



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2021 and 2020

(Unaudited - expressed in Canadian Dollars)

XORTX THERAPEUTICS INC.

Condensed Interim Consolidated Statements of Financial Position (Unaudited - expressed in Canadian Dollars)

	Note	March 31, 2021 \$	December 31, 2020 \$
Assets			
Current			
Cash		6,043,745	171,271
Contract payments	5	1,826,404	1,826,404
Accounts receivable and other	6	147,413	58,466
		8,017,562	2,056,141
Non-current			
Intangible assets	7	230,258	234,316
Total Assets		8,247,820	2,290,457
Liabilities			
Current			
Accounts payable and accrued liabilities	8	529,711	1,034,213
Derivative warrant liability	9	4,247,000	-
Total Liabilities		4,776,711	1,034,213
Shareholders' Equity			
Share capital	9	12,278,312	8,258,395
Share-based payments, warrant reserve and other	9	1,372,011	1,003,609
Obligation to issue shares	7(c)	32,238	32,238
Deficit		(10,211,452)	(8,037,998)
Total Shareholders' Equity		3,471,109	1,256,244
Total Liabilities and Shareholders' Equity		8,247,820	2,290,457

Nature of Operations and Going Concern (Note 1)
Commitments (Note 13)

/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, 2021 and 2020

(Unaudited - expressed in Canadian Dollars)

	Note	Three months ended March 31	
		2020	2019
		\$	\$
Expenses			
Amortization	7	4,244	5,050
Consulting	10	151,861	15,000
General and administrative		10,812	2,396
Investor relations		204,874	38,275
Listing fees		14,553	11,763
Professional fees	10	112,821	26,976
Research and development		13,786	2,422
Share-based payments	9(f), 10	202,990	6,728
Travel		2,100	8,460
Wages and benefits	10	52,412	50,357
Loss before other items		(770,453)	(167,427)
Accretion		-	(421)
Transaction costs on derivative warrant liability		(85,732)	-
Loss on derivative warrant liability		(1,315,000)	-
Foreign exchange (loss) gain		(387)	143,104
Interest and other expenses		(1,882)	(8,487)
Net loss and comprehensive loss for the period		(2,173,454)	(33,231)
Basic and diluted loss per common share		(0.02)	(0.00)
Weighted average number of common shares outstanding			
Basic and diluted		96,663,712	69,340,588

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	Reserves	Obligation to issue shares	Share subscriptions received in advance	Equity component on convertible loans	Deficit	Total
		\$	\$	\$			\$	\$	\$
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	9(b)	18,259,427	2,556,320	-	-	(70,000)	-	-	2,486,320
Share issuance costs		-	(70,500)	11,066	-	-	-	-	(59,434)
Share-based payments	9(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
Warrants pursuant to private placement	9(b)	-	(91,297)	91,297	-	-	-	-	-
Convertible loan debt forgiveness		-	-	-	-	-	(5,202)	5,202	-
Obligation to issue shares	7(c)	-	-	-	32,238	-	-	-	32,238
Share-based payments	9(f)	-	-	286,715	-	-	-	-	286,715
Net loss for the period		-	-	-	-	-	-	(1,251,371)	(1,251,371)
Balance, December 31, 2020		81,179,118	8,258,395	1,003,609	32,238	-	-	(8,037,998)	1,256,244
Shares issued pursuant to private placement	9(b)	24,486,286	6,121,572	-	-	-	-	-	6,121,572
Warrants issued	9	-	(2,932,000)	-	-	-	-	-	(2,932,000)
Share issuance costs	9(b)	-	(288,249)	195,000	-	-	-	-	(93,249)
Warrants exercised		4,111,313	1,043,594	(29,588)	-	-	-	-	1,014,006
Shares issued for services		300,000	75,000	-	-	-	-	-	75,000
Share-based payments	9(e)	-	-	202,990	-	-	-	-	202,990
Net loss for the period		-	-	-	-	-	-	(2,173,454)	(2,173,454)
Balance, March 31, 2021		110,076,717	12,278,312	1,372,011	32,238	-	-	(10,211,452)	3,471,109

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, 2021 and 2020 (Unaudited - expressed in Canadian Dollars)

	Three months ended March 31	
	2021	2020
	\$	\$
Cash provided by (used in):		
Operating activities		
Net loss for the period	(2,173,454)	(33,231)
Items not affecting cash:		
Accretion expense	-	421
Loss on derivative warrant liability	1,315,000	-
Amortization	4,244	5,050
Share-based payments	202,990	6,728
Shares issued for services	75,000	-
Unrealized foreign exchange loss	1,621	(144,789)
Changes in non-cash operating assets and liabilities:		
Funds held in trust	-	70,000
Deposits	-	(1,606,320)
Accounts receivable and other	(89,658)	(140,711)
Accounts payable and accrued liabilities	(505,411)	(143,285)
	<u>(1,169,668)</u>	<u>(1,986,137)</u>
Investing activities		
Acquisition of intangible assets	(186)	(3,249)
	<u>(186)</u>	<u>(3,249)</u>
Financing activities		
Proceeds from issuance of shares	6,121,572	2,486,320
Cash share issuance costs	(93,249)	(59,434)
Warrants exercised	1,014,006	-
Deferred share issuance costs	-	14,842
	<u>7,042,329</u>	<u>2,441,728</u>
Increase in cash	5,872,474	452,342
Cash, beginning of period	171,271	58,614
Cash, end of period	6,043,745	510,956
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, 2021 and 2020 (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 (“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 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, 2020.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Unaudited - expressed in Canadian Dollars)

2. Basis of preparation (continued)

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 have been applied consistently to all periods presented in these consolidated financial statements.

These condensed interim consolidated financial statements incorporate the financial statements of the Company and its 100% owned subsidiaries. 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 condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 31, 2021.

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, 2020. Accordingly, they should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2020, other than as noted below:

Derivative warrant liabilities

During the three-month period ended March 31, 2021 the Company issued common share units with warrants for the Company's common shares. The warrants are classified as a derivative financial liability as they contain a ratchet provision that provides for an adjustment in the exercise price if shares or securities convertible to shares are sold at a price lower than the exercise price. Therefore since the warrants, (not including compensation warrants), may be settled other than by the exchange of a fixed amount of cash they meet the definition of a derivative financial liability. The warrants are initially recognized at fair value and subsequently measured at fair value with changes recognized through profit or loss.

The Company uses the Black-Scholes pricing model to estimate fair value at each exercise and period end date. The key assumptions used in the model are described in Note 9(g).

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:

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Unaudited - expressed in Canadian Dollars)

4. Critical accounting judgments and estimates (continued)

Share-based payment transactions and warrant liabilities

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. Warrant liabilities are accounted for as derivative liabilities as exercise is not fixed. The assumptions and models used for estimating fair value for share-based payment transactions and warrant liabilities are disclosed in Note 9.

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.

Going concern assumption

The preparation of these condensed interim 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. Contract payments

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 made a payment 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 payments 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 InfoWorks Inc. As part of the agreement, the Company paid \$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.

The change in the deposits for the three months ended March 31, 2021 and year ended December 31, 2020 are shown below:

	March 31 2021	December 31 2020
	\$	\$
Balance, beginning of period	1,826,404	656,324
Additions	-	1,606,320
Application of deposit against accounts payable	-	(436,240)
Balance, end of period	1,826,404	1,826,404

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Unaudited - expressed in Canadian Dollars)

6. Accounts receivable and other

	March 31 2021	December 31 2020
	\$	\$
GST receivable	10,919	14,351
Prepaid expenses	136,494	44,115
	147,413	58,466

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

7. Intangible assets

Cost	Total
	\$
Balance, December 31, 2019	378,814
Additions	46,588
Impairment	(100,220)
Balance, December 31, 2020	325,182
Additions	186
Balance, March 31, 2021	325,368

Accumulated amortization	Total
	\$
Balance, December 31, 2019	106,426
Amortization	20,098
Impairment	(35,658)
Balance, December 31, 2020	90,866
Amortization	4,244
Balance, March 31, 2021	95,110

Carrying values	Total
	\$
At December 31, 2020	234,316
At March 31, 2021	230,258

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.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Unaudited - expressed in Canadian Dollars)

7. Intangible assets (continued)

- 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.

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 March 31, 2021. 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.

8. Accounts payable and accrued liabilities

	March 31 2021	December 31 2020
	\$	\$
Trade payables	25,962	389,982
Accrued liabilities	503,749	644,231
Total	529,711	1,034,213

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Unaudited - expressed in Canadian Dollars)

9. Share capital and reserves

a) Authorized and issued

Unlimited common shares – 110,076,717 issued at March 31, 2021, (December 31, 2020 - 81,179,118)

b) Issuances

Three months ended March 31, 2021:

On February 9, 2021, the Company 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 \$178,982 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 Company issued 4,111,313 common shares for the exercise of warrants in the amount of \$1,014,006. A value of \$29,588 was transferred from the share-based payments to share capital as a result.

Pursuant to the terms of a consulting agreement the Company issued 300,000 common shares with a fair value of \$75,000 in exchange for services.

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.

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.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Unaudited - expressed in Canadian Dollars)

9. Share capital and reserves (continued)

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.

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 March 31, 2021, there were nil shares (December 31, 2020 – 778,270) remaining in escrow.

d) Common Share Purchase Warrants

A summary of the changes in warrants for the period ended March 31, 2021 and year ended December 31, 2020 is presented below:

	Number of Warrants	Exercise price
Balance, December 31, 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
Granted – February 9, 2021	24,486,286	\$0.40
Exercised	(3,985,656)	\$0.25
Expired	(14,273,771)	\$0.25
Balance, March 31, 2021	24,486,286	\$0.40

The weighted average contractual remaining life of the unexercised warrants was 4.87 years (2020 – 0.16 years)

The following table summarizes information on warrants outstanding at March 31, 2021:

Exercise Price	Number Outstanding	Expiry date	Average Remaining Contractual Life
\$0.40	24,486,286	February 9, 2026	4.87 years

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Unaudited - expressed in Canadian Dollars)

9. Share capital and reserves (continued)

e) Finders' Warrant

A summary of the changes in finders' warrant for the period ended March 31, 2021 and year ended December 31, 2020 is presented below:

	Number of Warrants	Exercise price
Balance, December 31, 2019	-	-
Granted – February 28, 2020 – finders' warrants	139,657	\$0.14
Balance, December 31, 2020	139,657	\$0.14
Granted – February 9, 2021 – finders' warrants	684,340	\$0.40
Exercised	(125,657)	\$0.14
Expired	(14,000)	\$0.14
Balance, March 31, 2021	684,340	\$0.40

The weighted average contractual remaining life of the unexercised finders' warrant was 4.87 years (2020 – 0.16 years)

The following table summarizes information on finders' warrant outstanding at March 31, 2021:

Exercise Price	Number Outstanding	Expiry date	Average Remaining Contractual Life
\$0.40	684,340	February 9, 2026	4.87 years

The fair value of finders' warrant was estimated at \$195,000 on the date of grant using black-scholes. The exercise price of the unit of \$0.40; expected life of 5.0 years; expected volatility of 160%; risk free rate of 0.58%; and expected dividend yield of 0%.

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.

	2021	2020
Dividend yield	Nil	Nil
Annualized volatility	149.46%	151.64% - 152.24%
Risk-free interest rate	0.36%	0.33%
Expected life	5 years	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.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Unaudited - expressed in Canadian Dollars)

9. Share capital and reserves (continued)

f) Stock Options (continued)

The 700,000 options granted January 11, 2021 vested immediately.

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 \$202,990 during the three months ended March 31, 2021 (2020 - \$6,728).

A summary of the changes in stock options for the three months ended March 31, 2021 and year ended December 31, 2020 is presented below:

	Number of Options	Exercise price
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
Granted – January 11, 2021	700,000	\$0.28
Expired	(950,000)	\$0.14
Balance, March 31, 2021	5,200,000	\$0.30
Vested and exercisable, March 31, 2021	4,101,389	\$0.33

The weighted average contractual remaining life of the unexercised options was 3.58 years (December 31, 2020 – 3.64 years).

The following table summarizes information on stock options outstanding at March 31, 2021:

Exercise Price	Number Outstanding	Number Exercisable	Average Remaining Contractual Life
\$0.50	1,500,000	1,500,000	1.97 years
\$0.50	250,000	201,389	2.60 years
\$0.14	2,600,000	1,550,000	4.23 years
\$0.24	150,000	150,000	4.41 years
\$0.28	700,000	700,000	4.79 years
	5,200,000	4,101,389	

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Unaudited - expressed in Canadian Dollars)

9. Share capital and reserves (continued)

g) Derivative warrant liability

Private Placement Warrants:

During the three-month period ended March 31, 2021, the Company issued warrants for the Company's common shares pursuant to a financing in February, 2021 as described above.

The warrants issued as part of the unit contain a ratchet provision that provides for an adjustment in the exercise price if shares or securities convertible to shares are sold at a price lower than the exercise price. Therefore since the warrants, (not including compensation warrants), may be settled other than by the exchange of a fixed amount of cash they meet the definition of a derivative financial liability.

The fair value of warrant was estimated at \$2,932,000 on the date of grant using the Black-Scholes model with the following assumptions: exercise price of the warrant of \$0.40; expected life of 5.0 years; expected volatility of 160%; risk free rate of 0.58%; and expected dividend yield of 0%.

No warrants were exercised during the period.

The balance of the derivative warrant liabilities (level 3) is as follows:

		March 31, 2021
Balance at January 1, 2021	\$	-
Warrants issued February 9, 2021		2,932,000
Fair value adjustment		1,315,000
Balance at March 31, 2021	\$	4,247,000

Significant assumptions used in determining the fair value of the derivative warrant liabilities at March 31, 2021 are as follows:

		March 31, 2021
Share price	\$	0.195
Risk-free interest rate		0.88%
Dividend yield		0%
Expected volatility		158%
Remaining term (in years)		4.9

The fair value is classified as level 3 as expected volatility is determined using historical volatility, and is therefore not an observable input.

XORTX THERAPEUTICS INC.

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10. 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, 2021, 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 \$52,412 (2020 - \$50,357).
- b) Professional fees were accrued to an officer of the Company in the amount of \$7,500 (2020 - \$7,500).
- c) Consulting fees were accrued to a director of the Company in the amount of \$nil (2020 - \$9,000).
- d) As at March 31, 2021, \$5,650 (December 31, 2020 - \$52,450) was payable to the Chief Financial Officer ("CFO") of the Company for CFO services, and \$6,780 (December 31, 2020 - \$20,340) was payable to a director of the Company and \$12,201 owing to the Chief Executive Officer ("CEO") of the Company, for expense reimbursement. The balances are unsecured, non-interest bearing, and have no fixed terms of repayment.
- e) As at March 31, 2021, \$nil (December 31, 2020 - \$518,084) 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.
- f) Management compensation transactions for the three months ended March 31, 2021 and 2020 are summarized as follows:

	Short-term employee benefits	Share-based payments	Total
	\$	\$	\$
Three months ended March 31, 2020			
Directors and officers	50,357	3,939	54,296
Three months ended March 31, 2021			
Directors and officers	52,412	102,841	155,253

11. Financial instruments and risk management

The Company's financial instruments consist of cash, accounts payable and accrued liabilities, and warrant liability. 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, 2021, 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.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2021 and 2020 (Unaudited - expressed in Canadian Dollars)

12. Capital management

The Company defines capital that it manages as shareholders' 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.

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 three months ended March 31, 2021. The Company is not exposed to external requirements by regulatory agencies regarding its capital.

13. Commitments

The Company has long-term arrangements with commitments as at March 31, 2021 and December 31, 2020 as follows:

	March 31 2021	December 31 2020
	\$	\$
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, 2021, equated to \$192,000.