



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended March 31, 2024 and 2023

(Unaudited - expressed in U.S. Dollars)

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

(Unaudited - expressed in U.S. Dollars)

	Note	March 31, 2024 \$	December 31, 2023 \$
Assets			
Current			
Cash	5	3,835,440	3,447,665
Accounts receivable		30,883	60,711
Prepaid expenses	6	639,034	236,966
Deferred share issuance costs		157,097	323,441
Total Current Assets		4,662,454	4,068,783
Non-current			
Contract payments	7	1,200,000	1,200,000
Intangible assets	8	165,991	175,254
Property and equipment	9	22,153	23,927
Total Assets		6,050,598	5,467,964
Liabilities			
Current			
Accounts payable and accrued liabilities	10,13	326,891	283,428
Current portion of lease obligation	11	14,037	11,510
Total Current Liabilities		340,928	294,938
Non-Current			
Derivative warrant liability	12(g)	3,218,548	531,000
Total Liabilities		3,559,476	825,938
Shareholders' Equity			
Share capital	12	17,871,433	17,056,535
Reserves	12	5,521,391	5,468,257
Obligation to issue shares	8(c)	24,746	24,746
Accumulated other comprehensive (loss) income		(52,605)	(52,605)
Accumulated deficit		(20,873,843)	(17,854,907)
Total Shareholders' Equity		2,491,122	4,642,026
Total Liabilities and Shareholders' Equity		6,050,598	5,467,964

Nature of Operations (Note 1)

Commitments (Note 16)

Subsequent events (Note 18)

/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, 2024 and 2023****(Unaudited - expressed in U.S. Dollars)**

		Three months ended March 31	
	Note	2024	2023
		\$	\$
Expenses			
Research and development	13	73,643	1,046,957
Consulting, wages and benefits	13	224,721	184,312
Directors' fees	13	39,161	44,238
Investor relations		439,405	180,288
Professional fees	13	120,210	140,858
General and administrative		74,920	101,499
Public company costs		29,683	47,361
Travel		1,607	55,384
Amortization of property and equipment	9	20,246	18,105
Amortization of intangible assets	8	11,886	48,742
Share-based payments	12(f),13	53,134	39,550
Loss before other items		(1,088,616)	(1,907,294)
Fair value adjustment on derivative warrant liability	12(g)	(1,724,792)	-
Foreign exchange (loss)/gain		(12,644)	8,457
Interest income		31,602	66,802
Transaction costs on derivative warrant liability	12(b)	(224,486)	-
Net loss and comprehensive loss for the period		(3,018,936)	(1,832,035)
Basic and diluted loss per common share		(1.24)	(0.95)
Weighted average number of common shares outstanding			
Basic and diluted		2,429,268	1,929,445

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)

	Number of common shares	Share capital	Reserves	Obligation to issue shares	Accumulated Deficit	Accumulated other comprehensive (loss) income	Total
		\$	\$	\$	\$	\$	\$
Balance, December 31, 2022	1,670,071	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	328,777	532,181	(531,885)	-	-	-	296
Share-based payments	-	-	39,550	-	-	-	39,550
Comprehensive loss for the period	-	-	-	-	(1,832,035)	-	(1,832,035)
Balance, March 31, 2023	1,998,848	17,056,535	9,559,226	24,746	(17,528,877)	(52,605)	9,059,025
Reclassification of derivative warrant liability	-	-	(4,172,403)	-	-	-	(4,172,403)
Share-based payments	-	-	81,434	-	-	-	81,434
Comprehensive loss for the period	-	-	-	-	(326,030)	-	(326,030)
Balance, December 31, 2023	1,998,848	17,056,535	5,468,257	24,746	(17,854,907)	(52,605)	4,642,026
Shares issued pursuant to private placement	899,717	1,032,549	-	-	-	-	1,032,549
Warrants exercised	5,000	21,814	-	-	-	-	21,814
Share issuance costs	-	(239,465)	-	-	-	-	(239,465)
Share-based payments	-	-	53,134	-	-	-	53,134
Comprehensive loss for the period	-	-	-	-	(3,018,936)	-	(3,018,936)
Balance, March 31, 2024	2,903,565	17,871,433	5,521,391	24,746	(20,873,843)	(52,605)	2,491,122

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, 2024 and 2023****(Unaudited - expressed in U.S. Dollars)**

	Three months ended March 31	
	2024	2023
	\$	\$
Cash provided by (used in):		
Operating activities		
Net loss for the period	(3,018,936)	(1,832,035)
Items not affecting cash:		
Amortization of property and equipment	20,246	18,105
Amortization of intangible assets	11,886	48,742
Fair value adjustment on derivative warrant liability	1,724,792	-
Share-based payments	53,134	39,550
Transaction costs on derivative warrant liability	224,486	-
Unrealized foreign exchange loss/(gain)	7,406	(14,359)
Changes in non-cash operating assets and liabilities:		
Accounts receivable	29,828	45,331
Prepaid expenses	(402,068)	117,295
Accounts payable and accrued liabilities	45,374	(907,816)
	<u>(1,303,852)</u>	<u>(2,485,187)</u>
Investing activities		
Acquisition of intangible assets	(2,623)	(17,058)
Acquisition of equipment	-	(2,673)
	<u>(2,623)</u>	<u>(19,731)</u>
Financing activities		
Proceeds from issuance of equity instruments	2,000,549	-
Pre-funded warrants and warrants exercised	16,570	296
Share issuance costs	(297,607)	(6,210)
Payment of lease obligation	(15,945)	(16,063)
	<u>1,703,567</u>	<u>(21,977)</u>
Effect of foreign exchange (gain) loss on cash	<u>(9,317)</u>	<u>1,160</u>
Increase (Decrease) in cash	<u>387,775</u>	<u>(2,525,735)</u>
Cash, beginning of period	<u>3,447,665</u>	<u>10,434,196</u>
Cash, end of period	<u>3,835,440</u>	<u>7,908,461</u>
Supplemental Cash Flow and Non-Cash Investing and Financing Activities Disclosure		
Derivative warrant liability reclassified to share capital on exercise of warrants	6,775	-
Recognition of right-of-use asset	18,472	-
Deferred financing costs reclassified to share capital and transaction costs on derivative warrant liability	166,344	-

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, 2024 and 2023

(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.

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 IFRS Accounting 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, 2023.

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. These condensed interim consolidated financial statements were prepared on an accrual basis except for cash flow information.

These condensed interim consolidated financial statements incorporate the financial statements of the Company and its 100% owned subsidiary, XORTX Pharma Corp. 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, 2024.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024 and 2023

(Unaudited - expressed in U.S. Dollars)

3. Material 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, 2023. Accordingly, they should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2023.

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 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. Warrants liabilities are accounted for as derivative liabilities as the proceeds from exercise are either not fixed, denominated in a currency other than the functional currency, or can be settled on a net basis, and therefore do not meet the fixed for fixed criteria. Estimating fair value for share-based transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the instrument. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option or warrant, volatility and dividend yield and making assumptions about them.

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 classified 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 and the currency in which funds from financing are generated, or if there has been a change in events or conditions that determined the primary economic environment.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024 and 2023

(Unaudited - expressed in U.S. Dollars)

4. Critical accounting judgments and estimates (continued)

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, 2024.

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.

5. Cash

The Company's cash consists of cash held and interest-bearing deposits with the Company's bank and brokerage accounts. The current annual interest rate earned on these deposits is 5.15% (December 31, 2023 – 5.15%).

	March 31, 2024	December 31, 2023
	\$	\$
Cash	1,916,581	94,999
Interest-bearing deposits	1,918,859	3,352,666
	3,835,440	3,447,665

6. Prepaid expenses

The Company's prepaid expenses relate to the following:

	March 31, 2024	December 31, 2023
	\$	\$
Insurance	135,750	204,302
Investor relations conferences and services	474,588	25,309
Administrative services and other	28,696	7,355
	639,034	236,966

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 that closed February 28, 2020, to be applied to future regulatory and clinical trial programs. The 108,590 units issued were measured by reference to their fair value on the issuance date, which is equal to CAD \$14.76 per unit.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024 and 2023

(Unaudited - expressed in U.S. Dollars)

8. Intangible assets

Cost	Total
	\$
Balance, December 31, 2022	294,751
Additions	42,052
Balance, December 31, 2023	336,803
Additions	2,623
Balance, March 31, 2024	339,426
Accumulated amortization	Total
	\$
Balance, December 31, 2022	94,917
Amortization	66,632
Balance, December 31, 2023	161,549
Amortization	11,886
Balance, March 31, 2024	173,435
Carrying values	Total
	\$
At December 31, 2023	175,254
At March 31, 2024	165,991

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:

- 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. As of March 31, 2024, no royalties have been paid.

- 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 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 a patent that claims the use of any uric acid lowering agent to treat insulin resistance. The Company has paid or is obligated to pay UFRF the following:
- An annual license fee of \$1,000;
 - Reimburse UFRF for United States and/or foreign costs associated with the maintenance of the licensed patents;
 - 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, 2024 and December 31, 2023. Remaining shares to be issued are included in obligation to issue shares (\$24,746));

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024 and 2023

(Unaudited - expressed in U.S. Dollars)

8. Intangible assets (continued)

- 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. As at March 31, 2024, no royalties have been paid; 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. No royalties have been paid to date.

UFRF may terminate the agreement if the Company fails to meet the above specified milestones.

9. Property and equipment

Cost	Right-of-use asset	Equipment	Total
	\$	\$	\$
Balance, December 31, 2022	114,588	19,033	133,621
Additions	-	4,311	4,311
Balance, December 31, 2023	114,588	23,344	137,932
Additions	18,472	-	18,472
Balance, March 31, 2024	133,060	23,344	156,404

Accumulated amortization	Right-of-use asset	Equipment	Total
	\$	\$	\$
Balance, December 31, 2022	38,195	2,748	40,943
Amortization	65,480	7,582	73,062
Balance, December 31, 2023	103,675	10,330	114,005
Amortization	18,296	1,950	20,246
Balance, March 31, 2024	121,971	12,280	134,251

Carrying values	Right-of-use asset	Equipment	Total
	\$	\$	\$
At December 31, 2023	10,913	13,014	23,927
At March 31, 2024	11,089	11,064	22,153

The Company entered into an office lease during the year ended December 31, 2022 for which a right-of-use asset was recognized (Note 11). The \$18,472 right-of-use asset addition recognized in the three months ended March 31, 2024 relates to an extension of the office lease. There was a corresponding \$18,472 increase to the lease liability.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024 and 2023

(Unaudited - expressed in U.S. Dollars)

10. Accounts payable and accrued liabilities

	March 31, 2024	December 31, 2023
	\$	\$
Trade payables	185,065	195,814
Accrued liabilities	141,826	87,614
Total	326,891	283,428

11. Lease obligation

The Company has entered into an office lease expiring in 2024, with an imputed interest rate of 8% per annum. A reconciliation of the outstanding lease obligation as at March 31, 2024 is as follows:

	\$
Balance, December 31, 2022	-
Additions	77,599
Lease payments	(66,089)
Balance, December 31, 2023	11,510
Additions	18,472
Lease payments	(15,945)
Balance, March 31, 2024	14,037

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

	March 31, 2024	December 31, 2023
	\$	\$
2024	14,182	11,628
Total minimum lease payments	14,182	11,628
Less: imputed interest	(145)	(118)
Total present value of minimum lease payments	14,037	11,510
Less: current portion	(14,037)	(11,510)
Non-current portion	-	-

12. Share capital and reserves

a) Authorized and issued

Unlimited common shares – 2,903,565 issued at March 31, 2024 (December 31, 2023 – 1,998,848).

b) Issuances

Three months ended March 31, 2024:

On February 15 and March 4, 2024, the Company closed two tranches of a non-brokered offering of 899,717 common share units ("Common Share Units") at a price of CAD \$3 per Common Share Unit for aggregate gross proceeds of \$2,000,549 (CAD \$2,699,151). Each Common Share Unit consists of one common share and one warrant ("Warrant") to purchase one common share at CAD \$4.50 per common share for a period of two years. The Warrants will be immediately exercisable and may be exercised for two years from the date of issuance, provided, however that, if, the common shares on the TSXV trade at greater than CAD \$6.00 for 10 or more consecutive trading days, the Warrants will be accelerated and the Warrants will expire on the 30th business day following the date of notice.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2024 and 2023 (Unaudited - expressed in U.S. Dollars)

12. Share capital and reserves (continued)

b) Issuances (continued)

The proceeds were allocated \$968,000 to the derivative warrant liability (Note 12(g)) and the residual \$1,032,549 was allocated to common shares.

In connection with the offering, the Company paid finder's fees of \$97,241, representing a 5% finder's fee on certain subscriptions to qualified finders. The Company incurred additional cash share issuance costs of \$366,710. The costs were allocated between common shares and derivative warrant liability in proportion to their initial carrying amounts with \$239,465 recorded as a reduction of equity and \$224,486 recorded as transaction costs on derivative warrant liability.

On March 25, 2024, the Company issued 5,000 common shares for the exercise of warrants at CAD \$4.50 per share in the amount of \$16,570 (CAD \$22,500). An amount of \$5,244 was transferred from derivative warrant liability to share capital as a result.

Year ended December 31, 2023:

On January 19, 2023, the Company issued 328,777 common shares for the exercise of pre-funded warrants at \$0.0009 per share in the amount of \$296. An amount of \$531,885 was transferred from reserves to share capital as a result.

c) Diluted Weighted Average Number of Shares Outstanding

	Three months ended	
	March 31, 2024	March 31, 2023
Basic weighted average shares outstanding	2,429,268	1,929,445
Effect of outstanding securities	-	-
Diluted weighted average shares outstanding	2,429,268	1,929,445

During the three months ended March 31, 2024 and 2023, the Company had a net loss, as such, the diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share.

d) Common Share Purchase Warrants

A summary of the changes in warrants for the three months ended March 31, 2024 and the year ended December 31, 2023 is presented below:

	Number of Warrants	Weighted Average Exercise price
Balance, December 31, 2023 and 2022	1,125,210	\$22.31
Granted – February 15, 2024	824,767	3.32 ⁽¹⁾
Granted – March 4, 2024	74,950	3.32 ⁽¹⁾
Exercised	(5,000)	3.32 ⁽¹⁾
Balance, March 31, 2024	2,019,927	\$13.82

⁽¹⁾ Exercise price of CAD \$4.50.

XORTX THERAPEUTICS INC.**Notes to the Condensed Interim Consolidated Financial Statements****For the three months ended March 31, 2024 and 2023**

(Unaudited - expressed in U.S. Dollars)

12. Share capital and reserves (continued)**d) Common Share Purchase Warrants (continued)**

At March 31, 2024, the weighted average contractual remaining life of the unexercised warrants was 2.45 years (December 31, 2023 – 3.15 years).

The following table summarizes information on warrants outstanding at March 31, 2024:

Exercise Price	Number Outstanding	Expiry date	Remaining Contractual Life
CAD\$42.26	198,333	February 9, 2026	1.86 years
\$42.93	270,211	October 15, 2026	2.54 years
\$10.53	101,111	October 15, 2026	2.54 years
\$10.98	555,555	October 7, 2027	3.52 years
CAD \$4.50	819,767	February 15, 2026	1.88 years
CAD \$4.50	74,950	March 4, 2026	1.93 years
Total	2,019,927		2.45 years

e) Finders' and Underwriters Warrants

A summary of the changes in finders' and underwriters warrants for the three months ended March 31, 2024 and the year ended December 31, 2023 is presented below:

	Number of Warrants	Weighted Average Exercise price
Balance, March 31, 2024 and December 31, 2023	50,298	\$23.80

At March 31, 2024, the weighted average contractual remaining life of the unexercised finders' and underwriters warrants was 3.00 years (December 31, 2023 – 3.25 years).

The following table summarizes information on finders' and underwriters warrants outstanding at March 31, 2024:

Exercise Price	Number Outstanding	Expiry date	Remaining Contractual Life
CAD\$42.30	6,377	February 9, 2026	1.86 years
\$42.93	16,144	October 15, 2026	2.54 years
\$10.98	27,777	October 7, 2027	3.52 years
Total	50,298		3.00 years

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024 and 2023

(Unaudited - expressed in U.S. Dollars)

12. Share capital and reserves (continued)

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 option pricing model with the following data and assumptions:

	2024	2023
Dividend yield	Nil	Nil
Annualized volatility	100%	100%
Risk-free interest rate	3.57%	3.25%
Expected life	5 years	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, 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.

During the three months ended March 31, 2024, the Company recorded share-based payments of \$53,134 (2023 - \$39,550), in respect of the vesting of newly granted options and options issued in prior years.

A summary of the changes in stock options for the three months ended March 31, 2024 and the year ended December 31, 2023 is presented below:

	Number of Options	Weighted Average Exercise price (CAD)
Balance, December 31, 2022	128,240	\$ 21.75
Granted – December 31, 2023	8,000	2.90
Expired	(32,318)	33.65
Balance, December 31, 2023	103,922	\$ 16.60
Granted – March 4, 2024	39,483	4.50
Expired	(8,887)	22.61
Balance, March 31, 2024	134,518	\$ 12.65
Vested and exercisable, March 31, 2024	93,204	\$ 14.78

The weighted average contractual remaining life of the unexercised options was 3.45 years (December 31, 2023 - 3.04 years).

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2024 and 2023 (Unaudited - expressed in U.S. Dollars)

12. Share capital and reserves (continued)

f) Stock Options (continued)

The following table summarizes information on stock options outstanding at March 31, 2024:

Exercise Price (CAD)	Number Outstanding	Number Exercisable	Expiry Date	Remaining Contractual Life
\$14.76	14,669	14,669	June 23, 2025	1.23 years
\$29.61	3,312	3,312	January 11, 2026	1.78 years
\$16.92	2,366	2,366	May 12, 2026	2.12 years
\$21.69	4,732	4,206	July 14, 2026	2.29 years
\$22.86	7,262	7,262	December 21, 2026	2.73 years
\$22.86	11,940	8,623	January 12, 2027	2.79 years
\$14.40	37,200	32,810	June 6, 2027	3.18 years
\$12.42	5,554	2,468	November 25, 2027	3.65 years
\$2.90	8,000	8,000	December 31, 2028	4.76 years
\$4.50	39,483	9,488	March 4, 2029	4.93 years
	134,518	93,204		

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 in certain situations allow the holder to exercise the warrants on a cashless basis and therefore may be settled other than by the exchange of a fixed amount of cash. Under the cashless exercise option, the holders of these warrants may elect to settle the warrants on a cashless basis if the common shares are not subject to an effective registration statement at the time the holder wishes to exercise them. A contract that may be settled by a single net payment (generally referred to as net cash settled or net equity settled) is a financial liability and not an equity instrument.

These warrants are revalued at each reporting period and any gain or loss is recorded in profit or loss.

Effective January 1, 2023, with the change in functional currency of the Company to USD, the exercise price of warrants previously denominated in Canadian Dollars is now denominated in a currency different than the functional currency of the Company and therefore these warrants now meet the definition of a derivative warrant liability. Accordingly, all Canadian Dollar denominated warrants recorded as equity instruments on January 1, 2023, were reclassified to derivative financial liabilities at their estimated fair value as of that date.

The fair value of the warrants issued during the three months ended March 31, 2024 was estimated at \$968,000 on the date of grant using the Black-Scholes option pricing model with the following data and assumptions:

	2024
Dividend yield	Nil
Annualized volatility	130-135%
Share price	CAD \$3.10
Risk-free interest rate	4.17% – 4.36 %
Expected life	2 years

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2024 and 2023 (Unaudited - expressed in U.S. Dollars)

12. Share capital and reserves (continued)

g) Derivative Warrant Liability (continued)

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

Balance at December 31, 2022	\$	3,854,403
Reclassified from reserves		318,000
Fair value adjustment		(3,641,403)
Balance at December 31, 2023	\$	531,000
Warrants issued February 15, 2024		865,000
Warrants issued March 4, 2024		103,000
Warrants exercised		(5,244)
Fair value adjustment		1,724,792
Balance at March 31, 2024		\$3,218,548

Significant weighted average assumptions used in determining the fair value of the derivative warrant liabilities at March 31, 2024 and December 31, 2023 are as follows:

	March 31, 2024	December 31, 2023
Share price	\$ 3.70	\$ 2.31
Risk-free interest rate	3.57%-4.20%	3.25%-3.91%
Dividend yield	0%	0%
Expected volatility	100-133%	100%
Remaining term (in years)	1.9-3.5	2.1-3.8

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

13. Related party transactions

All related party transactions were measured at fair value. 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, 2024 and 2023, the Company incurred the following transactions with related parties:

- Wages and benefits and professional fees were paid or accrued to Allen Davidoff, the Chief Executive Officer ("CEO"), in the amount of \$84,447 (2023 - \$84,081).
- Fees were paid or accrued to 1282803 Ontario Inc., a company owned by James Fairbairn, the Chief Financial Officer ("CFO") of the Company in the amount of \$38,017 (2023 - \$41,148 (paid or accrued to former Chief Financial Officer.))
- 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 \$24,000 (2023 - \$52,979).
- Consulting fees were paid or accrued to Stacy Evans, the Chief Business Officer ("CBO") of the Company in the amount of \$45,000 (2023 - \$75,000).

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024 and 2023

(Unaudited - expressed in U.S. Dollars)

13. Related party transactions (continued)

- e) Directors' fees were paid or accrued to the directors of the Company in the amount of \$39,161 (2023 - \$47,089). The amount includes director fees payment of \$30,663 for the three months ended March 31, 2024 (2023 - \$35,842) to Anthony Giovinazzo, Chairman of the Company.
- f) As at March 31, 2024, \$17,934 (2023 - \$11,084) was payable to directors of the Company, \$nil (2023 - \$28,846) was accrued to the CEO of the Company for CEO services, \$nil (2023 - \$10,913) was accrued to the former CFO of the Company for CFO services, \$14,281 (2023 - \$nil) was accrued to the CFO of the Company for CFO services, \$8,000 (2023 - \$18,750) was payable and accrued to the CMO of the Company for consulting services, and \$15,000 (2023 - \$25,000) 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, 2024 and 2023 are summarized as follows:

	Management Compensation	Directors' fees	Share- based payments	Total
	\$	\$	\$	\$
Three months ended March 31, 2023				
Directors and officers	256,060	44,237	24,654	324,951
Three months ended March 31, 2024				
Directors and officers	191,464	39,161	38,103	271,388

14. Financial instruments and risk management

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

The fair values of these financial instruments approximate their carrying values at March 31, 2024, 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, 2023.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024 and 2023

(Unaudited - expressed in U.S. Dollars)

15. 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, 2024. The Company is not exposed to external requirements by regulatory agencies regarding its capital.

16. Commitments

The Company has long-term arrangements with commitments that are not recognized as liabilities as at March 31, 2024 and December 31, 2023 are as follows:

a) Employment Agreements

	March 31, 2024	December 31, 2023
	\$	\$
Management services – officers	321,000	321,000

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, 2024 and December 31, 2023, equated to an annual salary of \$321,000.

b) Payments

In the normal course of business, the Company has committed to payments totaling \$365,190 (December 31, 2023 - \$446,000) 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.

17. 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.

XORTX THERAPEUTICS INC.

Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2024 and 2023

(Unaudited - expressed in U.S. Dollars)

18. Subsequent events

Subsequent to March 31, 2024, the Company granted 8,000 stock options to a director of the Company. The stock options are exercisable into common shares at CAD \$5.00 per share for a period of five years.

On April 22, 2024, the TSXV consented to the decrease in the exercise price of the following warrants:

- 198,333 were issued pursuant to a private placement that closed in February 2021. The warrants had an original exercise price of CAD \$42.26 per share.
- 270,211 were issued pursuant to a private placement that closed in October 2021. The warrants had an original exercise price of \$42.93 per share.
- 555,555 were issued pursuant to a private placement that closed in October 2022. The warrants had an original exercise price of \$10.98 per share.

Pursuant to the policies of the TSXV the terms of the warrants, as amended, will be subject to an acceleration expiry provision such that if for any 10 consecutive trading dates during the unexpired term of the warrants, the closing price of the Company's shares on the exchange exceeds \$6.50, the exercise period of the warrants will be reduced to 30 days, starting seven days after the last premium trading day. The Company will announce any such accelerated expiry date by press release. All other terms of the warrants remain unchanged.