



**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**For the three and nine months ended September 30, 2019 and 2018**

**(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 Financial Position**  
(Unaudited - expressed in Canadian Dollars)

	Note	September 30 2019	December 31 2018 (audited)
		\$	\$
<b>Assets</b>			
<b>Current</b>			
Cash		108,487	260,019
Deposits	6	669,210	689,373
Accounts receivable and other		20,850	30,256
		798,547	979,648
<b>Non-current</b>			
Equipment		439	731
Intangible assets	7	277,144	284,861
<b>Total Assets</b>		<b>1,076,130</b>	<b>1,265,240</b>
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities	8	1,028,707	798,132
Provision for patent acquisition	9	99,323	102,315
		1,128,030	900,447
<b>Non-current</b>			
Long-term liability component on convertible loans	10	48,909	43,255
<b>Total liabilities</b>		<b>1,176,939</b>	<b>943,702</b>
<b>Shareholders' Equity (Deficiency)</b>			
Share capital	11	5,863,872	5,863,872
Share-based payments and warrants reserve		599,248	581,486
Equity component on convertible loans	10	5,202	5,202
Deficit		(6,569,131)	(6,129,022)
		(100,809)	321,538
<b>Total Liabilities and Shareholders' Equity (Deficiency)</b>		<b>1,076,130</b>	<b>1,265,240</b>

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

*/s/ "Allen Davidoff"*

Director

*/s/ "Paul Van Damme"*

Director

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

**XORTX THERAPEUTICS INC.****Condensed Interim Consolidated Statements of Comprehensive Loss**

For the three and nine months ended September 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

		Three months ended September 30,		Nine months ended September 30,	
	Note	2019	2018	2019	2018
		\$	\$	\$	\$
<b>Expenses</b>					
Amortization		5,008	4,873	14,891	14,394
Consulting	12	6,000	12,720	21,125	102,864
General and administrative		12,027	2,491	15,115	6,476
Investor relations		5,346	10,807	20,075	17,726
Listing fees		10,479	8,372	33,719	32,985
Professional fees	12	24,557	19,593	69,683	60,480
Research and development		6,434	137,921	38,365	322,076
Share-based payments	11(d)	10,416	18,983	17,762	266,442
Travel		4,910	30,214	24,182	48,916
Wages and benefits	12	48,000	48,000	146,166	148,261
<b>Loss before other items</b>		(133,177)	(293,974)	(401,083)	(1,020,620)
Accretion		(415)	(397)	(1,218)	(1,520)
Listing expense	5	-	-	-	(2,608,281)
Foreign exchange gain (loss)		6,569	(9,192)	(16,271)	15,327
Interest and other expenses		(4,830)	(3,262)	(21,537)	(13,366)
<b>Net loss and comprehensive loss for the period</b>		(131,853)	(306,825)	(440,109)	(3,628,460)
<b>Basic and diluted loss per common share</b>		(0.00)	(0.00)	(0.01)	(0.06)
<b>Weighted average number of common shares outstanding</b>					
Basic and diluted		62,919,691	62,919,691	62,919,691	61,444,085

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

# XORTX THERAPEUTICS INC.

## Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

(Unaudited - expressed in Canadian Dollars)

	Note	Number of common shares	Share capital	Share-based payments and warrants reserve	Equity component on convertible loans	Deficit	Total
		\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2017</b>		22,558,787	1,391,673	296,535	10,257	(2,353,099)	(654,634)
Shares issued pursuant to the UFRF license agreement	7	19,666	4,000	-	-	-	4,000
Exercise of convertible loans	10	748,875	242,077	-	(5,055)	-	237,022
Shares issued from private placement	11(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	5	5,095,500	2,327,734	-	-	-	2,327,734
Exchanged for shares issued to shareholders pursuant to RTO	5	53,909,451	-	-	-	-	-
Shares cancelled pursuant to RTO	5	(23,327,328)	-	-	-	-	-
Share-based payments	11(d)	-	-	266,442	-	-	266,442
Net loss for the period		-	-	-	-	(3,628,460)	(3,628,460)
<b>Balance, September 30, 2018</b>		62,919,691	5,863,872	572,834	5,202	(5,981,559)	460,349
Share-based payments	11(d)	-	-	8,652	-	-	8,652
Net loss for the period		-	-	-	-	(147,463)	(147,463)
<b>Balance, December 31, 2018</b>		62,919,691	5,863,872	581,486	5,202	(6,129,022)	321,538
Share-based payments	11(d)	-	-	17,762	-	-	17,762
Net loss for the period		-	-	-	-	(440,109)	(440,109)
<b>Balance, September 30, 2019</b>		<b>62,919,691</b>	<b>5,863,872</b>	<b>599,248</b>	<b>5,202</b>	<b>(6,569,131)</b>	<b>(100,809)</b>

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

**XORTX THERAPEUTICS INC.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
**For the nine months ended September 30, 2019 and 2018**  
**(Unaudited - expressed in Canadian Dollars)**

	Note	Nine months ended September 30	
		2019	2018
		\$	\$
<b>Cash provided by (used in):</b>			
<b>Operating activities</b>			
Net loss for the period		(440,109)	(3,628,460)
Items not affecting cash:			
Accretion expense		1,218	1,520
Amortization		14,891	14,394
Share-based payments	11(d)	17,762	266,442
Unrealized foreign exchange loss (gain)		21,607	(14,441)
Listing expense	5	-	2,608,281
Changes in non-cash operating assets and liabilities:			
Deposit		-	(631,866)
Accounts payable and accrued liabilities		230,575	(29,080)
Accounts receivable and other		9,406	(17,799)
		(144,650)	(1,431,009)
<b>Investing activities</b>			
Acquisition of intangibles		(6,882)	(37,111)
Deferred acquisition costs		-	167,220
Transaction costs of RTO net of cash acquired	5	-	(280,955)
		(6,882)	(150,846)
<b>Financing activities</b>			
Proceeds from issuance of shares	11(b)	-	1,957,370
Cash share issuance costs	11(b)	-	(49,125)
		-	1,908,245
<b>(Decrease) increase in cash</b>		(151,532)	326,390
<b>Cash, beginning of period</b>		260,019	61,939
<b>Cash, end of period</b>		108,487	388,329
<b>Supplemental Cash Flow and Non-Cash Investing and Financing Activities Disclosure</b>			
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

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 nine months ended September 30, 2019 and 2018**

**(Unaudited - expressed in Canadian Dollars)**

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### **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 (the “CSE”) 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 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 IFRS 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, 2018.

#### **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.

These consolidated financial statements incorporate the financial statements of the Company and its 100% owned subsidiary. The accounts of the Company’s subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies, and all intercompany transactions and balances are eliminated on consolidation.

These consolidated financial statements were approved for issue by the Board of Directors on November 28, 2019.

# XORTX THERAPEUTICS INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

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### 3. Accounting policies

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, 2018, except for the adoption of IFRS 16 for the 2019 fiscal year that became effective January 1, 2019. Accordingly, they should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2018. The adoption of this IFRS and its impact on these Financial Statements is discussed below.

#### Changes in accounting policies – IFRS 16

The Company adopted all of the requirements of IFRS 16 *Leases* as of January 1, 2019. IFRS 16 replaces IAS 17 *Leases* (“IAS 17”). IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Company has adopted IFRS 16 using the modified retrospective application method, where the 2018 comparatives are not restated and a cumulative catch up adjustment is recorded on January 1, 2019 for any differences identified, including adjustments to opening retained earnings balance.

The Company analyzed its contracts to identify whether they contain a lease arrangement for the application of IFRS 16. No such contracts were identified, and as a result, the adoption of IFRS 16 resulted in no impact to the opening retained earnings on January 1, 2019.

The following is the Company’s new accounting policy for leases under IFRS 16:

#### Leases

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Leases of right-of-use assets are recognized at the lease commencement date at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined, and otherwise at the Company’s incremental borrowing rate. At the commencement date, a right-of-use asset is measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

Each lease payment is allocated between repayment of the lease principal and interest. Interest on the lease liability in each period during the lease term is allocated to produce a constant periodic rate of interest on the remaining balance of the lease liability. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset’s useful life and the lease term, except where the lease contains a bargain purchase option a right-of-use asset is depreciated over the asset’s useful life.



# **XORTX THERAPEUTICS INC.**

## **Notes to the Condensed Interim Consolidated Financial Statements**

**For the three and nine months ended September 30, 2019 and 2018**

**(Unaudited - expressed in Canadian Dollars)**

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### **4. 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 11.

#### **Impairment of intangible assets**

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

#### **Equity component of convertible loans**

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

#### **Going concern assumption**

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

# XORTX THERAPEUTICS INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

### 5. 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:

	<b>Total</b>
	<b>\$</b>
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	<b>2,608,281</b>

### 6. Deposits

During 2018, 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. The Canadian dollar value of the deposit is shown below:

	<b>September 30</b>	<b>December 31</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Balance, beginning of period/year	689,373	631,866
Foreign exchange adjustment	(20,163)	57,507
Balance, end of period/year	669,210	689,373

# XORTX THERAPEUTICS INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

### 7. Intangible assets

<b>Cost</b>	<b>Total</b>
	<b>\$</b>
Balance, December 31, 2017	326,704
Additions	45,073
Balance, December 31, 2018	371,777
Additions	6,882
<b>Balance, September 30, 2019</b>	<b>378,659</b>
<b>Accumulated amortization</b>	<b>Total</b>
	<b>\$</b>
Balance, December 31, 2017	67,990
Amortization	18,926
Balance, December 31, 2018	86,916
Amortization	14,599
<b>Balance, September 30, 2019</b>	<b>101,515</b>
<b>Carrying values</b>	<b>Total</b>
	<b>\$</b>
At December 31, 2018	284,861
<b>At September 30, 2019</b>	<b>277,144</b>

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 September 30, 2019, \$26,486 (2018 - \$27,284) (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 September 30, 2019 and December 31, 2018. (Note 9)

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 nine months ended September 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

### 7. 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 (2019 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 were issued to UFRF during the year ended December 31, 2018, and no shares were issued during the nine months ended September 30, 2019);
- 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; and
- 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.

### 8. Accounts payable and accrued liabilities

	September 30 2019	December 31 2018
	\$	\$
Trade payables	527,986	414,738
Accrued liabilities	500,721	383,394
Total	1,028,707	798,132

### 9. 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 7), 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.

	September 30 2019	December 31 2018
	\$	\$
Balance, beginning of period/year	102,315	94,089
Foreign exchange adjustment	(2,992)	8,226
Balance, end of period/year	99,323	102,315

# XORTX THERAPEUTICS INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

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### 10. 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 had 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%. 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. The carrying value of the liability component on the date of conversion was \$237,022. The carrying value of the conversion option of \$5,055 had been recorded as a separate component in total equity and was moved to Share Capital upon conversion.

- 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 \$48,909 as at September 30, 2019 (2018 - \$43,255). The carrying value of the conversion option of \$5,202 has been recorded as a separate component in total equity.

### 11. Share capital and reserves

- a) **Authorized and issued**

Unlimited Class A common shares without par value – 62,919,691 issued as at September 30, 2019 (December 31, 2018 - 62,919,691)

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 nine months ended September 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

### 11. Share capital and reserves (continued)

#### b) Issuances

##### Nine month period ended September 30, 2019:

During the period ended September 30, 2019 there were no shares issued.

##### Year ended December 31, 2018:

On January 9, 2018, 19,666 common shares were issued to UFRF pursuant to the license agreement (Note 7);

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 10);

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 5). 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.

#### c) Share Purchase Warrants

A summary of the changes in warrants for the periods ended September 30, 2019 and December 31, 2018:

	Number of Warrants	Exercise price
Balance, December 31, 2017	-	-
Granted – January 10, 2018	4,004,740	\$0.80
<b>Balance, December 31, 2018 and September 30, 2019</b>	<b>4,004,740</b>	<b>\$0.80</b>

The weighted average contractual remaining life of the unexercised warrants was 0.28 years (2018 – 1.02 years)

The following table summarizes information on warrants outstanding at September 30, 2019:

Exercise Price	Number Outstanding	Expiry date	Average Remaining Contractual Life
\$0.80	4,004,740	January 9, 2020	0.28 years

# XORTX THERAPEUTICS INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

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### 11. Share capital and reserves (continued)

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

#### 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 CSE.

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>
Dividend yield	Nil
Annualized volatility	71.17%-73.46% <sup>1</sup>
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 1,600,000 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.

**XORTX THERAPEUTICS INC.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**11. Share capital and reserves (continued)**

A summary of the changes in stock options for the periods ended September 30, 2019 and December 31, 2018 is presented below:

	<b>Number of Options</b>	<b>Exercise price</b>
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
<b>Balance, December 31, 2018</b>	<b>2,424,000</b>	<b>\$0.50</b>
Forfeited	(274,000)	\$0.50
<b>Balance, September 30, 2019</b>	<b>2,150,000</b>	<b>\$0.50</b>
<b>Vested and exercisable, September 30, 2019</b>	<b>1,556,944</b>	<b>\$0.50</b>

The weighted average contractual remaining life of the unexercised options was 3.58 years (2018 – 4.37 years).

**d) Stock Options (continued)**

The following table summarizes information on stock options outstanding at September 30, 2019:

<b>Exercise Price</b>	<b>Number Outstanding</b>	<b>Number Exercisable</b>	<b>Average Remaining Contractual Life</b>
\$0.50	1,750,000	1,337,500	3.47 years
\$0.50	150,000	150,000	4.03 years
\$0.50	250,000	69,444	4.10 years

The share-based payment expense recognized was \$10,416 and \$17,762 during the three and nine months ended September 30, 2019 (2018 – \$18,983 and \$266,442)

**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.

**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 months and nine months ended September 30, 2019 and 2018, 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 \$48,000 and \$146,166 (2018 - \$48,000 and \$148,261).



# XORTX THERAPEUTICS INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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### 12. Related party transactions (continued)

- b) Professional fees were paid or accrued to an officer of the Company in the amount of \$7,500 and \$22,500 (2018 - \$2,500 and \$13,750).
- c) Consulting fees were paid or accrued to an officer of the Company in the amount of \$nil and \$nil (2018 - \$nil and \$4,000).
- d) As at September 30, 2019, \$24,443 (December 31, 2018 - \$6,881) was payable to directors and officers of the Company. The balance is unsecured, non-interest bearing, and has no fixed terms of repayment.
- e) As at September 30, 2019, \$461,610 (December 31, 2018 - \$340,110) was accrued to directors, former directors, and officers of the Company. The balance is unsecured, non-interest bearing and has no fixed terms of repayments.
- f) Management compensation transactions for the three and nine months ended September 30, 2019 and 2018 are summarized as follows:

	Short-term employee benefits	Share-based payments	Total
	\$	\$	\$
Three months ended September 30, 2018			
Directors and officers	50,500	3,651	54,151
<b>Three months ended September 30, 2019</b>			
Directors and officers	<b>55,500</b>	<b>6,261</b>	<b>61,761</b>

	Short-term employee benefits	Share-based payments	Total
	\$	\$	\$
Nine months ended September 30, 2018			
Directors and officers	166,011	163,062	329,073
<b>Nine months ended September 30, 2019</b>			
Directors and officers	<b>168,666</b>	<b>24,662</b>	<b>193,328</b>

### 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 September 30, 2019, 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, 2018.

# XORTX THERAPEUTICS INC.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018

(Unaudited - expressed in Canadian Dollars)

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### 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:

<b>Equity is comprised of:</b>	<b>September 30 2019</b>	<b>December 31 2018</b>
	<b>\$</b>	<b>\$</b>
Share capital	5,863,872	5,863,872
Share-based payments and warrants reserve	599,248	581,486
Equity component on convertible loans	5,202	5,202
Deficit	(6,569,131)	(6,129,022)

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 September 30, 2019 and December 31, 2018 as follows:

	<b>September 30 2019</b>	<b>December 31 2018</b>
	<b>\$</b>	<b>\$</b>
Management services – officers	192,000	192,000

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 September 30, 2019 equated to \$192,000.