



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

(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	March 31 2020	December 31 2019 (audited)
		\$	\$
Assets			
Current			
Cash		510,956	58,614
Funds held in trust	11(a)	-	70,000
Deposits	5	2,419,353	656,324
Accounts receivable and other	6	157,426	15,468
Deferred share issuance costs		-	14,842
		3,087,735	815,248
Non-current			
Equipment		244	341
Intangible assets	7	270,684	272,388
Total Assets		3,358,663	1,087,977
Liabilities			
Current			
Accounts payable and accrued liabilities	8	1,010,772	1,151,475
Provision for patent acquisition	9	106,403	97,410
Liability component on convertible loans	10	52,826	50,813
Total Liabilities		1,170,001	1,299,698
Shareholders' Equity (Deficiency)			
Share capital	11	8,349,692	5,863,872
Share-based payments and warrants reserve	11(f)	625,597	607,803
Share subscriptions received in advance	11(b)	-	70,000
Equity component on convertible loans	10	5,202	5,202
Deficit		(6,791,829)	(6,758,598)
Total Shareholders' Equity (Deficiency)		2,188,662	(211,721)
Total Liabilities and Shareholders' Equity (Deficiency)		3,358,663	1,087,977

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 months ended March 31, 2020 and 2019

(Unaudited - expressed in Canadian Dollars)

	Note	Three months ended March 31,	
		2020	2019
		\$	\$
Expenses			
Amortization		5,050	4,922
Consulting	12	15,000	7,125
General and administrative		2,396	2,000
Investor relations		38,275	11,344
Listing fees		11,763	8,370
Professional fees	12	26,976	21,054
Research and development		2,422	16,696
Share-based payments	11(e)	6,728	(6,406)
Travel		8,460	12,385
Wages and benefits	12	50,357	50,166
Loss before other items		(167,427)	(127,656)
Accretion		(421)	(397)
Foreign exchange gain (loss)		143,104	(17,189)
Interest and other expenses		(8,487)	(7,595)
Net loss and comprehensive loss for the period		(33,231)	(152,837)
Basic and diluted loss per common share		(0.00)	(0.00)
Weighted average number of common shares outstanding			
Basic and diluted		69,340,588	62,919,691

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	Share subscriptions received in advance	Equity component on convertible loans	Deficit	Total
		\$	\$	\$	\$	\$	\$	\$
Balance, December 31, 2018		62,919,691	5,863,872	581,486	-	5,202	(6,129,022)	321,538
Share-based payments	11(e)	-	-	(6,406)	-	-	-	(6,406)
Net loss for the period		-	-	-	-	-	(152,837)	(152,837)
Balance, March 31, 2019		62,919,691	5,863,872	575,080	-	5,202	(6,281,859)	162,295
Share-based payments	11(e)	-	-	32,723	-	-	-	32,723
Share subscriptions received in advance	11(b)	-	-	-	70,000	-	-	70,000
Net loss for the period		-	-	-	-	-	(476,739)	(476,739)
Balance, December 31, 2019		62,919,691	5,863,872	607,803	70,000	5,202	(6,758,598)	(211,721)
Shares issued pursuant to private placement	11(b)	18,259,427	2,556,320	-	(70,000)	-	-	2,486,320
Share issuance costs	11(b)	-	(70,500)	11,066	-	-	-	(59,434)
Share-based payments	11(e)	-	-	6,728	-	-	-	6,728
Net loss for the period		-	-	-	-	-	(33,231)	(33,231)
Balance, March 31, 2020		81,179,118	8,349,692	625,597	-	5,202	(6,791,829)	2,188,662

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 three months ended March 31, 2020 and 2019 (Unaudited - expressed in Canadian Dollars)

	Note	Three months ended March 31	
		2020	2019
		\$	\$
Cash provided by (used in):			
Operating activities			
Net loss for the period		(33,231)	(152,837)
Items not affecting cash:			
Accretion expense		421	397
Amortization		5,050	4,922
Share-based payments	11(e)	6,728	(6,406)
Unrealized foreign exchange (gain) loss		(144,789)	13,490
Changes in non-cash operating assets and liabilities:			
Funds held in trust	11(b)	70,000	-
Deposits		(1,606,320)	-
Accounts receivable and other		(140,711)	811
Accounts payable and accrued liabilities		(143,285)	22,372
		<u>(1,986,137)</u>	<u>(117,251)</u>
Investing activity			
Acquisition of intangibles		(3,249)	-
		<u>(3,249)</u>	<u>-</u>
Financing activities			
Proceeds from issuance of shares	11(b)	2,486,320	-
Cash share issuance costs	11(b)	(59,434)	-
Deferred share issuance costs		14,842	-
		<u>2,441,728</u>	<u>-</u>
Increase (decrease) in cash		452,342	(117,251)
Cash, beginning of period		58,614	260,019
Cash, end of period		510,956	142,768
Supplemental Cash Flow and Non-Cash Investing and Financing Activities Disclosure			
Cash paid for interest		-	-
Cash paid for income taxes		-	-

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 months ended March 31, 2020 and 2019 (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 on January 10, 2018 with APAC Resources Inc. (“APAC”), a company incorporated under the laws of British Columbia, the Company changed its name to “XORTX Therapeutics Inc.” and XORTX Pharma Corp. became a wholly-owned subsidiary.

XORTX is a bio-pharmaceutical company, dedicated to the development and commercialization of therapies to treat progressive kidney disease modulated by aberrant purine and uric acid metabolism in orphan disease indications such as autosomal dominant polycystic kidney disease, larger market type 2 diabetic nephropathy, and fatty liver disease. The Company’s current focus is on developing products to slow and/or reverse the progression of kidney disease in patients at risk of end stage kidney failure.

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. 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 listed on the Canadian Securities Exchange (the “CSE”) under the symbol “XRX”, and the OTCQB Venture Market under the symbol “XRTXF”. The Company’s operations and mailing address is Suite 4000, 421 - 7th Avenue SW, Calgary, Alberta, T2P 4K9 and its head and registered address is located at Suite 2400, 745 Thurlow Street, Vancouver, British Columbia, V6E 0C5.

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, 2019.

Basis of Measurement and Presentation

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

These condensed interim 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 May 28, 2020.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2020 and 2019 (Unaudited - expressed in Canadian Dollars)

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, 2019. Accordingly, they should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2019.

4. Critical accounting judgments and estimates

The preparation of condensed interim 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 months ended March 31, 2020 and 2019 (Unaudited - expressed in Canadian Dollars)

4. Critical accounting judgments and estimates (continued)

COVID-19

During the period, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and physical distancing, have caused material disruption to business globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

5. 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. The Company has since committed to utilize Cato for regulatory filings.

During the three months ended March 31, 2020, the Company entered into an agreement with Prevail Partners LLC for clinical trial management in relation to two clinical trials. As part of the agreement, the Company paid a deposit of \$1,606,320 through the issuance of units in the private placement (USD \$1,200,000 at the exchange rate on date of the transaction).

The Canadian dollar value of the deposits are shown below:

	March 31 2020	December 31 2019
	\$	\$
Balance, beginning of period	656,324	689,373
Additions	1,606,320	-
Foreign exchange adjustment	156,709	(33,049)
Balance, end of period	2,419,353	656,324

6. Accounts receivable and other

	March 31 2020	December 31 2019
	\$	\$
GST receivable	22,227	8,974
Prepaid expenses	135,199	6,494
	157,426	15,468

Prepaid expenses primarily include amounts in connection with investor relations conferences and marketing activities

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2020 and 2019 (Unaudited - expressed in Canadian Dollars)

7. Intangible assets

Cost	Total
	\$
Balance, December 31, 2018	371,777
Additions	7,037
Balance, December 31, 2019	378,814
Additions	3,249
Balance, March 31, 2020	382,063
Accumulated amortization	
	\$
Balance, December 31, 2018	86,916
Amortization	19,510
Balance, December 31, 2019	106,426
Amortization	4,953
Balance, March 31, 2020	111,379
Carrying values	
	\$
At December 31, 2019	272,388
At March 31, 2020	270,684

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 March 31, 2020, \$28,374 (2019 - \$25,976) (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 (i) the expiration of the last patent right covering the product; and (ii) 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 March 31, 2020 and 2019. (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 months ended March 31, 2020 and 2019 (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 year ended December 31, 2019 and the three months ended March 31, 2020);
- 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) 10 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

	March 31 2020	December 31 2019
	\$	\$
Trade payables	507,163	607,389
Accrued liabilities	503,609	544,086
Total	1,010,772	1,151,475

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.

	March 31 2020	December 31 2019
	\$	\$
Balance, beginning of period	97,410	102,315
Foreign exchange adjustment	8,993	(4,905)
Balance, end of period	106,403	97,410

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2020 and 2019 (Unaudited - expressed in Canadian Dollars)

10. Convertible loans

- a) 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 matures on July 19, 2020.
- b) 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.
- c) 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 \$52,826 as at March 31, 2020 (2019 - \$50,813). 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 – 81,179,118 issued as at March 31, 2020 (2019 - 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)

b) Issuances

Three months ended March 31, 2020:

On February 28, 2020, the Company closed a first tranche of its non-brokered private placement, with the issuance of 18,259,427 units for gross proceeds of \$2,556,319, of which \$859,348 was received in cash, \$90,651 represented the conversion of certain outstanding payables into units and \$1,606,320 (US\$1,200,000 at the then current exchange ratio) was issued to Prevail Partners LLC, who have agreed to provide certain services to the Company in exchange for units.

Each unit comprised one common share and one common share purchase warrant exercisable at 25 cents for a period of one year from the issuance of the units, provided, however, that if, at any time following the expiry of the statutory four-month hold period, the closing price of the common shares on the Canadian Securities Exchange is greater than 35 cents for 10 or more consecutive trading days, the Company may notify the holder, by way of a news release, that the warrants will expire on the 20th business day following the date of such notice, unless exercised by the holder before such date. The Company paid \$59,434 in cash share issuance costs and issued 139,657 finders' warrants valued at \$11,059, with each finder's warrant being exercisable into units at 14 cents for a period of 12 months from the closing of the private placement.

As at December 31, 2019, \$70,000 of the cash proceeds were received and recorded as share subscriptions received in advance and funds held in trust by the Company's lawyer.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2020 and 2019 (Unaudited - expressed in Canadian Dollars)

11. Share capital and reserves (continued)

b) Issuances (continued)

Year ended December 31, 2019:

During the year ended December 31, 2019, there were no shares issued.

c) Escrow Shares

Following the closing of the RTO, the Company had an aggregate of 5,188,449 common shares held in escrow pursuant to the escrow agreement dated January 9, 2018. The shares are subject to a 10% release on January 25, 2018, with the remaining escrowed securities being released in 15% tranches every 6 months thereafter. As at March 31, 2020, there were 1,556,535 shares (2019 – 2,334,803) remaining in escrow.

d) Share Purchase Warrants

A summary of the changes in warrants for the periods ended March 31, 2020 and December 31, 2019 is presented below:

	Number of Warrants	Exercise price
Balance, December 31, 2018 and 2019	4,004,740	\$0.80
Granted – February 28, 2020	18,259,427	\$0.25
Granted – February 28, 2020 – finders' warrants	139,657	\$0.14
Expired – January 10, 2020	(4,004,740)	\$0.80
Balance, March 31, 2020	18,399,084	\$0.25

The weighted average contractual remaining life of the unexercised warrants was 0.92 years (2019 – 0.02 years)

The following table summarizes information on warrants outstanding at March 31, 2020:

Exercise Price	Number Outstanding	Expiry date	Average Remaining Contractual Life
\$0.25	18,259,427	February 28, 2021	0.92 years
\$0.14	139,657	February 28, 2021	0.92 years

The fair value of finders' warrants was estimated at \$11,059 on the date of grant using the Black-Scholes model with the following data and assumptions:

	2020
Dividend yield	Nil
Annualized volatility	99.76%
Risk-free interest rate	1.37%
Expected life	1 year

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2020 and 2019 (Unaudited - expressed in Canadian Dollars)

11. Share capital and reserves (continued)

e) 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.

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.

A summary of the changes in stock options for the periods ended March 31, 2020 and December 31, 2019 is presented below:

	Number of Options	Exercise price
Balance, December 31, 2018	2,424,000	\$0.50
Forfeited	(274,000)	\$0.50
Balance, December 31, 2019 and March 31, 2020	2,150,000	\$0.50
Vested and exercisable, March 31, 2020	1,729,166	\$0.50

The weighted average contractual remaining life of the unexercised options was 3.08 years (2019 – 3.33 years).

The following table summarizes information on stock options outstanding at March 31, 2020:

Exercise Price	Number Outstanding	Number Exercisable	Average Remaining Contractual Life
\$0.50	1,750,000	1,475,000	2.97 years
\$0.50	150,000	150,000	3.53 years
\$0.50	250,000	104,166	3.60 years

The share-based payment expense recognized was \$6,728 during the three months ended March 31, 2020 (2019 – credit of \$6,406), related to the vesting of options issued in prior years.

f) 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 months ended March 31, 2020 and 2019 (Unaudited - expressed in Canadian Dollars)

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 ended March 31, 2020 and 2019, 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 \$50,357 (2019 - \$50,166).
- b) Professional fees were paid or accrued to an officer of the Company in the amount of \$7,500 (2019 - \$7,500).
- c) Consulting fees were paid or accrued to a director of the Company in the amount of \$9,000 (2019 - \$nil).
- d) As at March 31, 2020, \$58,195 (December 31, 2019 - \$39,550) was payable to an officer of the Company. The balance is unsecured, non-interest bearing, and has no fixed terms of repayment.
- e) As at March 31, 2020, \$468,110 (December 31, 2019 - \$502,110) 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 months ended March 31, 2020 and 2019 are summarized as follows:

	Short-term employee benefits	Share-based payments	Total
	\$	\$	\$
Three months ended March 31, 2019			
Directors and officers	50,166	10,475	60,641
Three months ended March 31, 2020			
Directors and officers	50,357	3,939	54,296

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 March 31, 2020, 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, 2019.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2020 and 2019 (Unaudited - expressed in Canadian Dollars)

14. Capital management

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

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

Equity is comprised of:	March 31 2020	December 31 2019
	\$	\$
Share capital	8,349,692	5,863,872
Share-based payments and warrants reserve	625,597	607,803
Share subscriptions received in advance	-	70,000
Equity component on convertible loans	5,202	5,202
Deficit	(6,791,829)	(6,758,598)

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 March 31, 2020 and December 31, 2019 as follows:

	March 31 2020	December 31 2019
	\$	\$
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 March 31, 2020 equated to \$192,000.