
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission File Number: 001-32295

FENNEC PHARMACEUTICALS INC.

(Exact Name of Registrant as Specified in Its Charter)

British Columbia, Canada
(State or Other Jurisdiction of
Incorporation or Organization)

20-0442384
(I.R.S. Employer
Identification No.)

PO Box 13628, 68 TW Alexander Drive
Research Triangle Park, North Carolina
(Address of Principal Executive Offices)

27709
(Zip Code)

Registrant's Telephone Number, Including Area Code: (919) 636-4530

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/> (Do not check if smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of May 14, 2018, there were 18,495,059 shares of Fennec Pharmaceuticals Inc. common stock outstanding.

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PART 1: FINANCIAL INFORMATION
Item 1. Financial Statements

Fennec Pharmaceuticals Inc.
Condensed Consolidated Balance Sheets
(U.S. Dollars and shares in thousands)

	<u>March 31, 2018</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2017</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 26,719	\$ 28,260
Prepaid expenses	107	128
Other current assets	10	13
Total assets	<u>\$ 26,836</u>	<u>\$ 28,401</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,033	\$ 855
Accrued liabilities	140	622
Derivative instruments (Note 4)	-	167
Total current liabilities	<u>1,173</u>	<u>1,644</u>
Total liabilities	<u>1,173</u>	<u>1,644</u>
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, no par value; unlimited shares authorized; 18,484 shares issued and outstanding (2017-18,411)	103,337	103,045
Additional paid-in capital	44,019	43,837
Accumulated deficit	(122,936)	(121,368)
Accumulated other comprehensive income	1,243	1,243
Total stockholders' equity	<u>25,663</u>	<u>26,757</u>
Total liabilities and stockholders' equity	<u>\$ 26,836</u>	<u>\$ 28,401</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

Fennec Pharmaceuticals Inc.
Condensed Consolidated Statements of Operations
(U.S. Dollars and shares in thousands, except per share amounts)
(Unaudited)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Revenue	\$ -	\$ -
Operating expenses:		
Research and development	689	225
General and administrative	1,102	546
Loss from operations	(1,791)	(771)
Other (expense) income :		
Unrealized gain/(loss) on derivatives (Note 4)	167	(37)
Other (loss)	(3)	(1)
Interest income and other	59	3
Total other income/(expense), net	223	(35)
Net loss	\$ (1,568)	\$ (806)
Basic net loss per common share	\$ (0.09)	\$ (0.06)
Diluted net loss per common share	\$ (0.09)	\$ (0.06)
Weighted-average number of common shares outstanding, basic	18,430	13,643
Weighted-average number of common shares outstanding, diluted	18,430	13,643

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

Fennec Pharmaceuticals Inc.
Condensed Consolidated Statements of Cash Flows
(U.S. Dollars in thousands)
(Unaudited)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Cash flows used in:		
Operating activities:		
Net loss	\$ (1,568)	\$ (806)
Adjustments to reconcile net loss to net cash used in operating activities:		
Unrealized (gain)/loss on derivative	(167)	37
Stock-based compensation - contractors	114	56
Stock-based compensation - employees	174	41
Changes in operating assets and liabilities:		
Prepaid assets	21	11
Other current assets	3	(2)
Accounts payable	178	(19)
Accrued liabilities	(482)	7
Net cash used in operating activities	<u>(1,727)</u>	<u>(675)</u>
Financing activities:		
Options and warrants exercised	186	-
Net cash provided by financing activities	<u>186</u>	<u>-</u>
Decrease in cash and cash equivalents	(1,541)	(675)
Cash and cash equivalents - Beginning of period	28,260	3,926
Cash and cash equivalents - End of period	<u>\$ 26,719</u>	<u>\$ 3,251</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

Fennec Pharmaceuticals Inc.
Condensed Consolidated Statements of Stockholders' Equity
(U.S. dollars and shares in thousands)
(Unaudited)

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Stockholders' Equity</u>
	<u>Number (Note 6)</u>	<u>Amount</u>				
Balance at December 31, 2017	18,411	103,045	43,837	(121,368)	1,243	26,757
Stock options issued to employees	-	-	174	-	-	174
Stock options issued to contractors	-	-	114	-	-	114
Exercise of stock options	23	71	(35)	-	-	36
Exercise of warrants	50	221	(71)	-	-	150
Net loss	-	-	-	(1,568)	-	(1,568)
Balance at March 31, 2018	<u>18,484</u>	<u>103,337</u>	<u>44,019</u>	<u>(122,936)</u>	<u>1,243</u>	<u>25,663</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements

Fennec Pharmaceuticals Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
(U.S. dollars and shares in thousands, except per share information)

1. Nature of Business and Going Concern

Fennec Pharmaceuticals Inc. (“Fennec”) is a British Columbia corporation. Fennec, together with its wholly owned subsidiaries Oxiquant, Inc. (“Oxiquant”) and Fennec Pharmaceuticals, Inc., both Delaware corporations, and Cadherin Biomedical Inc. (“CBI”), a Canadian corporation, collectively referred to herein as the “Company,” is a biopharmaceutical company focused on the development of PEDMARKTM (a unique formulation of Sodium Thiosulfate (“STS”)) for the prevention of ototoxicity from cisplatin in pediatric patients. With the exception of Fennec Pharmaceuticals, Inc., all subsidiaries are inactive.

These unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) that are applicable to a going concern which contemplates that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

During the three months ended March 31, 2018, the Company incurred a loss from operations of \$1,568. At March 31, 2018, it had an accumulated deficit of \$122.9 million and had experienced negative cash flows from operating activities during the three months ended March 31, 2018 in the amount of \$1,727.

On June 8, 2017, the Company completed the closing of a non-brokered private placement (the “Offering”) of 1,900,000 common shares for gross proceeds of \$7.6 million (\$7,571 net of commissions, fees and issue costs). Each common share was issued at a price of \$4.00.

On December 12, 2017, the Company announced the completion of an underwritten public offering of 2,352,950 common shares at a public offering price of \$8.50 per share. In addition, Fennec issued an additional 135,670 common shares in connection with the partial exercise of the underwriters’ over-allotment option. The approximate total gross proceeds from the offering was \$21.2 million (\$19,810 net of commissions, fees and issue costs).

The Company believes the aforementioned raises provide sufficient funding for the Company to carry-out its planned activities for the next twelve to fifteen months as it continues its strategic development of PEDMARKTM.

These financial statements do not reflect the potentially material adjustments in the carrying values of assets and liabilities, the reported expenses, and the balance sheet classifications used, that would be necessary if the going concern assumption were not appropriate.

2. Significant Accounting Policies

Basis of presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with US GAAP and are the responsibility of the Company’s management. These unaudited interim condensed consolidated financial statements do not include all of the information and notes required by US GAAP for annual financial statements. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes filed with the Securities and Exchange Commission (“SEC”) in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. The Company’s accounting policies are consistent with those presented in the audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2017. These unaudited interim condensed consolidated financial statements have been prepared in U.S. dollars. All amounts presented are in thousands except for per share amounts.

Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that impact the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the interim condensed consolidated financial statements and the reported amounts of expense during the reporting period. Actual results could differ from those estimates.

In the opinion of management, these unaudited interim condensed consolidated financial statements include all adjustments, which are normal and recurring in nature, necessary for the fair presentation of the Company’s financial position at March 31, 2018 and to state fairly the results for the periods presented. The most significant estimates utilized during the quarter ended March 31, 2018 included estimates necessary to value derivative instruments, disclosed in Note 4.

Fennec Pharmaceuticals Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
(U.S. dollars and shares in thousands, except per share information)

New accounting pronouncements

In March 2018, the FASB issued ASU 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118". The overarching purpose of ASU 2018-05 is to codify the guidance issued by the SEC related to income tax accounting implications due to the comprehensive U.S. tax legislation commonly referred to as the Tax Cuts and Jobs Act enacted on December 22, 2017 (the "Tax Reform Act"), as originally discussed within Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118) within ASC 740, Income Taxes. SAB 118, and now ASC 740 provide a measurement period, which in no case should extend beyond one year from the Tax Reform Act enactment date, during which a company acting in good faith may complete the accounting for the impacts of the Tax Reform Act. To the extent that a company's accounting for certain income tax effects of the Tax Reform Act is incomplete, the company can determine a reasonable estimate for those effects and record a provisional estimate in the financial statements in the first reporting period in which a reasonable estimate can be determined. If a company cannot determine a provisional estimate to be included in the financial statements, the company should continue to apply ASC 740 based on the provisions of the tax laws that were in effect immediately prior to the Tax Reform Act being enacted. The Company will continue to analyze the effects of the Tax Reform Act on its Condensed and Consolidated Financial Statements. Additional impacts from the enactment of the Tax Reform Act will be recorded as they are identified during the measurement period as provided for in SAB 118, which extends up to one year from the enactment date.

In February 2017, the FASB issued ASU No. 2017-05, "Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets" ("ASU 2017-05"). ASU 2017-05 is meant to clarify the scope of the original guidance within Subtopic 610-20 that was issued in connection with ASU 2014-09, as defined below, which provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. ASU 2017-05 also added guidance for partial sales of nonfinancial assets. ASU 2017-05 is effective for our fiscal year ending December 31, 2018 and we are required to adopt ASU 2017-05 concurrent with the adoption of ASU 2014-09. The Company adopted ASU 2017-05 January 1, 2018. The Company concluded after evaluation, that the impact of ASU 2017-05 on our consolidated financial statements and disclosures will be de minimis.

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2017-09, *Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"). The FASB issued ASU 2017-09 to clarify and reduce both (i) diversity in practice and (ii) cost and complexity when applying the guidance in Topic 718, to a change to the terms and conditions of a share-based payment award. This guidance is effective for the Company as of the fourth quarter of its fiscal year ending December 31, 2018. Early adoption is permitted. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the impact of this updated standard, but does not believe this update will have a significant impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-9, Revenue from Contracts with Customers (Topic 606), to clarify the principles for recognizing revenue. This update provides a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delayed the effective date of the new standard from January 1, 2017 to January 1, 2018. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations, which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which clarifies certain aspects of identifying performance obligations and licensing implementation guidance. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients related to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes collected from customers. In September 2017, the FASB issued ASU No. 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments. The amendments in ASU No. 2017-13 amends the early adoption date option for certain companies related to the adoption of ASU No. 2014-09 and ASU No. 2016-02. In November 2017, the FASB issued ASU No. 2017-14, Revenue from Contracts with Customers (Topic 606): Income Statement- Reporting Comprehensive Income (Topic 220), Revenue Recognition (Topic 605), which amends certain SEC paragraphs within the FASB Accounting Standards Codification. These standards had the same effective date and transition date of January 1, 2018. The new revenue standard allows for either full retrospective or modified retrospective application. The Company currently does not have any revenue and therefore this update does not have a significant impact on its consolidated financial statements.

Fennec Pharmaceuticals Inc.
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In February 2016, the FASB issued ASU 2016-02, *Leases*, which amends the accounting guidance related to leases. These changes, which are designed to increase transparency and comparability among organizations for both lessees and lessors, include, among other things, requiring recognition of lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. In September 2017, the FASB issued ASU No. 2017-13, Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments. The amendments in ASU No. 2017-13 amends the early adoption date option for certain companies related to the adoption of ASU No. 2014-09 and ASU No. 2016-02. Adoption and implementation of the guidance is not required by the Company until the beginning of fiscal 2019, although early adoption is permitted. After completing an assessment of the impact of this ASU, the Company concluded the adoption of this guidance will have virtually no effect on its consolidated financial statements.

Cash and cash equivalents

Cash equivalents consist of highly liquid investments with original maturities at the date of purchase of three months or less. The Company places its cash and cash equivalents in investments held by highly rated financial institutions in accordance with its investment policy designed to protect the principal investment. At March 31, 2018, the Company had \$26,719 in cash and money market accounts (\$28,260 at December 31, 2017). At March 31, 2018, the Company held \$5,791 in cash of which \$141 (as presented in US dollars) was in Canadian dollars (\$255 at December 31, 2017 as presented in US dollars). At March 31, 2018, the Company held \$20,928 in money market investments. Money market investments typically have minimal risks. The Company has not experienced any loss or write-down of its money market investments since inception.

3. Earnings per Share

Earnings per common share is presented under two formats: basic earnings per common share and diluted earnings per common share. Basic earnings per common share is computed by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during the period, plus the potentially dilutive impact of common stock equivalents (i.e. stock options and warrants). Dilutive common share equivalents consist of the incremental common shares issuable upon exercise of stock options and warrants. The following table sets forth the computation of basic and diluted net loss per share:

	Three Months Ended March 31,	
	2018	2017
Numerator:		
Net (loss)	\$ (1,568)	\$ (5806)
Denominator:		
Weighted-average common shares, basic	18,430	13,643
Dilutive effect of stock options	-	-
Dilutive effect of warrants	-	-
Incremental dilutive shares	-	-
Weighted-average common shares, dilutive	18,430	13,643
Net (loss) per share, basic and diluted	\$ (0.09)	\$ (0.06)

The following outstanding options and warrants were excluded from the computation of basic and diluted net loss per share for the periods presented because including them would have had an anti-dilutive effect:

	Three Months Ended March 31,	
	2018	2017
Options to purchase common stock	2,502	2,427
Warrants to purchase common stock	1,312	1,383

4. Derivative Instruments

As of March 31, 2018, the Company no longer has outstanding derivative instruments. Prior to March 31, 2018, the Company had outstanding options denominated in Canadian dollars which were not considered to be indexed to its own stock because the exercise price is denominated in Canadian dollars and the Company's functional currency is United States dollars. Therefore, these options were treated as derivative financial instruments and recorded at their fair value as a liability. All other outstanding convertible instruments are considered to be indexed to the Company's stock, because their exercise price is denominated in the same currency as the Company's functional currency, and are included in stockholders' equity.

Fennec Pharmaceuticals Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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These options were recorded at their fair value as a liability at issuance and were re-measured at fair value as a liability at each subsequent balance sheet date until they were exercised, forfeited or expired. Any change in value between reporting periods was recorded as unrealized gain/(loss). The fair value of these options was estimated using the Black-Scholes option-pricing model.

Comparative data related to gain/(loss) recorded on re-measurement of the derivative liability for the three month period ended March 31, 2018 and 2017 are summarized in the table below. There is no cash flow impact for these derivatives until the options are exercised. When the options are exercised, the Company receive the proceeds from the exercise at the current exchange rate at the time of exercise.

During the fiscal years ended December 31, 2011 and 2010, the Company issued 36 and 29, respectively, options to contractors with a Canadian dollar denominated strike price. Consequently, the Company had derivatives relating to these options since the strike price is denominated in a currency other than the US dollar functional currency of the Company. While there is an exception to this rule for employees in ASU 2010-13 "Compensation-Stock Compensation (Topic 718): Effect of denominating the exercise price of a share-based payment award in the currency of the market in which the underlying equity security trades", no such exception exists for contractors.

Gain/(Loss) on Derivative Instruments	Fair Value as of March 31,		Three Months Ended March 31,	
	2018	2017	2018	2017
Options to contractors	\$ -	\$ 71	\$ 167	\$ (37)
Gain/(loss) on Derivative Instruments	\$ -	\$ 71	\$ 167	\$ (37)

The table below summarizes Canadian dollar denominated contractor option activity, during the interim period:

Contractor Options in \$CAD	Three Month Period	Weighted-Average
Options in Thousands	Ending March 31, 2018	Exercise Price
Opening balance	19	\$ 1.71
Exercised	19	1.71
Forfeited	-	-
Expired	-	-
Ending balance	-	\$ -

Canadian dollar denominated options issued to contractors vest immediately and are treated as derivative liabilities. In the case a derivative option is exercised, upon the exercise date, the Company extinguishes the derivative liability, records the cash received and the shares issued into common stock and additional paid in capital accordingly. During the three-month period ended March 31, 2018, there was an exercise of 19 Canadian denominated option being treated as derivative liabilities. This exercise resulted in \$26 gross proceeds to the Company.

5. NASDAQ Listing

On September 13, 2017, the Company began trading its common shares on the Nasdaq Capital Market ("Nasdaq") under the ticker symbol "FENC". Prior to the Nasdaq listing, the Company had been trading on the OTCB Marketplace (the "OTCQB") since January of 2009 under the ticker symbol "FENCF".

6. Stockholders' Equity

Authorized capital stock

The Company's authorized capital stock consists of an unlimited number of shares of no par common stock.

Warrants to Purchase Common Stock

The Company has warrants outstanding to purchase common stock priced in U.S. dollars with a weighted average price of \$1.50 and a weighted average remaining life of 0.65 years. During the quarter ended March 31, 2018, there were 50 warrants exercised resulting in gross proceeds to the Company of \$150.

Warrant Description	Common Shares Issuable Upon Exercise of Outstanding Warrants at March 31, 2018	Exercise Price	Expiration Date
Investor warrants	1,312	\$ 1.50 USD	November 22, 2018
Total	1,312		

Fennec Pharmaceuticals Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
(U.S. dollars and shares in thousands, except per share information)

Stock option plan

The Compensation Committee of the Board of Directors administers the Company's stock option plan. The Compensation Committee designates eligible participants to be included under the plan and approves the number of options to be granted from time to time under the plan. Currently, the maximum number of option shares issuable is twenty-five percent (25%) of the total number of issued and outstanding shares of common stock. Based upon the current shares outstanding, a maximum of 4,621 options are authorized for issuance under the plan. For all options issued under the plan, the exercise price is the fair value of the underlying shares on the date of grant. All options vest within three years or less and are exercisable for a period of seven years from the date of grant. The stock option plan allows the issuance of Canadian and U.S. dollar grants. The table below outlines recognized contractor and employee expense for the three period ended March 31, 2018 and 2017.

	Three Months Ended March 31,	
	2018	2017
Contractor options expense recognized	\$ 114	\$ 56
Employee options expense recognized	174	41
Total option expense recognized	\$ 288	\$ 97

Stock option activity

The following is a summary of option activity for each of the quarterly periods in fiscal year 2017 for stock options denominated in US dollars:

US Denominated Options	Number of Options (thousands)	Weighted-Average Exercise Price \$USD
Outstanding December 31, 2017	1,603	2.70
Granted	210	8.38
Exercised	(4)	2.79
Forfeited	-	-
Outstanding at March 31, 2018	1,809	3.36

During the three month period ended March 31, 2018, US denominated option exercises provided gross proceeds of \$9. US denominated option exercises during the three month period ended March 31, 2018, resulted in the issuance of 4 common shares. Of the 1,809 options granted and outstanding at March 31, 2018, 1,441 are fully vested and exercisable.

The following is a summary of option activity for the three months ended March 31, 2018 for stock options denominated in Canadian dollars:

Canadian Denominated Options	Number of Options (thousands)	Weighted-Average Exercise Price \$CAD
Outstanding December 31, 2017	712	2.38
Exercised	(19)	1.32
Forfeited	-	-
Outstanding at March 31, 2018	693	1.86

For the three months ended March 31, 2018, there was no issuance activity related to Canadian dollar denominated options. During the three months ended March 31, 2018, there were exercises of 19 Canadian denominated options which resulted in gross proceeds of CAD\$34 (\$26 as presented in US dollars). As of March 31, 2018, all 693 outstanding options denominated in Canadian dollars were fully vested.

Valuation assumptions

The value of options granted were estimated using the Black-Scholes option pricing model using the following assumptions in the table below: The expected volatility was determined using historical volatility of our stock based on the contractual life of the award. There were 210 options issued during the three months ended March 31, 2018, (0 for the same period in 2017). Assumptions for the valuation of the option grants are described in the table below:

Black-Scholes Model Assumptions	Three Months Ended March 31, 2018
Expected dividend	0.00%
Risk free rate	2.70%
Expected volatility	389%
Expected life	7 years

Fennec Pharmaceuticals Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
(U.S. dollars and shares in thousands, except per share information)

7. Fair Value Measurements

The Company adopted the Fair Value Measurements and Disclosure Topic of the FASB in 2011. This Topic applies to certain assets and liabilities that are being measured and reported on a fair value basis. The Topic defines fair value, establishes a framework for measuring fair value in accordance with US GAAP, and expands disclosure about fair value measurements. This Topic enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The Topic requires that financial assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3: Unobservable inputs that are not corroborated by market data.

Assets/Liabilities Measured at Fair Value on a Recurring Basis	Fair Value Measurement at March 31, 2018			Total
	Quoted Price in Active Markets for Identical Instruments	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	
	Level 1	Level 2	Level 3	
Assets				
Cash and cash equivalents	\$ 5,791 ⁽¹⁾	\$ 20,928	\$ -	\$ 26,719

(1) The Company held \$5,791 in cash of which \$141 (as presented in US dollars) was in Canadian funds.

8. Commitments and Contingencies

Oregon Health & Science University Agreement

On February 20, 2013, Fennec entered into a new exclusive license agreement with OHSU for exclusive worldwide license rights to intellectual property directed to thiol-based compounds, including STS and their use in oncology (the "New OHSU Agreement"). OHSU will receive certain milestone payments, royalty on net sales for licensed products and a royalty on any consideration received from sublicensing of the licensed technology.

The term of the New OHSU Agreement expires on the date of the last to expire claim(s) covered in the patents licensed to Fennec, unless earlier terminated as provided in the agreement. STS is currently protected by methods of use patents that the Company exclusively licensed from OHSU that expire in Europe in 2021 and are currently pending in the United States. The New OHSU Agreement is terminable by either Fennec or OHSU in the event of a material breach of the agreement by either party after 45 days prior written notice. Fennec also has the right to terminate the New OHSU Agreement at any time upon 60 days prior written notice and payment of all fees due to OHSU under the New OHSU Agreement.

On May 18, 2015, Fennec negotiated an amendment ("Amendment 1") to the exclusive license agreement with OHSU. Amendment 1 expands the exclusive license agreement signed with OHSU on February 20, 2013 ("OHSU Agreement") to include the use of N-acetylcysteine as a standalone therapy and/or in combination with STS for the prevention of ototoxicity induced by chemotherapeutic agents to treat cancers. Further, Amendment 1 adjusts select milestone payments entered in the OHSU Agreement including but not limited to the royalty rate on net sales for licensed products, royalty rate from sublicensing of the licensed technology and the fee payable upon the regulatory approval of a licensed product.

Executive Severance

In the event of his termination with us other than for cause, we will be obligated to pay Mr. Raykov a one-time severance payment of \$350,000. In the event of his termination with us other than for cause, we will be obligated to pay Mr. Andrade a one-time severance payment of \$125,000.

Leases

The Company has an operating lease in Research Triangle Park, North Carolina. This operating lease is terminable with 30 days' notice and has no penalties or contingent payments due. The Company had rent expense of \$1 during the quarter ended March 31, 2018.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT

The discussion below contains forward-looking statements regarding our financial condition and our results of operations that are based upon our annual consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles within the United States, or U.S. GAAP, and applicable U.S. Securities and Exchange Commission, or SEC, regulations for financial information. The preparation of these financial statements requires our management to make estimates and judgments that affect the reported amounts of assets, liabilities, income and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis. Our estimates are based on historical experience and on various other assumptions that we believe to be reasonable.

Overview

Lead Product Candidate PEDMARK™

The following is our only lead product candidate in the clinical stage of development:

- PEDMARK™ (a unique formulation of sodium thiosulfate (STS)) – sodium thiosulfate in a novel formulation, recently announced results of two Phase III clinical trials for the prevention of cisplatin induced hearing loss, or ototoxicity in children including the pivotal Phase III study SIOPEL 6, “A Multicentre Open Label Randomised Phase 3 Trial of the Efficacy of Sodium Thiosulfate in Reducing Ototoxicity in Patients Receiving Cisplatin Chemotherapy for Standard Risk Hepatoblastoma,” and the proof of concept Phase III study “A Randomized Phase 3 Study of Sodium Thiosulfate for the Prevention of Cisplatin-Induced Ototoxicity in Children”.

We continue to focus the Company’s resources on the development of PEDMARK™.

We have licensed from OHSU intellectual property rights for the use of PEDMARK™ as a chemoprotectant, and are developing PEDMARK™ as a protectant against the hearing loss often caused by platinum-based anti-cancer agents in children. Preclinical and clinical studies conducted by OHSU and others have indicated that PEDMARK™ can effectively reduce the incidence of hearing loss caused by platinum-based anti-cancer agents. We have received Orphan Drug Designation in the United States for the use of PEDMARK™ in the prevention of platinum-induced ototoxicity in pediatric patients.

Hearing loss among children receiving platinum-based chemotherapy is frequent, permanent and often severely disabling. The incidence of hearing loss in these children depends upon the dose and duration of chemotherapy, and many of these children require lifelong hearing aids. There is currently no established preventive agent for this hearing loss and only expensive, technically difficult and sub-optimal cochlear (inner ear) implants have been shown to provide some benefit. In addition, adults undergoing chemotherapy for several common malignancies, including ovarian cancer, testicular cancer, and particularly head and neck cancer and brain cancer, often receive intensive platinum-based therapy and may experience severe, irreversible hearing loss, particularly in the high frequencies.

Investigators at OHSU have conducted Phase I and Phase II studies which have shown that STS reduces the hearing loss associated with platinum-based chemotherapy. In one study at OHSU, the need for hearing aids to correct high frequency hearing loss was reduced from about 50% of patients being administered platinum-based chemotherapy to less than 5% of patients being administered platinum-based chemotherapy with STS. STS has been studied by cooperative groups in two Phase III clinical studies of survival and reduction of ototoxicity, the COG Protocol ACCL0431 and SIOPEL 6. The COG ACCL0431 protocol enrolled one of five childhood cancers typically treated with intensive cisplatin therapy for localized and disseminated disease, including newly diagnosed hepatoblastoma, germ cell tumor, osteosarcoma, neuroblastoma, and medulloblastoma. SIOPEL 6 enrolled only hepatoblastoma patients with localized tumors.

The Company estimates in the U.S. and Europe there is over 10,000 children that may receive platinum based chemotherapy. the incidence of hearing loss in these children depends upon the dose and duration of chemotherapy, and many of these children require lifelong hearing aids. There is currently no established preventive agent for this hearing loss and only expensive, technically difficult and sub-optimal cochlear (inner ear) implants have been shown to provide some benefit. Infants and young children at critical stages of development lack speech language development and literacy, and older children and adolescents lack social-emotional development and educational achievement.

STS has been studied by cooperative groups in two Phase III clinical studies of survival and reduction of ototoxicity, the COG Protocol ACCL0431 and SIOPEL 6. The COG ACCL0431 protocol enrolled one of five childhood cancers typically treated with intensive cisplatin therapy for localized and disseminated disease, including newly diagnosed hepatoblastoma, germ cell tumor, osteosarcoma, neuroblastoma, and medulloblastoma. SIOPEL 6 enrolled only hepatoblastoma patients with localized tumors.

In 2018, Fennec plans to pursue regulatory approval for PEDMARK™ based on the data from SIOPEL 6 study along with the proof of principle data from COG ACCL0431. In March 2018, PEDMARK™ received Breakthrough Therapy and Fast Track designations from the FDA. Further, STS has received Orphan Drug Designation in the US in this setting and plans to pursue European Market Exclusivity for Pediatric Use upon approval.

SIOPEL 6

In October 2007, we announced that our collaborative partner, the International Childhood Liver Tumour Strategy Group, known as SIOPEL, a multi-disciplinary group of specialists under the umbrella of the International Society of Pediatric Oncology, had launched a randomized Phase III clinical trial SIOPEL 6 to investigate whether STS reduces hearing loss in standard risk hepatoblastoma (liver) cancer patients receiving cisplatin as a monotherapy.

The study was initiated in October 2007 initially in the United Kingdom and completed enrollment at the end of 2014. 52 sites from 11 countries enrolled 109 evaluable patients. Under the terms of our agreement, SIOPEL conducts and funds all clinical activities and Fennec provides drug, drug distribution and pharmacovigilance, or safety monitoring, for the study. SIOPEL 6 was completed in December 2014 and the results of the trial were released in October 2017 at SIOP 2017.

The primary objectives of SIOPEL 6 are:

- To assess the efficacy of STS to reduce the hearing impairment caused by cisplatin
- To carefully monitor any potential impact of STS on response to cisplatin and survival

SIOPEL 6 - Results - October 2017

Background / Objectives:

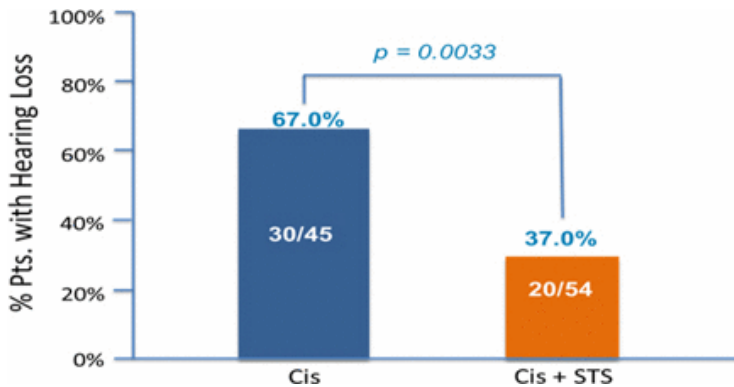
Background: Bilateral high-frequency hearing loss is a serious permanent side-effect of cisplatin therapy; particularly debilitating when occurring in young children. STS has been shown to reduce cisplatin induced hearing loss. SIOPEL 6 is a Phase III randomised trial to assess the efficacy of STS in reducing ototoxicity in young children treated with cisplatin (Cis) for SR-HB.

Design / Methods:

Methods: Newly diagnosed patients with SR-HB, defined as tumour limited to PRETEXT I, II or III, no portal or hepatic vein involvement, no intra-abdominal extrahepatic disease, AFP >100ng/ml and no metastases, were randomized to Cis or Cis+STS for 4 preoperative and 2 postoperative courses. Cisplatin 80mg/m² was administered over 6 hours, STS 20g/m² was administered intravenously over 15 minutes exactly 6 hours after stopping cisplatin. Tumour response was assessed after 2 and 4 preoperative cycles with serum AFP and liver imaging. In case of progressive disease (PD), STS was to be stopped and doxorubicin 60mg/m² combined with cisplatin. The primary endpoint is centrally reviewed absolute hearing threshold, at the age of ≥ 3.5 years by pure tone audiometry.

Results:

One hundred and nine randomized patients (52 Cisplatin only ("Cis") and 57 Cis+STS) are evaluable. The combination of Cis+STS was generally well tolerated. With a follow up time of 52 months for the patients the 3 year Event Free Survival ("EFS") for Cis is 78.8% Cisplatin and 82.1% for the Cis + STS. The 3 year Overall Survival ("OS") is 92.3% for Cis and 98.2% for Cis + STS. Treatment failure defined as Progressive Disease ("PD") at 4 cycles was equivalent in both arms. Among the first 99 evaluable patients, hearing loss occurred in 30/45=67.0% under Cis and in 20/54=37.0% under Cis + STS, corresponding to a relative risk of 0.56(P=0.0033).



Conclusions:

This randomized Phase III trial in SR-HB of cisplatin versus cisplatin plus sodium thiosulfate shows that the addition of sodium thiosulfate significantly reduces the incidence of cisplatin-induced hearing loss without any evidence of tumour protection.

COG ACCL0431

In March 2008, we announced the activation of a Phase III trial with STS to prevent hearing loss in children receiving cisplatin-based chemotherapy in collaboration with the Children's Oncology Group ("COG ACCL0431"). The goal of this Phase III study was to evaluate in a multi-centered, randomized trial whether STS is an effective and safe means of preventing hearing loss in children receiving cisplatin-based chemotherapy for newly diagnosed germ cell, liver (hepatoblastoma), brain (medulloblastoma), nerve tissue (neuroblastoma) or bone (osteosarcoma) cancers. Eligible children, one to eighteen years of age, who were to receive cisplatin according to their disease-specific regimen and, upon enrollment in this study, were randomized to receive STS or not. Efficacy of STS was determined through comparison of hearing sensitivity at follow-up relative to baseline measurements using standard audiometric techniques. The Children's Oncology Group is responsible for funding the clinical activities for the study and we are responsible for providing the drug, drug distribution and pharmacovigilance, or safety monitoring, for the study. The trial completed enrollment of 131 pediatric patients in the first quarter of 2012. The final results of COG ACCL0431 were published in *Lancet Oncology* in December 2016.

COG ACCL0431 - Results

COG Study ACCL0431, "A Randomized Phase III Study of Sodium Thiosulfate for the Prevention of Cisplatin-Induced Ototoxicity in Children," finished enrollment of 131 patients of which 126 were eligible patients in Q1 2012. The patients had been previously diagnosed with childhood cancers.

The primary endpoint was to evaluate the efficacy of STS for prevention of hearing loss in children receiving cisplatin chemotherapy (hypothesis: 50% relative reduction in hearing loss).

Secondary endpoints included:

- Compare change in mean hearing thresholds
- Compare incidence of other Grade 3/4 toxicities (renal and hematological)
- Monitor Event Free Survival (EFS) and Overall Survival (OS) in two groups

126 eligible subjects were enrolled with germ cell tumor (32), osteosarcoma (3029), neuroblastoma (26), medulloblastoma/pnet (26), hepatoblastoma (7) or other (5). Of these, 104 subjects (64 male and 29 <5 years old) were evaluable for the primary endpoint.

Subjects were randomized either to no treatment (control) or treatment with STS 16 grams/m² IV over 15 minutes, 6 hours after each cisplatin dose. Hearing was measured using standard audiometry for age and data were reviewed centrally using American Speech-Language-Hearing Association criteria.

The proportion of subjects with hearing loss assessed at 4 weeks post the final cisplatin dose (primary endpoint)..

- The proportion of hearing loss for STS vs. Control was 28.6% (14/49) vs. 56.4% (31/55), respectively (p=0.004).
- In a predefined subgroup of patients less than 5 years old with 29 eligible subjects: STS vs. Control was 21.4% (3/14) vs. 73.3% (11/15), respectively (p=0.005)

Conclusions:

- STS protects against cisplatin-induced hearing loss in children across a heterogeneous range of tumor types with even stronger efficacy in the protocol predefined subgroup of patients under five years old and is not associated with serious adverse events attributed to its use.
- Further potential clinical use will be informed by the final results of SIOPEL 6 study.

Capital Funding

We have not received and do not expect to have significant revenues from our product candidate until we are either able to sell our product candidate after obtaining applicable regulatory approvals or we establish collaborations that provide us with up-front payments, licensing fees, milestone payments, royalties or other revenue.

We generated a net loss of approximately \$1.6 million for the three months ended March 31, 2018 and a net loss of \$0.8 million for the three months ended March 31, 2017 (inclusive of a non-cash gain on derivatives of \$0.17 million and \$0.04 million non-cash loss on derivatives for the three months ended March 31, 2018 and 2017, respectively). As of March 31, 2018, our accumulated deficit was approximately \$122.9 million (\$121.4 million at December 31, 2017).

We believe that our cash and cash equivalents as of March 31, 2018, which totaled \$26.7 million, will be sufficient to meet our cash requirements through the next 12 to fifteen months. Our projections of our capital requirements are subject to substantial uncertainty. More capital than we anticipated may be required thereafter. To finance our continuing operations, we may need to raise substantial additional funds through either the sale of additional equity, the issuance of debt, the establishment of collaborations that provide us with funding, the out-license or sale of certain aspects of our intellectual property portfolio or from other sources. Given current economic conditions, we might not be able to raise the necessary capital or such funding may not be available on financially acceptable terms if at all. If we cannot obtain adequate funding in the future, we might be required to further delay, scale back or eliminate certain research and development studies, consider business combinations or even shut down some, or all, of our operations.

Our operating expenses will depend on many factors, including the progress of our drug development efforts and efficiency of our operations and current resources. Our research and development expenses, which include expenses associated with our clinical trials, drug manufacturing to support clinical programs, salaries for research and development personnel, stock-based compensation, consulting fees, sponsored research costs, toxicology studies, license fees, milestone payments, and other fees and costs related to the development of our product candidate, will depend on the availability of financial resources, the results of our clinical trials and any directives from regulatory agencies, which are difficult to predict. Our general and administration expenses include expenses associated with the compensation of employees, stock-based compensation, professional fees, consulting fees, insurance and other administrative matters associated in support of our drug development programs.

Results of Operations

Three months ended March 31, 2018 versus three months ended March 31, 2017:

In thousands of U.S. Dollars	Three Months Ended March 31, 2018	%	Three Months Ended March 31, 2017	%	Change
Revenue	\$ -		\$ -		\$ -
Operating expenses:					
Research and development	689	38%	225	29%	464
General and administration	1,102	62%	546	71%	556
Total operating expenses	<u>1,791</u>	100%	<u>771</u>	100%	<u>1,020</u>
Loss from operations	<u>(1,791)</u>		<u>(771)</u>		<u>(1,020)</u>
Unrealized (loss)/gain on derivatives	167		(37)		204
Other loss	(3)		(1)		(2)
Interest income and other	<u>59</u>		<u>3</u>		<u>56</u>
Net loss and total comprehensive loss	<u>\$ (1,568)</u>		<u>\$ (806)</u>		<u>\$ (762)</u>

Research and development expenses increased for the three months ended March 31, 2018 over the same period in 2017 as the Company increased expenditures on PEDMARKTM development. This increase relates primarily to drug manufacturing activities and preparations for registration activities with the pending regulatory filings in 2018.

General and administrative expenses increased over same period in 2017. The overall increase was a result of increases in non-cash equity compensation, cash expenses for drug and patient advocacy, legal and consulting expenses, director payments, employee wages and benefits, and investor relations expenses as compared with the same period in 2017.

Interest income increased significantly associated with larger cash balances. The Company recorded a non-cash gain on derivatives of \$167 in the three months ended March 31, 2018 compared to a non-cash loss of \$37 for the same three months ended in 2017. As of March 31, 2018, the Company no longer has derivative instruments on its books.

Quarterly Information

The following table presents selected condensed financial data for each of the last eight quarters through March 31, 2018, as prepared under US GAAP (U.S. dollars in thousands, except per share information):

Period	Net Loss for the Period	Basic Net Loss per Common Share	Diluted Net Loss per Common Share
June 30, 2016	(724)	(0.06)	(0.06)
September 31, 2016	(502)	(0.04)	(0.04)
December 31, 2016	(1,143)	(0.08)	(0.08)
March 31, 2017	(806)	(0.06)	(0.06)
June 30, 2017	(1,598)	(0.11)	(0.11)
September 31, 2017	(2,352)	(0.15)	(0.15)
December 31, 2017	(2,290)	(0.15)	(0.15)
March 31, 2018	(1,568)	(0.09)	(0.09)

Liquidity and Capital Resources

U.S. Dollars in thousands

Selected Asset and Liability Data:	March 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 26,719	\$ 28,260
Other current assets	117	141
Current liabilities excluding derivative liabilities	1,173	1,477
Derivative liabilities	-	167
Working capital ⁽¹⁾	25,663	26,924
(1) [Current assets – current liabilities excluding derivative liability]		
Selected equity:		
Common stock	103,337	103,045
Accumulated deficit	(122,936)	(121,368)
Stockholders' equity	25,663	26,757

Cash and cash equivalents were \$26,719 at March 31, 2018 and \$28,260 at December 31, 2017. The decrease in cash and cash equivalents between March 31, 2018 and December 31, 2017 is the result of cash spent on research and development and general and administrative activities offset by cash received from the exercise of various warrants and options. The Company received \$186 from the exercise of options and warrants. The Company issued a total of 73 shares as a result of these activities.

The following table illustrates a summary of cash flow data for the three month periods of March 31, 2018 and 2017:

Dollar and shares in thousands	Three Months Ended March 31,	
	2018	2017
Selected cash flow data:		
Net cash used in operating activities	\$ (1,727)	\$ (675)
Net cash provided by investing activities	-	-
Net cash provided by financing activities	186	-
Decrease in cash and cash equivalents	\$ (1,541)	\$ (675)

Net cash used in operating activities for the three months ended March 31, 2018 was \$1,727, as compared to \$675 during the same period in 2017. This increase in cash outlays relates the preparation of registration including manufacturing of registration batches. Net cash provided by financing activities for the three months ended March 31, 2018 was \$186 compared to \$0 for the three months ended March 31, 2017. The \$186 provided by financing activities, derived from the exercise of 23 options and 50 warrants. For the same three-month period in 2017, there was no cash resulting from financing activities. Total decrease in cash and cash equivalents was \$1,541 for the three months ended March 31, 2018, and \$675 for the same period in 2017.

We continue to pursue various strategic alternatives including collaborations with other pharmaceutical and biotechnology companies. Our projections of further capital requirements are subject to substantial uncertainty. Our working capital requirements may fluctuate in future periods depending upon numerous factors, including: our ability to obtain additional financial resources; our ability to enter into collaborations that provide us with up-front payments, milestones or other payments; results of our research and development activities; progress or lack of progress in our preclinical studies or clinical trials; unfavorable toxicology in our clinical programs, our drug substance requirements to support clinical programs; change in the focus, direction, or costs of our research and development programs; personnel related costs; the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing our patent claims; competitive and technological advances; the potential need to develop, acquire or license new technologies and products; our business development activities; new regulatory requirements implemented by regulatory authorities; the timing and outcome of any regulatory review process; and commercialization activities, if any.

We had cash and cash equivalents of approximately \$26.7 million as of March 31, 2018.

Outstanding Share Information

The outstanding share data for our company as of March 31, 2018 and December 31, 2017 was as follows (in thousands):

	March 31, 2018	December 31, 2017	Change
Common shares	18,484	18,411	73
Warrants	1,312	1,362	(50)
Stock options	2,502	2,315	187
Total	<u>22,298</u>	<u>22,088</u>	<u>210</u>

Financial Instruments

We invest excess cash and cash equivalents in high credit quality investments held by financial institutions in accordance with our investment policy designed to protect the principal investment. At March 31, 2018, we had approximately \$26.7 million in cash accounts. We have not experienced any loss or write down of our money market investments since inception.

Our investment policy is to manage investments to achieve, in the order of importance, the financial objectives of preservation of principal, liquidity and return on investment. Investments may be made in U.S. or Canadian obligations and bank securities, commercial paper of U.S. or Canadian industrial companies, utilities, financial institutions and consumer loan companies, and securities of foreign banks provided the obligations are guaranteed or carry ratings appropriate to the policy. Securities must have a minimum Dun & Bradstreet rating of A for bonds or R1 low for commercial paper. The policy also provides for investment limits on concentrations of securities by issuer and maximum-weighted average time to maturity of twelve months. This policy applies to all of our financial resources.

The policy risks are primarily the opportunity cost of the conservative nature of the allowable investments. As our main purpose is research and development, we have chosen to avoid investments of a trading or speculative nature.

Off-Balance Sheet Arrangements

Since our inception, we have not had any material off-balance sheet arrangements. In addition, we do not engage in trading activities involving non-exchange traded contracts. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such activities.

Research and Development

Our research and development efforts have been focused on the development of PEDMARKTM since 2013.

We have established relationships with contract research organizations, universities and other institutions, which we utilize to perform many of the day-to-day activities associated with our drug development. Where possible, we have sought to include leading scientific investigators and advisors to enhance our internal capabilities. Research and development issues are reviewed internally by our executive management and supporting scientific team.

Research and development expenses for the three months ended March 31, 2018 and 2017 were \$689 and \$225, respectively. The Company has increased its research and development expenses related to PEDMARKTM as a result of the Company drug manufacturing activities related to the preparation for registration batches.

Our product candidate still requires significant, time-consuming and costly research and development, testing and regulatory clearances. In developing our product candidate, we are subject to risks of failure that are inherent in the development of products based on innovative technologies. For example, it is possible that our product candidate will be ineffective or toxic, or will otherwise fail to receive the necessary regulatory clearances. There is a risk that our product candidate will be uneconomical to manufacture or market or will not achieve market acceptance. There is also a risk that third parties may hold proprietary rights that preclude us from marketing our product candidate or that others will market a superior or equivalent product. As a result of these factors, we are unable to accurately estimate the nature, timing and future costs necessary to complete the development of this product candidate. In addition, we are unable to reasonably estimate the period when material net cash inflows could commence from the sale, licensing or commercialization of such product candidate, if ever.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on assumptions and judgments that may be affected by commercial, economic and other factors. Actual results could differ from these estimates.

Our accounting policies are consistent with those presented in our annual consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Money Market Investments

We maintain an investment portfolio consisting of U.S. or Canadian obligations and bank securities and money market investments in compliance with our investment policy. We do not hold any mortgaged-backed investments in our investment portfolio. Securities must have a minimum Dun & Bradstreet rating of A for bonds or R1 low for commercial paper. The policy also provides for investment limits on concentrations of securities by issuer and maximum-weighted average time to maturity of twelve months. This policy applies to all of our financial resources.

At March 31, 2018, we had \$20.9 million in money market investments as compared to \$28.0 million at December 31, 2017; these investments typically have minimal risk. The financial markets had been volatile resulting in concerns regarding the recoverability of money market investments, but those conditions have stabilized. We have not experienced any loss or write down of our money market investments since inception.

Our investment policy is to manage investments to achieve, in the order of importance, the financial objectives of preservation of principal, liquidity and return on investment. Our risk associated with fluctuating interest rates on our investments is minimal and not significant to the results of operations. We currently do not use interest rate derivative instruments to manage exposure to interest rate changes. As the main purpose of the Company is research and development, we have chosen to avoid investments of a trade or speculative nature.

Foreign Currency Exposure

We are subject to foreign currency risks as we purchase goods and services which are denominated in Canadian dollars. To date, we have not employed the use of derivative instruments; however, we do hold Canadian dollars which we use to pay vendors in Canada and other corporate obligations. At March 31, 2018, the Company held approximately 181 thousand Canadian dollars (141 thousand as presented to U.S. dollars). At December 31, 2017, the company held approximately 321 thousand Canadian dollars (256 thousand as presented into U.S. dollars).

Item 4. Controls and Procedures

(a) *Evaluation of Disclosure Controls and Procedures.*

In connection with the preparation of this report, an evaluation was carried out by the Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act")) as of March 31, 2018. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosures. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based on that evaluation, the Company's management concluded, as of the end of the period covered by this report, that the Company's disclosure controls and procedures were not effective as a result of having identified two material weaknesses in our internal control over financial reporting, as described in further detail below.

Our management has identified a control deficiency due to not maintaining an effective control environment, which is the foundation for the discipline and structure necessary for effective internal control over financial reporting, as evidenced by: (i) a lack of segregation of duties over individuals responsible for certain key control activities; (ii) an insufficient number of personnel appropriately qualified to perform control monitoring activities, including the recognition of the risks and complexities of transactions; and (iii) control activities that are not designed to respond to the risks identified. This control deficiency could result in a misstatement of balance sheet, income and cash flow statement accounts in our interim or annual financial statements that would not be detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

Our management has also identified another control deficiency that it believes constitutes a material weakness in our control over financial reporting. We did not maintain sufficient personnel with an appropriate level of technical accounting knowledge, experience, and training in the application of US GAAP with regards to unusual transactions commensurate with our complexity and our financial accounting and reporting requirements. This control deficiency could result in a misstatement of the financial statements including disclosure that would not be prevented or detected on a timely basis.

We believe the control deficiencies described herein, individually and when aggregated, represent material weaknesses in our internal control over financial reporting at March 31, 2018 since such deficiencies result in a reasonable possibility that a material misstatement in our annual or interim consolidated financial statements may not be prevented or detected on a timely basis by our internal controls.

These material weaknesses did not result in any material misstatements to the financial statements. However, these material weaknesses could result in misstatement of the aforementioned account balances or disclosures that would result in material misstatements to the annual or interim consolidated financial statements that would not be prevented or detected.

(b) *Changes in Internal Control over Financial Reporting*

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings.

None

Item 1A. Risk Factors.

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on March 28, 2017 (the “Annual Report”), includes a detailed discussion of our risk factors under the heading “PART I, Item 1A – Risk Factors.” You should carefully consider the risk factors discussed in our Annual Report, as well as other information in this quarterly report. Any of these risks could cause our business, financial condition, results of operations and future growth prospects to suffer. We are not aware of any material changes from the risk factors previously disclosed.

Item 2. Recent Sales of Unregistered Securities.

None

Item 3. Default Upon Senior Securities.

None.

Item 4. Mine Safety Disclosure.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Chief Executive Officer and Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
99.1	Press Release for Quarter Ended March 31, 2018 (filed herewith).
101.1	Interactive Data File

SIGNATURES

Pursuant to requirements 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.

Fennec Pharmaceuticals Inc.

Date: May 14, 2018

By: /s/ Rostislav Raykov
Rostislav Raykov
Chief Executive Officer
(principal executive officer)

Date: May 14, 2018

By: /s/ Robert Andrade
Robert Andrade
Chief Financial Officer
(principal financial and chief accounting officer)

**FENNEC PHARMACEUTICALS INC
CERTIFICATION**

I, Rostislav Raykov, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2018 of Fennec Pharmaceuticals Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the unaudited interim condensed consolidated 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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 registrant, including its condensed subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant'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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (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 registrant'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 registrant's internal control over financial reporting.

Date: May 14, 2018

By: /s/ Rostislav Raykov
Rostislav Raykov
Chief Executive Officer

**FENNEC PHARMACEUTICALS INC.
CERTIFICATION**

I, Robert Andrade, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2018 of Fennec Pharmaceuticals Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the unaudited interim condensed consolidated 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and 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 registrant, including its condensed subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant'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
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (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 registrant'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 registrant's internal control over financial reporting.

Date: May 14, 2018

By: /s/ Robert Andrade
Robert Andrade
Chief Financial Officer

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

In connection with the Quarterly Report of Fennec Pharmaceuticals Inc. (the "Company") on Form 10-Q for the period ended March 31, 2018 (the "Report"), each of the undersigned, Rostislav Raykov, Chief Executive Officer of the Company, and Robert Andrade, Chief Financial Officer of the Company, hereby certifies 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 results of operations of the Company.

Date: May 14, 2018

By: /s/ Rostislav Raykov
Rostislav Raykov
Chief Executive Officer

Date: May 14, 2018

By: /s/ Robert Andrade
Robert Andrade
Chief Financial Officer



FENNEC PROVIDES BUSINESS UPDATE AND ANNOUNCES FIRST QUARTER 2018 FINANCIAL RESULTS

- **PEDMARK™ granted Breakthrough Therapy and Fast Track Designations by FDA**
- **Actively preparing for NDA submission later this year**
- **Strong financial position with \$26.7 million in cash and no debt**

Research Triangle Park, NC, May 14, 2018 – Fennec Pharmaceuticals Inc. (NASDAQ:FENC; TSX: FRX), a specialty pharmaceutical company focused on the development of PEDMARK™ (a unique formulation of sodium thiosulfate (STS)) for the prevention of platinum-induced ototoxicity in pediatric patients, today reported financial results for the first quarter ended March 31, 2018.

"We have built significant momentum since the start of this year highlighted by the Breakthrough Therapy and Fast Track designations granted by the FDA," said Rosty Raykov, President and Chief Executive Officer of Fennec. "We look forward, over the next several months, to what we believe will be significant value creating milestones, including preparing for regulatory submissions for PEDMARK." Mr. Raykov continued, "From a financial perspective we continue to be vigilant about our cash use and remain well positioned through these important milestones and beyond."

Investor Events

- **Jefferies 2017 Global Healthcare Conference** – Rosty Raykov, CEO of Fennec, will provide an overview of the Company's business on Thursday, June 7 at 4:00 pm at the Jefferies 2018 Global Healthcare Conference being held in New York City. The Fennec presentation will be webcast live and can be accessed by visiting the investors relations sections of the Company's website at <http://fennecpharma.com/investors/presentations-events/>. A replay of the presentation will also be available and archived on the site for ninety days.
- **Annual Meeting of Shareholders** – Fennec would like to invite all shareholders to attend its Annual General and Special Meeting on Thursday, June 7, 2018 at 10 am at the Omni Berkshire Hotel in New York in the Sutton Room, 21 E. 52nd Street, New York, New York.

Financial Results for the First Quarter 2018

- **Cash Position** - Cash and cash equivalents were \$26.7 million as of March 31, 2018. The reduction in cash balance over the quarter ended March 31, 2018, is the net result of cash used for operating activities offset by the inflow of \$0.19 million from the exercise of various options and warrants.
- **R&D Expenses** - Research and development (R&D) expenses were \$0.7 million for the three months ended March 31, 2018, compared to \$0.2 million for the same period in 2017. The increase in R&D expenses for the comparative three months, is primarily due to the manufacturing and regulatory expenses for the regulatory approval and planned commercialization of PEDMARK™.
- **G&A Expenses** - General and administrative (G&A) expenses were \$1.1 million for the three months ended March 31, 2018, compared to \$0.5 million same period in 2017. The increase in G&A expenses in 2018 over 2017 primarily relates to an increase in non-cash equity compensation as well as an increase in general corporate and compliance expenses.
- **Net Loss** - Net loss was \$1.6 million and \$0.8 million for the three months ended March 31, 2018 and 2017, respectively.
- **Financial Guidance** - The Company believes its cash and cash equivalents on hand as of March 31, 2018 will be sufficient to fund the Company's planned commercial launch of PEDMARK™ in the second half of 2019.

Financial Update

The selected financial data presented below is derived from our audited condensed consolidated financial statements which were prepared in accordance with U.S. generally accepted accounting principles. The complete interim unaudited consolidated financial statements for the period ended March 31, 2018 and management's discussion and analysis of financial condition and results of operations will be available via www.sec.gov and www.sedar.com. All values are presented in thousands unless otherwise noted.

Interim Unaudited Statement of Operations <i>(U.S. Dollars in thousands except per share amounts)</i>	Three Months Ended	
	March 31, 2018	March 31, 2017
Revenue	\$ -	\$ -
Operating expenses		
Research and development	689	225
General and administrative	1,102	546
Loss from operations	(1,791)	(771)
Unrealized gain/(loss)	167	(37)
Other loss	(3)	(1)
Interest income	59	3
Net loss	\$ (1,568)	\$ (806)
Basic and diluted net loss per common share	\$ (0.09)	\$ (0.06)

Fennec Pharmaceuticals Inc.

Balance Sheets

(U.S. Dollars in thousands)

	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 26,719	\$ 28,260
Other current assets	117	141
Total Assets	\$ 26,836	\$ 28,401
Liabilities and stockholders' equity		
Current liabilities	\$ 1,173	\$ 1,477
Derivative liabilities	-	167
Total stockholders' equity	25,663	26,757
Total liabilities and stockholders' equity	\$ 26,836	\$ 28,401

Working Capital

Selected Asset and Liability Data:

(U.S. Dollars in thousands)

	Three Months Ended	
	March 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 26,719	\$ 28,260
Other current assets	117	141
Current liabilities excluding derivative liability	(1,173)	(1,477)
Working capital	\$ 25,663	\$ 26,924
Selected Equity:		
Common stock	\$ 103,337	\$ 103,045
Accumulated deficit	(122,936)	(121,368)
Stockholders' equity	25,663	26,757

At March 31, 2018, the Company had working capital balance totaling approximately \$25.7 million compared to \$26.9 million as of December 31, 2017.

Dollar and shares in thousands

Selected cash flow data:

	Three Months Ended March 31,	
	2018	2017
Net cash used in operating activities	(1,727)	(675)
Net cash provided by investing activities	-	-
Net cash provided by financing activities	186	-
Decrease in cash and cash equivalents	(1,541)	(675)

Forward looking statements

Except for historical information described in this press release, all other statements are forward-looking. Forward-looking statements are subject to certain risks and uncertainties inherent in the Company's business that could cause actual results to vary, including such risks that regulatory and guideline developments may change, scientific data may not be sufficient to meet regulatory standards or receipt of required regulatory clearances or approvals, clinical results may not be replicated in actual patient settings, protection offered by the Company's patents and patent applications may be challenged, invalidated or circumvented by its competitors, the available market for the Company's products will not be as large as expected, the Company's products will not be able to penetrate one or more targeted markets, revenues will not be sufficient to fund further development and clinical studies, the Company may not meet its future capital requirements in different countries and municipalities, and other risks detailed from time to time in the Company's filings with the Securities and Exchange Commission including its Annual Report on Form 10-K for the year ended December 31, 2017. Fenec Pharmaceuticals, Inc. disclaims any obligation to update these forward-looking statements except as required by law.

For a more detailed discussion of related risk factors, please refer to our public filings available at www.sec.gov and www.sedar.com.

About PEDMARK™ (Sodium Thiosulfate (STS))

Cisplatin and other platinum compounds are essential chemotherapeutic components for many pediatric malignancies. Unfortunately, platinum-based therapies cause ototoxicity in many patients, which is particularly harmful to the survivors of pediatric cancer.

In the U.S. and Europe there is estimated that over 10,000 children may receive platinum based chemotherapy. The incidence of hearing loss in these children depends upon the dose and duration of chemotherapy, and many of these children require lifelong hearing aids. There is currently no established preventive agent for this hearing loss and only expensive, technically difficult and sub-optimal cochlear (inner ear) implants have been shown to provide some benefit. Infants and young children at critical stages of development lack speech language development and literacy, and older children and adolescents lack social-emotional development and educational achievement.

STS has been studied by cooperative groups in two Phase 3 clinical studies of survival and reduction of ototoxicity, The Clinical Oncology Group Protocol ACCL0431 and SIOPEL 6. Both studies are completed. The COG ACCL0431 protocol enrolled one of five childhood cancers typically treated with intensive cisplatin therapy for localized and disseminated disease, including newly diagnosed hepatoblastoma, germ cell tumor, osteosarcoma, neuroblastoma, and medulloblastoma. SIOPEL 6 enrolled only hepatoblastoma patients with localized tumors.

About Fenec Pharmaceuticals

Fenec Pharmaceuticals, Inc., is a specialty pharmaceutical company focused on the development of Sodium Thiosulfate (STS) for the prevention of platinum-induced ototoxicity in pediatric patients. STS has received Orphan Drug Designation in the US in this setting. For more information, please visit www.fenecpharma.com.

For further information, please contact:

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