



**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Unaudited - expressed in Canadian Dollars)**

**NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and reviewed by the Audit Committee and Board of Directors of the Company.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of condensed interim consolidated financial statements by an entity's auditor.

XORTX THERAPEUTICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited - expressed in Canadian Dollars)

| | THREE MONTHS ENDED JUNE 30 | | SIX MONTHS ENDED JUNE 30 | |
|---|-------------------------------|--------------------|-----------------------------|---------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Expenses | | | | |
| Accretion | \$ 462 | \$ - | \$ 1,123 | \$ - |
| Amortization | 4,760 | 4,126 | 9,521 | 8,270 |
| Consulting | 43,569 | - | 90,144 | - |
| General and administrative | 479 | 4,112 | 3,985 | 7,265 |
| Investor relations | 1,139 | - | 6,919 | 1,500 |
| Listing fees | 15,052 | - | 24,613 | - |
| Professional fees | 13,050 | 2,284 | 40,887 | 6,800 |
| Research and development | 121,953 | - | 184,155 | - |
| Share-based payments | 24,904 | 23,168 | 247,459 | 46,335 |
| Travel | 3,730 | 3,150 | 18,702 | 3,823 |
| Wages and benefits (Note 12) | 48,347 | 30,000 | 100,261 | 60,000 |
| Loss before other items | (277,445) | (66,840) | (727,769) | (133,993) |
| Listing expense | - | - | (2,608,281) | - |
| Foreign exchange gain | 10,239 | 1,357 | 24,519 | 4,925 |
| Interest and other expenses | (7,673) | (2,587) | (10,104) | (5,175) |
| Net loss and comprehensive loss for the period | \$ (274,879) | \$ (68,070) | \$ (3,321,635) | \$ (134,243) |
| Basic and diluted loss per common share | \$ (0.00) | \$ (0.00) | \$ (0.06) | \$ (0.01) |
| Weighted average number of common shares outstanding - | | | | |
| Basic and diluted (Note 11) | 62,919,691 | 22,221,787 | 59,982,415 | 22,221,787 |

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

XORTX THERAPEUTICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)

(Unaudited - expressed in Canadian Dollars)

| | SHARE CAPITAL | | OBLIGATION TO ISSUE SHARES | SHARE-BASED PAYMENTS AND WARRANTS RESERVE | EQUITY COMPONENT ON CONVERTIBLE LOANS | DEFICIT | TOTAL |
|---|-------------------|------------------|----------------------------------|---|---|--------------------|------------------|
| | SHARES | AMOUNT | | | | | |
| Balance, December 31, 2016 | 22,221,787 | \$ 1,207,024 | \$ - | \$ 354,812 | \$ - | \$ (1,878,898) | \$ (317,062) |
| Obligation to issue shares at \$0.10 per share | - | - | 10,000 | - | - | - | 10,000 |
| Share-based payments | - | - | - | 46,335 | - | - | 46,335 |
| Net loss for the period | - | - | - | - | - | (134,243) | (134,243) |
| Balance, June 30, 2017 | 22,221,787 | 1,207,024 | 10,000 | 401,147 | - | (2,013,141) | (394,970) |
| Exercise of common stock options | 337,000 | 184,649 | (10,000) | (150,949) | - | - | 23,700 |
| Convertible debt | - | - | - | - | 10,257 | - | 10,257 |
| Share-based payments | - | - | - | 46,337 | - | - | 46,337 |
| Net loss for the period | - | - | - | - | - | (339,958) | (339,958) |
| 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 | 19,666 | 4,000 | - | - | - | - | 4,000 |
| Exercise of convertible debt | 748,875 | 242,077 | - | - | (5,055) | - | 237,022 |
| Shares issued from private placement | 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 | 5,095,500 | 2,327,734 | - | - | - | - | 2,327,734 |
| Exchanged for shares issued to shareholders pursuant to RTO | 53,909,451 | - | - | - | - | - | - |
| Shares cancelled pursuant to RTO | (23,327,328) | - | - | - | - | - | - |
| Share-based payments | - | - | - | 247,459 | - | - | 247,459 |
| Net loss for the period | - | - | - | - | - | (3,321,635) | (3,321,635) |
| Balance, June 30, 2018 | 62,919,691 | 5,863,872 | - | 553,851 | 5,202 | (5,674,734) | 748,191 |

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

XORTX THERAPEUTICS INC.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - expressed in Canadian Dollars)

| | SIX MONTHS ENDED | |
|--|-------------------|-----------------|
| | JUNE 30 | |
| | 2018 | 2017 |
| Cash provided by (used in): | | |
| Operating activities | | |
| Net loss for the period | \$ (3,321,635) | \$ (134,243) |
| Items not affecting cash: | | |
| Accretion expense | 1,123 | - |
| Accrued interest expense | - | 5,175 |
| Amortization | 9,521 | 8,270 |
| Share-based payments | 247,459 | 46,335 |
| Unrealized foreign exchange gain | (25,506) | (4,951) |
| Listing expense | 2,608,281 | - |
| Changes in non-cash operating assets and liabilities: | | |
| Deposit - Cato | (631,866) | - |
| Accounts payable and accrued liabilities | (22,442) | 65,839 |
| Prepaid expenses and deposits | (96,823) | (2,000) |
| | (1,231,888) | (15,575) |
| Investing activities | | |
| Acquisition of intangible assets | (28,223) | (1,991) |
| Deferred acquisition costs | 167,220 | - |
| Transaction costs of RTO net of cash acquired | (280,955) | - |
| | (141,958) | (1,991) |
| Financing activities | | |
| Proceeds from issuance of shares | 1,957,370 | - |
| Cash share issuance costs | (49,125) | - |
| Share subscriptions received | - | 10,000 |
| | 1,908,245 | 10,000 |
| Increase (decrease) In cash | 534,399 | (7,566) |
| Cash, beginning of period | 61,939 | 16,769 |
| Cash, end of period | \$ 596,338 | \$ 9,203 |
| 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 | \$ - |

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

XORTX THERAPEUTICS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited - expressed in Canadian Dollars)

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’s head office, principal address and address of its registered and records office is 4000, 421 - 7th Avenue SW, Calgary, Alberta, 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.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on August 29, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Standard 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). Accordingly, certain disclosures included in the annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been condensed or omitted. These unaudited condensed interim consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2017.

These condensed interim consolidated financial statements have been prepared on a basis consistent with the significant accounting policies disclosed in the annual financial statements for the year ended December 31, 2017, except for the following policies adopted in the current financial period:

Share capital

The Company’s common shares, share 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 share and the other equity instruments.

XORTX THERAPEUTICS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited - expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and 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 |
| Loans payable | 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.

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).

XORTX THERAPEUTICS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited - expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in accounting policies – IFRS 9 (Continued)

b) Measurement (Continued)

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.

XORTX THERAPEUTICS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited - expressed in Canadian Dollars)

2. SIGNIFICANT 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.

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 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.

XORTX THERAPEUTICS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited - expressed in Canadian Dollars)

3. CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES (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 | 313,416 |
| Listing expense | \$ 2,608,281 |

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

XORTX THERAPEUTICS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited - expressed in Canadian Dollars)

5. DEPOSITS

During the period, 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.

6. INTANGIBLE ASSETS

| Cost | Total |
|-------------------------------|-------------------|
| Balance, December 31, 2017 | 326,704 |
| Additions | 32,223 |
| Balance, June 30, 2018 | \$ 358,927 |

| Accumulated amortization | Total |
|---------------------------------|------------------|
| Balance, December 31, 2017 | 67,990 |
| Amortization | 9,326 |
| Balance, June 30, 2018 | \$ 77,316 |

| Carrying values | Total |
|-------------------------|-------------------|
| At December 31, 2017 | \$ 258,714 |
| At June 30, 2018 | \$ 281,611 |

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 June 30, 2018, \$26,336 (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 June 30, 2018 and December 31, 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.

XORTX THERAPEUTICS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited - expressed in Canadian Dollars)

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.
- 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 June 30, 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

| | June 30, 2018 | December 31, 2017 |
|---------------------|------------------|----------------------|
| Trade payables | \$ 345,094 | \$ 416,683 |
| Accrued liabilities | 344,946 | 362,000 |
| Total | \$ 690,040 | \$ 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.

XORTX THERAPEUTICS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited - expressed in Canadian Dollars)

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 \$39,942 as at June 30, 2018. 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 June 30, 2018 (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)

XORTX THERAPEUTICS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited - expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES (Continued)

b) Issuances

Six months ended June 30, 2018:

On January 10, 2018, 5,095,500 common shares were deemed to be issued by APAC as a result of the RTO (refer to Note 4). The fair value of the 5,095,500 common shares deemed issued with a value of \$2,327,734.

On January 10, 2018, the Company completed a private placement, issuing 3,914,740 common shares at \$0.50 per share for gross proceeds of \$1,957,370. 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 Class A common shares were issued pursuant to the exercise of options for total gross proceeds of \$23,700. 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 six months ended June 30, 2018 and year ended December 31, 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, June 30, 2018 | 4,004,740 | \$0.80 |

The weighted average contractual remaining life of the unexercised options was 1.53 years (2017 – N/A).

The following table summarizes information on warrants outstanding at June 30, 2018:

| Exercise Price | Number Outstanding | Expiry date | Average Remaining Contractual Life |
|----------------|-----------------------|-----------------|--|
| \$0.80 | 4,004,740 | January 9, 2020 | 1.53 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:

| | <u>2018</u> |
|-------------------------|-------------|
| Dividend yield | Nil |
| Annualized volatility | 64.89% |
| Risk-free interest rate | 1.04% |
| Expected life | 2 years |

XORTX THERAPEUTICS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited - expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES (Continued)

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:

| | <u>2018</u> | <u>2016</u> |
|-------------------------|-------------|-------------|
| Dividend yield | Nil | Nil |
| Annualized volatility | 73.46% | 111.13% |
| Risk-free interest rate | 1.60% | 0.61% |
| Expected life | 5 years | 3 years |

A summary of the changes in stock options for the six months ended June 30, 2018 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 |
| Balance, June 30, 2018 | 2,250,000 | \$0.50 |
| Vested and exercisable, June 30, 2018 | 1,031,250 | \$0.50 |

The weighted average contractual remaining life of the unexercised options was 4.72 years (2017 – 1.47 years).

The following table summarizes information on stock options outstanding at June 30, 2018:

| Exercise Price | Number Outstanding | Number Exercisable | Average Remaining Contractual Life |
|-----------------------|-------------------------------|-------------------------------|---|
| \$0.50 | 2,250,000 | 1,031,250 | 4.72 years |

The share-based payment expensed recognized was \$24,904 and \$247,459 (2017 - \$23,168 and \$46,335) during the three and six months ended June 30, 2018.

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.

XORTX THERAPEUTICS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited - expressed in Canadian Dollars)

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.

| | <u>Three months ended June 30, 2018</u> | <u>Six months ended June 30, 2018</u> |
|---|---|---|
| Issued shares beginning of year | 62,919,691 | 22,558,787 |
| Weighted average issuances | - | 37,423,628 |
| Basic weighted average common shares, end of year | <u>62,919,691</u> | <u>59,982,415</u> |

12. 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 three and six months ended June 30, 2018, the Company incurred the following transactions with related parties and a shareholder:

- a) Wages and benefits were paid or accrued to an officer of the Company in the amount of \$48,347 and \$100,261 (2017 - \$30,000 and \$60,000).
- b) Consulting fees were paid or accrued to an officer of the Company in the amount of \$nil and \$4,000 (2017 - \$nil and \$nil).
- c) Professional fees were paid or accrued to an officer of the Company in the amount of \$7,500 and \$11,250 (2017 - \$nil and \$nil).
- d) Interest of \$nil and \$nil (2017 - \$6,037 and \$8,625) was accrued to a director of the Company during the period.
- e) As at June 30, 2018, \$3,665 (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 June 30, 2018, \$316,110 was accrued to directors, former directors, and officers of the Company (December 31, 2017 - \$333,110). The balance is unsecured, non-interest bearing and has no fixed terms of repayments.

XORTX THERAPEUTICS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited - expressed in Canadian Dollars)

12. RELATED PARTY TRANSACTIONS (Continued)

- g) Management compensation transactions for the three and six months ended June 30, 2018 and 2017 are summarized as follows:

| | Short-term employee benefits | Share-based payments | Total |
|---|------------------------------------|-------------------------|-------------------|
| Three months ended June 30, 2017 | | | |
| Directors and officers | \$ 30,000 | \$ 17,375 | \$ 47,375 |
| Three months ended June 30, 2018 | | | |
| Directors and officers | \$ 55,847 | \$ 4,789 | \$ 60,636 |
| | | | |
| | Short-term employee benefits | Share-based payments | Total |
| Six months ended June 30, 2017 | | | |
| Directors and officers | \$ 60,000 | \$ 34,750 | \$ 94,750 |
| Six months ended June 30, 2018 | | | |
| Directors and officers | \$ 115,511 | \$ 159,411 | \$ 274,922 |

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments consist of cash, accounts payable and accrued liabilities, loans payable, 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 June 30, 2018, due to their short-term nature.

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include foreign currency risk, interest rate risk, market risk, credit risk, and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors.

There have been no changes in any risk management policies since December 31, 2017.

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: | June 30, 2018 | December 31, 2017 |
|---|------------------|----------------------|
| Share capital | \$ 5,863,872 | \$ 1,391,673 |
| Share-based payments and warrants reserve | \$ 553,851 | \$ 296,535 |
| Equity component on convertible loans | \$ 5,202 | \$ 10,257 |
| Deficit | \$ (5,674,734) | \$ (2,353,099) |

XORTX THERAPEUTICS INC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(Unaudited - expressed in Canadian Dollars)

14. CAPITAL MANAGEMENT (Continued)

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 June 30, 2018 and December 31, 2017 as follows:

| | 2018 | 2017 |
|--------------------------------|-------------------|-------------|
| Management services – officers | \$ 192,000 | \$ 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 12 times his then current monthly salary which, as of June 30, 2018 equated to \$192,000.