United States dollar denominated accounts receivable balance. Dextran Products realized a foreign exchange gain in fiscal 2005 because the Canadian dollar increased in value relative to the United States dollar. During fiscal year 2004, Dextran Products had large intercompany receivables denominated in United States dollars, and experienced a foreign exchange loss in fiscal year 2004 because the value of the Canadian dollar increased relative to the United States dollar. A large portion of these intercompany receivables were repaid in March 2004 when the Joint Venture operations were sold. As compared to fiscal year 2004, management does not expect that the Company will incur significant foreign exchange losses in fiscal year 2006.

	Fiscal Years				
	FY 2005	FY 2004	FY 2003	05 v 04	04 v 03
				(% increase (decrease))	
Other income (expense)	$ 105,883	$ (389,735)	$ (372,111)	127%	(5)%

In fiscal year 2005, the Company earned interest income of $133,117 from the investment of the proceeds from the sale of the Vet Labs assets. In fiscal year 2004, the other expenses relate almost entirely to legal and receiver costs associated with the winding-up of the Joint Venture, and the resulting litigation. In fiscal year 2004, legal and receiver fees relating to this process totaled $397,380, as compared to $27,834 in fiscal year 2005. Additionally, due to the uncertainty related to this situation, in fiscal year 2003, the Company provided an allowance for the entire receivable balances of $132,614 due from Sparhawk.

Fiscal Years

Tax provision (recovery)	FY 2005	FY 2004	FY 2003	05 v 04	04 v 03
				(% increase (decrease))	
Consolidated	$ 566,866	$ (389,968)	$ 751,366	245%	(152)%
Dextran Products	(193,134)	110,032	430,886	(276)%	(74)%
Chemdex	637,000	(500,000)	320,480	227%	(256)%

The fiscal year 2005 decrease in tax provision at Dextran Products is a result of a decrease in deferred tax liabilities. The fiscal year 2004 decrease in tax provision at Dextran Products is a result of the decrease in profitability in fiscal year 2004 as described above. The tax provision at Dextran Products exceeded its income before taxes because a significant portion of the foreign exchange loss is related to intercompany financing and consequently is deductible only against capital gains. The Canadian operations continue to have significant research and development tax pools to offset current taxes payable.

The fiscal year 2005 tax provision at Chemdex is a result of the gain recognized on the sale of the Vet Labs assets. The fiscal year 2004 Chemdex tax benefit was recorded because there was no longer uncertainty as to the ability of Chemdex to use non-operating losses following the sale of the Vet Labs assets for a gain subsequent to the end of fiscal year 2004.

Liquidity and Capital Resources

As of January 31, 2005, the Company had cash and cash equivalents of $2,401,051, compared to cash of $59,455 at January 31, 2004. In fiscal year 2005, the Company used cash of $310,351 in its operating activities, compared to generating cash from operations of $221,425 for fiscal year 2004. Although there was a significant increase in net income in fiscal year 2005, this increase resulted from the gain on sale of the finished products veterinary pharmaceutical business, which proceeds are classified as an investing activity. The decrease in cash generated from operations in fiscal year 2005 as compared to cash generated in fiscal year 2004 is because of the decrease in earnings when the gain on sale of the finished products veterinary pharmaceutical business is removed. The cash generated from operations in fiscal year 2004 was less than that generated in fiscal year 2003, even though the net loss was significantly less in fiscal year 2004, because the reduction in the net loss resulted from the deferred tax recovery, which was a non-cash item. There were significant non-cash expenses relating to deferred income taxes and the writedown of loan to Sparhawk, in fiscal year 2003, which were not incurred in fiscal year 2004. Depreciation and amortization continues to be a large non-cash expense of the Company.

The Company maintained $3,712,803 of working capital and a current ratio of 3.8 to 1 as of January 31, 2005, compared to $2,058,161 and 1.8 to 1 as of January 31, 2004, and $1,528,856 and 1.6 to 1 as of January 31, 2003.

Management expects the primary source of its future capital needs to be a combination of existing cash and cash equivalent reserves generated from the sale of the Vet Labs assets, company earnings and borrowings. The Company, at present, does not have any material

commitments for capital expenditures, although Management intends to continue the plant refurbishment process at Dextran Products in Toronto.

The Company believes that based upon the current levels of revenues and spending, its existing working capital resources will be sufficient to support continuing operations for the foreseeable future.

At January 31, 2005, the Company had accounts receivable of $922,267 and inventory of $1,516,893, compared to $1,040,732 and $2,693,312, respectively, at January 31, 2004. The January 31, 2004 balances included amounts classified as assets subject to sale agreement, which represented amounts for the finished product veterinary pharmaceutical business. The decrease in both accounts receivable and in inventory levels is due to the sale of the Vet Labs assets in March 2004. At January 31, 2003, the Company had accounts receivable of $1,351,515 and inventory of $2,265,963. The decrease in accounts receivable from fiscal year 2003 to fiscal year 2004 was due to the timing of collections at year-end, while the increase in inventory levels was due to the stocking of new products at Chemdex.

At January 31, 2005, the Company had accounts payable of $463,579, compared to $1,099,736 at January 31, 2004. The January 31, 2004 balance included amounts classified as liabilities subject to sale agreement, which represented amounts for the finished product veterinary pharmaceutical business. The decrease in accounts payable levels is due to the sale of the Vet Labs assets in March 2004. At January 31, 2003, the Company had accounts payable of $1,205,383, with the decrease between fiscal year 2004 and fiscal year 2003 due primarily to timing of supplier payments.

During fiscal year 2005, capital expenditures totaled $182,691, as compared to $396,704 in fiscal year 2004 and $367,868 in fiscal year 2003. The majority of the capital expenditures were for production equipment at the Dextran Products plant in Toronto in these fiscal years. Management intends to continue its plant refurbishment and expansion plan in fiscal year 2006, and expects capital expenditures to increase in that period.

During fiscal year 2005, the Company invested a portion of the proceeds from the sale of the finished product veterinary pharmaceutical business in medium-term, investment-grade, debt securities denominated in Canadian dollars. These securities have maturities ranging from December 1, 2005 to June 7, 2007. Unrealized gains and losses will occur as the market interest rate varies. Management does not expect significant gains or losses in the future due to the relatively short term to maturity of the debt securities. Management plans to hold these debt securities to maturity unless such funds are needed for working capital or other cash needs.

The change in accumulated other comprehensive income (loss) of the Company is almost entirely 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 has a Cdn. $1,250,000 (U.S. $1,007,000) line of credit, of which Cdn. $30,000 (U.S. $24,000) was utilized at January 31, 2005. At January 31, 2004, Cdn. $150,000 (U.S. $113,000) of the line of credit was utilized. This line of credit bears interest at the Canadian banks' prime lending rate plus 0.75% (2005 – 5%; 2004 – 5%). This indebtedness is collateralized by a general security agreement over the Company' s assets and a collateral mortgage of Cdn. $500,000 on the Dextran Products building in Toronto.

The significant decrease in long-term debt from fiscal year 2004 to fiscal year 2005 is due to the full repayment of the share value guarantee on March 4, 2004. The majority of the long-term debt is due in the next fiscal year. Dextran Products entered into one new long-term debt obligation during fiscal year 2005, which related to the buyout of a piece of office equipment.

Chemdex entered into a long-term debt obligation on September 19, 2003, which related to the redemption of the 10% minority interest in Chemdex. The redemption amount was $146,500, which is to be paid in 25 equal monthly installments of $5,860, commencing on the redemption date. Since this installment contract is non-interest bearing, it has been discounted using a discount rate of 9%. The present value of this installment contract is $45,517, which has been recorded as long-term debt.

The Company entered into one new capital lease obligation at Dextran Products during fiscal year 2005, for a piece of office equipment. Capital lease obligations are due over the next five years, the majority of which are due in the next two years.

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

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

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

Related Party Transactions

In August 1997, the Company loaned Thomas C. Usher, formerly 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 monthly 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 Thomas C. Usher as an employee of the Company. The amount outstanding under the Loan as of January 31, 2005 was $373,373, as compared to $417,467 at January 31, 2004, including accrued interest. The Company has taken a cumulative provision of $264,543 against accrued interest on this loan at January 31, 2005, compared to a cumulative provision of $242,677 at January 31, 2004. Thomas C. Usher passed away on February 26, 2005. Obligations with respect to the Loan transferred to the estate of Thomas C. Usher. The Company continues to be obligated to make royalty payments pursuant to the license agreements, and intends to continue to offset such payments against the Loan.

In August 1999, Thomas C. Usher personally assumed all of the assets and liabilities of Novadex Corp., including the balance of receivables (the "Receivables") due to the Company from Novadex Corp. The Receivables have no specific repayment terms. The total outstanding amount of the Receivables as of January 31, 2005 was $285,037, as compared to $366,216 at January 31, 2004. Thomas C. Usher also owed $250,000 to a subsidiary of the Company, Novadex International Limited, as of January 31, 2005, pursuant to a non-interest bearing loan with no specific repayment terms. The outstanding amount of this loan has not changed from January 31, 2004. The amounts continue to remain owing from the estate of Thomas C. Usher.

Thomas C. Usher had pledged 323,051 common shares of the Company as security for these amounts owing to the Company. These common shares had a market value of $2,216,100 at January 31, 2005, based on the closing price of the Company' s common shares on the NASDAQ SmallCap market on January 31, 2005. The Company intends to continue to hold the pledged assets as collateral until the amounts owing discussed above are repaid.

The Company has a commitment to pay an amount equal to one year' s salary, $110,000, to Thomas C. Usher' s estate within one year of his death.

The Company also has an outstanding loan payable to Ruth Usher, a member of the Board of Directors through her retirement on October 31, 2003, the beneficial owner of greater than 5% of the outstanding common shares of the Company, a former director, and the widow of Thomas C. Usher. The amount due from the Company pursuant to this loan decreased to $681,304 at January 31, 2005 from $683,234 at January 31, 2005 due to interest charges less monthly payments by the Company. Commencing in March 2005, the Company is required to make blended monthly payments of $5,000. The Company made a blended payment of $3,500 in February 2005.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

Tabular Disclosure of Contractual Obligations

As of January 31, 2005, future minimum cash payments due under contractual obligations, including, among others, the Dextran Products line of credit, the loan payable to Ruth Usher, the long-term debt obligation in connection with the Chemdex redemption, and capital lease agreements, are as follows:

	Payment due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt obligations (1)	$ 734,942	$ 108,232	$ 122,703	$ 122,703	$ 381,304
Capital lease obligations (2)	350,391	180,300	158,472	11,619	–
Operating lease obligations (3)	780	520	260	–	–
Purchase obligations	64,668	64,668	–	–	–
Revolving loans (4)	24,170	24,170	–	–	–
Total	$ 1,174,951	$ 377,890	$ 281,435	$ 134,322	$ 381,304

1. Consists of:

(a) Note payable in monthly payments of $5,860 maturing September 19, 2005;

(b) Note payable in quarterly payments of Cdn. $419 maturing December 2009; and

(c) Amounts due to shareholder which bear interest at the Canadian banks' prime lending rate plus 1.5%, with required minimum monthly payments, including interest, of $5,000.

2. Consists of capital lease obligations for:

(a) Production equipment of Cdn. $308,703 (US $248,713) repayable in monthly installments, bearing interest at 9% and maturing November 2006;

(b) Production equipment of Cdn. $69,253 (US $55,795) repayable in monthly installments, bearing interest at 7.59% and maturing November 2006; and

(c) Office equipment of Cdn. $27,761 (US $22,366) repayable in quarterly installments, bearing interest at 10.4% and maturing December 2009.

3. Consists of operating lease obligations for office equipment requiring quarterly payments of Cdn. $161 (US $121) terminating June 2006

4. Consists of Canadian operating line of credit bearing interest at the Canadian banks' prime lending rate plus 0.75%, repayable upon demand.

Risk Factors

The risks, uncertainties and other factors described below could materially and adversely affect the Company' s business, financial condition, operating results and prospects.

The Company's product development efforts may be reduced or discontinued due to difficulties or delays in clinical trials.

To achieve sustained profitability, the Company must, alone or with corporate partners and collaborators, successfully research, develop and commercialize identified technologies or product candidates. Current developmental product candidates are in various stages of clinical and pre-clinical development and will require significant further funding, research, development, preclinical and/or clinical testing, regulatory approval and

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commercialization testing, and are subject to the risks of failure inherent in the development of products based on innovative or novel technologies. These products are also rigorously regulated by the U.S. federal government, particularly the FDA, and by comparable agencies in state and local jurisdictions and in foreign countries. Specifically, each of the following results is possible with respect to any one of the Company's developmental product candidates:

that the Company will not be able to maintain its current research and development schedules;

that the Company will not be able to enter into human clinical trials because of scientific, governmental or financial reasons, or that it will encounter problems in clinical trials that will cause a delay or suspension of the development of the product candidate;

that the developmental product will be found to be ineffective or unsafe;

that government regulations will delay or prevent the product's marketing for a considerable period of time and impose costly procedures upon the Company's activities;

that the FDA or other regulatory agencies will not approve the product or the process by which the product is manufactured, or will not do so on a timely basis; and/or

that the FDA's policies may change and additional government regulations and policies may be instituted, which could prevent or delay regulatory approval of the product.

If any of the risks set forth above occurs, the Company may not be able to successfully develop its identified developmental product candidates.

The Company's developmental product commercialization efforts may not be successful.

It is possible that, for reasons including, but not limited to those set forth below, the Company may be unable to commercialize or receive royalties from the sale of any given developmental product, even if it is shown to be effective, if:

the product is uneconomical or if the market for the product does not develop or diminishes;

the Company is not able to enter into arrangements or collaborations to commercialize and/or market the product;

the product is not eligible for third-party reimbursement from government or private insurers;

others hold proprietary rights that preclude the Company from commercializing the product;

others have brought to market similar or superior products;

others have superior resources to market similar products or technologies;

government regulation imposes limitations on the indicated uses of the product, or later discovery of previously unknown problems with the product results in added restrictions on the product or results in the product being withdrawn from the market; and/or

the product has undesirable or unintended side effects that prevent or limit its commercial use.

The Company depends on partnerships with third parties for the development and commercialization of its products.

The Company' s strategy for development and commercialization of its products is to rely on licensing agreements with third party partners. As a result, the ability of the Company to commercialize future products is

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dependent upon the success of third parties in performing clinical trials, obtaining regulatory approvals, manufacturing and successfully marketing its products. There can be no assurance that such third party collaborations will be successful. If any of the Company' s current research and development partnerships are discontinued, it may not be able to find others to develop and commercialize its current product candidates.

The Company does not currently have agreements with third parties to market its developmental products.

The commercialization of any of the Company' s developmental products that receive FDA approval will depend upon the Company' s ability to enter into agreements with companies that have sales and marketing capabilities. The Company currently intends to sell its products in the United States and internationally in collaboration with one or more marketing partners. The Company may not be able to enter into any such collaboration to market its developmental products in a timely manner or on commercially reasonable terms, if at all.

The Company may be unable to commercialize its products if it is unable to protect its proprietary rights, and may be liable for significant costs and damages if it faces a claim of intellectual property infringement by a third party.

The Company' s success depends in part on its ability to obtain and maintain patents, protect trade secrets and operate without infringing upon the proprietary rights of others. In the absence of patent and trade secret protection, competitors may adversely affect the Company' s business by independently developing and marketing substantially equivalent or superior products, possibly at lower prices. The Company could also incur substantial costs in litigation and suffer diversion of attention of technical and management personnel if it is required to defend intellectual property infringement suits brought by third parties, with or without merit, or if required to initiate litigation against others to protect or assert intellectual property rights. Moreover, any such litigation may not be resolved in favor of the Company.

The Company has received various patents covering the uses of its developmental products. However, the patent position of companies in the pharmaceutical industry generally involves complex legal and factual questions, and recently has been the subject of much litigation. Any patents the Company has obtained, or may obtain in the future, may be challenged, invalidated or circumvented. To date, no consistent policy has been developed by the United States Patent and Trademark Office regarding the breadth of claims allowed in biotechnology patents.

In addition, because patent applications in the United States are maintained in secrecy until patents issue, and because publication of discoveries in scientific or patent literature often lags behind actual discoveries, the Company cannot be certain that it and its licensors are the first creators of inventions covered by any licensed patent applications or patents or that the Company or such licensors are the first to file. The United States Patent and Trademark Office may commence interference proceedings involving patents or patent applications, in which the question of first inventorship is contested. Accordingly, the patents owned by or licensed to the Company may not be valid or may not afford the Company protection against competitors with similar intellectual property.

It is also possible that the Company' s patents may infringe on patents or other rights owned by others, licenses to which may not be available to the Company. The Company may have to alter its products or processes, pay licensing fees or cease certain activities altogether because of patent rights of third parties.

In addition to the products for which the Company has patents or have filed patent applications, the Company relies upon unpatented proprietary technology and may not be able to meaningfully protect its rights with regard to that unpatented proprietary technology.

Critical Accounting Policies

The Company' s 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. The Company' s accounting policies with respect to the Joint Venture and its disposition are also discussed below.

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

All revenue is from sales of bulk and finished dosage 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 for the majority of its customers receivables. There has been no allowance for doubtful accounts during the past three 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 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 recoverthe carrying value of the asset from the expected future pre-tax cash flows (undiscounted andwithout interest charges) of the related operations. If these cash flows are less than thecarrying value of such asset, an impairment loss is recognized for the difference betweenestimated fair value and carrying value. The measurement of impairment requires management tomake estimates of these cash flows related to long-lived assets as well as other fair valuedeterminations.

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.

The Joint Venture

In 1992, Vet Labs and Sparhawk entered into the Joint Venture for the manufacture and sale of veterinary pharmaceutical products. Vet Labs and Sparhawk each owned 50% of the Joint Venture during its operation. The Joint Venture was governed by the Agreement for the Operation of Veterinary Laboratories, Inc.' s Lenexa Facility and Sparhawk Lab of KC as a Joint Venture, dated December 1, 1992, by and among Sparhawk, Chemdex and Vet Labs (the "Joint Venture Agreement").

Pursuant to the Joint Venture Agreement, the Joint Venture Policy Committee was responsible for the overall management of the Joint Venture, including the direction and control of the persons designated with the daily management responsibilities of the Joint Venture, and the general supervision of the management and conduct of the affairs of the Joint Venture. The Policy Committee consisted of five members, three of which were selected by Vet Labs and two of which were selected by Sparhawk. Decisions of the Policy Committee required a simple majority vote.

Because the Company controlled the operating, financing and investing decisions of the Joint Venture through Vet Labs' control of the Policy Committee, it consolidated the Joint Venture' s assets, liabilities, revenue and expenses in the Company' s financial statements. The Company has funded the Joint Venture' s cumulative losses since 1992 and, accordingly, has recorded 100% of these losses in the consolidated financial statements.

On January 13, 2004, the Company, Chemdex and Vet Labs entered into an Asset Purchase Agreement with Sparhawk. Pursuant to the Asset Purchase Agreement, the Company agreed to sell substantially all of the assets of Vet Labs, including its interest in the Joint Venture, to Sparhawk for $5,500,000 in cash. Effective March 4, 2004, this sale was completed and a gain of $1,859,471 was recognized. Simultaneously with the closing, Chemdex advanced $350,000 to Sparhawk in exchange for an unsecured subordinated promissory note bearing interest at 13% per annum and a warrant to purchase 4% of the equity of Sparhawk. The promissory note is payable in full on March 4, 2009. Interest is payable annually, but can be deferred and added to the principal balance of thepromissory note each year at Sparhawk' s discretion. The warrant becomes exercisable on March 5, 2009 and expires at the earlier of payment in full of the promissory note or March 4, 2014. Chemdex also entered into a supply agreement with Sparhawk to supply ferric hydroxide and hydrogenated dextran solution to Sparhawk on an exclusive basis in the United States for 10 years. In connection with the sale, the litigation involving the Joint Venture, *Sparhawk Laboratories, Inc. v. Veterinary Laboratories, Inc., et al*, Case No. 02CV07426, County of Johnson, State of Kansas, was settled, and a Motion of Approval of Settlement and Stipulation of Dismissal with Prejudice was filed with the Court on March 4, 2004.

Since Sparhawk is thinly capitalized and highly leveraged, the Company has deferred $350,000 of the gain relating to the promissory note receivable from Sparhawk. The Company will monitor the financial position of Sparhawk and will recognize this deferred gain at such time as Sparhawk' s cash flows from operations are sufficient to fund debt service on a full accrual basis.

The assets and liabilities of Vet Labs and the Joint Venture at January 31, 2004 that were subject to the Asset Purchase Agreement were reclassified to assets and liabilities subject to sale agreement. All liabilities subject to sale agreement were current liabilities at January 31, 2004. All assets subject to sale agreement at January 31, 2004 were considered current assets because the sale closed less than two months after fiscal year-end. Effective January 13, 2004, depreciation and amortization of the long-lived assets ceased.

Changes in Accounting Policies

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

Effective February 1, 2003, the Company adopted the fair value accounting method provided for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" in accounting for its employee stock options. The adoption of this accounting policy reduced net income by $14,212 in fiscal year 2005 and by $12,370 in fiscal year 2004 as compared to the Company' s previous accounting policy of using the intrinsic value method as provided for in Accounting Principles Board Opinion ("APB") No. 25.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board [the "FASB"] issued FASB Statement No. 123 (Revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees and amends FASB Statement No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based

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payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Effective February 1, 2003, the Company has adopted the fair value accounting method provided for under Statement 123 to apply recognition provisions to its employee stock options granted, modified or settled after February 1, 2003. Statement 123(R) will have no impact on the financial statements of the Company.

In November 2004, the FASB issued Statement 151, Inventory Costs, which clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. This guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not anticipate that this guidance will impact the financial statements of the Company.

In December 2004, the FASB issued Statement 153, Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions. Statement 153 is based on the principle that exchanges of nonmonetary assets should be

measured based on the fair value of the assets exchanged. Statement 153 eliminates the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Statement 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The provisions of this Statement should be applied prospectively. The Company does not anticipate that the application of this Statement will have an impact on the financial statements of the Company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exchange Rate Sensitivity

The Company' s operations consist of manufacturing activities in the United States and Canada. The Company' s products are sold in North America, Europe and the Pacific Rim. While the majority of the sales of Dextran Products, the Company' s Canadian operation, are denominated in United States dollars, the majority of its expenses are incurred in Canadian dollars. The majority of the assets and liabilities of Dextran Products are denominated in Canadian dollars prior to the currency translation adjustment necessary for preparation of the financial statements of the Company contained in this report. When the Canadian dollar rises in value relative to the United States dollar, the carrying value of the assets and liabilities of Dextran Products as stated in United States dollars increases. A rise in the Canadian dollar relative to the United States dollar also results in a decrease in gross margins and net income of Dextran Products. Dextran Products also experiences a foreign exchange gain when the Canadian dollar rises in relation to the United States dollar because it has a net liability exposure to the United States dollar resulting from a United States dollar denominated intercompany loan. Similarly, a decline in the Canadian dollar relative to the United States dollar results in a foreign exchange loss and increased gross margins and net income at Dextran Products. Management monitors currency fluctuations to ensure that an acceptable margin level at Dextran Products is maintained. Management has the ability, to some extent, to adjust sales prices to maintain an acceptable margin level.

Dextran Products has entered into United States dollar forward purchase contracts, covering an aggregate of $450,000, to lock in an exchange rate for converting United States dollars to Canadian dollars. Dextran Products is committed to selling $150,000 per month for the period from February 2005 to April 2005 at an exchange rate of $1.1772.

The following table presents information about the Company' s financial instruments other than accounts receivable that are sensitive to changes in foreign currency exchange rates. All financial instruments are held for other than trading purposes. The table presents principal cash flows and related weighted average interest rates by expected maturity dates.

	Expected Maturity Date							
	1/31/06	1/31/07	1/31/08	1/31/09	1/31/10	Thereafter	Total	Fair Value
	(US$ Equivalent)							

Assets:								
Short-term investments:								
Fixed rate ($Cdn.)	2,258,842	–	–	–	–	–	2,258,842	2,271,233
Average interest rate	2.45%	–	–	–	–	–	2.45%	
Marketable securities:								
Fixed rate ($Cdn.)	596,190	591,488	676,891	–	–	–	1,864,569	1,770,130
Average interest rate	2.66%	2.85%	2.86%	–	–	–	2.79%	
Liabilities:								
Foreign exchange contracts:								
Forward purchase contracts	450,000	–	–	–	–	–	450,000	23,203
Contract exchange rate	1.1772	–	–	–	–	–	1.1772	
Long-term debt:								
Fixed rate ($Cdn.)	158,368	155,489	5,455	6,052	6,714		332,078	318,242
Average interest rate	8.78%	8.81%	10.43%	10.43%	10.43%		8.88%	

Interest Rate Sensitivity

The Company has interest earning assets consisting of investment grade or higher short-term commercial paper and medium-term fixed income instruments. A significant portion of the Company' s debt is at fixed rates. The variable rate debt represents the shareholder loan payable, which is partially offset with the shareholder loan receivable. Both of these financial instruments carry the same interest rate. As such, the Company has no significant risk exposure to changes in interest rates. The following table presents information about the

Company' s financial instruments that are sensitive to changes in interest rates. All financial instruments are held for other than trading purposes. The table presents principal cash flows and related weighted average interest rates by expected maturity dates.

	Expected Maturity Date							
	1/31/05	1/31/06	1/31/07	1/31/08	1/31/09	Thereafter	Total	Fair Value
	(US$ Equivalent)							
Assets:								
Short-term investments:								
Fixed rate ($Cdn.)	2,258,842	–	–	–	–	–	2,258,842	2,271,233
Average interest rate	2.45%	–	–	–	–	–	2.45%	
Marketable securities:								
Fixed rate ($Cdn.)	596,190	591,488	676,891	–	–	–	1,864,569	1,770,130
Average interest rate	2.66%	2.85%	2.86%	–	–	–	2.79%	
Notes receivable:								
Variable rate ($US)	58,165	61,655	65,354	69,275	73,432	45,493	373,374	373,374
Average interest rate	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	

Liabilities:								
Long-term debt:								
Fixed rate ($Cdn.)	158,368	155,489	5,455	6,052	6,714	–	332,078	318,242
Average interest rate	8.78%	8.81%	10.43%	10.43%	10.43%	–	8.88%	
Variable rate ($US)	17,622	20,179	21,390	22,673	24,034	575,407	681,305	681,305
Average interest rate	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Polydex Pharmaceuticals Limited
Quarterly Financial Highlights
January 31, 2005

	Fourth Quarter Fiscal Year		**Third Quarter Fiscal Year**		**Second Quarter Fiscal Year**		**First Quarter Fiscal Year**	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**	**2005**	**2004**
Sales from continuing operations	1,306,297	4,055,997	1,205,859	3,681,305	1,338,409	3,058,369	2,521,794	3,296,518
Gross profit	415,636	1,022,550	219,969	863,653	473,860	685,005	875,165	778,288
Net income (loss) from continuing operations	107,036	721,802	(240,552)	(201,426)	12,759	(236,805)	1,260,668	(289,570)

Net income (loss) per common share	0.04	0.25	(0.08)	(0.07)	–	(0.08)	0.42	(0.10)

MANAGEMENT' S REPORT

The accompanying consolidated financial statements are the responsibility of management and have been prepared by management in conformity with United States generally accepted accounting principles and have been approved by the Board of Directors. In preparing these consolidated financial statements, management selects appropriate accounting policies and uses its judgement and best estimates to report events and transactions as they occur. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial data included throughout the Annual Report is prepared on a basis consistent with that of the consolidated financial statements.

In fulfilling its responsibilities, management has developed a system of internal accounting controls designed to provide reasonable assurance, at a reasonable cost, that assets are safeguarded from loss and unauthorized use and that the financial records are reliable for the purpose of preparing the consolidated financial statements. This system is supported by written policies and procedures for key business activities; the hiring of qualified, competent staff; and by a continuous planning and monitoring system.

Ernst & Young LLP, the independent auditors appointed by the shareholders of the Company, have audited the consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and they provide an objective independent opinion regarding the fair presentation of reported operating results and financial position in accordance with generally accepted accounting principles.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out the responsibility principally through its Audit Committee. The members of the Audit Committee are independent directors. The Audit Committee meets with financial management and the independent auditors to review accounting, auditing, internal accounting controls and financial reporting matters. Ernst & Young LLP has full and free access to the Audit Committee.

George G. Usher

Chairman and Chief Executive Officer

Sharon Wardlaw

Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of
Polydex Pharmaceuticals Limited

We have audited the accompanying consolidated balance sheets of **Polydex Pharmaceuticals Limited** as of January 31, 2005 and 2004 and the related consolidated statements of shareholders' equity, operations and cash flows for each of the years in the three-year period ended January 31, 2005. These financial statements are the responsibility of the Company' s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company' s internal control over financial reporting. Our audits included

consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company' s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Polydex Pharmaceuticals Limited** as of January 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the years in the three-year period ended January 31, 2005 in conformity with United States generally accepted accounting principles.

As described in note 2 to the consolidated financial statements, the Company changed its accounting policy for stock-based compensation effective February 1, 2003.

Ernst & Young LLP

Toronto, Canada,
March 10, 2005.

Chartered Accountants

Polydex Pharmaceuticals Limited

CONSOLIDATED BALANCE SHEETS
[Expressed in United States dollars]

As at January 31

	2005 $	2004 $
ASSETS *[notes 9 and 10]*		
Current		
Cash and cash equivalents *[note 3]*	**2,401,051**	59,455
Trade accounts receivable *[note 19]*	**922,267**	503,864
Interest receivable *[note 12[a]]*	**41,511**	–
Inventories *[note 4]*	**1,516,893**	1,226,439

Prepaid expenses and other current assets	**115,542**	42,730
Deferred tax assets *[note 15]*	–	267,500
Assets subject to sale agreement *[note 12[a]]*	–	4,285,666
Total current assets	**4,997,264**	6,385,654
Property, plant and equipment, net *[note 5]*	**3,124,185**	3,248,342
Patents and intangible assets, net *[note 6]*	**68,959**	85,511
Investments available for sale *[note 7]*	**1,909,305**	–
Due from shareholder *[note 8]*	**643,867**	791,006
Assets held for sale	**12,085**	–
Deferred tax assets *[note 15]*	**56,208**	–
	10,811,873	10,510,513

LIABILITIES AND SHAREHOLDERS' EQUITY

Current

Bank indebtedness *[note 9]*	**24,170**	165,609
Accounts payable	**463,579**	515,092
Accrued liabilities	**365,267**	337,046
Customer deposits	**97,859**	100,925
Income taxes payable *[note 15]*	**129,702**	923
Liabilities subject to sale agreement *[note 12[a]]*	–	880,564
Current portion of long-term debt *[note 10[a]]*	**46,353**	281,015
Current portion of capital lease obligations *[note 10[b]]*	**157,531**	161,253
Current portion of due to shareholder *[note 8]*	**21,385**	–
Total current liabilities	**1,305,846**	2,442,427
Long-term debt *[note 10[a]]*	**4,368**	45,517
Capital lease obligations *[note 10[b]]*	**169,344**	284,950
Due to shareholder *[note 8]*	**659,919**	683,234
Deferred tax liabilities *[note 15]*	**121,507**	147,054

Total long-term liabilities	**955,138**	1,160,755
Total liabilities	**2,260,984**	3,603,182
Shareholders' equity		
Capital stock *[notes 11 and 12[b]]*		
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	**15,010**	15,010
3,042,296 common shares [2004 - 3,027,796]	**50,676**	50,434
Contributed surplus	**23,303,718**	23,236,498
Deficit	**(15,144,357)**	(16,284,268)
Accumulated other comprehensive income (loss) *[note 20]*	**325,842**	(110,343)

Total shareholders' equity	**8,550,889**	6,907,331
	10,811,873	10,510,513

See accompanying notes

Polydex Pharmaceuticals Limited

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

[Expressed in United States dollars]

Years ended January 31, 2005, 2004 and 2003

	Preferred shares	Common shares	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
	$	$	$	$	$	$
Balance, January 31, 2002	15,010	50,434	23,224,128	(15,604,528)	(1,199,627)	6,485,417

Comprehensive income (loss):						
Net loss for the year	–	–	–	(673,741)	–	(673,741)
Currency translation adjustment	–	–	–	–	212,851	212,851
Balance, January 31, 2003	15,010	50,434	23,224,128	(16,278,269)	(986,776)	6,024,527
Common share options issued	–	–	12,370	–	–	12,370
Comprehensive income (loss):						
Net loss for the year	–	–	–	(5,999)	–	(5,999)
Currency translation adjustment	–	–	–	–	876,433	876,433
Balance, January 31, 2004	15,010	50,434	23,236,498	(16,284,268)	(110,343)	6,907,331
Common share options exercised	–	242	53,008	–	–	53,250
Common share options issued	–	–	14,212	–	–	14,212

Comprehensive income (loss):						
Net income for the year	–	–	–	1,139,911	–	1,139,911
Unrealized loss on investments available for sale	–	–	–	–	(15,760)	(15,760)
Currency translation adjustment	–	–	–	–	451,945	451,945
Balance, January 31, 2005	15,010	50,676	23,303,718	(15,144,357)	325,842	8,550,889

See accompanying notes

Polydex Pharmaceuticals Limited

CONSOLIDATED STATEMENTS OF OPERATIONS

[Expressed in United States dollars]

Years ended January 31

	2005	2004	2003
	$	$	$
Sales	**6,372,359**	14,092,189	12,786,343
Cost of goods sold	**4,387,729**	10,742,693	9,528,959
Gross profit	**1,984,630**	3,349,496	3,257,384

Expenses			
General and administrative *[note 11[b][i]]*	**1,438,015**	1,937,262	1,659,011
Depreciation	**496,543**	592,421	549,946
Selling and promotion	**128,731**	158,846	140,281
Research and development, net *[note 13]*	**114,742**	60,951	172,098
Interest, net *[note 8]*	**91,210**	133,382	150,527
Amortization	**16,552**	25,264	22,183
Foreign exchange (gain) loss	**(46,172)**	447,602	113,602
	2,239,621	3,355,728	2,807,648
Income (loss) before the following	**(254,991)**	(6,232)	449,736
Gain on sale of veterinary products assets *[note12[a]]*	**1,859,471**	–	–
Other income (expense) *[notes 12[a] and 14]*	**102,297**	(389,735)	(372,111)

Income (loss) before income taxes	**1,706,777**	(395,967)	77,625
Provision for (recovery of) income taxes *[note 15]*	**566,866**	(389,968)	751,366
Net income (loss) for the year	**1,139,911**	(5,999)	(673,741)
Unrealized loss on investments available for sale	**(15,760)**	–	–
Currency translation adjustment	**451,945**	876,433	212,851
Comprehensive income (loss) for the year	**1,576,096**	870,434	(460,890)

Per share information

Earnings (loss) per common share			
Basic	**0.38**	–	(0.22)
Diluted	**0.37**	–	(0.22)

See accompanying notes

Polydex Pharmaceuticals Limited

CONSOLIDATED STATEMENTS OF CASH FLOWS

[Expressed in United States dollars]

Years ended January 31

	2005	2004	2003
	$	$	$
OPERATING ACTIVITIES			
Net income (loss) for the year	**1,139,911**	(5,999)	(673,741)
Add (deduct) items not affecting cash			
Depreciation and amortization	**513,095**	617,685	572,129
Imputed interest on long-term debt	**14,648**	25,760	33,177
Deferred income taxes	**417,003**	(414,594)	684,474
Loss on disposal of equipment	**3,586**	–	–
Gain on sale of veterinary products business *[note 12[a]]*	**(1,859,471)**	–	–
License fee charged to due from shareholder	**81,179**	60,239	68,276
Provision for due from Sparhawk Laboratories, Inc. *[note 14]*	**–**	–	132,614
Options issued in exchange for services *[note 11[b][i]]*	**14,212**	12,370	–
Net change in non-cash working capital balances related to operations *[note 16]*	**(634,514)**	(74,036)	124,630

Cash provided by (used in) operating activities	**(310,351)**	221,425	941,559

INVESTING ACTIVITIES

Additions to property, plant and equipment and patents	**(159,554)**	(183,124)	(367,868)
Proceeds from sale of veterinary products business *[note 12[a]]*	**4,599,218**	–	–
Decrease in due from shareholder	**65,960**	129,908	48,713
Purchase of investments available for sale	**(1,841,854)**	–	–
Acquisition of minority interest *[note 12[b]]*	**–**	(5,860)	–
Proceeds from sale of equipment	**5,148**	–	–
Cash provided by (used in) investing activities	**2,668,918**	(59,076)	(319,155)

FINANCING ACTIVITIES

Repayment of long-term debt	**(296,035)**	(453,805)	(252,256)
Proceeds from long-term debt	**5,383**	–	–

Repayment of capital lease obligations	**(167,531)**	(126,703)	(73,599)
Increase (decrease) in due to shareholder	**(1,930)**	1,009	262
Increase (decrease) in bank indebtedness	**(147,140)**	165,609	(179,286)
Exercise of common share options	**53,250**	–	–
Cash used in financing activities	**(554,003)**	(413,890)	(504,879)
Effect of exchange rate changes on cash	**224,959**	342,321	39,805
Net increase in cash and cash equivalents during the year	**2,029,523**	90,780	157,330
Cash, beginning of year	**371,528**	280,748	123,418
Cash, end of year	**2,401,051**	371,528	280,748

Cash is comprised of the following

Cash	**129,818**	59,455	199,718
Cash equivalents	**2,271,233**	–	–
Cash included in assets subject to sale agreement *[note 12[a]]*	–	312,073	81,030
	2,401,051	371,528	280,748

See accompanying notes

Polydex Pharmaceuticals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[Expressed in United States dollars except where otherwise noted]

January 31, 2005

1. GENERAL

Polydex Pharmaceuticals Limited [the "Company"] is incorporated in the Commonwealth of the Bahamas and its principal business activities, carried on through subsidiaries, include the manufacture and sale of veterinary pharmaceutical products and specialty chemicals. These consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

Use of estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles 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.

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 labour and fixed and variable overhead expenses.

Investments available for sale

Investments available for sale consist of medium-term fixed income investments and are stated at fair market value based on quoted market prices. Interest income is included in other income in the consolidated statements of operations as it is earned. Changes in 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 when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the Company' s ability to recover the carrying value of the asset from the expected future pre-tax cash flows of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value.

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

Revenue recognition

All revenue is from sales of bulk and finished dosage 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.

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.

No testing and approval is required for finished dosage product because of its nature. Returns of finished dosage product are rare and generally are not accepted.

Shipping and handling costs

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

Research and development

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

Foreign currency translation

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

Derivative financial instruments

The Company' s Canadian subsidiary 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.

Stock options

Effective February 1, 2003, the Company has, in accordance with Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation – Transition and Disclosure" ["SFAS 148"], prospectively adopted the fair value accounting method provided for under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ["SFAS 123"] to apply recognition provisions to its employee stock options granted, modified or settled after February 1, 2003. Previously, the Company followed Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ["APB 25"] and related interpretations. Under

[Expressed in United States dollars except where otherwise noted]

SFAS 123, 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. Previously, under APB 25, the Company recognized no compensation expense when stock options were granted if the exercise price of the stock options equaled or exceeded the market price of the

underlying stock on the date of grant. This change in accounting policy reduced net income and increased contributed surplus by $14,212 [2004 - $12,370] and reduced earnings per common share by less than $0.01 [2004 - $0.01].

Earnings (loss) per common share

Basic earnings (loss) per common share is computed using the weighted average number of shares outstanding of 3,037,463 for the year ended January 31, 2005 [2004 - 3,027,796; 2003 - 3,027,777]. Diluted earnings (loss) per common share is computed using the weighted average number of shares outstanding adjusted for the incremental shares, using the treasury stock method, attributed to outstanding options to purchase common stock. Incremental shares of 26,265 in 2005 [2004 - nil; 2003 - nil] were used in the calculation of diluted earnings (loss) per common share. Options to purchase 18,250, 427,935 and 431,550 common shares in 2005, 2004 and 2003, respectively, were not included in the computation of diluted earnings (loss) per common share because their effect was anti-dilutive.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2005	2004
	$	$
Cash	**129,818**	59,455
Short-term deposits	**2,271,233**	–

[Expressed in United States dollars except where otherwise noted]

	2,401,051	59,455

Short-term deposits in the amount of Cdn. $2,803,675 have maturities of less than three months at the date of purchase. Interest rates on the short-term deposits range from 1.75% to 2.46%.

4. INVENTORIES

Inventories consist of the following:

	2005	2004
	$	$
Finished goods	**1,187,158**	943,373
Work-in-process	**123,730**	107,008
Raw materials	**206,005**	176,058
	1,516,893	1,226,439

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	2005			2004		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	$	$	$	$	$	$
Land and buildings	**1,494,166**	**614,974**	**879,192**	1,391,141	496,720	894,421
Machinery and equipment	**7,564,545**	**5,319,552**	**2,244,993**	6,982,088	4,628,167	2,353,921
	9,058,711	**5,934,526**	**3,124,185**	8,373,229	5,124,887	3,248,342

Included in machinery and equipment are assets under capital lease with a total cost of $974,472 [2004 - $981,925] and accumulated depreciation of $444,550 [2004 - $344,348]. Depreciation of assets under capital lease is included in depreciation expense.

[Expressed in United States dollars except where otherwise noted]

January 31, 2005

6. PATENTS AND INTANGIBLE ASSETS

Patents and intangible assets consist of the following:

	2005	2004
	$	$
Cost	**80,341**	283,199
Less accumulated amortization	**11,382**	197,688
	68,959	85,511

7. INVESTMENTS AVAILABLE FOR SALE

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

	2005	2004
	$	$

Debt security in the amount of Cdn. $700,000 from the Province of Alberta bearing interest at 7.5% and maturing on December 1, 2005	**588,375**	–
Debt security in the amount of Cdn. $718,000 from GE Capital Canada bearing interest at 4.35% and maturing on February 6, 2006	**595,335**	–
Debt security in the amount of Cdn. $750,000 from General Motors Acceptance Corp. maturing on June 7, 2007; floating rate interest is paid quarterly	**599,305**	–
15,000 units of Barclays Top 100 Equal Weighted Income Fund	**126,290**	–
	1,909,305	–

As at January 31, 2005, accumulated other comprehensive income includes unrealized losses on debt securities available for sale of $21,802 and unrealized gains on income fund trust units of $5,438.

8. RELATED PARTY TRANSACTIONS

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

	2005	2004
	$	$

[Expressed in United States dollars except where otherwise noted]

Amounts due from shareholder *[i]*	**643,867**	791,006
Amounts due to shareholder *[ii]*	**(681,304)**	(683,234)

[i] Amounts due from shareholder are due from an officer and director, who is also a major shareholder of the Company [the "Major Shareholder"], and bear interest at the Canadian banks' prime lending rate plus 1.5% [2005 - 5.75%; 2004 - 5.75%], except for an amount of $535,037 [2004 - $616,216] which is non-interest bearing. Interest income on this loan is recognized when realized. These amounts have no fixed terms of repayment. The Major Shareholder has pledged 323,051 shares of the Company and has pledged future license fee payments from the Iron Dextran process license agreement *[note 13]* as collateral for this loan. During 2005, $78,168 [2004 - $60,239; 2003 - $66,727] of license fee payments were made. Subsequent to year end, the Major Shareholder passed away. The shares of the Company and the Iron Dextran process license agreement passed to the Major Shareholder' s estate, along with the loans due to the Company. The Company will continue to hold the pledged assets as collateral until the loan is repaid. The Company has a commitment to pay a death benefit of $110,000 to the estate of the Major Shareholder by February 2006.

[ii] Amounts due to shareholder bear interest at the Canadian banks' prime lending rate plus 1.5% [2005 - 5.75%; 2004 - 5.75%]. The Company is required to make monthly payments, inclusive of accrued interest, of $1,000. Upon the death of the Major Shareholder in February 2005, the required monthly payment increases to $5,000. Based on the current rate of interest, the principal repayment on this loan for fiscal 2006 would be approximately $21,000. This loan may not be called.

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

	2005	**2004**	**2003**

	$	**$**	**$**
Interest expense	**37,569**	42,006	39,263

9. BANK INDEBTEDNESS

The Company has a Canadian operating line of credit of Cdn. $1,250,000 [U.S. $1,007,000] [2004 - Cdn. $1,250,000; U.S. $942,000], of which Cdn. $30,000 [U.S. $24,000] was utilized at January 31, 2005 [2004 - Cdn. $150,000; U.S. $113,000]. The Canadian line of credit bears interest at the Canadian banks' prime lending rate plus 0.75% [2005 - 5%; 2004 - 5%]. Bank indebtedness is collateralized by a general security agreement over the Company' s assets and a collateral mortgage of $500,000 on the Dextran Products Limited ["Dextran Products"] building.

During November 2004, the Company entered into United States dollar forward foreign exchange contracts with the bank to lock in an exchange rate for converting United States dollars to Canadian dollars. The Company is committed to selling $150,000 per month for the period from February 2005 to April 2005 at an exchange rate of $1.1772. At January 31, 2005, the net unrealized loss in respect of these foreign currency contracts amounted to $23,203, which was included in the foreign exchange gain (loss) on the consolidated statements of operations.

10. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

[a] Long-term debt consists of the following:

	2005	**2004**

	$	$
Note payable in monthly payments of $5,860 maturing September 19, 2005. The total amount of repayments are presented at their net present value using a discount rate of 9%. The payments are non-interest bearing and are unsecured *[note 12[b]]*	**45,517**	108,862
Note payable in blended quarterly payments of Cdn. $419 [U.S. $338], bearing interest at a fixed rate of 10%	**5,204**	–
Share value guarantee payable, repaid on March 4, 2004. The total amount of repayments are presented at their net present value using a discount rate of 9%. The payments are non-interest bearing and were collateralized by theassets of Veterinary Laboratories, Inc.	–	217,670
	50,721	326,532
Less current portion	**46,353**	281,015
	4,368	45,517

Repayments on the long-term debt are as follows:

	$
2006	47,716
2007	929

2008	1,030
2009	1,142
2010	1,267
Total long-term debt repayments	52,084
Less amount representing imputed interest	1,363
	50,721

Polydex Pharmaceuticals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[Expressed in United States dollars except where otherwise noted]

January 31, 2005

[b] Capital lease obligations consist of the following:

	2005	2004
	$	$

[Expressed in United States dollars except where otherwise noted]

Obligation [Cdn. $308,703] under a capital lease, repayable in monthly instalments, bearing interest at 9% and maturing November 2006. The Company has an option to purchase the asset for $89,800 [Cdn. $111,500] in April 2006, or at fair market value at the end of the lease term	**248,714**	339,217
Obligation [Cdn. $69,253] under a capital lease, repayable in monthly instalments, bearing interest at 7.59% and maturing November 2006. The Company has an option to purchase the asset for $1 at the end of the lease term	**55,795**	77,783
Obligation [Cdn. $27,761] under a capital lease, repayable in quarterly instalments, bearing interest at 10.43% and maturing December 2009. The Company has an option to purchase the asset for fair value at the end of the lease term	**22,366**	–
Obligation under a capital lease, repayable in monthly instalments, bearing interest at 6.65% and maturing December 2004. The Company purchased the asset for $1 at the end of the lease term	–	29,203
	326,875	446,203
Less current portion	**157,531**	161,253
	169,344	284,950

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

$

2006	180,300
2007	163,034
2008	5,809
2009	5,809
2010	5,809
Total minimum lease payments	360,761
Less amount representing imputed interest	33,886
	326,875

11. CAPITAL STOCK

[a] Share capital issued and outstanding

[i] Class A preferred shares

The Class A preferred shares will carry dividends, will be convertible into common shares of the Company and will be redeemable, all at rates as shall be determined by resolution of the Board of Directors. No Class A preferred shares have been issued to date.

[ii] Class B preferred shares

The Class B preferred shares carry no dividends, are non-convertible and entitle the holder to two votes per share.

[iii] Common shares

During the year ended January 31, 2005, 14,500 common share options were exercised for $53,008 resulting in the issuance of 14,500 common shares.

[b] Share option plan

[i] Options outstanding

The Company maintains an incentive share option plan for management personnel for 1,000,000 options to purchase common shares. The Company also issues options to certain consultants for services provided to the Company.

All options granted have a term of five years and vest immediately. At January 31, 2005, the Company has 86,300 options outstanding at exercise prices ranging from $2.50 to $7.72 and a weighted average exercise price of $4.75. The options, which are immediately exercisable and expire on dates between February 1, 2005 and January 31, 2010, entitle the holder of an option to acquire one common share of the Company.

During the year ended January 31, 2005, 4,365 common share options were issued to the independent directors of the Company. These options were valued at $14,212 and were charged to general and administrative expense, in accordance with SFAS 123. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.71%; dividend yield of nil; volatility factor of the expected market price of the Company' s common stock of 0.681, and an expected life of the options of five years.

During the year ended January 31, 2004, 3,885 common share options were issued to the independent directors of the Company. These options were valued at $12,370 and were charged to general and administrative expense, in accordance with SFAS 123. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.12%; dividend yield of nil; volatility factor of the expected market price of the Company' s common stock of 0.701, and an expected life of the options of five years.

12,000 common share options granted to the independent directors of the Company during 2003 were not expensed as the Company adopted SFAS 123 prospectively in fiscal 2004. The impact of these common share option grants on the earnings of the Company for 2003 if SFAS 123 had been adopted in that year is presented in note 11[b][ii].

Details of the outstanding options, which are all currently exercisable, are as follows:

	Share options			Weighted average exercise price per share		
	2005	2004	2003	2005	2004	2003
	#	#	#	$	$	$
Options outstanding, beginning of year	**427,935**	431,550	419,550	**3.92**	3.88	3.91
Granted	**4,365**	3,885	12,000	**6.86**	7.72	2.50
Exercised	**(14,500)**	–	–	**3.67**	–	–
Expired	**(331,500)**	(7,500)	–	**3.75**	3.50	–
Options outstanding, end of year	**86,300**	427,935	431,550	**4.75**	3.92	3.88
Weighted average fair value of options granted during the year				**$ 3.26**	$ 3.18	$ 1.28

The following table summarizes information relating to the options outstanding at January 31, 2005:

Exercise price $	Number outstanding	Weighted average remaining contractual life [months]
2.50	12,000	36
2.75	10,950	24
3.00	3,000	16
3.50	1,500	12
4.59	6,600	12
5.00	4,000	16
5.25	30,000	1
6.80	10,000	4
6.86	4,365	60
7.72	3,885	48
	86,300	16

Polydex Pharmaceuticals Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[Expressed in United States dollars except where otherwise noted]

January 31, 2005

[ii] Pro forma information

As required by SFAS 123 [and modified by SFAS 148], pro forma information regarding net loss and net loss per common share has been determined as if the Company had accounted for its employee stock options under the fair value method for the year ended January 31, 2003. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 2.96%; dividend yield of nil; volatility factor of the expected market price of the Company' s common stock of 0.660; and an expected life of the options of five years. For purposes of pro forma disclosures, the estimated fair value of the options is expensed immediately.

Since changes in subjective input assumptions can materially affect the fair value estimate, in management' s opinion, the above pro forma adjustments for SFAS 123 are not necessarily a reliable single measure of the fair value of the Company' s employee stock options.

The Company' s pro forma net loss and net loss per common share following SFAS 123 are as follows:

	2003
	$

Net loss as reported	(673,741)
Stock-based employee compensation cost using the fair value method	(9,216)
Pro forma net loss	(682,957)

Pro forma net loss per common share

Basic	(0.23)
Diluted	(0.23)

12. VETERINARY LABORATORIES, INC.

[a] Sparhawk Laboratories, Inc.

In 1992, Veterinary Laboratories, Inc. [“Vet Labs”] and Sparhawk Laboratories, Inc. [“Sparhawk”] entered into the Vet Labs - Sparhawk Joint Venture [the “Joint Venture”] for the manufacture and sale of veterinary pharmaceutical products. Vet Labs and Sparhawk each owned 50% of the Joint Venture. The Company controlled the Joint Venture through its control of the Joint Venture Policy Committee and therefore consolidated its assets, liabilities, revenue and expenses in these consolidated financial statements until March 4, 2004. The Company had funded the Joint Venture’ s losses since 1992 and, accordingly, has recorded 100% of these cumulative losses in the consolidated financial statements.

On January 13, 2004, the Company entered into an Asset Purchase Agreement with Sparhawk. Pursuant to this Asset Purchase Agreement, the Company agreed to sell the finished product veterinary pharmaceutical business, including substantially all of the assets of Vet Labs, to Sparhawk for $5,500,000 in cash. Effective March 4, 2004, this sale was completed. Simultaneously, on March 4, 2004, Chemdex, Inc. [“Chemdex”], a wholly-owned subsidiary of the Company, advanced $350,000 to Sparhawk in exchange for a promissory note bearing interest at 13% per annum and a warrant to purchase 4% of the equity of Sparhawk for no additional consideration. The promissory note is due in full on March 4, 2009. Interest is payable annually on the anniversary date, but can be deferred and added to the principal balance of the promissory note each year at Sparhawk’ s discretion. The warrant expires at the earlier of payment in full of the promissory note or 10 years from date of issue. The warrant becomes exercisable the day after the fifth anniversary from the date of issue. Pursuant to a definitive supply agreement [the “Supply Agreement”] entered into on March 4, 2004, Chemdex agreed to supply ferric hydroxide and hydrogenated dextran solution to Sparhawk on an exclusive basis in the United States for 10 years. Chemdex also granted to Sparhawk an exclusive license to use the drug master file to manufacture 10% bulk Iron Dextran for veterinary use, and the use of certain equipment during the 10-year period of the Supply Agreement. Pursuant to definitive agreements, the Company made customary representations, warranties and indemnities and agreed to a full release of all claims against Sparhawk arising from the Joint Venture litigation. Similarly, Sparhawk agreed to a full release of all claims against the Company arising from the Joint Venture litigation.

The sale resulted in a gain of $2,209,471, of which $1,859,471 was recognized in the consolidated statements of operations and $350,000 was deferred. The deferred gain of $350,000 relates to the promissory note receivable from Sparhawk as Sparhawk is thinly capitalized and highly leveraged. The Company will monitor the financial position of Sparhawk and will recognize this deferred gain at such time as Sparhawk’ s cash flows from operations are sufficient to fund debt service on a full accrual basis.

Assets that were included in the disposal were reclassified to assets subject to sale agreement in the accompanying consolidated balance sheets as at January 31 and are as follows:

[Expressed in United States dollars except where otherwise noted]

January 31, 2005

	2005	2004
	$	$
Assets subject to sale agreement		
Cash	–	312,073
Trade accounts receivable	–	536,868
Inventories	–	1,466,873
Prepaid expenses and other current assets	–	84,786
Land and building	–	1,459,681
Machinery and equipment	–	136,258
Patents and intangible assets	–	56,627
Deferred income taxes	–	232,500
	–	4,285,666

Liabilities that were assumed by the purchaser were reclassified to liabilities subject to sale agreement in the accompanying consolidated balance sheets as at January 31 and are as follows:

	2005	2004
	$	$
Liabilities subject to sale agreement		
Accounts payable	–	584,644
Accrued liabilities	–	175,654
Due to Sparhawk Laboratories, Inc.	–	101,453
Customer deposits	–	18,813
	–	880,564

As described in note 10[a], long-term debt of the Company included an amount due under a share value guarantee which arose upon the acquisition of Vet Labs in 1992 *[note 12[c]]*. This share value guarantee was collateralized by the assets of Vet Labs including the land and building. To release the charge against the Vet Labs assets, this share value guarantee had to be paid in full. This payment of $225,353 was made on March 4, 2004 from the sale proceeds.

The Joint Venture operations comprised substantially all of the operations of the Chemdex segment *[note 17]*. Legal and receiver costs relating to the Joint Venture were included in other income (expense) on the consolidated statements of operations.

[b] Acquisition of minority interest

[Expressed in United States dollars except where otherwise noted]

On September 19, 2003, Chemdex redeemed all of the common shares held by the 10% minority interest shareholder, which resulted in the Company controlling 100% of the issued and outstanding shares of Chemdex. The redemption amount was $146,500, which is to be

paid in 25 equal monthly installments of $5,860, which commenced on September 19, 2003. Since this installment contract is non-interest bearing, it has been discounted using a discount rate of 9%. The present value has been recorded in long-term debt. The Company has recorded this acquisition as a step purchase and has allocated the purchase price based on fair values of the assets as follows:

	$
Land and building, included in assets subject to sale agreement *[note 12[a]]*	43,549
Equipment	555
Equipment, included in assets subject to sale agreement *[note 12[a]]*	10,157
Patents and intangible assets	80,341
	134,602

[Expressed in United States dollars except where otherwise noted]

[c] Purchase obligation to ContiGroup Companies, Inc. [formerly Continental Grain Company] ["CGC"]

In 1992, the Company acquired 100% of the issued and outstanding share capital of Vet Labs from CGC for a total purchase price of $3,894,980, which was satisfied by issuing 194,749 common shares of the Company. The Company had guaranteed that CGC would realize a value of $3,894,980 on the eventual sale of these shares or CGC could put its remaining shares to the Company at such price to bring CGC' s total consideration to $3,894,980. CGC disposed of all of the common shares of the Company and a shortfall resulted. On January 25, 2001, the terms of the purchase agreement were revised whereby the repayment terms for the outstanding repurchase obligation were extended. The revised agreement required the Company to make semi-annual payments of $90,000 on each of May 1 and November 1 until May 1, 2004 and a final payment of $105,343 on November 1, 2004. On April 9, 2003, the terms of the purchase agreement were revised to amend the repayment terms for the outstanding repurchase obligation. This revised agreement required the Company to make quarterly payments of $50,000 on each of May 1, August 1, November 1 and February 1 until August 1, 2004 and a final payment of $75,343 on November 1, 2004. This amount was included in long-term debt*[note 10[a]]*and was repaid on March 4, 2004 as described in *note 12[a]*.

13. LICENSE AGREEMENTS AND RESEARCH AND DEVELOPMENT

The Company has made claims for investment tax credits on research and development activities. Research and development expenditures have been reduced by investment tax credits as follows:

	2005	2004	2003
	$	$	$

Research and development expenditures	**127,847**	73,635	193,284
Investment tax credits	**(13,105)**	(12,684)	(21,186)
Research and development expense	**114,742**	60,951	172,098

Iron Dextran process

The Company has an agreement with the Major Shareholder which grants the Company the exclusive worldwide license to use a certain process for producing Iron Dextran. This license agreement expires in 2014. The Company pays a license fee based on production volumes. The total license fee incurred during the year was $78,168 [2004 - $60,239; 2003 - $66,727]. These payments are applied to the balance owing by the Major Shareholder *[note 8[i]]*.

Cellulose Sulphate BV Clinical Evaluation Program

During September 2004, the Company entered into an agreement with a research organization to conduct a pilot clinical study on the use of cellulose sulphate for the treatment of bacterial

vaginosis. Payments of $43,112 were made to the research organization and the principal investigator upon execution of the agreement. The Company is committed to make an additional payment of $43,112 upon patient enrolment, which is expected to occur during the summer of 2005, and a final payment of $21,556 upon completion of the clinical study, which is expected to be near the end of fiscal year 2006.

14. OTHER INCOME (EXPENSE)

During the year ended January 31, 2003, an amount due from Sparhawk of $132,614 was fully provided for and included in other income (expense).

15. INCOME TAXES

[Expressed in United States dollars except where otherwise noted]

[a] Substantially all of the Company' s activities are carried out through operating subsidiaries in Canada and the United States. The Company' s effective income tax rate is dependent on the tax legislation in each country and the operating results of each subsidiary and the parent company.

The components of income (loss) before income taxes are as follows:

	2005	2004	2003
	$	$	$
Bahamas	**(642,870)**	(391,641)	(360,664)
Canada	**250,863**	61,980	940,088
United States	**2,098,784**	(66,306)	(501,799)
	1,706,777	(395,967)	77,625

The provision for (recovery of) income taxes consists of the following:

	2005 $	2004 $	2003 $
Foreign withholding taxes and other on Bahamian income	**123,000**	–	–
Provision for income taxes based on Canadian statutory income tax rates	**92,819**	22,933	311,357
Increase (decrease) in tax reserve	**(232,739)**	–	147,012
Increase (decrease) in valuation allowance	**(36,009)**	53,900	3,506
Tax rate changes on deferred tax items	**4,654**	(20,203)	(21,612)
Items not deductible for tax	**(21,859)**	53,402	(9,377)
	(193,134)	110,032	430,886
Provision for (recovery of) income taxes based on United States income tax rates	**776,550**	(24,533)	(185,666)
Tax recovery on Joint Venture partner' s share of income	**(160,697)**	(132,282)	(32,319)
Tax on non-deductible items	**(23,511)**	–	–

Increase (decrease) in valuation allowance	**44,658**	(343,185)	538,465
	637,000	(500,000)	320,480
Provision for (recovery of) income taxes	**566,866**	(389,968)	751,366

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

	2005 **$**	**2004** **$**	**2003** **$**
Canadian deferred tax recovery	**(280,453)**	(38,083)	(21,307)
Canadian deferred tax expense	**197,456**	128,440	385,301
Canadian current tax expense	**12,863**	19,675	66,892
United States deferred tax recovery	–	(500,000)	–
United States deferred tax expense	**500,000**	–	320,480
United States current tax expense	**137,000**	–	–

	566,866	(389,968)	751,366

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
[Expressed in United States dollars except where otherwise noted]

January 31, 2005

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

	2005	2004	2003
	$	$	$
Deferred tax assets			
Canadian			
Unclaimed research and development expenses	**255,485**	307,180	342,000
Net capital losses *[note 15[c]]*	**140,173**	102,800	81,000
Other items	**84,566**	90,200	9,000
United States			
Net operating loss carryforwards	–	580,000	600,000

Unpaid intercompany interest	**149,706**	150,000	–
Allowance on Sparhawk note *[note 12[a]]*	**84,206**	–	–
	714,136	1,230,180	1,032,000
Less valuation allowance	**421,160**	627,000	899,207
	292,976	603,180	132,793
Deferred tax liabilities			
Excess of carrying value over tax value of depreciable assets	**(214,560)**	(249,000)	(160,000)
Investment tax credits and other items	**(143,715)**	(1,234)	(22,543)
Net deferred tax assets (liabilities)	**(65,299)**	352,946	(49,750)

[c] The Canadian subsidiaries have deductions available to reduce future years' income for tax purposes on account of net temporary differences resulting from expense items reported for income tax purposes in different periods than for financial statement purposes totalling approximately $974,000 and $424,000 for federal and provincial purposes, respectively. Certain Canadian subsidiaries also have net capital losses available for carryforward of approximately $405,000 available to offset future taxable capital gains. These potential deductions and net capital losses have an indefinite carryforward period.

[Expressed in United States dollars except where otherwise noted]

[d] The Company has not recorded a deferred tax liability related to its investment in foreign subsidiaries. The Company has determined that its investment in these subsidiaries is permanent in nature and does not intend to dispose of or realize dividends from these investments in the foreseeable future. However, if either of these events were to occur, the Company will be liable for withholding taxes. The amount of the deferred tax liability related to the Company' s investment in foreign subsidiaries is not reasonably determinable.

16. CONSOLIDATED STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	2005	2004	2003
	$	$	$
Decrease (increase) in current assets			
Trade accounts receivable	**(371,170)**	402,848	(262,397)
Interest receivable	**(41,511)**	–	–
Inventories	**(196,214)**	(270,190)	(111,260)
Prepaid expenses and other current assets	**(69,916)**	(45,350)	594

[Expressed in United States dollars except where otherwise noted]

	(678,811)	87,308	(373,063)
Increase (decrease) in current liabilities			
Accounts payable	**(83,326)**	(171,739)	254,664
Accrued liabilities	**12,274**	66,878	102,453
Customer deposits	**(13,190)**	(20,660)	131,744
Income taxes payable	**128,539**	(35,823)	8,832
	(634,514)	(74,036)	124,630

Cash paid during the year for interest was $38,993 [2004 - $65,616; 2003 - $78,087]. Cash paid during the year for income taxes was $6,433 [2004 - $44,024; 2003 - $11,699].

Capital equipment acquired under capital lease of $23,137 [2004 - $78,978; 2003 - nil] were treated as non-cash additions. During the year ended January 31, 2004, assets of $134,602, acquired through the acquisition of minority interest, less cash paid on date of closing of $5,860 *[note 12[b]],*were treated as non-cash additions.

17. SEGMENTED INFORMATION

All of the operations of the Company are carried on through Dextran Products in Canada and through Chemdex in the United States. The operations of Chemdex represent the veterinary products business and the operations were carried out through its wholly-owned subsidiary, Vet Labs. Vet Labs carried on its business through a Joint Venture with Sparhawk until March 4, 2004

when the majority of this business was sold to Sparhawk *[note 12[a]]*. Each of Dextran Products and Chemdex operates as a strategic business unit offering different products. Each subsidiary comprises a reportable segment as follows:

Dextran Products - manufactures and sells bulk quantities of Dextran and several of its derivatives to large pharmaceutical companies throughout the world.

Chemdex - manufactured and sold veterinary pharmaceutical products and specialty chemicals in the United States until March 4, 2004. The primary customers were distributors and private labelers, who in turn sold to the end user of these products. Since March 4, 2004, the operations of Chemdex have been limited to the sale of bulk Iron Dextran to Sparhawk.

The Company evaluates segment performance based primarily on operating income, excluding unusual items. The Company accounts for intersegment sales as if the sales were to third parties at current market prices. The accounting policies of the segments are the same as those described in the significant accounting policies.

[a] The following is condensed segment financial information as at and for the years ended January 31:

	2005		
	Dextran	**Chemdex**	**Total**
	$	**$**	**$**
Gross sales	**5,362,948**	**1,456,146**	**6,819,094**
Intercompany sales	**446,735**	**–**	**446,735**
Interest expense	**38,993**	**6,975**	**45,968**
Depreciation and amortization	**496,072**	**8,505**	**504,577**

[Expressed in United States dollars except where otherwise noted]

Income before income taxes	**256,169**	**2,093,478**	**2,349,647**
Interest income	**91,563**	**41,554**	**133,117**
Segment assets	**9,933,254**	**233,539**	**10,166,793**
Capital expenditures	**182,691**	–	**182,691**

	2004		
	Dextran	**Chemdex**	**Total**
	$	**$**	**$**
Gross sales	5,142,881	9,349,670	14,492,551
Intercompany sales	400,362	–	400,362
Interest expense	48,294	20,883	69,177
Depreciation and amortization	459,054	142,844	601,898

Income (loss) before income taxes	58,703	(63,029)	(4,326)
Interest income	445	–	445
Segment assets	5,045,899	4,281,084	9,326,983
Capital expenditures	218,859	177,845	396,704

	2003		
	Dextran	Chemdex	Total
	$	$	$
Gross sales	4,917,446	8,210,984	13,128,430
Intercompany sales	342,087	–	342,087
Interest expense	50,716	27,120	77,836
Depreciation and amortization	388,954	167,388	556,342
Income (loss) before income taxes	872,291	(247,682)	624,609
Interest income	1,667	395	2,062

[Expressed in United States dollars except where otherwise noted]

Segment assets	4,918,829	3,569,090	8,487,919
Capital expenditures	340,203	27,665	367,868

[b] The following reconciles segment information presented above to the consolidated financial statements as at and for the years ended January 31:

	2005	2004	2003
	$	$	$
Gross sales			
Gross sales from segments	**6,819,094**	14,492,551	13,128,430
Intercompany sales elimination	**(446,735)**	(400,362)	(342,087)
	6,372,359	14,092,189	12,786,343

	2005	2004	2003
	$	$	$
Income (loss) before income taxes			
Income (loss) before income taxes from segments	**2,349,647**	(4,326)	624,609
Unallocated corporate expenses	**(642,870)**	(391,641)	(546,984)
	1,706,777	(395,967)	77,625

	2005	2004
	$	$
Assets		
Segment	**10,166,793**	9,326,983
Corporate	**645,080**	1,183,530
	10,811,873	10,510,513

	2005		
	Total segments	Corporate	Consolidated totals
	$	$	$
Other significant items			
Interest expense	**45,968**	**45,242**	**91,210**
Depreciation and amortization	**504,577**	**8,518**	**513,095**
Interest income	**133,117**	–	**133,117**
Capital expenditures	**182,691**	–	**182,691**

	2004		
	Total segments	Corporate	Consolidated totals

[Expressed in United States dollars except where otherwise noted]

	$	$	$
Other significant items			
Interest expense	69,177	64,205	133,382
Depreciation and amortization	601,898	15,787	617,685
Interest income	445	–	445
Capital expenditures	396,704	–	396,704

2003

	Total segments	Corporate	Consolidated totals
	$	$	$

Other significant items			
Interest expense	77,836	72,691	150,527
Depreciation and amortization	556,342	15,787	572,129
Interest income	2,062	–	2,062
Capital expenditures	367,868	–	367,868

[c] Consolidated sales for the years ended January 31 by destination are as follows:

	2005	2004	2003
	$	$	$
Europe	**2,130,180**	2,207,104	1,991,107
United States	**1,950,761**	10,008,794	8,923,364
Pacific Rim	**873,872**	692,980	714,072
Canada	**854,989**	655,471	510,499
Other	**562,557**	527,840	647,301
	6,372,359	14,092,189	12,786,343

[Expressed in United States dollars except where otherwise noted]

[d] Long-lived assets by country of domicile are as follows:

	2005	2004
	$	$
Canada	**3,135,872**	3,247,473
United States	**69,357**	1,621,828
Bahamas	–	8,518
	3,205,229	4,877,819

[e] The following summarizes significant customer sales information for the years ended January 31. Customer A is a Dextran customer, while the other customers were all customers of Chemdex.

	2005	2004	2003
	$	$	$
Customer A	**886,749**	762,330	815,907
Customer B	**268,186**	1,920,282	1,858,236
Customer C	**246,296**	2,133,597	1,590,126
Customer D	**143,258**	1,567,135	1,420,554
	1,544,489	6,383,344	5,684,823

[f] The following summarizes significant enterprise-wide product group sales information of the Company for the years ended January 31:

	2005	2004	2003
	$	$	$
Bulk Dextran and derivatives	**5,280,458**	4,742,519	4,575,359
Sterile injectible veterinary products	**663,629**	5,697,292	4,480,327

[Expressed in United States dollars except where otherwise noted]

Oral and topical veterinary products	**428,272**	3,652,378	3,730,657
	6,372,359	14,092,189	12,786,343

18. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments has been determined based on available market information and appropriate valuation methodologies.

The carrying values of cash and cash equivalents, trade accounts receivable, interest receivable and accounts payable approximate their fair values as at January 31, 2005 because of the short period to maturity of these financial instruments.

The estimated fair values of the bank indebtedness, due to shareholder, long-term debt and capital lease obligations are not materially different from the carrying values for financial statement purposes as at January 31, 2005 and 2004. The estimated fair value of the amount due from shareholder is not determinable because the amount has no fixed terms of repayment.

19. OTHER DISCLOSURES

[a] Concentration of accounts receivable

As at January 31, 2005, three [2004 - three] customers of the Company comprised 61% [2004 - 59%] of the trade accounts receivable balance. No other customers had trade accounts receivable outstanding at year end that represented more than 10% of the Company' s trade accounts receivable balance.

[b] Foreign currency risk

The Company is exposed to foreign currency risk through its net investment in its Canadian operations. The Company has not entered into hedging arrangements related to the foreign currency risk exposure. The Company has entered into foreign exchange contracts to manage exposure to currency fluctuations as described in note 9.

20. COMPREHENSIVE INCOME (LOSS)

The components of other accumulated comprehensive income (loss) are as follows:

	2005	2004
	$	$
Unrealized loss on investments available for sale	**(15,760)**	–
Currency translation	**341,602**	(110,343)
Accumulated other comprehensive income (loss)	**325,842**	(110,343)

21. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board [the "FASB"] issued FASB Statement No. 123 (Revised 2004), "Share-Based Payment" ["Statement 123(R)"], which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation" ["Statement 123"]. Statement 123(R) supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" and amends FASB Statement No. 95, "Statement of Cash Flows". Generally, the approach in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. Effective February 1, 2003, the Company has adopted the fair value accounting method provided for under Statement 123 to apply recognition provisions to its employee stock options granted, modified or settled after February 1, 2003. Statement 123(R) will have no impact on the consolidated financial statements of the Company.

In November 2004, the FASB issued Statement 151, "Inventory Costs", which clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials should be

recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. This guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not anticipate that this guidance will impact the consolidated financial statements of the Company.

In December 2004, the FASB issued Statement 153, "Exchanges of Nonmonetary Assets", an amendment of APB Opinion No. 29, "Accounting for Nonmonetary Transactions". Statement 153 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Statement 153 eliminates the narrow exception for nonmonetary exchanges of similar productive assets and replaces it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Statement 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The provisions of Statement 153 should be applied prospectively. The Company does not anticipate that the application of Statement 153 will have an impact on the consolidated financial statements of the Company.

22. COMPARATIVE CONSOLIDATED FINANCIAL STATEMENTS

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2005 consolidated financial statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

The Company completed an evaluation as of the end of the period covered by this report under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company' s disclosure controls and procedures are effective in alerting them on a timely basis of material information relating to the Company (including its consolidated subsidiaries) required to be included in its periodic Securities and Exchange Commission filings.

There have been no changes in the Company' s internal control over financial reporting identified in connection with the evaluation discussed above that occurred in the Company' s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company' s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required under this item is incorporated herein by reference from the material contained under the captions "Board of Directors," "Proposals," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company' s definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2005 Annual Meeting of Members.

Code of Ethics

The Company has adopted a code of ethics that applies to all of its directors, executive officers (including its chief executive officer, chief financial officer, other senior financial officers and any person performing similar functions). The Company has made the Code of Ethics available on its website at *www.polydex.com*under the caption "Investor Relations."

ITEM 11. EXECUTIVE COMPENSATION

The information required under this item is incorporated herein by reference from the material contained under the captions "Board of Directors," "Board Meetings and Committees," "Compensation of Executive Officers," "Employment Agreements" and "Company Stock Performance" in the Company' s definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2005 Annual Meeting of Members.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required under this item is incorporated herein by reference from the material contained under the captions "Ownership of Voting Securities" and "Equity Compensation Plan Information" in the Company' s definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2005 Annual Meeting of Members.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required under this item is incorporated herein by reference from the material contained under the captions "Compensation of Executive Officers," "Compensation Committee Interlocks and Insider Participation" and "Transactions With the Company" in the Company' s definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2005 Annual Meeting of Members.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required under this item is incorporated herein by reference from the material contained under the caption "Principal Accountant Fees and Services" in the Company' s definitive proxy statement to be filed with the Securities and Exchange Commission in connection with its 2005 Annual Meeting of Members.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

(1) Financial Statements of Polydex Pharmaceuticals

Report of Independent Auditors − Ernst & Young LLP Chartered Accountants

Consolidated Balance Sheets

Consolidated Statements of Shareholders' Equity

Consolidated Statements of Operations

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

Schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore, have been omitted.

(3) Exhibits

3.1	Memorandum of Association of Polydex Pharmaceuticals Limited, as amended (filed as Exhibit 3.1 to the Annual Report on Form 10-K filed April 30, 1997, and incorporated herein by reference)
3.2	Articles of Association of Polydex Pharmaceuticals Limited, as amended (filed as Exhibit 3.2 to the Quarterly Report on Form 10-Q filed September 13, 1999, and incorporated herein by reference)
10.1	Employment Agreement between Polydex Pharmaceuticals Limited and George G. Usher dated December 22, 1993 (filed as Exhibit 10.2 to the Annual Report on Form 10-K filed April 30, 1997, and incorporated herein by reference)*

10.2	Amendment to Employment Agreement between Polydex Pharmaceuticals Limited and George G. Usher dated February 1, 1999 (filed as Exhibit 10.4 to the Annual Report on Form 10-K filed April 29, 1999, and incorporated herein by reference)*
10.3	Research Agreement among Dextran Products Limited, Canadian Microbiology Consortium, British Columbia' s Children' s Hospital and the University of British Columbia, dated April 1, 1996 (filed as Exhibit 10.4 to the Annual Report on Form 10-K filed April 30, 1997, and incorporated herein by reference)
10.4	Joint Venture Agreement among Chemdex, Inc., Veterinary Laboratories Inc. and Sparhawk Laboratories, Inc., dated December 1, 1992 (filed as Exhibit 10.5 to the Annual Report on Form 10-K filed April 30, 1997, and incorporated herein by reference)
10.5	Asset Purchase Agreement dated as of January 13, 2004, by and among Sparhawk Laboratories, Inc., Polydex Pharmaceuticals Limited, Chemdex, Inc. and Veterinary Laboratories, Inc. (filed as Exhibit 10.9 to the Annual Report on Form 10-K filed April 30, 2004, and

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incorporated herein by reference)

10.6	Supply Agreement, dated as of March 1, 2004, by and between Chemdex, Inc. and Sparhawk Laboratories, Inc. (filed as Exhibit 10.10 to the Annual Report on Form 10-K filed April 30, 2004, and incorporated herein by reference)

10.7	Unsecured Subordinated Promissory Note dated March 4, 2004 made by Sparhawk Laboratories, Inc. in favor of Chemdex, Inc. (filed as Exhibit 10.11 to the Annual Report on Form 10-K filed April 30, 2004, and incorporated herein by reference)
10.8	Warrant and Repurchase Agreement, dated March 4, 2004 issued by Sparhawk Laboratories, Inc. to Chemdex, Inc. (filed as Exhibit 10.12 to the Annual Report on Form 10-K filed April 30, 2004, and incorporated herein by reference)
21	Subsidiaries of Polydex Pharmaceuticals Limited (filed as Exhibit 21 to the Annual Report on Form 10-K filed April 28, 2000, and incorporated herein by reference)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan or arrangement required to be included as an exhibit to this annual report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POLYDEX PHARMACEUTICALS LIMITED

Date: April 29, 2005

By: /s/ George G. Usher

George G. Usher, President and

Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: April 29, 2005

/s/ George G. Usher

George G. Usher, Director, President

and Chief Executive Officer

(Principal Executive Officer)

Date: April 29, 2005

/s/ Sharon Wardlaw

Sharon Wardlaw, Treasurer, Secretary

and Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: April 29, 2005

/s/ Joseph Buchman

Joseph Buchman, Director

Date: April 29, 2005

/s/ Derek John Michael Lederer

Derek John Michael Lederer, Director

Date: April 29, 2005

/s/ John L.E. Seidler

John L.E. Seidler, Director

EXHIBIT INDEX

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 31.1

CERTIFICATION

I, George G. Usher, Chief Executive Officer of Polydex Pharmaceuticals Limited (the "Company") do hereby certify that:

1. I have reviewed this annual report on Form 10-K of the Company for the fiscal year ended January 31, 2005;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the period presented in this report;

4. The Company' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and we have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report was being prepared;

(b) evaluated the effectiveness of the Company' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the Company' s internal control over financial reporting that occurred during the Company' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the Company' s internal control over financial reporting; and

5. The Company' s other certifying officer and I have disclosed, based on our most recent evaluation, to the Company' s auditors and the audit committee of the Company' s board of directors:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company' s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company' s internal control over financial reporting.

Dated: April 29, 2005

/s/ George G. Usher

Chief Executive Officer

Polydex Pharmaceuticals Limited

Exhibit 31.2

CERTIFICATION

I, Sharon L. Wardlaw, Chief Financial Officer of Polydex Pharmaceuticals Limited (the "Company") do hereby certify that:

1. I have reviewed this annual report on Form 10-K of the Company for the fiscal year ended January 31, 2005;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the period presented in this report;

4. The Company' s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and we have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report was being prepared;

(b) evaluated the effectiveness of the Company' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the Company' s internal control over financial reporting that occurred during the Company' s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the Company' s internal control over financial reporting; and

5. The Company' s other certifying officer and I have disclosed, based on our most recent evaluation, to the Company' s auditors and the audit committee of the Company' s board of directors:

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company' s ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company' s internal control over financial reporting.

Dated: April 29, 2005

/s/ Sharon L. Wardlaw

Chief Financial Officer

Polydex Pharmaceuticals Limited

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In condition with the Annual Report on Form 10-K of Polydex Pharmaceuticals Limited (the "Company") for the fiscal year ended January 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George G. Usher, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By /s/ George G. Usher

George G. Usher,

Chief Executive Officer

April 29, 2005

A signed original of this written statement required by section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In condition with the Annual Report on Form 10-K of Polydex Pharmaceuticals Limited (the "Company") for the fiscal year ended January 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sharon L. Wardlaw, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By /s/ Sharon L. Wardlaw

Sharon L. Wardlaw,

Chief Financial Officer

April 29, 2005

A signed original of this written statement required by section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.