



CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF XORTX THERAPEUTICS INC.

Opinion

We have audited the consolidated financial statements of XORTX Therapeutics Inc. (the "Company"), which comprise:

- ♦ the consolidated statements of financial position as at December 31, 2020 and 2019;
- ♦ the consolidated statements of loss and comprehensive loss for the years then ended;
- ♦ the consolidated statements of changes in shareholders' equity (deficiency) for the years then ended;
- ♦ the consolidated statements of cash flows for the years then ended; and
- ♦ the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss of \$1,284,602 during the year ended December 31, 2020 and, as of that date, had an accumulated deficit of \$8,037,998. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

- ♦ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ♦ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ♦ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Smythe LLP

Chartered Professional Accountants
Vancouver, British Columbia
April 23, 2021

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

	Note	December 31, 2020 \$	December 31 2019 \$
Assets			
Current			
Cash		171,271	58,614
Funds held in trust		-	70,000
Deposits	5	1,826,404	656,324
Accounts receivable and other	6	58,466	15,468
Deferred share issuance costs		-	14,842
		2,056,141	815,248
Non-current			
Equipment		-	341
Intangible assets	7	234,316	272,388
Total Assets		2,290,457	1,087,977
Liabilities			
Current			
Accounts payable and accrued liabilities	8,12	1,034,213	1,151,475
Provision for patent acquisition	9	-	97,410
Liability component on convertible loans	10	-	50,813
Total Liabilities		1,034,213	1,299,698
Shareholders' Equity (Deficiency)			
Share capital	11	8,258,395	5,863,872
Share-based payments, warrant reserve and other	11	1,003,609	607,803
Obligation to issue shares	7(c)	32,238	-
Share subscriptions received in advance	11(b)	-	70,000
Equity component on convertible loans	10	-	5,202
Deficit		(8,037,998)	(6,758,598)
Total Shareholders' Equity (Deficiency)		1,256,244	(211,721)
Total Liabilities and Shareholders' Equity (Deficiency)		2,290,457	1,087,977

Nature of Operations and Going Concern (Note 1)
Commitments (Note 16)
Subsequent events (Note 17)

/s/ "Allen Davidoff"

Director

/s/ "Paul Van Damme"

Director

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

XORTX THERAPEUTICS INC.
Consolidated Statements of Comprehensive Loss
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

	Note	2020	2019
		\$	\$
Expenses			
Amortization	7	20,439	19,900
Consulting	12	102,880	46,561
General and administrative		9,516	17,344
Investor relations		241,177	34,782
Listing fees		52,138	42,495
Professional fees	12	162,580	108,427
Research and development		277,455	39,897
Share-based payments	11(f),12	293,443	26,317
Travel		8,460	36,076
Wages and benefits	12	227,905	194,166
Loss before other items		(1,395,993)	(565,965)
Accretion		(846)	(1,638)
Foreign exchange gain (loss)		2,961	(26,397)
Interest and other expenses		(12,666)	(35,576)
Impairment of intangible assets	7	(64,562)	-
Recovery of provision for patent acquisition	9	95,490	-
Forgiveness of debt	5,10	91,014	-
Net loss and comprehensive loss for the year		(1,284,602)	(629,576)
Basic and diluted loss per common share		(0.02)	(0.01)
Weighted average number of common shares outstanding			
Basic and diluted		78,235,658	62,919,691

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

XORTX THERAPEUTICS INC.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

	Note	Number of common shares	Share capital	Reserves	Obligation to issue shares	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(f)	-	-	26,317	-	-	-	-	26,317
Share subscriptions received in advance	11(b)	-	-	-	-	70,000	-	-	70,000
Net loss for the year		-	-	-	-	-	-	(629,576)	(629,576)
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	2,465,023	91,297	-	(70,000)	-	-	2,486,320
Share issuance costs	11(b)	-	(70,500)	11,066	-	-	-	-	(59,434)
Convertible loan debt forgiveness		-	-	-	-	-	(5,202)	5,202	-
Obligation to issue shares	7(c)	-	-	-	32,238	-	-	-	32,238
Share-based payments	11(f)	-	-	293,443	-	-	-	-	293,443
Net loss for the year		-	-	-	-	-	-	(1,284,602)	(1,284,602)
Balance, December 31, 2020		81,179,118	8,258,395	1,003,609	32,238	-	-	(8,037,998)	1,256,244

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

XORTX THERAPEUTICS INC.
Consolidated Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

	Note	2020	2019
		\$	\$
Cash provided by (used in):			
Operating activities		(1,284,602)	(629,576)
Net loss for the year			
Items not affecting cash:			
Accretion expense		846	1,638
Amortization		20,439	19,900
Forgiveness of debt	5,10	(91,014)	-
Share-based payments	11(e)	293,443	26,317
Unrealized foreign exchange loss		1,201	34,064
Impairment of intangible assets	7	64,562	-
Recovery of provision	9	(95,490)	-
Changes in non-cash operating assets and liabilities:			
Funds held in trust	11(b)	-	(70,000)
Accounts payable and accrued liabilities		405,212	353,289
Accounts receivable and other		(42,998)	14,788
		(728,401)	(249,580)
Investing activities			
Acquisition of intangibles assets		(14,350)	(7,037)
		(14,350)	(7,037)
Financing activities			
Proceeds from issuance of shares	11(b)	900,000	-
Cash share issuance costs	11(b)	(44,592)	-
Deferred share issuance costs		-	(14,788)
Share subscriptions received in advance	11(b)	-	70,000
		855,408	55,212
Increase (decrease) in cash		112,657	(201,405)
Cash, beginning of year		58,614	260,019
Cash, end of year		171,271	58,614
Supplemental Cash Flow and Non-Cash Investing and Financing Activities Disclosure			
Cash paid for interest		-	-
Cash paid for income taxes		-	-
Transfer of funds held in trust		70,000	-
Shares issued for deposit		1,606,320	-
Shares issued to settle debt		50,000	-
Obligation to issue shares		32,238	-
Application of Cato deposit against payable	5	436,240	-

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

XORTX THERAPEUTICS INC.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(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 (“RTO”) 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 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.

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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, have adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or results of operations at this time but may impact the Company’s ability to obtain additional financing to support future research projects.

2. Basis of preparation

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

Basis of Measurement and Presentation

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

XORTX THERAPEUTICS INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

2. Basis of preparation (continued)

Basis of Measurement and Presentation (continued)

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. Inter-company transactions, balances and unrealized gains or losses on transactions are eliminated. The Company's subsidiary is the following:

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

These consolidated financial statements were approved for issue by the Board of Directors on April 23, 2021.

3. Accounting policies

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

Financial Instruments

a) Classification

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

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

The following are the Company's financial instruments at December 31, 2020:

	Classification
Cash	FVTPL
Accounts payable and accrued liabilities	amortized cost

b) Measurement

Financial assets at FVTOCI

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

Financial assets and liabilities at amortized cost

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

XORTX THERAPEUTICS INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

3. Accounting policies (continued)

Financial Instruments (continued)

b) Measurement (continued)

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).

Research and development costs

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

Intangible assets

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

XORTX THERAPEUTICS INC.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2020 and 2019

(Expressed in Canadian Dollars)

3. Accounting policies (continued)

Government assistance

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

Impairment of long-lived assets

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

Convertible loans

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

Share-based payments

The Company has a stock option plan that is described in Note 11 and grants share options to acquire common shares of the Company to directors, officers, employees and consultants. Share-based payments to employees are measured at the fair value of the instruments granted. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued as calculated using the Black-Scholes option pricing model. The offset to the recorded expense is to reserve.

Consideration received on the exercise of stock options is recorded as share capital and the recorded amount in reserves is transferred to share capital.

Share capital

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

The Company's common shares, warrants and options are classified as equity instruments. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction from the proceeds. For equity offerings of units consisting of a common share and warrant, when both instruments are classified as equity, the Company allocates proceeds first to common shares based on the estimated fair value of the common shares at the time the units are issued, with any excess value allocated to warrants.

XORTX THERAPEUTICS INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

3. Accounting policies (continued)

Share capital (continued)

From time to time in connection with private placements, the Company issues compensatory warrants ("Finders' Warrants") or warrant units ("Finders' Warrant Units") to agents as commission for services. Awards of Finders' Warrants and Finders' Warrant Units are accounted for in accordance with the fair value method of accounting and result in share issue costs and a credit to reserves when Finders' Warrants and Finders' Warrant Units are issued. The fair value of Finders' Warrants is measured using the Black-Scholes option pricing model and the fair value of the Finders' Warrants Units is measured using the Geske compound option pricing model that both requires the use of certain assumptions regarding the risk-free market interest rate, expected volatility in the price of the underlying stock, and expected life of the instruments.

General provisions

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

Earnings (loss) per common share

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

Income taxes

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

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

Foreign currency translation

The Company's functional and presentation currency is the Canadian dollar. The functional currency of the Company and its subsidiary is the Canadian dollar. Foreign currency transactions are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect as of the financial position date. Gains and losses are recognized in profit or loss on a current basis.

XORTX THERAPEUTICS INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

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 consolidated 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 Company will assess the recoverable value of the asset. If the carrying value is greater than the recoverable value, the asset will be impaired to the recoverable value.

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.

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 and has committed to utilize Cato for this clinical study, subject to certain conditions. During the year ended December 31, 2020, Cato agreed to apply \$436,240 of the deposit against the accounts payable balance owing to Cato and forgive interest on these balances of \$36,234.

During the year ended December 31, 2020, the Company entered into an agreement with Prevail Partners LLC. 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) to be applied to future regulatory and clinical trial programs.

XORTX THERAPEUTICS INC.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2020 and 2019
(Expressed in Canadian Dollars)

5. Deposits (continued)

The Canadian dollar value of the deposits are shown below:

	December 31 2020	December 31 2019
	\$	\$
Balance, beginning of year	656,324	689,373
Additions	1,606,320	-
Application of deposit against accounts payable	(436,240)	-
Foreign exchange adjustment	-	(33,049)
Balance, end of year	1,826,404	656,324

6. Accounts receivable and other

	December 31 2020	December 31 2019
	\$	\$
GST receivable	14,351	8,974
Prepaid expenses	44,115	6,494
	58,466	15,468

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

7. Intangible assets

Cost	Total
	\$
Balance, December 31, 2018	371,777
Additions	7,037
Balance, December 31, 2019	378,814
Additions	46,588
Impairment	(100,220)
Balance, December 31, 2020	325,182
Accumulated amortization	Total
	\$
Balance, December 31, 2018	86,916
Amortization	19,510
Balance, December 31, 2019	106,426
Amortization	20,098
Impairment	(35,658)
Balance, December 31, 2020	90,866
Carrying values	Total
	\$
At December 31, 2019	272,388
At December 31, 2020	234,316

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7. Intangible assets (continued)

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

- a) The Company has licensed from a third party (the “Licensor”), 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 a total of \$42,460 (US\$40,000) to the Licensor per the terms of the agreement.

The Company will also pay the Licensor 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 also had the option to pay the Vendors an additional US\$75,000 to purchase the patents which was set up as a provision in the year ended December 31, 2018 (Note 9).

During the year ended December 31, 2020, the Company determined that it was no longer feasible to complete the purchase and as such, indicators of impairment existed leading to a test of recoverable amount of the license, which resulted in an impairment loss of \$64,562. As this valuation technique requires management’s judgement and estimates of the recoverable amount, it is classified within level 3 of the fair value hierarchy.

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 (i) the expiration of the last patent right covering the product and (ii) 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. The Company has paid or is obligated to pay UFRF the following consideration:

- i) an annual license fee of US\$1,000 (2020 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 2,117,866 shares of common stock of the Company (1,887,592 have been issued to UFRF as at December 31, 2020. Remaining shares to be issued are included in obligation to issue shares);
- iv) 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;
- v) 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
- vi) 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 agreement if the Company fails to meet the above specified milestones.

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8. Accounts payable and accrued liabilities

	December 31 2020	December 31 2019
	\$	\$
Trade payables	389,982	607,389
Accrued liabilities	644,231	544,086
Total	1,034,213	1,151,475

9. Provision for patent acquisition

The Company had the option to pay US\$75,000 in respect of a patent rights purchase agreement dated December 5, 2012 (Note 7). During the year ended December 31, 2020, the Company determined that the purchase was no longer feasible; therefore, the provision was reversed.

	December 31 2020	December 31 2019
	\$	\$
Balance, beginning of year	97,410	102,315
Foreign exchange adjustment	(1,920)	(4,905)
Recovery of provision	(95,490)	-
Balance, end of year	-	97,410

10. Convertible loans

On July 20, 2017, the Company issued a convertible note in connection with a service agreement pursuant to which the holder agreed to perform research and development services on behalf of the Company. The convertible note had a face value of US\$30,000, was unsecured, bore interest at 15% and matured on July 19, 2020.

The conversion of the convertible note provided that upon the occurrence of an equity financing of at least US\$1,000,000, the outstanding principal amount of the note and accrued interest, could, 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 had the right to 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 this convertible note 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 was accreted to the principal amount over the term of the convertible note by charges to accretion expense using an effective interest rate of 20%. During the year ended December 31, 2020, the \$54,780 in debt was forgiven. The carrying value of the liability component was \$nil at December 31, 2020 (2019 - \$50,813). The carrying value of the conversion option of \$5,202 was recorded as a separate component in total equity, and transferred to deficit when the debt was forgiven.

11. Share capital and reserves

a) Authorized and issued

Unlimited Class A common shares without par value – 81,179,118 issued as at December 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)

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11. Share capital and reserves (continued)

b) Issuances

Year ended December 31, 2020:

On February 28, 2020, the Company closed a private placement, through the issuance of 18,259,427 units for gross proceeds of \$2,556,320, of which \$900,000 was received in cash, \$50,000 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 (Note 5).

Each unit comprised one common share and one common share purchase warrant exercisable at \$0.25 for a period of one year from the issuance of the units. However, 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 \$0.35 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 warrants were assigned a value of \$91,297 using the residual method.

The Company paid \$59,434 in cash share issuance costs and issued 139,657 finders' warrant units valued at \$11,066, with each finder's warrant unit being exercisable at \$0.14 for a period of 12 months from the closing of the private placement. Each finders' warrant unit comprised one common share and one common share purchase warrant exercisable at \$0.25 for a period of one year from the closing date of the private placement. The warrants are subject to the same acceleration provision as the warrants issued in the private placement.

As at December 31, 2019, \$70,000 of the cash proceeds were received and held in trust by the Company's lawyer and recorded as share subscriptions received in advance. The amount was reclassified to share capital during the year ended December 31, 2020, upon closing of the private placement.

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 an 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 December 31, 2020, there were 778,270 shares (2019 – 2,334,803) remaining in escrow.

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11. Share capital and reserves (continued)

d) Share Purchase Warrants

A summary of the changes in warrants for the years ended December 31, 2020 and 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
Expired – January 10, 2020	(4,004,740)	\$0.80
Balance, December 31, 2020	18,259,427	\$0.25

The weighted average contractual remaining life of the unexercised warrants was 0.16 years (2019 – 0.02 years)

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

Exercise Price	Number Outstanding	Expiry date	Average Remaining Contractual Life
\$0.25	18,259,427	February 28, 2021	0.16 years

Subsequent to the year ended December 31, 2020, 3,859,999 warrants were exercised for gross proceeds of \$985,000, the remaining warrants expired unexercised.

e) Finders' Warrant Units

A summary of the changes in finders' warrant units for the years ended December 31, 2020 and 2019 is presented below:

	Number of Warrants	Exercise price
Balance, December 31, 2018 and 2019	-	-
Granted – February 28, 2020 – finders' warrants	139,657	\$0.14/\$0.25
Balance, December 31, 2020	139,657	\$0.14/\$0.25

The weighted average contractual remaining life of the unexercised finders' warrant units was 0.16 years (2019 – N/A)

The following table summarizes information on finders' warrant units outstanding at December 31, 2020:

Exercise Price	Number Outstanding	Expiry date	Average Remaining Contractual Life
\$0.14/\$0.25	139,657	February 28, 2021	0.16 years

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11. Share capital and reserves (continued)

e) Finders' Warrant Units

The fair value of finders' warrant units was estimated at \$11,059 on the date of grant using a compound options pricing model with the following inputs on the date of issuance of the finders' warrants units; allocated share price of \$0.0001 for the share component of the unit; allocated price of \$0.25 for the warrant component of the unit; exercise price of the unit of \$0.14; expected life of 1.0 years for both the share component and warrant component of the unit; expected volatility of 99.76%; risk free rate of 1.37%; and expected dividend yield of 0%.

Subsequent to the year ended December 31, 2020, 125,657 finders' warrant units were exercised for gross proceeds of \$17,592; the underlying warrants were then exercised for gross proceeds of \$31,414. The remaining finders' warrant units expired unexercised.

f) 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. There were no options granted during the year ended December 31, 2019.

	<u>2020</u>
Dividend yield	Nil
Annualized volatility	151.64% - 152.24%
Risk-free interest rate	0.33%
Expected life	5 years

The risk-free interest rate is the yield on zero-coupon Canadian Treasury Bill of a term consistent with the assumed option life. The expected life of the option is the average expected period to exercise. Volatility is based on available historical volatility of the Company's share price. The Company has not declared dividends in the past.

Of the 3,150,000 options granted June 23, 2020, 1,500,000 of the options vested immediately and 1,650,000 options vest in equal monthly installments over 36 months.

The 150,000 options granted August 25, 2020 vested immediately.

The share-based payment expense recognized was \$293,443 during the year ended December 31, 2020 (2019 – \$26,317).

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

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11. Share capital and reserves (continued)

e) Stock Options (continued)

	Number of Options	Exercise price
Balance, December 31, 2018	2,424,000	\$0.50
Forfeited	(274,000)	\$0.50
Balance, December 31, 2019	2,150,000	\$0.50
Granted – June 23, 2020	3,150,000	\$0.14
Granted – August 25, 2020	150,000	\$0.24
Balance, December 31, 2020	5,450,000	\$0.28
Vested and exercisable, December 31, 2020	4,019,444	\$0.33

The weighted average contractual remaining life of the unexercised options was 3.64 years (2019 – 3.33 years).

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

Exercise Price	Number Outstanding	Number Exercisable	Average Remaining Contractual Life
\$0.50	1,750,000	1,750,000	2.21 years
\$0.50	150,000	150,000	2.77 years
\$0.50	250,000	194,444	2.85 years
\$0.14	3,150,000	1,775,000	4.48 years
\$0.24	150,000	150,000	4.66 years
	5,450,000	4,019,444	

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 years ended December 31, 2020 and 2019, the Company incurred the following transactions with related parties:

- a) Wages and benefits were accrued to an officer of the Company in the amount of \$196,097 (2019 - \$194,166).
- b) Professional fees were accrued to an officer of the Company in the amount of \$30,000 (2019 - \$30,000).
- c) Consulting fees were accrued to a director of the Company for directors' fees in the amount of \$36,000 (2019 - \$nil).
- d) As at December 31, 2020, \$52,450 (2019 - \$39,550) was payable to the Chief Financial Officer ("CFO") of the Company for CFO services, and \$20,340 (2019 - \$nil) was payable to a director of the Company for directors' fees. The balance is unsecured, non-interest bearing, and has no fixed terms of repayment.
- e) As at December 31, 2020, \$518,084 (2019 - \$502,110) was accrued to the Chief Executive Officer ("CEO") of the Company, for CEO services. The balance is unsecured, non-interest bearing and has no fixed terms of repayment. The balance owing was paid subsequent to year end.

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12. Related party transactions (continued)

f) Management compensation transactions for the years ended December 31, 2020 and 2019 are summarized as follows:

	Short-term employee benefits	Share-based payments	Total
	\$	\$	\$
Year ended December 31, 2019			
Directors and officers	224,166	29,646	253,812
Year ended December 31, 2020			
Directors and officers	262,097	217,816	479,913

13. Income taxes

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

	2020	2019
	\$	\$
Net loss for the year	(1,285,000)	(630,000)
Statutory tax rate	27%	27%
Expected income tax recovery	(347,000)	(170,000)
Decrease to income tax recovery due to:		
Non-deductible permanent differences	79,000	16,000
Temporary differences	6,000	-
(Over) under provided in prior years	(278,000)	13,000
Change in tax assets not recognized	540,000	141,000
Income tax recovery	-	-

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

	December 31, 2020	December 31, 2019
	\$	\$
Share issuance costs	18,000	8,000
Cumulative eligible capital	100,000	31,000
Operating losses carried forward	1,341,000	880,000
Total deferred tax assets	1,459,000	919,000
Deferred tax assets not recognized	(1,459,000)	(919,000)
	-	-

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13. Income taxes (continued)

The realization of income tax benefits related to these deferred potential tax deductions is not probable. Accordingly, no deferred income tax assets have been recognized for accounting purposes. The Company has Canadian non-capital losses carried forward of approximately \$4,966,000 that may be available for tax purposes. The losses expire as follows:

Expiry date	\$
2032	135,000
2033	748,000
2034	325,000
2035	287,000
2036	364,000
2037	618,000
2038	1,089,000
2039	553,000
2040	847,000
Total	4,966,000

14. Financial instruments and risk management

The Company's financial instruments consist of cash, funds held in trust, accounts payable and accrued liabilities, and the liability component on convertible loans. These financial instruments are classified as financial assets at FVTPL and financial liabilities at amortized cost. The fair values of these financial instruments approximate their carrying values at December 31, 2020, due to their short-term nature.

The following table presents the Company's financial instruments, measured at fair value on the consolidated statements of financial position as at December 31, 2020 and 2019 and categorized into levels of the fair value hierarchy:

	Level	December 31, 2020		December 31, 2019	
		Carrying Value	Estimated Fair Value *	Carrying Value	Estimated Fair Value *
		\$	\$	\$	\$
FVTPL					
Cash	1	171,271	171,271	58,614	58,614
Funds held in trust	1	-	-	70,000	70,000
Other financial liabilities					
Accounts payable and accrued liabilities	2	1,034,213	1,034,213	1,151,475	1,151,475
Liability component on convertible loans	2	-	-	50,813	50,813

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

There were no transfers for levels of change in the fair value measurements of financial instruments for the years ended December 31, 2020 and 2019.

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14. Financial instruments and risk management (continued)

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

a) Credit risk

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

	December 31, 2020	December 31, 2019
	\$	\$
Cash	171,271	58,614
Funds held in trust	-	70,000

All of the Company's cash is held with major financial institutions in Canada and management believes the exposure to credit risk with such institutions is minimal. The Company considers the risk of material loss to be significantly mitigated due to the financial strength of the major financial institutions where cash is held. Funds held in trust consisted of cash held in trust by the Company's lawyer, received by the Company during the year ended December 31, 2019 in connection with the private placement closed on February 28, 2020. The Company's maximum exposure to credit risk as at December 31, 2020 and 2019 is the carrying value of its financial assets.

b) Liquidity risk

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

The Company's financial assets are comprised of its cash and funds held in trust, and the financial liabilities are comprised of its accounts payable and accrued liabilities and the liability component on convertible loans.

The contractual maturities of these financial liabilities as at December 31, 2020 and 2019 are summarized below:

	Payments due by period as of December 31, 2020			
	Total	Less than 3 months	Between 3 months and 1 year	1-3 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,034,213	1,034,213	-	-
	1,034,213	1,034,213	-	-

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14. Financial instruments and risk management (continued)

b) Liquidity risk (continued)

	Payments due by period as of December 31, 2019			
	Total	Less than 3 months	Between 3 months and 1 year	1-3 years
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,151,475	1,151,475	-	-
Liability component on convertible loans	50,813	50,813	-	-
	1,202,288	1,202,288	-	-

c) Market risk

i) Interest Rate Risk

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

ii) Foreign Currency Risk

The Company is exposed to foreign exchange risk on its US\$70,917 accounts payable and accrued liabilities balances, and US\$404 cash account. Based on the foreign exchange exposure arising from the above, varying the foreign exchange rate to reflect a 10% appreciation or depreciation of the Canadian dollar against the U.S. dollar would result in an increase/decrease of approximately \$7,000 (2019 - \$61,000) in the Company's loss from operations.

15. Capital management

The Company defines capital that it manages as shareholders' equity (deficiency). 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.

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. There were no changes during the year ended December 31, 2020. The Company is not exposed to external requirements by regulatory agencies regarding its capital.

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16. Commitments

The Company has long-term arrangements with commitments as at December 31, 2020 and 2019 as follows:

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

17. Subsequent events

Subsequent to the year ended December 31, 2020, the Company:

- a) Closed a private placement with the issuance of 24,486,286 units at a subscription price of \$0.25 per unit for gross proceeds of \$6,121,572. Each unit comprised one common share and one common share purchase warrant. Each warrant entitles the holder, on exercise, to purchase one additional common share in the capital of the Company, at a price of \$0.40 for a period of 5 years 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 CSE is greater than \$1.20 for 10 or more consecutive trading days, the warrants will be accelerated upon notice and the warrants will expire on the 30th calendar day following the date of such notice. In addition, the Warrants will also be subject to typical anti-dilution provisions and a ratchet provision that provides for an adjustment in the exercise price should the Company issue or sell common shares or securities convertible into common shares at a price (or conversion price, as applicable) less than the exercise price such that the exercise price shall be amended to match such lower price.

In connection with the private placement, the Company paid \$171,085 in cash commissions and issued 684,340 finders' warrants. Each finders' warrant is exercisable into one common share at a price of \$0.40 and having the same expiry, acceleration and anti-dilution provisions as the warrants included in the private placement. The common shares and warrants comprising the units issued pursuant to the private placement, and any common shares issued upon the exercise of the warrants or the finder's warrants, are subject to a four month hold period pursuant to applicable securities laws.

- b) Issued 300,000 common shares pursuant to the terms of an investor relations services agreement.