



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2023 and 2022

(Unaudited - expressed in U.S. Dollars)

XORTX THERAPEUTICS INC.**Condensed Interim Consolidated Statements of Financial Position**

(Unaudited - expressed in U.S. Dollars)

		December 31, 2022	January 1, 2022
	Note	March 31, 2023	Restated (Note 2)
		\$	\$
Assets			
Current			
Cash and cash equivalents	5	7,908,461	10,434,196
Accounts receivable		36,421	81,752
Prepaid expenses	6	262,325	379,620
Deferred share issuance costs		6,210	-
		8,213,417	10,895,568
Non-current			
Contract payments	7	1,200,000	1,185,946
Intangible assets	8	168,151	199,834
Right-of-use asset	9	60,022	76,393
Equipment	10	17,223	16,285
Total Assets		9,658,813	12,374,026
Liabilities			
Current			
Accounts payable and accrued liabilities	11,14	538,252	1,445,213
Lease obligation – short-term	12	61,536	66,090
		599,788	1,511,303
Non-current			
Derivative warrant liability	13 (g)	-	3,854,403
Lease obligation – long-term	12	-	11,509
Total Liabilities		599,788	5,377,215
Shareholders' Equity			
Share capital	13	17,056,535	16,524,354
Share-based payments, warrant reserve and other	13	9,559,226	6,197,158
Obligation to issue shares	8(c)	24,746	24,746
Accumulated other comprehensive (loss) income		(52,605)	(52,605)
Deficit		(17,528,877)	(15,696,842)
Total Shareholders' Equity		9,059,025	6,996,811
Total Liabilities and Shareholders' Equity		9,658,813	12,374,026

Nature of Operations (Note 1)

Commitments (Note 17)

/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, 2023 and 2022****(Unaudited - expressed in U.S. Dollars)**

		Three months ended	
		March 31	
		2022	
		Restated	
	Note	2023	(Note 2)
		\$	\$
Expenses			
Amortization	8,9,10	66,847	3,776
Consulting	14	30,840	230,607
Directors' fees	14	44,238	11,847
General and administrative		101,499	119,895
Investor relations		180,288	238,388
Listing fees		47,361	26,525
Professional fees	14	140,858	84,355
Research and development	14	1,046,957	1,927,681
Share-based payments	13(f),14	39,550	68,078
Travel		55,384	-
Wages and benefits	14	153,472	164,831
Loss before other items		(1,907,294)	(2,875,983)
Fair value adjustment on derivative warrant liability	13 (g)	-	325,546
Foreign exchange (loss)/gain		8,457	(155,905)
Interest income		66,802	2,649
Net loss for the period		(1,832,035)	(2,703,693)
Other comprehensive income:			
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Currency translation differences		-	157,443
Total other comprehensive income for the period		-	157,443
Total comprehensive loss for the period		(1,832,035)	(2,546,250)
Basic and diluted loss per common share		(0.11)	(0.21)
Weighted average number of common shares outstanding			
Basic and diluted		17,365,009	12,989,687

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 U.S. Dollars)

	Note	Number of common shares	Share capital	Reserves	Obligation to issue shares	Deficit	Accumulated other comprehensive earnings	Total
			\$	\$	\$	\$	\$	\$
Balance, December 31, 2021 (Restated Note 2)		12,989,687	16,088,677	4,991,594	24,746	(7,977,960)	75,540	13,202,597
Share-based payments	13(f)	-	-	68,078	-	-	-	68,078
Comprehensive loss for the period		-	-	-	-	(2,703,693)	157,443	(2,546,250)
Balance, March 31, 2022 Restated (Note 2)		12,989,687	16,088,677	5,059,672	24,746	(10,681,653)	232,983	10,724,425
Shares issued pursuant to public offering	13(b)	1,400,000	359,868	-	-	-	-	359,868
Pre-funded warrants issued	13(b)	-	-	925,015	-	-	-	925,015
Share issuance costs	13(b)	-	(88,959)	(42,687)	-	-	-	(131,646)
Pre-funded warrants exercised	13(b)	641,000	164,768	(164,704)	-	-	-	64
Share-based payments	13(f)	-	-	419,862	-	-	-	419,862
Comprehensive loss for the period		-	-	-	-	(5,015,189)	(285,588)	(5,300,777)
Balance, December 31, 2022 Restated (Note 2)		15,030,687	16,524,354	6,197,158	24,746	(15,696,842)	(52,605)	6,996,811
Reclassification of derivative warrant liability		-	-	3,854,403	-	-	-	3,854,403
Pre-funded warrants exercised	13(b)	2,959,000	532,181	(531,885)	-	-	-	296
Share-based payments	13(f)	-	-	39,550	-	-	-	39,550
Comprehensive loss for the period		-	-	-	-	(1,832,035)	-	(1,832,035)
Balance, March 31, 2023		17,989,687	17,056,535	9,559,226	24,746	(17,528,877)	(52,605)	9,059,025

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, 2023 and 2022****(Unaudited - expressed in U.S. Dollars)**

	Three months ended March 31	
	2023	2022
	Restated (Note 2)	
	\$	\$
Cash provided by (used in):		
Operating activities		
Net loss for the period	(1,832,035)	(2,703,693)
Items not affecting cash:		
Amortization	66,847	3,776
Fair value adjustment on derivative warrant liability	-	(325,546)
Lease interest expense	1,379	-
Share-based payments	39,550	68,078
Unrealized foreign exchange (gain)/loss	(14,359)	136,160
Changes in non-cash operating assets and liabilities:		
Accounts receivable	45,331	(84,012)
Prepaid expenses	117,295	269,589
Accounts payable and accrued liabilities	(907,816)	131,986
	<u>(2,483,808)</u>	<u>(2,503,662)</u>
Investing activities		
Acquisition of intangible assets	(17,058)	(2,640)
Acquisition of equipment	(2,673)	-
	<u>(19,731)</u>	<u>(2,640)</u>
Financing activities		
Pre-funded warrants and warrants exercised	296	-
Deferred share issuance costs	(6,210)	-
Payment of lease obligation	(17,442)	-
	<u>(23,356)</u>	<u>-</u>
Effect of foreign exchange (gain) on cash and cash equivalents	<u>1,160</u>	<u>48,421</u>
Decrease in cash and cash equivalents	<u>(2,525,735)</u>	<u>(2,457,881)</u>
Cash and cash equivalents, beginning of period	<u>10,434,196</u>	<u>14,869,861</u>
Cash and cash equivalents, end of period	<u>7,908,461</u>	<u>12,411,980</u>

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(Unaudited - expressed in U.S. Dollars)

1. Nature of operations

XORTX Therapeutics Inc. (the “Company” or “XORTX”) was incorporated under the laws of Alberta, Canada on August 24, 2012.

XORTX is a public company listed on the TSX Venture Exchange (the “TSXV”) and on the Nasdaq Stock Market (“Nasdaq”) under the symbol “XRTX”. The Company’s operations and mailing address is 3710 – 33rd Street NW, Calgary, Alberta, Canada T2L 2M1 and its registered address is located at 550 Burrard Street, Suite 2900, Vancouver, British Columbia, V6C 0A3.

XORTX is a late stage clinical pharmaceutical company focused on developing innovative 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, as well as more prevalent 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.

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. Although there is no certainty, management is of the opinion that additional funding for future projects and operations can be raised as needed. 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.

In March 2020, the World Health Organization (WHO) declared coronavirus COVID-19 a global pandemic. In May 2023, the International Health Regulations (IHR) Emergency Committee of the WHO downgraded the COVID-19 pandemic as it is now and established and ongoing health issue which no longer constitutes a public health emergency of international concern. 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. To date, COVID-19 has had little impact on the Company’s operations 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 Accounting Standard 34 (IAS 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, 2022.

Basis of Measurement and Presentation

These condensed interim consolidated financial statements have been prepared using the historical cost convention except for financial instruments which have been measured at fair value as explained in the notes to these condensed interim consolidated financial statements. These condensed interim consolidated financial statements were prepared on an accrual basis except for cash flow information.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(Unaudited - expressed in U.S. Dollars)

2. Basis of preparation (continued)

Basis of Measurement and Presentation (continued)

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 condensed interim consolidated financial statements.

These condensed interim consolidated financial statements incorporate the financial statements of the Company and its 100% owned subsidiary. The accounts of the Company's subsidiary are prepared for the same reporting period as the parent company, using consistent accounting policies. Inter-company transactions, balances and unrealized gains or losses on transactions are eliminated.

These condensed interim consolidated financial statements were approved for issue by the Board of Directors on May 15, 2023.

Change in functional and presentation currency

Determination of functional currency may involve certain judgments to determine the primary economic environment, and management reconsiders the functional currency of the Company and its subsidiary if there is a change in events and conditions which determine the primary economic environment. The Company had determined that the functional currency of our Canadian operations has changed from Canadian dollars ("CAD") to United States dollars ("USD") as the primary economic environment for the Company changed due to changing sources of recent and expected future sources of financing. The change in functional currency from CAD to USD is accounted for prospectively from January 1, 2023.

Concurrent with the change in functional currency, the Company has also changed its presentation currency from CAD to USD. This change in presentation currency is to better reflect our business activities, following the increased presence in the U.S. and to be consistent with peer companies in the industry. Under IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the change in presentation currency represents a voluntary change in accounting policy and is applied retrospectively. The comparative consolidated statements of comprehensive loss and consolidated statements of cash flows for each period have been translated into the presentation currency using the average exchange rate prevailing during each period. All assets, liabilities and equity transactions have been translated using the exchange rate prevailing on the consolidated statements of financial position dates.

Prior period comparable information has been restated to reflect the change in presentation currency. All revenues and expenses were translated into USD at the average exchange rate for each quarter, with no adjustments to the measurement of or accounting for previously reported results. The exchange rates used to reflect the change in presentation currency were as follows:

CAD – USD exchange rate	Q1-22	Q2-22	Q3-22	Q4-22	Q4-21
Closing rate	0.8003	0.7760	0.7296	0.7383	0.7888
Average rate	0.7898	0.7834	0.7662	0.7366	0.7936

Foreign currency transactions are translated into the functional currency using exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the exchange rate in effect at the measurement date. Non-monetary assets and liabilities denominated in foreign currencies are translated using the historical exchange rate or the exchange rate in effect at the measurement date for items recognized at fair value through profit and loss. Gains and losses arising from foreign exchange are included in profit and loss.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2023 and 2022 (Unaudited - expressed in U.S. Dollars)

2. Basis of preparation (continued)

Change in functional and presentation currency (continued)

Consolidated Statements of Financial Position

	December 31, 2022				January 1, 2022			
		As reported, CAD		Restated, USD		As reported, CAD		Restated, USD
Total current assets	\$	14,750,412	\$	10,895,568	\$	20,173,339	\$	15,912,730
Total assets	\$	16,752,929	\$	12,374,026	\$	22,035,902	\$	17,381,920
Total current liabilities	\$	2,050,262	\$	1,511,303	\$	700,999	\$	552,948
Total liabilities	\$	7,286,499	\$	5,377,215	\$	5,298,331	\$	4,179,323
Total shareholders' equity	\$	9,466,430	\$	6,996,811	\$	16,737,571	\$	13,202,597

Condensed Interim Consolidated Statements of Comprehensive Loss

	Three months ended March 31, 2022			
		As reported, CAD		Restated, USD
Loss before other items	\$	(3,641,406)	\$	(2,875,983)
Net loss	\$	(3,423,262)	\$	(2,703,693)
Net loss and comprehensive loss	\$	(3,423,262)	\$	(2,546,250)
Basic and diluted loss per common share	\$	(0.26)	\$	(0.21)

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, 2022. Accordingly, they should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2022.

4. Critical accounting judgments and estimates

The preparation of condensed interim consolidated financial statements requires management to make judgments and estimates that affect the amounts reported in the condensed interim consolidated financial statements and notes. By their nature, these judgments and estimates are subject to change and the effect on the condensed interim 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 condensed interim 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.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(Unaudited - expressed in U.S. Dollars)

4. Critical accounting judgments and estimates (continued)

Classification of contract payments

In concluding that contract payments are a non-current asset, management considered when future regulatory and clinical trial programs are anticipated to be completed. Management assessed that the future regulatory and clinical trial programs would not be completed within 12 months from period end and therefore reclassified contract payments as a non-current asset.

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, 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.

Determination of functional currency

In concluding that the U.S. dollar is the functional currency of the Company and its subsidiary, management considered the currency that mainly influences the cost of providing goods and services in the primary economic environment in which each entity operates, or if there has been a change in events or conditions that determined the primary economic environment.

Treatment of research and development costs

Costs to develop products are capitalized to the extent that the criteria for recognition as intangible assets in IAS 38 Intangible Assets are met. Those criteria require that the product is technically and economically feasible, the Company has the intention and ability to use the asset, and how the asset will generate future benefits. Management assessed the capitalization of development costs based on the attributes of the development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is feasible. The Company has not capitalized any development costs as at March 31, 2023.

Leases

Value of right-of-use assets and lease obligations require judgement in determining lease terms such as extension options, determining whether a lease contract contains an identified asset to which the Company has the right to use substantially all of the economic benefits from the use of that asset and the incremental borrowing rate applied. The Company estimates the incremental borrowing rate based on the lease term, collateral assumptions and the economic environment in which the lease is denominated. Renewal options are only included if management is reasonably certain that the option will be renewed.

Classification of pre-funded warrants

Management applied judgment when determining the appropriate classification of pre-funded warrants included in unit offerings. Management considered the characteristics of derivative instruments and concluded that the pre-funded warrants should be classified as an equity instrument.

5. Cash and cash equivalents

The Company's cash equivalents consist of cash held and interest-bearing deposits with the Company's bank. The current annual interest rate earned on these deposits is 4.40% (December 31, 2022 - 3.90%).

	March 31, 2023	December 31 2022	January 1, 2022
	\$	\$	\$
Cash	1,227,795	3,823,217	14,869,861
Interest-bearing deposits	6,680,666	6,610,979	-
	7,908,461	10,434,196	14,869,861

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2023 and 2022 (Unaudited - expressed in U.S. Dollars)

6. Prepaid expenses

The Company's prepaid expenses relate to the following:

	March 31, 2023	December 31 2022	January 1, 2022
	\$	\$	\$
Research and development	-	-	563,768
Insurance	158,512	238,365	348,167
Investor relations conferences and services	84,710	66,305	49,715
Consulting	6,158	12,305	39,440
Administrative services	12,945	62,645	1,125
	262,325	379,620	1,002,215

7. Contract payments

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 \$1,200,000 through the issuance of units in the private placement to be applied to future regulatory and clinical trial programs. The 977,318 units issued were measured by reference to their fair value on the issuance date, which is equal to CAD \$1.64 per unit in the concurrent private placement.

8. Intangible assets

Cost	Total
	\$
Balance, December 31, 2021	287,905
Additions	26,005
Foreign currency translation adjustment	(19,159)
Balance, December 31, 2022	294,751
Additions	17,058
Balance, March 31, 2023	311,809

Accumulated amortization	Total
	\$
Balance, December 31, 2021	85,780
Amortization	17,077
Foreign currency translation adjustment	(7,940)
Balance, December 31, 2022	94,917
Amortization	48,741
Balance, March 31, 2023	143,658

Carrying values	Total
	\$
At January 1, 2022	202,125
At December 31, 2022	199,834
At March 31, 2023	168,151

The Company has licensed intellectual property from various third parties. The intangible assets relate solely to licensed intellectual property and there are no other classes of intangible assets. The intangible assets are as described below:

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(Unaudited - expressed in U.S. Dollars)

8. Intangible assets (continued)

- 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 \$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 143,100 common shares at CAD \$0.35 per common share for a total instalment price of CAD \$50,400. The Company also had the option to pay the Vendors an additional \$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 CAD \$64,562. As this valuation technique requires management’s judgment and estimates of the recoverable amount, it is classified within level 3 of the fair value hierarchy. During the year ended December 31, 2020, the purchase provision was reversed resulting in a gain of CAD \$95,490 on recovery of provision.

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 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:

- i) An annual license fee of \$1,000;
- ii) Reimburse UFRF for United States and/or foreign costs associated with the maintenance of the licensed patents;
- iii) The issuance to UFRF of 180,397 shares of common stock of the Company (160,783 have been issued to UFRF as at March 31, 2023 and December 31, 2022. Remaining shares to be issued are included in obligation to issue shares);
- iv) Milestone payments of \$500,000 upon receipt of FDA approval to market licensed product in the United States of America and \$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 to a maximum of \$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.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2023 and 2022 (Unaudited - expressed in U.S. Dollars)

9. Right-of-use asset

The Company entered into an office lease during the year ended December 31, 2022 for which a right-of-use asset was recognized. The carrying value of the right-of-use asset is as follows:

Cost	Total
	\$
Balance, December 31, 2021	-
Additions	114,588
Balance, March 31, 2023 and December 31, 2022	114,588
Accumulated amortization	Total
	\$
Balance, December 31, 2021	-
Amortization	38,195
Balance, December 31, 2022	38,195
Amortization	16,371
Balance, March 31, 2023 and December 31, 2022	54,566
Carrying values	Total
	\$
At January 1, 2022	-
At December 31, 2022	76,393
At March 31, 2023	60,022

10. Equipment

Cost	Total
	\$
Balance, December 31, 2021	-
Additions	19,696
Foreign currency translation adjustment	(663)
Balance, December 31, 2022	19,033
Additions	2,673
Balance, March 31, 2023	21,706
Accumulated amortization	Total
	\$
Balance, December 31, 2021	-
Amortization	2,874
Foreign currency translation adjustment	(126)
Balance, December 31, 2022	2,748
Amortization	1,735
Balance, March 31, 2023	4,483
Carrying values	Total
	\$
At January 1, 2022	-
At December 31, 2022	16,285
At March 31, 2023	17,223

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2023 and 2022 (Unaudited - expressed in U.S. Dollars)

11. Accounts payable and accrued liabilities

	March 31, 2023	December 31 2022	January 1 2022
	\$	\$	\$
Trade payables	421,245	1,293,807	323,961
Accrued liabilities	117,007	151,406	228,987
Total	538,252	1,445,213	552,948

12. Lease obligation

The Company entered into an office lease during the year ended December 31, 2022. A reconciliation of the outstanding lease obligation as at March 31, 2023 is as follows:

	\$
Balance, December 31, 2021	-
Additions	114,588
Lease payments	(40,698)
Interest expense	3,709
Balance, December 31, 2022	77,599
Lease payments	(17,442)
Interest expense	1,379
Balance, March 31, 2023	61,536

The following is a schedule of the Company's future minimum lease payments related to the office lease obligation:

	\$
2023	52,327
2024	11,628
Total minimum lease payments	63,955
Less: imputed interest	(2,419)
Total present value of minimum lease payments	61,536

13. Share capital and reserves

a) Authorized and issued

Unlimited common shares – 17,989,687 issued at March 31, 2023 (December 31, 2022 – 15,030,687).

b) Issuances

Three months ended March 31, 2023:

On January 19, 2023, the Company issued 2,959,000 common shares for the exercise of Pre-Funded Warrants at \$0.0001 per share in the amount of \$296. An amount of \$531,885 was transferred from reserves to share capital as a result.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2023 and 2022 (Unaudited - expressed in U.S. Dollars)

13. Share capital and reserves (continued)

b) Issuances (continued)

Year ended December 31, 2022:

On October 7, 2022, the Company closed a public offering of: (i) 1,400,000 common share units ("Common Share Units") at a price of \$1.00 per Common Share Unit, with each Common Share Unit consisting of one common share and one warrant ("Warrant") to purchase one common share; and (ii) 3,600,000 pre-funded warrant units ("Pre-Funded Units") at a price of \$0.9999 per Pre-Funded Unit, with each Pre-Funded Unit consisting of one pre-funded warrant ("Pre-Funded Warrant") to purchase one common share and one Warrant to purchase one common share. Aggregate gross proceeds amounted to \$4,999,640. The Pre-Funded Warrants have an exercise price of \$0.0001 per share, and will terminate once exercised in full. The Warrants are exercisable at an exercise price of \$1.22 per share expiring five years from the date of issuance.

The proceeds were allocated \$3,714,757 to the derivative warrant liability (Note 13(g)) and the residual amounts of \$359,868 and \$925,015 were allocated to common shares and pre-funded warrants respectively.

In connection with the public offering, the Company incurred issuance costs of \$1,067,153 and issued 250,000 underwriters warrants with a fair value of \$185,738. The costs were allocated between common shares and derivative warrant liability in proportion to their initial carrying amounts with \$317,301 recorded as a reduction of equity and \$917,357 recorded as transaction costs on derivative warrant liability and pre-funded warrants.

On December 29, 2022, the Company issued 641,000 common shares for the exercise of Pre-Funded Warrants at \$0.0001 per share in the amount of \$64. An amount of \$164,704 was transferred from reserves to share capital as a result.

c) Common Share Purchase Warrants

A summary of the changes in warrants for the three month period ended March 31, 2023 and the year ended December 31, 2022 is presented below:

	Number of Warrants	Weighted Average Exercise price
Balance, December 31, 2021	5,127,076	\$3.68
Granted – October 7, 2022	5,000,000	1.22
Balance, March 31, 2023 and December 31, 2022	10,127,076	\$2.47

At March 31, 2023, the weighted average contractual remaining life of the unexercised warrants was 3.91 years (December 31, 2022 – 4.15 years).

The following table summarizes information on warrants outstanding at March 31, 2023:

Exercise Price	Number Outstanding	Expiry date	Remaining Contractual Life
CAD\$4.70	1,785,176	February 9, 2026	2.87 years
\$4.77	2,431,900	October 15, 2026	3.55 years
\$1.17	910,000	October 15, 2026	3.55 years
\$1.22	5,000,000	October 7, 2027	4.52 years

XORTX THERAPEUTICS INC.
Notes to the Condensed Interim Consolidated Financial Statements
For the three months ended March 31, 2023 and 2022
(Unaudited - expressed in U.S. Dollars)
13. Share capital and reserves (continued)**d) Pre-Funded Warrants**

A summary of the changes in Pre-Funded Warrants for the three month period ended March 31, 2023 and the year ended December 31, 2022 is presented below:

	Number of Warrants	Weighted Average Exercise price
Balance, December 31, 2021	-	-
Granted – October 7, 2022	3,600,000	\$0.0001
Exercised	(641,000)	\$0.0001
Balance, December 31, 2022	2,959,000	\$0.0001
Exercised	(2,959,000)	\$0.0001
Balance, March 31, 2023	-	-

e) Finders' and Underwriters Warrants

A summary of the changes in finders' and underwriters warrants for the period ended March 31, 2023 and the year ended December 31, 2022 is presented below:

	Number of Warrants	Weighted Average Exercise price
Balance, December 31, 2021	202,720	\$4.40
Granted – October 7, 2022	250,000	1.22
Balance, March 31, 2023 and December 31, 2022	452,720	\$2.65

At March 31, 2023, the weighted average contractual remaining life of the unexercised finders' and underwriters warrant was 4.00 years (December 31, 2022 - 4.25 years).

The following table summarizes information on finders' and underwriters warrants outstanding at March 31, 2023:

Exercise Price	Number Outstanding	Expiry date	Remaining Contractual Life
CAD\$4.70	57,420	February 9, 2026	2.87 years
\$4.77	145,300	October 15, 2026	3.55 years
\$1.22	250,000	October 7, 2027	4.52 years

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(Unaudited - expressed in U.S. Dollars)

13. Share capital and reserves (continued)

e) Finders' and Underwriters Warrants (continued)

The fair value of the underwriters warrants issued on October 7, 2022 was estimated at \$185,738 on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected life of 5.0 years; expected volatility of 100%; risk free rate of 3.66%; and expected dividend yield of 0%.

The risk-free interest rate is the yield on zero-coupon Canadian Treasury Bills 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 or historical share price of comparable companies, excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the Company's expected share price volatility. The Company has not declared dividends in the past.

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.

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:

	2022
Dividend yield	Nil
Annualized volatility	100%
Risk-free interest rate	1.44%-3.32%
Expected life	5 years

The risk-free interest rate is the yield on zero-coupon Canadian Treasury Bills 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 or historical share price of comparable companies, excluding specific time frames in which volatility was affected by specific transactions that are not considered to be indicative of the Company's expected share price volatility. The Company has not declared dividends in the past.

The share-based payment expense recognized was \$39,550 during the three months ended March 31, 2023 (2022 - \$68,078).

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2023 and 2022 (Unaudited - expressed in U.S. Dollars)

13. Share capital and reserves (continued)

f) Stock Options (continued)

A summary of the changes in stock options for the period ended March 31, 2023 and the year ended December 31, 2022 is presented below:

	Number of Options	Weighted Average Exercise price (CAD)
Balance, December 31, 2021	606,067	\$3.10
Granted – January 12, 2022	127,500	\$2.54
Granted – June 6, 2022	394,822	\$1.60
Granted – November 25, 2022	70,000	\$1.38
Expired	(44,070)	\$3.19
Balance, December 31, 2022	1,154,319	\$3.10
Expired	(114,984)	\$5.87
Balance, March 31, 2023	1,039,335	\$2.03
Vested and exercisable, March 31, 2023	795,859	\$2.07

The weighted average contractual remaining life of the unexercised options was 3.54 years (December 31, 2022 - 3.43 years).

The following table summarizes information on stock options outstanding at March 31, 2023:

Exercise Price (CAD)	Number Outstanding	Number Exercisable	Expiry Date	Remaining Contractual Life
\$5.87	21,294	21,294	November 5, 2023	0.60 years
\$1.64	170,354	160,416	June 23, 2025	2.23 years
\$2.82	12,776	12,776	August 27, 2025	2.41 years
\$3.29	59,624	59,624	January 11, 2026	2.79 years
\$1.88	21,294	21,294	May 12, 2026	3.12 years
\$1.76	21,294	21,294	June 16, 2026	3.21 years
\$2.41	63,882	35,490	July 14, 2026	3.29 years
\$2.54	86,495	86,495	December 21, 2026	3.73 years
\$2.54	117,500	45,694	January 12, 2027	3.79 years
\$1.60	394,822	323,705	June 6, 2027	4.19 years
\$1.38	70,000	7,777	November 25, 2027	4.66 years
	1,039,335	795,859		

g) Derivative warrant liability

During the years ended December 31, 2022 and 2021, the Company issued warrants which were recorded as derivative financial liabilities as the exercise price was denominated in a currency other than the functional currency of the Company and therefore may be settled other than by the exchange of a fixed amount of cash. These warrants are revalued at each reporting period and any gain or loss is recorded in profit or loss.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2023 and 2022 (Unaudited - expressed in U.S. Dollars)

13. Share capital and reserves (continued)

g) Derivative warrant liability (continued)

The fair value of the warrants issued during the year ended December 31, 2022 was estimated at \$3,714,757 on the date of grant using the Black-Scholes option pricing model with the following assumptions: share price on date of grant of \$1.01; exercise price of the warrant of \$1.22; expected life of 5.0 years; expected volatility of 100%; risk free rate of 3.66%; and expected dividend yield of 0%.

During the period ended March 31, 2023, with the change in functional currency of the Company to USD, the exercise price of these warrants is now denominated in the functional currency of the Company and therefore these warrants no longer meet the definition of a derivative warrant liability and instead meet the definition of equity instruments. Accordingly all warrants recorded as derivative financial liabilities on January 1, 2023, the date of the change in functional currency, were reclassified to equity instruments at their estimated fair value as of that date.

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

Balance at December 31, 2021	\$	3,626,375
Warrants issued October 7, 2022		3,714,757
Fair value adjustment		(3,486,729)
Balance at December 31, 2022	\$	3,854,403
Reclassified to reserves		(3,854,403)
Balance at March 31, 2023		-

Significant weighted average assumptions used in determining the fair value of the derivative warrant liabilities at December 31 2022 and 2021 are as follows:

	December 31, 2022	December 31, 2021
Share price	\$ 0.81	\$ 2.05
Risk-free interest rate	3.55%	1.23%
Dividend yield	0%	0%
Expected volatility	100%	100%
Remaining term (in years)	3.8-4.8	4.8

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

14. 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, 2023 and 2022, the Company incurred the following transactions with related parties:

- a) Wages and benefits and professional fees were paid or accrued to Allen Davidoff, the Chief Executive Officer ("CEO"), Amar Keshri, the Chief Financial Officer ("CFO"), and David MacDonald, former Chief Technology Officer ("CTO") in the amount of \$125,229 (2022 - \$155,399).

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Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2023 and 2022

(Unaudited - expressed in U.S. Dollars)

14. Related party transactions (continued)

- b) Research and development fees were paid or accrued to Haworth Biopharmaceutical, a company owned by Stephen Haworth, the Chief Medical Officer ("CMO") of the Company in the amount of \$52,979 (2022 - \$56,250).
- c) Consulting fees were paid or accrued to Stacy Evans, the Chief Business Officer ("CBO") of the Company in the amount of \$75,000 (2022 - \$nil).
- d) Consulting fees were paid to a private entity controlled by the spouse of the Company's CEO in the amount of \$nil (2022 - \$197).
- e) Directors' fees were paid or accrued to the directors of the Company in the amount of \$47,089 (2022 - \$12,131). The amount includes director fees payment of \$35,842 for the three months ended March 31, 2023 (2022 - \$nil) to Anthony Giovinazzo, Chairman of the Company.
- f) As at March 31, 2023, \$11,084 (December 31, 2022 - \$14,914) was payable to directors of the Company, \$28,846 (December 31, 2022 - \$28,846) was accrued to the CEO of the Company, for CEO services, \$10,913 (December 31, 2022 - \$10,904) was accrued to the CFO of the Company, for CFO services, \$18,750 (December 31, 2022 - \$49,998) was payable and accrued to the CMO of the Company, for consulting services, and \$25,000 (December 31, 2022 - \$24,999) was payable and accrued to the CBO of the Company, for consulting services. The balances are unsecured, non-interest bearing, and have no fixed terms of repayment.
- g) Management and directors compensation transactions for the three months ended March 31, 2023 and 2022 are summarized as follows:

	Short-term employee benefits	Directors' fees	Share- based payments	Total
	\$	\$	\$	\$
Three months ended March 31, 2022				
Directors and officers	212,130	11,847	33,546	257,523
Three months ended March 31, 2023				
Directors and officers	256,060	44,237	24,654	324,951

15. Financial instruments and risk management

The Company's financial instruments consist of cash and cash equivalents, accounts payable and accrued liabilities, and lease obligation. Cash and cash equivalents is classified as a financial asset at FVTPL, accounts payable and accrued liabilities and lease obligation are classified as financial liabilities at amortized cost and warrant liability is classified as a financial liability at FVTPL.

The fair values of these financial instruments approximate their carrying values at March 31, 2023, due to their short-term nature.

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

There have been no changes in any risk management policies since December 31, 2022.

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(Unaudited - expressed in U.S. Dollars)

16. 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, 2023. The Company is not exposed to external requirements by regulatory agencies regarding its capital.

17. Commitments

The Company has long-term arrangements with commitments that are not recognized as liabilities as at March 31, 2023 and December 31, 2022 are as follows:

a) Employment Agreements

	March 31, 2023	December 31, 2022
	\$	\$
Management services – officers	472,800	441,754

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, 2023 and December 31, 2022, equated to an annual salary of \$321,000 and \$300,000.

The CFO 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, 2023 and December 31, 2022, equated to an annual salary of CAD \$205,440 and CAD \$192,000.

b) Payments

In the normal course of business, the Company has committed to payments totaling \$1,514,514 (December 31, 2022 - \$1,994,232) for activities related to its clinical trial, manufacturing, collaboration programs and other regular business activities which are expected to occur over the next two years.

18. Segmented information

The Company operates in one reportable operating segment, being the development and commercialization of therapies to treat progressive kidney disease. As the operations comprise a single reporting segment, amounts disclosed also represent segment amounts. All long-term assets of the Company are located in Canada.