CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Xortx Therapeutics Inc.

Opinion

We have audited the consolidated financial statements of Xortx Therapeutics Inc. and its subsidiary (the “Company”), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive loss, changes in shareholders’ equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (“IFRSs”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of $3,775,923 during the year ended December 31, 2018, and as of that date, had an accumulated deficit of $6,129,022. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the information included in the management’s discussion and analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kevin Kwan.

Vancouver, Canada *"Morgan & Company LLP"*

April 26, 2019 Chartered Professional Accountants

MORGAN
COMPANY LLP
CHARTERED PROFESSIONAL
ACCOUNTANTS

XORTX THERAPEUTICS INC.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	Note	December 31 2018	December 31 2017
		$	$
Assets			
Current			
Cash		260,019	61,939
Deposits	**5**	689,373	-
Accounts receivable and other		30,256	1,608
		979,648	63,547
Non-current			
Deferred acquisition costs	**4**	-	167,220
Equipment		731	1,121
Intangible assets	**6**	284,861	258,714
Total Assets		**1,265,240**	**490,602**
Liabilities			
Current			
Accounts payable and accrued liabilities	**7**	798,132	778,683
Provision for patent acquisition	**8**	102,315	94,089
Liability component on convertible loans	**9**	-	236,696
		900,447	1,109,468
Non-current			
Long-term liability component on convertible loans	**9**	43,255	35,768
Total liabilities		943,702	1,145,236
Shareholders' Equity (Deficiency)			
Share capital	**10**	5,863,872	1,391,673
Share-based payments and warrants reserve		581,486	296,535
Equity component on convertible loans	**9**	5,202	10,257
Deficit		(6,129,022)	(2,353,099)
		321,538	(654,634)
Total Liabilities and Shareholders' Equity (Deficiency)		**1,265,240**	**490,602**

Nature of Operations and Going Concern (Note 1)
Commitments (Note 15)

/s/ "Allen Davidoff"	*/s/ "Paul Van Damme"*
Director	Director

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

XORTX THERAPEUTICS INC.

Consolidated Statements of Comprehensive Loss

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

	Note	2018	2017
		$	$
Expenses			
Amortization		19,316	16,777
Consulting	**11**	108,864	-
General and administrative		11,684	16,249
Investor relations		26,562	20,182
Listing fees		41,995	-
Professional fees	**11**	82,894	72,466
Research and development		342,251	66,367
Share-based payments	**10(d)**	275,094	92,672
Travel		53,394	17,544
Wages and benefits	**11**	195,165	161,809
Loss before other items		(1,157,219)	(464,066)
Accretion		(1,921)	(5,376)
Listing expense	**4**	(2,638,784)	-
Foreign exchange gain		42,378	10,704
Interest and other expenses		(20,377)	(15,463)
Net loss and comprehensive loss for the year		(3,775,923)	(474,201)
Basic and diluted loss per common share		(0.06)	(0.02)
Weighted average number of common shares outstanding			
Basic and diluted		61,816,018	22,343,661

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

XORTX THERAPEUTICS INC.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

	Note	Number of common shares	Share capital	Share-based payments and warrants reserve	Equity component on convertible loans	Deficit	Total
		$	$	$	$	$	$
Balance, December 31, 2016		22,221,787	1,207,024	354,812	-	(1,878,898)	(317,062)
Exercise of common stock options	**10(d)**	337,000	184,649	(150,949)	-	-	33,700
Convertible debt	**9**	-	-	-	10,257	-	10,257
Share-based payments	**10(d)**	-	-	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)
Shares issued pursuant to the UFRF license agreement	**6**	19,666	4,000	-	-	-	4,000
Exercise of convertible loans	**9**	748,875	242,077	-	(5,055)	-	237,022
Shares issued from private placement	**10(b)**	3,914,740	1,957,370	-	-	-	1,957,370
Less: Share issue costs		-	(58,982)	9,857	-	-	(49,125)
Shares issued on the acquisition of APAC	**4**	5,095,500	2,327,734	-	-	-	2,327,734
Exchanged for shares issued to shareholders pursuant to RTO	**4**	53,909,451	-	-	-	-	-
Shares cancelled pursuant to RTO	**4**	(23,327,328)	-	-	-	-	-
Share-based payments	**10(d)**	-	-	275,094	-	-	275,094
Net loss for the year		-	-	-	-	(3,775,923)	(3,775,923)
Balance, December 31, 2018		**62,919,691**	**5,863,872**	**581,486**	**5,202**	**(6,129,022)**	**321,538**

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

XORTX THERAPEUTICS INC.
Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(Expressed in Canadian Dollars)

	Note	2018	2017
		$	$
Cash provided by (used in):			
Operating activities			
Net loss for the year		(3,775,923)	(474,201)
Items not affecting cash:			
Accretion expense		1,921	5,376
Accrued interest expense		6,395	15,463
Amortization		19,316	16,777
Loan for services		-	37,755
Share-based payments	10(d)	275,094	92,672
Unrealized foreign exchange gain		(46,926)	(6,613)
Listing expense		2,638,784	-
Changes in non-cash operating assets and liabilities:			
Deposit		(631,866)	-
Accounts payable and accrued liabilities		(22,092)	403,987
Accounts receivable and other		(20,060)	(42)
		(1,555,357)	91,174
Investing activities			
Acquisition of intangible assets		(41,073)	(11,314)
Acquisition of equipment		-	(1,170)
Deferred acquisition costs		167,220	(167,220)
Transaction costs of RTO net of cash acquired	4	(280,955)	-
		(154,808)	(179,704)
Financing activities			
Proceeds from issuance of shares	10(b)	1,957,370	-
Cash share issuance costs	10(b)	(49,125)	-
Proceeds from exercise of stock options	10(d)	-	33,700
Proceeds from convertible loan	9	-	100,000
		1,908,245	133,700
Increase in cash		198,080	45,170
Cash, beginning of year		61,939	16,769
Cash, end of year		260,019	61,939
Supplemental Cash Flow and Non-Cash Investing and Financing Activities Disclosure			
Cash paid for interest		-	-
Cash paid for income taxes		-	-
Warrants issued for share issuance costs		9,857	-
Intangibles acquired through share issuance		4,000	-
Exercise of convertible loans		242,077	-
Shares issued on the acquisition of APAC		2,327,734	-
Services financed by convertible note		-	37,755
Loan payable exchanged for convertible loans		-	115,000

1. Nature of operations and going concern

XORTX Therapeutics Inc. (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 with APAC Resources Inc. ("APAC") on January 10, 2018, the Company changed its name to XORTX Therapeutics Inc.

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.

XORTX is a public company which is listed on the Canadian Securities Exchange under the symbol "XRX", and the OTCQB Venture Market under the symbol "XRTXF".

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

2. Basis of preparation

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.

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.

The accounts of the Company's subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. Inter-company transactions, balances and unrealized gains or losses on transactions are eliminated. The Company's subsidiary is the following:

Name	Place of Incorporation	Ownership
Xortx Pharma Corp.	Canada	100%

2. Basis of preparation (continued)

These consolidated financial statements were approved for issue by the Board of Directors on April 26, 2019.

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.

3. Accounting policies

These consolidated financial statements have been prepared using the following accounting policies:

Changes in accounting policies – IFRS 9
The Company adopted all of the requirements of IFRS 9 *Financial Instruments* ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

a) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit or loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

	Original classification IAS 39	New classification IFRS 9
Cash	FVTPL	FVTPL
Accounts payable and accrued liabilities	amortized cost	amortized cost
Liability component on convertible loans	amortized cost	amortized cost

The Company did not restate prior periods as there was no impact at the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on January 1, 2018.

3. Accounting policies (continued)

b) Measurement

Financial assets at FVTOCI
Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost
Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL
Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net (loss) income in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

c) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

d) Derecognition

Financial assets
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of net (loss) income. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities
The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets, is recognized in the consolidated statement of net income (loss).

Changes in accounting policies – IFRS 15
The adoption of IFRS 15 *Revenue from contracts with customers* did not have an impact on the Company's consolidated financial statements.

3. Accounting policies (continued)

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, 2018 and 2017.

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.

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.

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.

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.

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.

3. Accounting policies (continued)

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.

The Company's common shares, warrants and options are classified as equity instruments. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction from the proceeds. For equity offerings of units consisting of a common share and warrant, when both instruments are classified as equity, the Company does not bifurcate the proceeds between the common shares and the other equity instruments.

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 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. 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.

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.

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.

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.

3. Accounting policies (continued)

Accounting standards issued but not yet effective

The following new standard has been issued but not yet applied:

a) IFRS 16 – Leases. IFRS 16 Leases will replace IAS 17 Leases
This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019. This standard will affect the way in which the Company accounts for its operating leases and will increase the related disclosures.

Other accounting pronouncements with future effective dates are either not applicable or are not expected to have a material impact on the Company's consolidated financial statements.

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 10.

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.

3. Accounting policies (continued)

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. Reverse takeover transaction

On January 10, 2018, the Company completed the previously announced reverse take-over and acquisition by APAC of all of the issued and outstanding shares ("XORTX Shares") of the Company (the "Acquisition").

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.

In accordance with IFRS 3, Business Combinations ("IFRS 3"), the substance of the transaction was a reverse takeover ("RTO") of a non-operating company. The transaction does not constitute a business combination since APAC does not meet the definition of a business under IFRS 3. As a result, the transaction is accounted for as an asset acquisition with XORTX being identified as the acquirer (legal subsidiary) and APAC being treated as the accounting subsidiary (legal parent) with the transaction being measured at the fair value of the equity consideration issued to APAC.

The consideration received was the fair value of the net assets of APAC, which on January 10, 2018 was $32,869. The amount was calculated as follows:

	Total
	$
Cash and cash equivalents	32,461
Accounts receivable	8,588
Accounts payable and liabilities	(8,180)
Net assets acquired	32,869
Fair value of 5,095,500 shares issued by APAC	2,327,734
Fair value of consideration paid in excess of net assets acquired	2,294,865
Transaction costs related to acquisition	343,919
Listing expense	**2,638,784**

As at December 31, 2017, $167,220 was recorded in deferred acquisition costs related to the RTO transaction.

5. Deposits

During the year, 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 $689,373 (USD $505,331) and has committed to utilize Cato for this clinical study, subject to certain conditions.

6. Intangible assets

Cost	**Total**
	$
Balance, December 31, 2016	315,390
Additions	11,314
Balance, December 31, 2017	326,704
Additions	45,073
Balance, December 31, 2018	**371,777**

Accumulated amortization	**Total**
	$
Balance, December 31, 2016	51,262
Amortization	16,728
Balance, December 31, 2017	67,990
Amortization	18,926
Balance, December 31, 2018	**86,916**

Carrying values	**Total**
	$
At December 31, 2017	258,714
At December 31, 2018	**284,861**

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, 2018, $27,284 (2017 - $25,090) (US$20,000) has been accrued.

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, 2018 and 2017. (Note 8)

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 10 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.

6. Intangible assets (continued)

The Company has paid or is obligated to pay UFRF the following consideration:

i) an annual license fee of US$1,000 (2018 fees– paid).

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 (19,666 shares issued to UFRF during the year ended December 31, 2018).

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.

7. Accounts payable and accrued liabilities

	December 31 2018	December 31 2017
	$	$
Trade payables	414,738	416,683
Accrued liabilities	383,394	362,000
Total	798,132	778,683

8. Provision for patent acquisition

The Company has the option to pay US$75,000 in respect of a patent rights purchase agreement dated December 5, 2012 (Note 6), 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.

	December 31 2018	December 31 2017
	$	$
Balance, beginning of year	94,089	100,702
Foreign exchange adjustment	8,226	(6,613)
Balance, end of year	102,315	94,089

9. 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 had been recorded as a separate component in total equity. The loans are secured by the Company's property.

On January 10, 2018, the loans and accrued interest were converted into 748,875 shares of the Company immediately prior to the share exchange with APAC.

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 $43,255 as at December 31, 2018 (2017 - $35,768). The carrying value of the conversion option of $5,202 has been recorded as a separate component in total equity.

10. Share capital and reserves

a) Authorized and issued

Unlimited Class A common shares without par value – 62,919,691 issued as at December 31, 2018 (December 31, 2017 – 22,558,787)
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, 2018:

On January 9, 2018, 19,666 common shares were issued to UFRF pursuant to the license agreement (Note 6);

On January 10, 2018, 748,875 common shares of the Company were issued immediately prior to the share exchange with APAC upon the conversion of the convertible loans into shares (Note 9);

On January 10, 2018, 5,095,500 common shares with a fair value of $2,327,734 were deemed to be issued by APAC as a result of the RTO (Note 4). In connection with the RTO, an additional 53,909,451 shares were exchanged for shares issued to shareholders, and 23,327,328 shares were cancelled; and

On January 10, 2018, the Company completed a private placement, issuing 3,914,740 units (the "Units") at $0.50 per unit for gross proceeds of $1,957,370. Each Unit consisted of one post-common share and one share purchase warrant ("Warrant"), with each Warrant entitling the holder to purchase one additional common share at a price of $0.80 for a period of two years from the date of issuance of the Units. The Company also issued 90,000 finders' warrants with a value of $9,857 and incurred $49,125 of cash issue costs.

Year ended December 31, 2017:

337,000 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 and warrants reserve to share capital as a result.

c) Share Purchase Warrants

A summary of the changes in warrants for the years ended December 31, 2018 and 2017 is presented below:

	Number of Warrants	Exercise price
Balance, December 31, 2016 and 2017	-	-
Granted – January 10, 2018	4,004,740	$0.80
Balance, December 31, 2018	**4,004,740**	**$0.80**

The weighted average contractual remaining life of the unexercised warrants was 1.02 years (2017 – N/A).

10. Share capital and reserves (continued)

c) Share Purchase Warrants (continued)

The following table summarizes information on warrants outstanding at December 31, 2018:

Exercise Price	Number Outstanding	Expiry date	Average Remaining Contractual Life
$0.80	4,004,740	January 9, 2020	1.02 years

The fair value of finders' warrants was estimated on the date of grant using the Black-Scholes model with the following data and assumptions:

	2018
Dividend yield	Nil
Annualized volatility	64.89%
Risk-free interest rate	1.04%
Expected life	2 years

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

	2018
Dividend yield	Nil
Annualized volatility	71.17%-73.46%[1]
Risk-free interest rate	1.60%
Expected life	5 years

Note 1: As the Company does not have a sufficient history of past share prices, the volatility was calculated based on using the average volatility of three public companies of comparable sizes within the same industry.

Of the 2,250,000 options granted in March 2018, 650,000 vested immediately with the remaining 1,300,000 options vesting as to 25% immediately and the remaining balance vesting in equal monthly installments over 36 months.

Of the 424,000 options granted in October 2018, 150,000 of the options vested immediately, 250,000 options vested as to 25% immediately and the remaining balance vesting in equal monthly installments over 36 months and the remaining 24,000 options vested 25% immediately and then 25% each quarter.

The 250,000 options granted in November 2018 vest in equal monthly installments over 36 months.

10. Share capital and reserves (continued)

d) Stock Options (continued)

A summary of the changes in stock options for the years ended December 31, 2018 and 2017 is presented below:

	Number of Options	Exercise price
Balance, December 31, 2016	1,337,000	$0.40
Exercised	(337,000)	$0.10
Balance, December 31, 2017	1,000,000	$0.50
Cancelled	(1,000,000)	$0.50
Granted – March 19, 2018	2,250,000	$0.50
Granted – October 9, 2018	424,000	$0.50
Granted – November 5, 2018	250,000	$0.50
Forfeited	(500,000)	$0.50
Balance, December 31, 2018	**2,424,000**	**$0.50**
Vested and exercisable, December 31, 2018	**1,403,569**	**$0.50**

The weighted average contractual remaining life of the unexercised options was 4.37 years (2017 – 1.47 years).

The following table summarizes information on stock options outstanding at December 31, 2018:

Exercise Price	Number Outstanding	Number Exercisable	Average Remaining Contractual Life
$0.50	2,000,000	1,240,625	4.22 years
$0.50	174,000	156,000	4.78 years
$0.50	250,000	6,944	4.85 years

The share-based payment expensed recognized was $275,094 during the year ended December 31, 2018 (2017 - $92,672).

e) Nature and Purpose of Reserves

The ‘Share-based payments and warrants 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. 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, 2018 and 2017, the Company incurred the following transactions with related parties:

a) Wages and benefits were paid or accrued to an officer of the Company in the amount of $195,165 (2017 - $161,809).

b) Consulting fees were paid or accrued to an officer of the Company in the amount of $6,000 (2017 - $nil).

c) Professional fees were paid or accrued to an officer of the Company in the amount of $18,750 (2017 - $nil).

d) Interest of $nil (2017 - $2,593) was accrued to a director of the Company during the year.

e) As at December 31, 2018, $6,881 (2017 - $3,755) was payable to directors and officers of the Company. The balance is unsecured, non-interest bearing, and has no fixed terms of repayment.

f) As at December 31, 2018, $340,110 (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 repayment.

g) Management compensation transactions for the years ended December 31, 2018 and 2017 are summarized as follows:

	Short-term employee benefits	Share-based payments	Total
	$	$	$
Year ended December 31, 2017			
Directors and officers	161,809	69,503	231,312
Year ended December 31, 2018			
Directors and officers	**219,915**	**160,809**	**380,724**

12. Income taxes

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

	2018	2017
	$	$
Loss for the year	(3,776,000)	(474,000)
Statutory tax rate	27%	26%
Expected income tax recovery	(1,020,000)	(123,000)
Decrease to income tax recovery due to:		
Non-deductible permanent differences	722,000	26,000
Change in estimate	(14,000)	(17,000)
Change in tax assets not recognized	312,000	114,000
Income tax recovery	-	-

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

	December 31, 2018	December 31, 2017
	$	$
Share issuance costs	11,000	-
Cumulative eligible capital	38,000	(28,000)
Operating losses carried forward	729,000	494,000
Total deferred tax assets	778,000	466,000
Deferred tax assets not recognized	(778,000)	(466,000)
	-	-

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 $2,700,000 that may be available for tax purposes. The losses expire as follows:

Expiry date	$
2032	68,000
2033	655,000
2034	277,000
2035	213,000
2036	240,000
2037	407,000
2038	840,000
Total	2,700,000

13. Financial instruments and risk management

The Company's financial instruments consist of cash, accounts payable and accrued liabilities, and the liability component on convertible loans. These financial instruments are classified as financial assets at FVTPL and financial liabilities at amortized cost. The fair values of these financial instruments approximate their carrying values at December 31, 2018, due to their short-term nature.

The following table presents the Company's financial instruments, measured at fair value on the consolidated statements of financial position as at December 31, 2018 and 2017 and categorized into levels of the fair value hierarchy:

		December 31, 2018		December 31, 2017	
	Level	**Carrying Value**	**Estimated Fair Value ***	**Carrying Value**	**Estimated Fair Value ***
		$	**$**	**$**	**$**
FVTPL					
Cash	1	260,019	260,019	61,939	61,939
Other financial liabilities					
Accounts payable and accrued liabilities	2	798,132	798,132	778,683	778,683
Liability component on convertible loans	2	43,255	43,255	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, 2018 and 2017.

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, 2018	December 31, 2017
	$	**$**
Cash	260,019	61,939

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, 2018 and 2017 is the carrying value of its financial assets.

13. Financial instruments and risk management (continued)

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 the liability component on convertible loans.

The contractual maturities of these financial liabilities as at December 31, 2018 and 2017 are summarized below:

	Payments due by period as of December 31, 2018			
	Total	Less than 3 months	Between 3 months and 1 year	1-3 years
	$	$	$	$
Accounts payable and accrued liabilities	798,132	798,132	-	-
Liability component on convertible loans	43,255	43,255	-	-
	841,387	841,387	-	-

	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

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$75,000 provision for patent acquisition, US$ 505,331 deposit, US$28,855 accounts payable balances, and US$2,644 cash account. Based on the foreign exchange exposure arising from the above, 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 approximately $40,000 (2017 - $15,000) in the Company's loss from operations.

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 2018**	**December 31 2017**
	$	**$**
Share capital	5,863,872	1,391,673
Share-based payments and warrants reserve	581,486	296,535
Equity component on convertible loans	5,202	10,257
Deficit	(6,129,022)	(2,353,099)

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 long-term arrangements with commitments as at December 31, 2018 and 2017 as follows:

	2018	**2017**
	$	**$**
Management services – officers	192,000	120,000

The President, CEO and a director of the Company has a long-term employment agreement with the Company. The agreement has a termination clause whereby he is entitled to the equivalent of 12 times his then current monthly salary which, as of December 31, 2018 equated to $192,000.