XORTX THERAPEUTICS INC.

(formerly XORTX Pharma Corp.)

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
XORTX Therapeutics Inc. (formerly XORTX Pharma Corp.)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of XORTX Therapeutics Inc. (formerly XORTX Pharma Corp.), which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive loss, changes in deficiency and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of XORTX Therapeutics Inc. (formerly XORTX Pharma Corp.) as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada
April 25, 2018

"Morgan & Company LLP"
Chartered Professional Accountants

XORTX THERAPEUTICS INC.

(Formerly XORTX Pharma Corp.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian Dollars)

		DECEMBER 31 2017		DECEMBER 31 2016
Assets				
Current Assets				
Cash	**$**	**61,939**	$	16,769
Prepaid expenses and deposits		**1,608**		1,566
Total Current Assets		**63,547**		18,335
Non-current Assets				
Deferred acquisition costs (Note 15)		**167,220**		-
Equipment		**1,121**		-
Intangible assets (Note 4)		**258,714**		264,128
Total Assets	**$**	**490,602**	$	282,463
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities (Note 5)	**$**	**778,683**	$	374,696
Loans payable (Note 6)		**-**		124,127
Provision for patent acquisition (Note 7)		**94,089**		100,702
Liability component on convertible loans (Note 8)		**236,696**		-
Total Current Liabilities		**1,109,468**		599,525
Non-current Liabilities				
Long-term liability component on convertible loans (Note 8)		**35,768**		-
Total Liabilities	**$**	**1,145,236**	$	599,525
Deficiency				
Share Capital (Note 9)		**1,391,673**		1,207,024
Share-based Payments Reserve		**296,535**		354,812
Equity Component on Convertible Loans (Note 8)		**10,257**		-
Deficit		**(2,353,099)**		(1,878,898)
Total Deficiency		**(654,634)**		(317,062)
Total Liabilities and Deficiency	**$**	**490,602**	$	282,463

Nature of Operations and Going Concern (Note 1)

/s/ "Allen Davidoff"	*/s/ "Alan Moore"*
Director	Director

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

XORTX THERAPEUTICS INC.

(Formerly XORTX Pharma Corp.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Expressed in Canadian Dollars)

		YEAR ENDED DECEMBER 31, 2017		YEAR ENDED DECEMBER 31, 2016
Expenses				
Accretion	**$**	**5,376**	$	-
Amortization		**16,777**		16,024
Foreign exchange		**(10,704)**		870
General and administrative		**16,249**		19,246
Interest		**15,463**		8,625
Investor relations		**20,182**		15,000
Professional fees		**72,466**		20,493
Research and development		**66,367**		-
Share-based payments		**92,672**		203,875
Travel		**17,544**		8,303
Wages and benefits (Note 6)		**161,809**		122,398
Net Loss and Comprehensive Loss For The Year	**$**	**(474,201)**	$	(414,834)
Basic and Diluted Loss Per Common Share	**$**	**(0.02)**	$	(0.02)
Weighted Average Number Of Common Shares Outstanding – Basic and diluted (Note 10)		**22,343,661**		21,423,940

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

XORTX THERAPEUTICS INC.

(Formerly XORTX Pharma Corp.)

CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIENCY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Expressed in Canadian Dollars)

	SHARE CAPITAL		SHARE-BASED PAYMENTS RESERVE	EQUITY COMPONENT ON CONVERTIBLE LOANS	DEFICIT	TOTAL DEFICIENCY
	SHARES	AMOUNT				
Balance, December 31, 2015	21,367,787	$ 1,192,024	$ 150,937	$ -	$ (1,464,064)	$ (121,103)
Share issued for consulting services	854,000	15,000	-	-	-	15,000
Share-based payments	-	-	203,875	-	-	203,875
Net loss for the year	-	-	-	-	(414,834)	(414,834)
Balance, December 31, 2016	22,221,787	1,207,024	354,812	-	(1,878,898)	(317,062)
Exercise of common stock options	337,000	184,649	(150,949)	-	-	33,700
Convertible debt	-	-	-	10,257	-	10,257
Share-based payments	-	-	92,672	-	-	92,672
Net loss for the year	-	-	-	-	(474,201)	(474,201)
Balance, December 31, 2017	**22,558,787**	**$ 1,391,673**	**$ 296,535**	**$ 10,257**	**$ (2,353,099)**	**$ (654,634)**

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

XORTX THERAPEUTICS INC.

(Formerly XORTX Pharma Corp.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Expressed in Canadian Dollars)

	YEAR ENDED DECEMBER 31, 2017	YEAR ENDED DECEMBER 31, 2016
Cash provided by (used in):		
Operating Activities		
Net loss for the year	$ (474,201)	$ (414,834)
Items not affecting cash:		
Accretion expense	5,376	-
Accrued interest expense	15,463	8,625
Amortization of equipment	16,728	16,024
Amortization of tangible assets	49	-
Loan for services	37,755	-
Share-based payments	92,672	203,875
Shares issued for consulting services	-	15,000
Unrealized foreign exchange (gain) loss	(6,613)	1,751
Changes in non-cash operating assets and liabilities:		
Accounts payable and accrued liabilities	403,987	59,984
Prepaid expenses and deposits	(42)	1,791
	91,174	(107,784)
Investing Activities		
Acquisition of intangible assets	(11,314)	(24,560)
Acquisition of equipment	(1,170)	-
	(12,484)	(24,560)
Financing Activities		
Proceeds from issuance of shares	33,700	-
Proceeds from loans payable	100,000	115,000
Deferred acquisition costs	(167,220)	-
	(33,520)	115,000
Increase (Decrease) In Cash	45,170	(17,344)
Cash, Beginning Of Year	16,769	34,113
Cash, End Of Year	$ 61,939	$ 16,769
Supplemental Cash Flow and Non-Cash Investing and Financing Activities Disclosure		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -
Services financed by convertible note	$ 37,755	$ -
Loan payable exchanged for convertible loans	$ 115,000	$ -

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

1. NATURE OF OPERATIONS AND GOING CONCERN

XORTX Pharma Corp. (the "Company" or "XORTX") was incorporated under the laws of Alberta, Canada on August 24, 2012 under the name ReVasCor Inc. and was continued under the Canada Business Corporations Act on February 27, 2013 under the name of XORTX Pharma Corp. Upon completion of the reverse take-over transaction subsequent to year end, the Company changed its name to XORTX Therapeutics Inc. (Note 15).

The Company's head office, principal address and address of its registered and records office is 4000, 421 7th Avenue SW, Calgary, AB, T2P 4K9.

The Company is a bio-pharmaceutical company, dedicated to innovation, discovery, development and commercialization of therapies that will improve patient health throughout the world. The Company is founded on patents and patent applications that include three U.S. and worldwide rights for the development of uric acid lowering agents to treat diabetic nephropathy, hypertension, insulin resistance, metabolic syndrome and diabetes.

Although there is no certainty, management is of the opinion that additional funding for future projects and operations can be raised as needed. The Company is subject to a number of risks associated with the successful development of new products and their marketing and the conduct of its clinical studies and their results. The Company will have to finance its research and development activities and its clinical studies. To achieve the objectives in its business plan, the Company plans to raise the necessary capital and to generate revenues. It is anticipated that the products developed by the Company will require approval from the U.S. Food and Drug Administration and equivalent organizations in other countries before their sale can be authorized. If the Company is unsuccessful in obtaining adequate financing in the future research activities will be postponed until market conditions improve. These circumstances and conditions may cast significant doubt about the Company's ability to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") applicable to the preparation of these consolidated financial statements.

b) Basis of Measurement and Presentation

These consolidated financial statements have been prepared using the historical cost convention using the accrual basis of accounting except for financial instruments which have been measured at fair value. In the opinion of management, all adjustments (including normal recurring accruals), considered necessary for a fair presentation have been included. The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

These consolidated financial statements were approved for issue by the Board of Directors on April 25, 2018

These consolidated financial statements incorporate the financial statements of the Company and its 100% owned subsidiary. All intercompany transactions and balances are eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Cash and Cash Equivalents

Cash consists of cash held in bank accounts. For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents to the extent the funds are not being held for investment purposes. The Company had no cash equivalents as at December 31, 2017 and 2016.

d) Research and Development Costs

Research costs including clinical trial costs are expensed as incurred, net of recoveries until a drug product receives regulatory approval. Development costs that meet specific criteria related to technical, market and financial feasibility will be capitalized. To date, all development costs have been expensed.

e) Government Assistance

Amounts received or receivable resulting from government assistance programs, including grants and investment tax credits for research and development, are recognized where there is reasonable assurance that the amount of government assistance will be received and all attached conditions will be complied with. Investment tax credits relating to qualifying scientific research and experimental development expenditures that are recoverable are recognized as a reduction of expenses.

f) Intangible Assets

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. Costs incurred for patents, patents pending and licenses are capitalized and amortized from the date of capitalization on a straight-line basis over the shorter of their respective remaining estimated lives or 20 years.

g) Impairment of Long Lived Assets

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or CGUs). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

h) Financial Instruments and Risk Management

All financial instruments are classified into one of five categories: fair value through profit or loss ("FVTPL"), held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the statement of financial position at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. FVTPL financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Financial Instruments and Risk Management (Continued)

The Company has classified cash as FVTPL. Accounts payable and accrued liabilities, loans payable and convertible loans are classified as other financial liabilities. The Company has estimated the fair value of its financial instruments based on appropriate valuation methodologies as of the statement of financial position dates; however, considerable judgment is required to develop these estimates. Realized gains and losses on financial instruments are disclosed within operating cash flow.

Disclosures about the inputs to financial instrument fair value measurements are made within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

i) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
ii) Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
iii) Level 3 – Inputs that are not based on observable market data.

Financial instruments are exposed to credit, liquidity and market risks. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of price risk: currency risk, interest rate risk and other price risk.

Credit risk and liquidity risk on amounts due to creditors and amounts due from/to related parties were significant to the Company's statement of financial position The Company manages these risks by actively pursuing additional share capital issuances to settle its obligations in the normal course of its operating, investing and financing activities.

i) Convertible loans

Convertible loans are separated into their liability and equity components on the statement of financial position. The liability component is initially recognized at fair value, calculated as the net present value of a similar liability without an associated equity conversion feature and accounted for at amortized cost using the effective interest rate method. The effective interest rate used is the estimated rate for debt with similar terms at the time of issue. The fair value of the equity component (conversion feature) is determined at the time of issue as the difference between the face value of the exchangeable note and the fair value of the liability component.

j) Share Capital

Common shares are classified as equity. Costs directly identifiable with share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations in the period they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Earnings (Loss) per Common Share

Basic earnings (loss) per common share is computed by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the potential dilution that could share in the earnings of an entity. In the periods where a net loss is incurred, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive and basic and diluted loss per common share are the same. In a profit year, the weighted average number of common shares outstanding used for the calculation of diluted earnings per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase the common shares at the average price per period.

l) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred income tax assets also result from unused loss carry forwards, resource related pools and other deductions. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

m) General Provisions

A provision is a liability of uncertain timing or amount of a future expenditure when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The present value of expected future cash outflows is recognized as a liability and the increase to the liability due to the passage of time is recorded as a finance expense. The Company uses a credit adjusted discount rate that reflects current market assessments of the time value of money and the risk specific to the liability.

n) Foreign Currency Translation

The Company’s functional and presentation currency is the Canadian dollar.

Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect as of the financial position date. Gains and losses are recognized in income on a current basis.

o) New Standards Not Yet Adopted

The following standards that may be applicable to the Company in the future have been issued but are not yet effective. Management does not expect the adoption of these standards to have a material impact on the financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) New Standards Not Yet Adopted (Continued)

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project of replacing IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristic of the financial assets. This standard is effective for annual periods beginning on or after January 1, 2018.

IFRS 16 Leases

IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. The new standard is effective for periods beginning on or after January 1, 2019. The Company is currently assessing the impact of adopting this new standard on its audited financial statements.

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of consolidated financial statements requires management to make judgments and estimates that affect the amounts reported in the consolidated financial statements and notes. By their nature, these judgments and estimates are subject to change and the effect on the consolidated financial statements of changes in such judgments and estimates in future periods could be material. These judgments and estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these judgments and estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

Information about critical accounting judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 9.

(Expressed in Canadian Dollars)

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Impairment of intangible assets

Patents (obtained and pending) and licenses are reviewed for impairment at each financial reporting date. If, in the judgment of management, that future economic benefits will not flow to the Company, then the remaining intangible asset costs are written off. Management has determined that the Company's intangible asset carrying values have not been impaired.

Equity component of convertible loans

The convertible loans are classified as liabilities, with the exception of the portion relating to the conversion feature discount that is being accreted over the term of the debentures, utilizing the effective interest method which approximates the market rate at the date the loans were issued. Management uses its judgment to determine an interest rate that would have been applicable to non-convertible debt at the time the debentures were issued.

Going concern assumption

The preparation of these consolidated financial statements requires management to make judgments regarding the ability of the Company to continue as a going concern as discussed in Note 1.

4. INTANGIBLE ASSETS

Cost		**Total**
Balance, December 31, 2015	$	290,830
Additions		24,560
Balance, December 31, 2016		315,390
Additions		11,314
Balance, December 31, 2017	**$**	**326,704**

Accumulated amortization		**Total**
Balance, December 31, 2015	$	35,238
Amortization		16,024
Balance, December 31, 2016		51,262
Amortization		16,728
Balance, December 31, 2017	**$**	**67,990**

Carrying values		**Total**
At December 31, 2016	$	264,128
At December 31, 2017	**$**	**258,714**

The Company has licensed intellectual property from various third parties as described below:

a) The Company has licensed from a third party ("the Licensee"), under patent rights purchase agreement dated July 9, 2013 and amended April 15, 2014, certain patents relating to allopurinol for the treatment of hypertension.

   The Company paid $21,188 (US$20,000) to the Licensee on the date the agreement was signed and is obligated to pay another US$20,000 ninety days following the completion of financing of at least US$2,000,000. As at December 31, 2017, $25,090 (2016 - $26,854) (US$20,000) has been accrued.

4. INTANGIBLE ASSETS (Continued)

The Company will also pay the Licensee royalties on the cumulative net revenues from the sale or sublicense of the product covered under the patent license until the later of (a) the expiration of the last patent right covering the product and (b) the expiration of ten years from the date of the first commercial sales of a product.

b) In December 2012, the Company entered into an agreement to license certain intellectual property relating to the use of all uric acid lowering agents to improve the treatment of metabolic syndrome. Under this patent rights purchase agreement, between the Company and Dr. Richard Johnson and Dr. Takahiko Nakagawa (the "Vendors"), the Company issued 1,680,000 common shares at $0.03 per common share for a total instalment price of $50,400. The Company is required to pay the Vendors an additional US$75,000, upon the assignment of these patents and the amount has been set up as a provision as at December 31, 2017 and 2016. (Note 7)

Additionally, the Company will pay the Vendors a royalty based on the cumulative net revenues from the sale or sublicense of the product covered under the licensed intellectual property until the later of (a) the expiration of the last patent right covering the product and (b) the expiration of ten years from the date of the first commercial sales of a product.

c) Pursuant to a license agreement dated October 9, 2012, as amended on June 23, 2014, between the Company and the University of Florida Research Foundation, Inc. ("UFRF"), the Company acquired the exclusive license to the certain intellectual property related to the use of all uric acid lowering agents to treat insulin resistance. The Company has paid or is obligated to pay UFRF the following consideration:

i) an annual license fee of US$1,000.

ii) reimburse UFRF for United States and/or foreign costs associated with the maintenance of the licensed patents.

iii) the issuance to UFRF of 617,120 shares of common stock of the Company.

iv) payment of approximately US$44,995 on the receipt of financing of US$3,000,000 as reimbursement for expenses associated with patent application costs incurred prior to June 23, 2014.

v) milestone payments of: US$500,000 upon receipt of FDA approval to market licensed product in the United States of America; and US$100,000 upon receipt of regulatory approval to market each licensed product in each of other jurisdictions.

vi) royalty payments of up to 1.5% of net sales of products covered by the license until the later of (i) the expiration of any patent claims or (ii) ten years from the date of the first commercial sale of any covered product in each country. Following commencement of commercial sales, the Company will be subject to certain annual minimum royalty payments that will increase annually up to a maximum of US$100,000 per year.

vii) UFRF is entitled to receive a royalty of 5% of amounts received from any sub-licensee that are not based directly on product sales, excluding payments received for research and development or purchases of the Company's securities at not less than fair market value.

UFRF may terminate the agreements if the Company fails to meet certain specified milestones.

(Expressed in Canadian Dollars)

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31, 2017		December 31, 2016
Trade payables	**$**	**416,683**	$	159,667
Accrued liabilities		**362,000**		215,029
Total	**$**	**778,683**	$	374,696

6. LOANS PAYABLE AND RELATED PARTY TRANSACTIONS

All related party transactions were measured at the amount of consideration established and agreed to by the related parties. All amounts due from/payable to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

During the years ended December 31, 2017 and 2016, the Company incurred the following transactions with related parties and a shareholder:

a) Wages and benefits were paid or accrued to a director and an officer of the Company in the amount of $161,809 (2016 - $122,398).

b) Interest of $2,593 (2016 $2,250) was accrued to a director of the Company during the 2017 fiscal year.

c) As at December 31, 2017, $3,755 (2016 - $502) was payable to directors and officers of the Company. The balance is unsecured, non-interest bearing, and has no fixed terms of repayment.

d) As at December 31, 2017, $333,110 was accrued to directors, former directors, and officers of the Company. The balance is unsecured, non-interest bearing and has no fixed terms of repayments.

e) During the year ended December 31, 2016, the Company entered into promissory notes with a shareholder ($85,000) and a director ($30,000) for the total principal sum of $115,000. On August 18, 2017, the loans and accrued interest of $11,227 and $3,962 respectively were converted to convertible loans as per Note 8.

f) Management compensation transactions for the years ended December 31, 2017 and 2016 are summarized as follows:

		Short-term employee benefits		**Share-based payments**		**Total**
Year ended December 31, 2016						
Directors and officers	$	122,398	$	169,145	$	291,543
Year ended December 31, 2017						
Directors and officers	**$**	**161,809**	**$**	**69,503**	**$**	**231,312**

(Expressed in Canadian Dollars)

7. PROVISION FOR PATENT ACQUISITION

	Patent Right Purchase Provision			
	December 31, 2017		December 31, 2016	
Balance, beginning of year	**$**	**100,702**	$	103,800
Foreign exchange adjustment		**(6,613)**		(3,098)
Balance, end of year	**$**	**94,089**	$	100,702

Pursuant to the patent rights purchase agreement dated December 5, 2012 (Note 4 (b)), the Company has agreed to pay the Vendors US$75,000 when the National Institutes of Health approves the transfer of ownership of the patent rights to the Company. The timing of the ownership transfer is uncertain, and the outflow of future cash flows is probable.

8. CONVERTIBLE LOANS

a) On August 18, 2017, a shareholder and a director converted their secured, interest-bearing loans in the aggregate principal amount of $115,000 to convertible loans. In addition, a further $100,000 was loaned to the Company by certain shareholders.

The convertible loans have a face value of $215,000, due February 18, 2019, bearing interest at 8% with a conversion feature at $0.47 per common share of the Company. The liability component of these debentures was calculated, at the date of issuance, as the present value of the principal and interest, at a rate approximating the interest rate that would have been applicable to non-convertible debt at the date the loans were issued. The liability component was recorded at amortized cost and is accreted to the principal amount over the term of the convertible loan by charges to accretion expense using an effective interest rate of 15%. The carrying value of the liability component was $236,696 as at December 31, 2017. The carrying value of the conversion option of $5,055 has been recorded as a separate component in total equity.

Subsequent to December 31, 2017, the loans and accrued interest were converted into 748,875 shares of the Company immediately prior to the share exchange with APAC Resources Inc. (Note 15)

b) On July 20, 2017, the Company issued a convertible note in connection with a service agreement pursuant to which the holder will perform research and development services on behalf of the Company. The convertible note has a face value of US$30,000, is unsecured and bears interest at 15% and maturing on July 19, 2020.

Upon the occurrence of an equity financing of at least US$1,000,000, the outstanding principal amount of the note and accrued interest, may, at the option of the note holder, be either (i) exchanged into the same securities issued in the equity financing or (ii) the note holder may call all or a portion of the outstanding principal amount of the note together with all accrued interest immediately due and payable.

The liability component of these debentures was calculated, at the date of issuance, as the present value of the principal and interest, at a rate approximating the interest rate that would have been applicable to non-convertible debt at the date the note was issued. The liability component was recorded at amortized cost and is accreted to the principal amount over the term of the convertible note by charges to accretion expense using an effective interest rate of 20%. The carrying value of the liability component was $35,768 as at December 31, 2017. The carrying value of the conversion option of $5,202 has been recorded as a separate component in total equity.

9. SHARE CAPITAL AND RESERVES

a) Authorized and Issued

Unlimited Class A common shares without par value – 22,558,787 issued as at December 31, 2017 (2016 – 22,191,787)
Unlimited Class B common shares without par value (none issued)
Unlimited Class C common shares without par value (none issued)
Unlimited Class D common shares without par value (none issued)
Unlimited Class E preferred shares without par value (none issued)
Unlimited Class F preferred shares without par value (none issued)

b) Issuances

Year ended December 31, 2017:

337,000 Class A common shares were issued pursuant to the exercise of options for total gross proceeds of $33,700. A value of $150,949 was transferred from share-based payments reserve to share capital as a result.

Year ended December 31, 2016:

854,000 Class A common shares were issued in exchange for investor relations services valued at $15,000.

c) Share Purchase Warrants

As at December 31, 2017 and 2016, there were no share purchase warrants outstanding.

d) Stock Options

The Company has an incentive Stock Option Plan (the "Plan") for directors, officers, employees and consultants, under which the Company may issue stock options to purchase common shares of the Company provided that the amount of incentive stock options which may be granted and outstanding under the Plan at any time shall not exceed 10% of the then issued and outstanding common shares of the Company and subject to the prior ratification by the TSX.V.

The Company granted 1,000,000 stock options during the year ended December 31, 2016; 750,000 stock options were granted to directors and officers and 250,000 stock options were granted to a consultant. One-third of the options vested immediately upon the grant date, one third of the options vested on the one-year anniversary from the grant date and the remaining options vested on the two-year anniversary from the grant date. The fair value of stock options was estimated using the Black-Scholes option-pricing model. The weighted average fair value of options granted was $0.33.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL AND RESERVES (Continued)

d) Stock Options (Continued)

The fair value of stock options granted was estimated on the date of grant using the Black-Scholes model with the following data and assumptions:

	2016
Dividend yield	Nil
Annualized volatility	111.13%
Risk-free interest rate	0.61%
Expected life	3 years

The risk-free rate of return is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed option life. The expected average option term is the average expected period to exercise, based on the historical activity patterns for each individually vesting tranche. The expected volatility is based on the Company's historical volatility.

A summary of the changes in stock options for the years ended December 31, 2017 and 2016 is presented below:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2015	337,000	$0.10
Vested and exercisable, December 31, 2015	337,000	$0.10
Granted	1,000,000	$0.50
Balance, December 31, 2016	1,337,000	$0.40
Vested and exercisable, December 31, 2016	670,333	$0.30
Balance, December 31, 2016	1,337,000	$0.40
Exercised	(337,000)	$0.10
Balance, December 31, 2017	1,000,000	$0.50
Vested and exercisable, December 31, 2017	1,000,000	$0.50

The weighted average contractual remaining life of the unexercised options was 1.47 years (2016 – 2.22).

The following table summarizes information on stock options outstanding at December 31, 2017:

Exercise Price	Number Outstanding	Number Exercisable	Average Remaining Contractual Life
$0.50	1,000,000	1,000,000	1.47 years

The share-based payment expensed recognized was $92,672 (2016 - $203,875) during the year ended December 31, 2017.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES (Continued)

e) Nature and Purpose of Reserves

The 'Share-based Payment Reserve' is used to recognize the fair value of stock option grants prior to exercise, expiry or cancellation and the fair value of other share-based consideration paid at the date of payment.

11. LOSS PER SHARE

The Company calculates the basic and diluted loss per common share using the weighted average number of common shares outstanding during each period and the diluted loss per share assumes that the outstanding vested stock options and share purchase warrants had been exercised at the beginning of the year.

To compute diluted earnings per share, the average number of shares outstanding is adjusted for the number of potentially dilutive shares. The potentially dilutive stock options and share purchase warrants were not included in the Company's loss per common share calculation because the result was anti-dilutive.

	Years ended December 31,	
	2017	2016
Issued shares beginning of year	**22,221,787**	21,367,787
Weighted average issuances	**121,874**	56,153
Basic weighted average common shares, end of year	**22,343,661**	21,423,940

(Expressed in Canadian Dollars)

12. INCOME TAXES

The income taxes shown in the consolidated statements of operations differ from the amounts obtained by applying statutory rates to the loss before income taxes due to the following:

		2017		2016
Loss for the year	**$**	**(474,000)**	$	(415,000)
Statutory tax rate		**26%**		26%
Expected income tax recovery		**(123,000)**		(108,000)
Decrease to income tax recovery due to:				
Non-deductible permanent differences		**26,000**		52,000
Change in estimate		**(17,000)**		-
Change in tax assets not recognized		**114,000**		56,000
Income tax recovery	**$**	**-**	$	-

The significant components of the Company's deferred tax assets are as follows:

		December 31, 2017		December 31, 2016
Share issuance costs	**$**	**-**	$	5,000
Cumulative eligible capital		**(28,000)**		(25,000)
Operating losses carried forward		**494,000**		371,000
Total deferred tax assets		**466,000**		351,000
Deferred tax assets not recognized		**(466,000)**		(351,000)
	$	**-**	$	-

The realization of income tax benefits related to these deferred potential tax deductions is not probable. Accordingly, no deferred income tax assets have been recognized for accounting purposes. The Company has Canadian non-capital losses carried forward of approximately $1,830,000 that may be available for tax purposes. The losses expire as follows:

Expiry date	$
2032	68,000
2033	655,000
2034	277,000
2035	187,000
2036	240,000
2037	403,000
Total	1,830,000

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. Cash is designated as held-for-trading and measured at fair value. Accounts payable and accrued liabilities, loans payable and convertible loans are designated as other financial liabilities and measured at amortized cost using the effective interest rate method. The fair values of the Company's due to related parties approximate their carrying values at December 31, 2017 and 2016, due to their short-term nature.

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The following table presents the Company's financial instruments, measured at fair value on the consolidated statements of financial position as at December 31, 2017 and 2016 and categorized into levels of the fair value hierarchy:

		December 31, 2017		December 31, 2016	
	Level	**Carrying Value**	**Estimated Fair Value ***	Carrying Value	Estimated Fair Value *
FVTPL					
Cash	1	**$ 61,939**	**$ 61,939**	$ 16,769	$ 16,769
Other financial liabilities					
Accounts payable and accrued liabilities	2	**$ 778,683**	**$ 778,683**	$ 374,696	$ 374,696
Loans payable	2	**$ -**	**$ -**	$ 124,127	$ 124,127
Liability component on convertible loans	2	**$ 272,464**	**$ 272,464**	$ -	$ -

* Fair value approximates the carrying amounts due to the short-term nature.

There were no transfers for levels of change in the fair value measurements of financial instruments for the years ended December 31, 2017 and 2016.

Risk management is carried out by the Company's management team with guidance from the Board of Directors. The Company's risk exposures and their impact on the Company's financial instruments were as follows:

a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer of counterparty to a financial instrument fails to meet its obligations. The Company's maximum exposure to credit risk at the financial position date under its financial instruments is summarized as follows:

	December 31, 2017	December 31, 2016
Cash	**$ 61,939**	$ 16,769

All of the Company's cash is held with major financial institutions in Canada and management believes the exposure to credit risk with such institutions is minimal. The Company considers the risk of material loss to be significantly mitigated due to the financial strength of the major financial institutions where cash is held. The Company's maximum exposure to credit risk as at December 31, 2017 and 2016 is the carrying value of its financial assets.

b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its obligations associated with financial liabilities. The Company has a planning and budgeting process in place by which it anticipates and determines the funds required to support normal operation requirements as well as the growth and development of its intellectual property portfolio.

The Company's financial assets are comprised of its cash and the financial liabilities are comprised of its accounts payable and accrued liabilities and loans payable.

(Expressed in Canadian Dollars)

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

b) Liquidity Risk (Continued)

The contractual maturities of these financial liabilities as at December 31, 2017 and 2016 are summarized below:

	Payments due by Period as of December 31, 2017			
	TOTAL	**LESS THAN 3 MONTHS**	**BETWEEN 3 MONTHS AND 1 YEAR**	**1-3 YEARS**
Accounts payable and accrued liabilities	**$ 778,683**	**$ 778,683**	**$ -**	**$ -**
Liability component on convertible loans	**272,464**	**236,696**	**-**	**35,768**
	$ 1,051,147	**$ 1,015,379**	**$ -**	**$ 35,768**

	Payments due by Period as of December 31, 2016			
	TOTAL	LESS THAN 3 MONTHS	BETWEEN 3 MONTHS AND 1 YEAR	1-3 YEARS
Accounts payable and accrued liabilities	$ 374,696	$ 374,696	$ -	$ -
Loans payable	124,127	124,127	-	-
	$ 498,823	$ 498,823	$ -	$ -

c) Market Risk

i) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's bank accounts bear interest. Management believes that the credit risk concentration with respect to financial instruments included in cash is minimal.

ii) Foreign Currency Risk

The Company is exposed to foreign exchange risk on its US$75,000 provision for patent acquisition, US$48,703 accounts payable balances, and US$716 cash account. Based on the foreign exchange exposure arising from the provision, varying the foreign exchange rate to reflect a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would result in an increase/decrease of $15,000 (2016 - $7,500) in the Company's loss from operations.

(Expressed in Canadian Dollars)

14. CAPITAL MANAGEMENT

The Company defines capital that it manages as equity. The Company manages its capital structure in order to have funds available to support its research and development and sustain the future development of the business. When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support its activities.

The Company includes the following items in its managed capital as at the following periods:

Equity is comprised of:		**December 31, 2017**		December 31, 2016
Share capital	**$**	**1,391,673**	$	1,207,024
Share-based payments reserve	**$**	**296,535**	$	354,812
Equity component on convertible loans	**$**	**10,257**	$	-
Deficit	**$**	**(2,353,099)**	$	(1,878,898)

Since inception, the Company's objective in managing capital is to ensure sufficient liquidity to finance its research and development activities, general and administrative expenses, expenses associated with intellectual property protection and its overall capital expenditures. The Company is not exposed to external requirements by regulatory agencies regarding its capital.

15. COMMITMENTS

The Company has entered into long-term arrangements with commitments for the years ending December 31 as follows:

a)

		2017		2016
Management services – officers	**$**	**120,000**	$	120,000

Dr. Allen Davidoff, President, CEO and a director of the Company has a long-term employment agreement with the Company. The agreement has a termination clause whereby Dr. Davidoff is entitled to the equivalent of twelve times his then current monthly salary which, as of December 31, 2017, equated to $120,000.

16. SUBSEQUENT EVENTS

Subsequent events not otherwise disclosed in these financial statements are described below:

a) On January 10, 2018, the Company completed the previously announced reverse take-over and acquisition by APAC Resources Inc. ("APAC") of all of the issued and outstanding shares ("XORTX Shares") of the Company (the "Acquisition"). The resulting company was named XORTX Therapeutics Inc. ("XRX").

   Pursuant to the Acquisition, APAC consolidated its share capital on the basis of one post-consolidation common share of APAC ("APAC Shares") for every four pre-consolidation APAC Shares (the "Consolidation"). Following the Consolidation, there were 5,095,500 APAC Shares issued and outstanding. APAC acquired 100% of the outstanding XORTX Shares in consideration for the issuance of APAC Shares (as constituted following the Consolidation) on the basis of 2.311 post-consolidation APAC Shares for every one issued XORTX Share which resulted in the issuance of 53,909,451 APAC Shares to the holders of XORTX Shares.

   Also pursuant to the Acquisition, XRX raised $1,957,370 by way of a private placement through the issuance of 3,914,740 units (the "Units"), at a price of $0.50 per Unit, completed concurrently with the completion of the Acquisition. Each Unit consists of one post-consolidation APAC Share and one APAC Share purchase warrant ("Warrant"), with each Warrant entitling the holder to purchase one additional post-consolidation APAC Share at a price of $0.80 for a period of two years from the date of issuance of the Unit. Finders' fees in the aggregate amount of $45,000 and 90,000 Warrants were paid to registered broker dealers.

b) On March 20, 2018, the Company issued 2,250,000 share purchase options to certain directors, officers, consultants and employees. The options are exercisable at a price of $0.50 per share and expire on March 19, 2023.

c) Subsequent to year end the Company entered into an agreement with Cato Research Canada Inc. ("Cato") to manage a planned clinical study. As part of this agreement the Company paid a deposit of USD $505,331 and has committed to utilize Cato for this clinical study, subject to certain conditions.