

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 September 30, 2017

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"/>	Smaller reporting company	<input checked="" type="checkbox"/>
	(Do not check if smaller reporting company)	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 November 13, 2017, there were 15,869,978 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>September 30, 2017</u> <u>(unaudited)</u>	<u>December 31,</u> <u>2016</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,688	\$ 3,926
Prepaid expenses	198	43
Other current assets	2	3
Total assets	<u>\$ 9,888</u>	<u>\$ 3,972</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 492	\$ 244
Accrued liabilities	165	125
Derivative instruments (Note 4)	373	33
Total current liabilities	<u>1,030</u>	<u>402</u>
Total liabilities	<u>1,030</u>	<u>402</u>
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, no par value; unlimited shares authorized; 15,857 shares issued and outstanding (2016-13,643)	83,062	74,515
Additional paid-in capital	43,631	42,134
Accumulated deficit	(119,078)	(114,322)
Accumulated other comprehensive income	1,243	1,243
Total stockholders' equity	<u>8,858</u>	<u>3,570</u>
Total liabilities and stockholders' equity	<u>\$ 9,888</u>	<u>\$ 3,972</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		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Revenue	\$ -	\$ -	\$ -	\$ -
Operating expenses:				
Research and development	492	112	1,050	298
General and administrative	1,694	452	3,386	1,427
Loss from operations	(2,186)	(564)	(4,436)	(1,725)
Other (expense) income :				
Unrealized (loss)/gain on derivatives (Note 4)	(183)	19	(340)	45
Sale of Eniluracil	-	40	-	40
Other gain/(loss)	1	-	(4)	(12)
Interest income and other	16	3	24	6
Total other (expense)/income, net	(166)	62	(320)	79
Net loss	\$ (2,352)	\$ (502)	\$ (4,756)	\$ (1,646)
Basic net loss per common share	\$ (0.15)	\$ (0.04)	\$ 0.32	\$ (0.13)
Diluted net loss per common share	\$ (0.15)	\$ (0.04)	\$ 0.32	\$ (0.13)
Weighted-average number of common shares outstanding, basic	15,740	13,643	14,533	12,469
Weighted-average number of common shares outstanding, diluted	15,740	13,643	14,533	12,469

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		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Cash flows used in:				
Operating activities:				
Net loss	\$ (2,352)	\$ (502)	\$ (4,756)	\$ (1,646)
Adjustments to reconcile net loss to net cash used in operating activities:				
Unrealized loss/(gain) on derivative	183	(19)	340	(45)
Stock-based compensation - contractors	210	28	552	58
Stock-based compensation - employees	907	41	1,409	152
Changes in operating assets and liabilities:				
Prepaid assets	(177)	(23)	(155)	35
Other current assets	4	3	1	(1)
Accounts payable	196	(110)	248	(62)
Accrued liabilities	71	38	40	(4)
Net cash used in operating activities	<u>(958)</u>	<u>(544)</u>	<u>(2,321)</u>	<u>(1,513)</u>
Financing activities:				
Options and warrants exercised	383	-	512	108
Private placement	31	-	7,571	5,000
Net cash provided by financing activities	<u>414</u>	<u>-</u>	<u>8,083</u>	<u>5,108</u>
Increase in cash and cash equivalents	(544)	(544)	5,762	3,595
Cash and cash equivalents - Beginning of period	10,232	5,081	3,926	942
Cash and cash equivalents - End of period	<u>\$ 9,688</u>	<u>\$ 4,537</u>	<u>\$ 9,688</u>	<u>\$ 4,537</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, 2016	13,643	74,515	42,134	(114,322)	1,243	3,570
Stock options issued to employees	-	-	41	-	-	41
Stock options issued to contractors	-	-	56	-	-	56
Net loss	-	-	-	(806)	-	(806)
Balance at March 31, 2017	13,643	74,515	42,231	(115,128)	1,243	2,861
Stock options issued to employees	-	-	461	-	-	461
Stock options issued to contractors	-	-	286	-	-	286
Exercise of stock options	86	191	(93)	-	-	98
Rights offering	1,900	7,571	-	-	-	7,571
Net loss	-	-	-	(1,598)	-	(1,598)
Balance at June 30, 2017	15,629	82,277	42,885	(116,726)	1,243	9,679
Stock options issued to employees	-	-	907	-	-	907
Stock options issued to contractors	-	-	210	-	-	210
Exercise of stock options	207	743	(360)	-	-	383
Exercise of warrants	21	42	(11)	-	-	31
Net loss	-	-	-	(2,352)	-	(2,352)
Balance at September 30, 2017	<u>15,857</u>	<u>83,062</u>	<u>43,631</u>	<u>(119,078)</u>	<u>1,243</u>	<u>8,858</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 PEDMARK™ (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 nine months ended September 30, 2017, the Company incurred a loss from operations of \$4,436. At September 30, 2017, it had an accumulated deficit of \$119,078 and had experienced negative cash flows from operating activities during the nine months ended September 30, 2017 in the amount of \$2,321.

These circumstances raise substantial doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the use of accounting principles applicable to a going concern may not be appropriate. The Company will need to obtain additional funding in the future in order to finance the Company’s business strategy, operations and growth through the issuance of equity, debt or business combinations. If the Company fails to arrange for sufficient capital on a timely basis, the Company may be required to curtail its business activities until it can obtain adequate financing. However, as of September 30, 2017, we had cash and cash equivalents of \$9,688 and believe that our cash resources will be sufficient to meet our cash requirements through and beyond current fiscal year.

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, 2016. 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, 2016. 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 September 30, 2017 and to state fairly the results for the periods presented. The most significant estimates utilized during the quarter ended September 30, 2017 included estimates necessary to value derivative instruments, disclosed in Note 4.

New accounting pronouncements

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 beginning December 31, 2018 and we are required to adopt ASU 2017-05 concurrent with the adoption of ASU 2014-09. We are currently evaluating the impact that the adoption of ASU 2017-05 may have on our consolidated financial statements and disclosures.

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

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. These standards have 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 does not expect this update will have a significant impact on its consolidated financial statements.

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. Adoption and implementation of the guidance is not required by the Company until the beginning of fiscal 2019, although early adoption is permitted. The Company has not yet completed its assessment of the impact that adoption of this guidance will have on its financial statements.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which amends the accounting for share-based payment transactions. These changes, which are designed for simplification, involve several aspects of the accounting for share-based transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted this ASU as of January 1, 2017. There has been no impact to the 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 September 30, 2017, the Company had \$9,688 in cash and money market accounts (\$3,926 at December 31, 2016). At September 30, 2017, the Company held \$440 in cash of which \$282 (as presented in US dollars) was in Canadian dollars (\$51 at December 31, 2016 as presented in US dollars). At September 30, 2017, the Company held \$9,248 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:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Numerator:				
Net (loss)	\$ (2,352)	\$ (502)	\$ (4,756)	\$ (1,646)
Denominator:				
Weighted-average common shares, basic	15,740	13,643	14,533	12,469
Dilutive effect of stock options	-	-	-	-
Dilutive effect of warrants	-	-	-	-
Incremental dilutive shares	-	-	-	-
Weighted-average common shares, dilutive	15,740	13,643	14,533	12,469
Net (loss) per share, basic and diluted	\$ (0.15)	\$ (0.04)	\$ (0.32)	\$ (0.13)

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Options to purchase common stock	2,361	2,422	2,361	2,422
Warrants to purchase common stock	1,362	1,749	1,362	1,749

4. Derivative Instruments

The Company's outstanding warrants denominated in Canadian dollars are 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 warrants have been 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.

The Company's derivative instruments include options to purchase 39 common shares, the exercise prices for which are denominated in a currency other than the Company's functional currency, as follows:

- Contractor options to purchase 20 common shares exercisable at CAD\$1.89 per whole common share that expire on November 19, 2017;
- Contractor options to purchase 17 common shares exercisable at CAD\$1.62 per whole common share that expire on April 4, 2018;
- Contractor options to purchase 2 common shares exercisable at CAD\$2.43 per whole common share that expire on May 18, 2018.

These options have been recorded at their fair value as a liability at issuance and will continue to be re-measured at fair value as a liability at each subsequent balance sheet date until they are exercised, forfeited or expire. Any change in value between reporting periods will be recorded as unrealized gain/(loss). The fair value of these warrants and options is estimated using the Black-Scholes option-pricing model using the following assumptions for the current balance sheet date: expected dividend 0%; risk-free interest rate 0.76%; expected volatility between 97% - 100%; and an expected life between 0.5 – 0.63 years.

Comparative data related to gain/(loss) recorded on re-measurement of the derivative liability for the three and nine month period ended September 30, 2017 and 2016 are summarized in the table below. There is no cash flow impact for these derivatives until the warrants and/or options are exercised. If these warrants or options are exercised, the Company will 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 now has 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. These options will be marked to market until the earlier of their expiry, exercise or forfeiture.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Gain/(Loss) on Derivative Instruments				
Derivatives expired March 29, 2016	\$ -	\$ -	\$ -	\$ 41
Options to contractors	(183)	19	(340)	4
Gain/(loss) on Derivative Instruments	\$ (183)	\$ 19	\$ (340)	\$ 45

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

Contractor Options in \$CAD Options in Thousands	Three Month Period Ending September 30, 2017	Nine Month Period	Weighted-Average Exercise Price
Opening balance	39	40	\$ 1.81
Exercised	-	(1)	2.05
Forfeited	-	-	-
Expired	-	-	-
Ending balance	39	39	\$ 1.80

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 and nine month period ended September 30, 2017, there was an exercise of 1 Canadian denominated option being treated as a derivative liability. This exercise resulted in \$2 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 \$1.55 and a weighted average remaining life of 1.15 years. During the quarter ended September 30, 2017, there were 21 warrants exercised resulting in gross proceeds to the Company of \$31.

Warrant Description	Common Shares Issuable Upon Exercise of Outstanding Warrants at September 30, 2017	Exercise Price \$USD	Expiration Date
Investor warrants	1,312	\$1.50 USD	November 22, 2018
Investor warrants	50	\$3.00 USD	February 2, 2019
Total	1,362		

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 3,964 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 and nine month periods ended September 30, 2017 and 2016.

	Three Months Ended September 30,		Nine months Ended September 30,	
	2017	2016	2017	2016
Contractor options expense recognized	\$ 210	\$ 9	\$ 552	\$ 9
Employee options expense recognized	907	41	1,409	152
Total option expense recognized	\$ 1,117	\$ 50	\$ 1,961	\$ 161

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 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, 2016	1,428	1.93
Granted	-	-
Exercised	-	-
Forfeited	-	-
Outstanding at March 31, 2017	1,428	1.93
Granted	300	4.84
Exercised	(50)	0.64
Forfeited	-	-
Outstanding at June 30, 2017	1,678	2.48
Granted	21	6.72
Exercised	(72)	1.69
Forfeited	(3)	2.79
Outstanding at September 30, 2017	1,624	2.57

During the three and nine month periods ended September 30, 2017, US denominated option exercises provided gross proceeds of \$121 and \$153, respectively. US denominated option exercises during the three and nine month periods ended September 30, 2017, resulted in the issuance of 72 and 122 common shares, respectively. Of the 1,624 options granted and outstanding at September 30, 2017, 1,348 are fully vested and exercisable.

The following is a summary of option activity for the three and nine months ended September 30, 2017 for stock options denominated in Canadian dollars:

Canadian Denominated Options	Number of Options (thousands)	Weighted-Average Exercise Price \$CAD
Outstanding December 31, 2016	999	2.38
Exercised	-	-
Forfeited	-	-
Outstanding at March 31, 2017	999	2.38
Exercised	(36)	2.42
Forfeited	-	-
Outstanding at June 30, 2017	963	2.37
Exercised	(135)	2.43
Forfeited	(91)	2.40
Outstanding at September 30, 2017	737	2.36

For the nine months ended September 30, 2017, there was no issuance activity related to Canadian dollar denominated options. During the three months ended September 30, 2017, there were exercises of 135 Canadian denominated options which resulted in gross proceeds of CAD\$329 (\$261 as presented in US dollars). During the nine months ended September 30, 2017, there were exercises of 171 Canadian denominated options (1 treated as a derivative, 170 as non-derivative). These exercises resulted in gross proceeds of CAD\$416 (\$326 as presented in US dollars). During the same three and nine month periods ended 2016, Canadian denominated option activity consisted of 324 forfeitures. As of September 30, 2017, all 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 21 options issued during the three months ended September 30, 2017, (285 for the same period in 2016). Assumptions for the valuation of the option grants are described in the table below:

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

Black-Scholes Model Assumptions	Three Months Ended September 30,	
	2017	2016
Expected dividend	0.00%	0.00%
Risk free rate	2.04%	1.27%
Expected volatility	162%	136%
Expected life	7 years	7 years

Shareholder rights plan

On June 27, 2017, the Company's shareholders approved a Shareholder Rights Plan Agreement (the "Rights Plan") for the Company. The Rights Plan is to ensure, to the extent possible, that all shareholders of the Corporation are treated fairly and equally in connection with any take-over bid or other acquisition of control of the Corporation. The Rights Plan is designed to require any potential transaction that will result in a person owning, in the aggregate, 20% or more of the outstanding Common Shares to be structured as a formal take-over bid that satisfies certain minimum requirements relating primarily to the manner in which the bid must be made, the minimum number of days the bid must remain open, and the minimum number of shares that must be acquired under the bid.

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 September 30, 2017				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	Total	
Assets					
Cash and cash equivalents	\$ 440(1)	\$ 9,248	\$ -	\$ -	\$ 9,688
Liabilities					
Derivative liabilities	-	-	373	-	373

(1) The Company held \$440 in cash of which \$282 (as presented in US dollars) was in Canadian funds.

The Company's financial instruments include cash and cash equivalents and derivatives. The derivative liabilities include options issued to contractors in a currency other than the functional currency of the Company.

8. Commitments and Contingencies

Oregon Health & Science University Agreement

On February 20, 2013, Fennec entered into a new exclusive license agreement with Oregon Health & Science University ("OHSU") for exclusive worldwide license rights to intellectual property directed to STS and its use for chemoprotection, including the prevention of ototoxicity induced by platinum chemotherapy, in humans (the "New OHSU Agreement").

The term of the New OHSU Agreement expires on the date of the last to expire claim(s) covered in the patents licensed to the Company, 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, Canada and Australia in 2021 and are currently pending in the United States and Japan. 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 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 or New OHSU Agreement to include the use of N-acetylcysteine as a standalone therapy and/or in combination with Sodium Thiosulfate ("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. The term of Amendment 1 under the OHSU Agreement expires on the date of the last to expire claim(s) covered in the patents licensed to Fennec or 8 years, whichever is later. In the event a licensed product obtains regulatory approval and is covered by the Orphan Drug Designation, the parties will in good faith amend the term of the agreement.

Fennec Pharmaceuticals Inc.
Notes to the Unaudited Interim Condensed Consolidated Financial Statements
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Executive Severance

In the event of his termination with us other than for cause, the Company will pay its Chief Executive Officer, Rostislav Raykov, a one-time severance compensation payment equal to 12 months of salary (currently \$275). Further, the Company will pay Chief Financial Officer, Robert Andrade, a one-time severance compensation equal to six-months salary (currently \$100).

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 September 30, 2017 and \$3 for the nine months ended September 30, 2017.

9. Subsequent events

Registration of Certain Common Shares and Warrants (S-3 & S-8)

On October 24, 2017, the Company filed a S-3 registration of common shares, pursuant to which the Company may offer from time to time, shares of our common stock having an aggregate offering price of up to \$90.0 million. Under the Sales Agreement, the Company may sell shares by any method permitted by law and deemed to be an "at-the-market" offering as defined in Rule 415 promulgated under the Securities Act, as amended, including sales made directly on the NASDAQ, on any other existing trading market for our common stock or to or through a market maker. The S-3 registration became effective on November 3, 2016. As of the date of this filing, there have been no such sales.

On October 24, 2017, the Company filed a S-8 registering its 2,631 outstanding options. The S-8 registration became effective upon filing.

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 latest unaudited interim condensed consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles within the United States, or US GAAP, and applicable U.S. Securities and Exchange Commission, or SEC, regulations for financial information. The preparation of these unaudited interim condensed consolidated 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. All amounts are presents in the U.S. dollars and in thousands except per share amounts.

Overview

Lead Product Candidate

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

- PEDMARKTM (a unique formulation of sodium thiosulfate (STS)) – a water soluble thiol compound that acts as a chemical reducing agent, recently completed patient enrollment of two Phase III clinical trials for the prevention of cisplatin induced hearing loss, or ototoxicity in children.

We continue to focus the Company's resources on the development of PEDMARKTM.

We have licensed from Oregon Health & Science University ("OHSU") intellectual property rights for the use of PEDMARKTM as a chemoprotectant, and are developing PEDMARKTM 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 PEDMARKTM 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 PEDMARKTM 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% to less than 5%.

STS has been studied by cooperative groups in two Phase III clinical studies of survival and reduction of ototoxicity, the Clinical Oncology Group ("COG") Protocol ACCL0431 and the International Society of Pediatric Oncology ("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 PEDMARKTM based on the data from SIOPEL 6 study along with the proof of principle data from COG ACCL0431. 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 will conduct and fund all clinical activities and Fennec will provide drug, drug distribution and pharmacovigilance, or safety monitoring, for the study was completed in December 2014 and the results of the trial were released in October 2017 at SIOPEL 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

Background / Objectives:

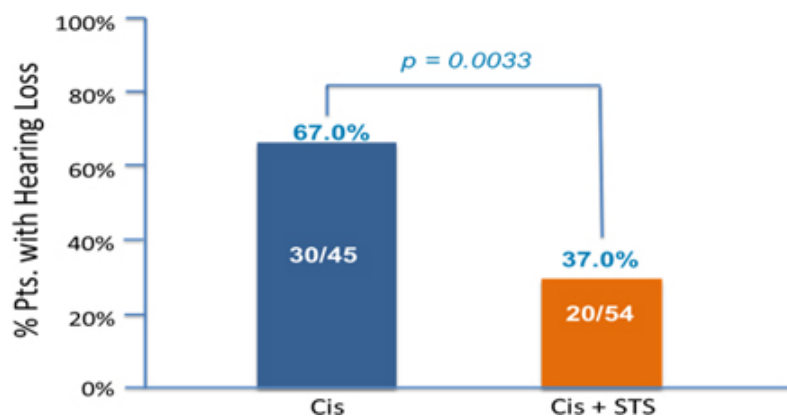
Background: Bilateral high-frequency hearing loss is a serious permanent side-effect of cisplatin therapy; particularly debilitating when occurring in young children. STS has been shown to reduce cisplatin induced hearing loss. SIOPEL 6 is a phase III randomised trial to assess the efficacy of STS in 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 randomised 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 to cisplatin. The primary endpoint is centrally reviewed absolute hearing threshold, at the age of ≥3.5 years by pure tone audiometry.

Results:

Results: One hundred and nine randomised patients (52 Cis and 57 Cis+STS) are evaluable. The combination of Cis+STS was generally well tolerated. With a follow up of 52months, 3yr EFS is Cis 78.8% and Cis+STS 82.1% 3yr OS is Cis 92.3% and Cis+STS 98.2%. Treatment failure defined as 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 randomised 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 is 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 are to receive cisplatin according to their disease-specific regimen and, upon enrollment in this study, will be randomized to receive STS or not. Efficacy of STS will be 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 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 (30), neuroblastoma (26), medulloblastoma (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.

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 \$4.8 million for the nine months ended September 30, 2017 and a net loss of \$1.6 million for the nine months ended September 30, 2016 (inclusive of a non-cash loss on derivatives of \$0.34 million and \$0.05 million non-cash gain on derivatives for the nine months ended September 30, 2017 and 2016, respectively). As of September 30, 2017, our accumulated deficit was approximately \$119.1 million (\$114.3 million at December 31, 2016).

We believe that our cash and cash equivalents as of September 30, 2017, which totaled \$9.7 million, will be sufficient to meet our cash requirements through and beyond current fiscal year. Because of our limited financial resources, we have postponed or terminated many of our previously planned or ongoing clinical development programs. We continue to pursue various strategic alternatives, including collaborations with other pharmaceutical and biotechnology companies. As a result, there is uncertainty of our ability to continue as a going concern. 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 will 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 our operations.

Our operating expenses will depend on many factors, including the progress of our drug development efforts and the implementation of further cost reduction measures. 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.

Use of Proceeds

On September 18, 2017, the Company's registration statement on Form S-1 (File No. 333-219884) was declared effective, pursuant to which the Company registered the sale of 11,943,214 shares of common shares, including 1,383,331 shares issuable upon the exercise of outstanding warrants, all of which were to be sold by selling stockholders. All of the shares are to be sold by selling stockholders at prevailing market prices or privately negotiated prices. We did not receive any proceeds from the sale of securities by the selling stockholders. However, upon any exercise of the warrants we will receive the exercise price of the warrants.

Results of Operations

Three months ended September 30, 2017 versus three months ended September 30, 2016:

In thousands of U.S. Dollars	Three Months Ended		Three Months Ended		Change
	September 30, 2017	%	September 30, 2016	%	
Revenue	\$ -		\$ -		\$ -
Operating expenses:					
Research and development	492	23%	112	20%	380
General and administration	1,694	77%	452	80%	1,242
Total operating expenses	<u>2,186</u>	100%	<u>564</u>	100%	<u>1,622</u>
Loss from operations	<u>(2,186)</u>		<u>(564)</u>		<u>(1,622)</u>
Unrealized (loss)/gain on derivatives	(183)		19		(202)
Sale of Eniluracil	-		40		(40)
Other gain	1		-		1
Interest income and other	16		3		13
Net loss and total comprehensive loss	<u>\$ (2,352)</u>		<u>\$ (502)</u>		<u>\$ (1,850)</u>

Research and development expenses increased for the three months ended September 30, 2017 over the same period in 2016 as the Company increased expenditures on PEDMARKTM development. This increase relates primarily to drug manufacturing activities and preparations for registration activities.

General and administrative expenses increased over same period in 2016. The increase was primarily a result of the increase in non-cash equity compensation expenses for employees compared with the same period in 2016.

The Company recorded an unrealized loss on derivatives of \$183 in the three months ended September 30, 2017 compared to a gain of \$19 for the same three months ended in 2016. In the past, the derivative warrant liability was significant and had the ability to produce large swings in non-cash gains and losses in any given period, depending upon market conditions. The remaining derivative liability on the balance sheet is associated with the Company's Canadian denominated options. Although, there are very few derivative options remaining on the books of the Company, the recent surge in share price has had a noticeable effect on the value of these derivatives. These option derivatives have been recorded at their fair value as a liability at issuance and will continue to be re-measured at fair value as a liability at each subsequent balance sheet date. Any change in value between reporting periods will be recorded as an unrealized gain/(loss). These options will continue to be reported as a liability until such time as they are exercised or expire. The fair value of these options is estimated using the Black-Scholes option-pricing model.

Our results of operations for the nine months ended September 30, 2017 versus nine months ended September 30, 2016 were as follows:

In thousands of U.S. Dollars	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016		Change
		%		%	
Revenue	\$ -		\$ -		\$ -
Operating expenses:					
Research and development	1,050	24%	298	17%	752
General and administration	3,386	76%	1,427	83%	1,959
Total operating expenses	<u>4,436</u>	100%	<u>1,725</u>	100%	<u>2,711</u>
Loss from operations	<u>(4,436)</u>		<u>(1,725)</u>		<u>(2,711)</u>
Unrealized (loss)/gain on derivatives	(340)		45		(385)
Sale of Eniluracil	-		40		(40)
Other loss	(4)		(12)		8
Interest income and other	24		6		18
Net loss and total comprehensive loss	<u><u>(4,756)</u></u>		<u><u>(1,646)</u></u>		<u><u>(3,070)</u></u>

Total research and development expenses were up by \$752 for the nine months ended September 30, 2017 over the same period in 2016. This increase relates primarily to drug manufacturing activities and preparations for registration batches. General and administrative costs increased over the prior year in the same period primarily due to the issuance of equity based compensation.

Changes in the valuation of derivative liabilities are primarily driven by volatility in the Company's share price. Since February of 2017, the Company's share price has increased. This has caused a significant fluctuation in the value of the derivative liabilities on our books. The result has been a 385 increase in non-cash loss on derivative valuation for the nine months ended September 30, 2017 over the same period in 2016.

Quarterly Information

The following table presents selected condensed financial data for quarters through September 30, 2017, 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
March 31, 2017	(806)	(0.06)	(0.06)
June 30, 2017	(1,598)	(0.11)	(0.11)
September 30, 2017	(2,352)	(0.15)	(0.15)

Liquidity and Capital Resources

U.S. Dollars in thousands

Selected Asset and Liability Data:

	September 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 9,688	\$ 3,926
Other current assets	200	46
Current liabilities excluding derivative liabilities	657	369
Derivative liabilities	373	33
Working capital ⁽¹⁾	9,231	3,603

⁽¹⁾ [Current assets – current liabilities excluding derivative liability]

Selected equity:

Common stock	83,062	74,515
Accumulated deficit	(119,078)	(114,322)
Stockholders' equity	8,858	3,570

Cash and cash equivalents were \$9,688 at September 30, 2017 and \$3,926 at December 31, 2016. The increase in cash and cash equivalents between September 30, 2017 and December 31, 2016 is primarily due to cash received from the exercise of various warrants and options and the completion of an equity financing in May 2017. These increases in cash were offset by cash spent on research and development and general and administrative activities. The Company received \$7,571 net of issuance costs from the equity financing and \$512 from the exercise of options and warrants. The Company issued a total of 2,214 shares as a result of these activities.

The following table illustrates a summary of cash flow data for the three and nine month periods of September 30, 2017 and 2016:

Dollar and shares in thousands Selected cash flow data:	Three Months Ended September 30,		Nine months Ended September 30,	
	2017	2016	2017	2016
Net cash used in operating activities	\$ (958)	\$ (544)	\$ (2,321)	\$ (1,513)
Net cash provided by investing activities	-	-	-	-
Net cash provided by financing activities	414	-	8,083	5,108
Increase in cash and cash equivalents	\$ (544)	\$ (544)	\$ 5,762	\$ 3,595

Net cash used in operating activities for the three months ended September 30, 2017 was \$958, as compared to \$544 during the same period in 2016. 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 September 30, 2017 was \$414 compared to \$0 for the three months ended September 30, 2016. The \$414 provided by financing activities, derived from the exercise of 207 options and 21 warrants. For the same three-month period in 2016, there was no cash resulting from financing activities. Total decrease in cash and cash equivalents was \$544 for the three months ended September 30, 2017, and for the same period in 2016.

Net cash used in operating activities for the nine months ended September 30, 2017 was \$2,321, as compared to \$1,513 during the same period in 2016. This increase is due to increased cash outlays incurred from research and development in addition to increased general and administrative costs associated with the Company's preparation for registration. Net cash provided by financing activities for the nine months ended September 30, 2017 was \$8,083 compared to \$5,108 for the nine months ended September 30, 2016. The \$8,083 includes \$7,571 net proceeds from the receipt of equity financing and \$481 and \$31 in cash representing the exercise of 293 options and 31 warrants, respectively. Total increase in cash and cash equivalents was \$5,762 for the nine months ended September 30, 2017 which is an increase of \$2,167 over the same period in 2016.

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 \$9.7 million as of September 30, 2017.

Outstanding Share Information

The outstanding share data for our company as of September 30, 2017 and December 31, 2016 was as follows (in thousands):

	September 30, 2017	December 31, 2016	Change
Common shares	15,857	13,643	2,214
Warrants	1,362	1,383	(21)
Stock options	2,361	2,427	(66)
Total	19,580	17,453	2,127

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 September 30, 2017, we had approximately \$9.7 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 September 30, 2017 and 2016 were \$492 and \$112, respectively and for the nine months then ended, \$1,050 and \$298 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, 2016.

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 September 30, 2017, we had \$9.2 million in money market investments as compared to \$3.9 million at December 31, 2016; 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 September 30, 2017, the Company held approximately 352 thousand Canadian dollars (282 thousand as presented to U.S. dollars). At December 31, 2016, the company held approximately 87 thousand Canadian dollars (66 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 September 30, 2017. 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 September 30, 2017 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.

To finance our continuing operations, we will need to raise additional funds beyond those from our most recent private placement in June 2017 and, as disclosed elsewhere in this report, there remains substantial doubt in our ability to continue as a going concern and the failure to obtain such funds might require us to further delay, scale back or eliminate certain research and development studies, consider business combinations, or even shut down our operations. If we are able to secure such additional financing, we anticipate hiring additional personnel with appropriate technical accounting knowledge, experience, and training in the application of U.S. GAAP to supplement our current accounting staff.

(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 September 30, 2017 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, 2016, filed with the SEC on March 29, 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.

The following table details grants of stock options to various contractors, officers and directors of the Company for the period ended September 30, 2017:

Date of Option Grant	Number of Options Granted	Strike Price \$USD
August 17, 2017	21,150	\$ 6.72

The options were issued in a private placement exempt under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"). The options were issued in USD denominated grants and are each exercisable for a period of 7 years from the grant date.

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 September 30, 2017 (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: November 13, 2017

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

Date: November 13, 2017

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 September 30, 2017 of Fen nec 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: November 13, 2017

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 September 30, 2017 of Fen nec 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: November 13, 2017

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 September 30, 2017 (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: November 13, 2017

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

Date: November 13, 2017

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



FENNEC PROVIDES BUSINESS UPDATE AND REPORTS THIRD QUARTER 2017 RESULTS

- **During the third quarter, the Company announced positive results from its Phase 3 SIOPEL 6 Study**
- **Study met primary endpoint ($p=0.0033$) indicating a significant reduction in cisplatin induced hearing loss without any evidence of tumor protection in patients with Standard Risk Hepatoblastoma (SR-HB)**
- **Company plans to pursue regulatory approvals with FDA and EU in 2018**
- **Cash position of approximately \$10 million allows financial flexibility to pursue regulatory submissions**

Research Triangle Park, NC, November 13, 2017 – 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 its financial results for the third quarter ended September 30, 2017.

"The positive results from SIOPEL 6 announced in October represent a significant step in establishing a new paradigm in pediatric oncology with the potential to benefit the lives of patients and their families," stated Rosty Raykov, CEO of Fennec. "We remain focused on the steps necessary to complete the regulatory filings in both the US and Europe for approval."

SIOPEL 6 Study

- SIOPEL 6 study met its primary endpoint demonstrating that the addition of STS significantly reduces the incidence of cisplatin-induced hearing loss without any evidence of tumor protection.
- Among the 99 evaluable patients in SIOPEL 6, hearing loss occurred in 30/45=67% treated with Cisplatin (Cis) alone and in 20/54=37.0% treated with Cis+STS, corresponding to a relative risk of 0.56($P=0.0033$).
- Fennec plans to pursue regulatory approval for PEDMARK™ based on the data from the SIOPEL 6 study along with the proof of principle data from COG ACCL0431.
- STS has received Orphan Drug Designation in the US in this setting and plans to pursue European Market Exclusivity for Pediatric Use upon approval.

Upcoming Investor Events:

- **2017 Jefferies London Healthcare Conference** - Rosty Raykov, CEO of Fennec, will provide an overview of the Company's business on Thursday, November 16 at 4:40 pm GMT at the 2017 Jefferies London Healthcare Conference. 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.

Third Quarter Financial Results

The selected financial data presented below is derived from our unaudited 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 September 30, 2017 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 Condensed Statement of Operations (U.S. Dollars in thousands except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Revenue	\$ -	\$ -	\$ -	\$ -
Operating expenses:				
Research and development	492	112	1,050	298
General and administrative	1,694	452	3,386	1,427
Loss from operations	<u>(2,186)</u>	<u>(564)</u>	<u>(4,436)</u>	<u>(1,725)</u>
Other:				
Unrealized gain on derivatives	(183)	19	(340)	45
Sale of Eniluracil	-	40	-	40
Other loss	1	-	(4)	(12)
Interest income and other	16	3	24	6
Total other, net	<u>(166)</u>	<u>62</u>	<u>(320)</u>	<u>79</u>
Net loss and total comprehensive loss	<u>\$ (2,352)</u>	<u>\$ (502)</u>	<u>\$ (4,756)</u>	<u>\$ (1,646)</u>
Basic net loss per common share	<u>\$ (0.15)</u>	<u>\$ (0.04)</u>	<u>\$ (0.32)</u>	<u>\$ (0.13)</u>
Diluted net loss per common share	<u>\$ (0.15)</u>	<u>\$ (0.04)</u>	<u>\$ (0.32)</u>	<u>\$ (0.13)</u>
Weighted-average number of common shares outstanding, basic	15,740	13,643	14,533	12,469
Weighted-average number of common shares outstanding, diluted	15,740	13,643	14,533	12,469

Total research and development expenses were up by \$380 and \$752 for the three and nine months ended September 30, 2017, respectively, over the same period in 2016. This increase relates primarily to drug manufacturing activities and preparations for registration batches. General and administrative costs increased over the prior year in the same period primarily due to the issuance of equity based compensation and costs associated with the NASDAQ listing.

Changes in the valuation of derivative liabilities are primarily driven by volatility in the Company's share price. Since February of 2017, the Company's share price has increased. This has caused a significant fluctuation in the value of the derivative liabilities on our books. The result has been a \$202 and \$385 increase in non-cash loss on derivative valuation for the three and nine months ended September 30, 2017, respectively, over the same period in 2016.

Fennec Pharmaceuticals Inc.

Balance Sheets

(U.S. Dollars in thousands)

	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	\$ 9,688	\$ 3,926
Other current assets	200	46
Total Assets	<u>\$ 9,888</u>	<u>\$ 3,972</u>
Liabilities and stockholders' equity		
Current liabilities	\$ 657	\$ 369
Derivative liabilities	373	33
Total stockholders' equity	8,858	3,570
Total liabilities and stockholders' equity	<u>\$ 9,888</u>	<u>\$ 3,972</u>

At September 30, 2017, the Company had working capital balance totaling approximately \$9.2 million compared to \$3.6 million as of December 31, 2016.

Working Capital Selected Asset and Liability Data: <i>(U.S. Dollars in thousands)</i>	Three Months Ended	
	September 30, 2017	December 31, 2016
Cash and cash equivalents	\$ 9,688	\$ 3,926
Other current assets	200	46
Current liabilities excluding derivative liability	(657)	(369)
Working capital	\$ 9,231	\$ 3,603
Selected Equity:		
Common stock	\$ 83,062	\$ 74,515
Accumulated deficit	(119,078)	(114,322)
Stockholders' equity	8,858	3,570

Cash and cash equivalents were \$9,688 at September 30, 2017 and \$3,926 at December 31, 2016. The increase in cash and cash equivalents between September 30, 2017 and December 31, 2016 is primarily due to cash received from the completion of an equity financing in June 2017 and exercise of various warrants and options. These increases in cash were offset by cash spent on research and development and general and administrative activities. The Company received \$7,571 net of issuance costs from the equity financing and \$512 from the exercise of options and warrants. The Company issued a total of 2,214 shares as a result of these activities.

Dollar and shares in thousands Selected cash flow data:	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net cash used in operating activities	(958)	(544)	(2,321)	(1,513)
Net cash provided by investing activities	-	-	-	-
Net cash provided by financing activities	414	-	8,083	5,108
Increase in cash and cash equivalents	(544)	(544)	5,762	3,595

Net cash used in operating activities for the three months ended September 30, 2017 was \$958, as compared to \$544 during the same period in 2016. 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 September 30, 2017 was \$414 compared to \$0 for the three months ended September 30, 2016. The \$414 provided by financing activities, derived from the exercise of 207 options and 21 warrants. For the same three-month period in 2016, there was no cash resulting from financing activities. Total decrease in cash and cash equivalents was \$544 for the three months ended September 30, 2017, and for the same period in 2016.

Net cash used in operating activities for the nine months ended September 30, 2017 was \$2,321, as compared to \$1,513 during the same period in 2016. This increase is due to increased cash outlays incurred from research and development in addition to increased general and administrative costs associated with the Company's preparation for registration. Net cash provided by financing activities for the nine months ended September 30, 2017 was \$8,083 compared to \$5,108 for the nine months ended September 30, 2016. The \$8,083 includes \$7,571 net proceeds from the receipt of equity financing and \$481 and \$31 in cash representing the exercise of 293 options and 31 warrants, respectively. Total increase in cash and cash equivalents was \$5,762 for the nine months ended September 30, 2017 which is an increase of \$2,167 over the same period in 2016.

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, the proposed sale to Elion may not be completed 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, 2016. Fennec 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, and are particularly harmful to the survivors of pediatric cancer.

In the U.S. and Europe there is estimated that over 7,000 children are diagnosed with low-to-intermediate risk cancers that may receive platinum based chemotherapy. Low-to-intermediate risk cancers that receive platinum agents may have overall survival rates of greater than 80% further emphasizing the quality of life after treatment. 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 closed to recruitment. 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 Fennec Pharmaceuticals

Fennec Pharmaceuticals, Inc., is a specialty pharmaceutical company focused on the development of PEDMARK™ 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.fennecpharma.com.

For further information, please contact:

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