INDEX TO FINANCIAL STATEMENTS

XANADU QUANTUM TECHNOLOGIES LIMITED

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors
Xanadu Quantum Technologies Limited:

Opinion on the Financial Statements

We have audited the accompanying balance sheet of Xanadu Quantum Technologies Limited (the "Company") as of December 31, 2025, the related statement of operations and comprehensive loss, shareholders' equity, and cash flows for the period from October 2, 2025 (Inception) through December 31, 2025, and the related notes (collectively, the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2025, and the results of its operations and its cash flows for the period from October 2, 2025 (Inception) through December 31, 2025, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

We have served as the Company's auditor since 2025.

Toronto, Canada
April 9, 2026

Xanadu Quantum Technologies Limited
Balance Sheet
(In thousands, except for share and per share amounts)

		December 31, 2025
Assets		
Current assets:		
Prepaid expenses and other current assets	$	1,806
Total current assets		1,806
Total assets	$	1,806
Liabilities and Shareholders' Equity		
Current liabilities:		
Due to related party	$	1,818
Total current liabilities		1,818
Total liabilities	$	1,818
Shareholders' equity:		
Common shares, no par value, unlimited shares authorized, 1 share issued and outstanding at December 31, 2025		-
Accumulated deficit		(12)
Total shareholders' equity		(12)
Total liabilities and shareholders' equity	$	1,806

Commitments and contingencies (Note 8)
Subsequent events (Note 10)

On behalf of the Board of Directors

/s/ Christian Weedbrook
Christian Weedbrook, CEO and Director

/s/ Michelle Reynolds
Michelle Reynolds, Director

See accompanying notes to financial statements.

XANADU QUANTUM TECHNOLOGIES LIMITED
Statement of Operations and Comprehensive Loss
(In thousands, except for share and per share amounts)

	For the period October 2, 2025 (Inception) through December 31, 2025
Revenue	$ -
Operating expenses:	
General and administrative	12
Total operating expenses	12
Loss from operations	(12)
Net and comprehensive loss	$ (12)
Net loss per share, basic and diluted	$ (12,035)
Weighted average shares used in computing net loss per share, basic and diluted	1

See accompanying notes to financial statements.

Xanadu Quantum Technologies Limited
Statement of Shareholders' Equity
(In thousands, except for share and per share amounts)

	Common shares		Total share Capital	Deficit	Total
	Number	Amount			
Balance, October 2, 2025 (Inception)	1	$ -	$ -	$ -	$ -
Loss for the period	-	-	-	(12)	(12)
Balance, December 31, 2025	1	$ -	$ -	$ (12)	$ (12)

See accompanying notes to financial statements.

XANADU QUANTUM TECHNOLOGIES LIMITED
Statement of Cash Flows
(In thousands, except for share and per share amounts)

	For the period October 2, 2025 (Inception) through December 31, 2025
Cash flows from operating activities:	
Net loss	$ (12)
Adjustments to reconcile net loss to net cash used in operating activities:	
Change in operating assets and liabilities:	
Prepaid expenses and other current assets	(1,806)
Due to related party	1,818
Net cash provided by (used in) operating activities	-
Increase in cash and cash equivalents	-
Cash and cash equivalents, beginning of period	-
Cash and cash equivalents, end of period	$ -

See accompanying notes to financial statements.

1. Description of business:

Xanadu Quantum Technologies Limited ("Xanadu", or the "Company") was incorporated under the *Business Corporations Act* (Ontario) on October 2, 2025. The corporate office address is located at 777 Bay Street, Suite 2400, Toronto, Ontario.

The Company was formed to facilitate the business combination (the "Business Combination") between Xanadu Quantum Technologies Inc. ("Old Xanadu") and Crane Harbor Acquisition Corp. ("SPAC"), a publicly traded special purpose acquisition company pursuant to the Business Combination Agreement (the "Business Combination Agreement") dated November 3, 2025 between Xanadu, Old Xanadu and SPAC. The Company had not commenced operations until the closing of the Business Combination described in Note 10 below. The Company issued one common share for $1.00 upon incorporation.

Business Combination with Xanadu and SPAC

On November 3, 2025, the Company entered into the Business Combination Agreement with Old Xanadu and SPAC. Upon the closing of the Business Combination, the Company became the holding company of Old Xanadu and SPAC and as of March 27, 2026 its subordinate voting shares (the "Class B Subordinate Voting Shares") are listed on the Nasdaq Stock Market ("Nasdaq") and the Toronto Stock Exchange (the "TSX").

On November 3, 2025, the Company and certain investors (the "PIPE Investors") entered into subscription agreements (which have subsequently been completed) whereby the PIPE Investors agreed to subscribe for and purchase 27,500,000 Class B Subordinate Voting Shares of the Company for a purchase price of $10.00 per share for aggregate gross proceeds of $275,000 (the "PIPE Financing").

Liquidity and Capital Management

The accompanying financial statements have been prepared on a basis that assumes the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Company was reliant on Old Xanadu to fund its working capital needs through the closing of the Business Combination described in Note 10 below. Old Xanadu and the Company incurred additional operating losses subsequent to the period end and through completion of the Business Combination. Upon the closing of the Business Combination and the concurrent PIPE Financing, the Company received gross proceeds of $302,000, which the Company believes are sufficient to fund operations for the foreseeable future from the date of issuance of these financial statements.

Closing of the Business Combination and the PIPE Financing occurred on March 26, 2026 (the "Closing Date") (Note 10).

2. Basis of presentation and summary of significant accounting policies:

(a) Basis of presentation:

The accompanying financial statements of the Company are presented in U.S. dollars ("USD") and prepared on a going concern basis in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and pursuant to the accounting and disclosure rules and regulations of the Securities and Exchange Commission ("SEC").

2. Basis of presentation and summary of significant accounting policies: (cont.)

(b) Emerging Growth Company:

The Company is an "emerging growth company," as defined in Section 2(a) of the Securities Act, as modified by the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in its periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that an emerging growth company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected to not opt out of such extended transition period.

(c) Period of operations:

The Company was incorporated on October 2, 2025. Accordingly, the financial statements presented herein, specifically the statement of operations and comprehensive loss, statement of changes in shareholders' equity, and statement of cash flows, reflect the results of operations and cash flows for the initial period from October 2, 2025 (Inception) through December 31, 2025.

The balance sheet reflects the financial position of the Company as of December 31, 2025. Because this is the Company's initial period of operations, there are no comparative prior-period financial statements presented.

(d) Cash:

Cash is comprised of cash on hand.

(e) Income taxes:

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the estimated future tax consequences of events that have been included in the financial statements or in the Company's tax returns. Under this method, deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts in the financial statements and the tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which they are expected to be realized or settled. Deferred tax assets are evaluated for future realization and reduced by a valuation allowance to the amount that is more likely than not to be realized. Factors considered when assessing the likelihood of future realization of deferred tax assets include the Company's recent net loss experience and expectations of future earnings, capital gains and investments in the applicable jurisdiction, carryforward periods available for tax reporting purposes, among others.

The Company evaluates tax positions taken or expected to be taken in the course of preparing tax returns and applies a two-step approach in recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the available evidence indicates that it is more likely than not that the position will be sustained upon examination by the applicable tax authority. The second step, for those tax positions that meet the recognition criteria, is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

2. Basis of presentation and summary of significant accounting policies: (cont.)

(f) Net loss per share:

Basic net loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during each period.

(g) Foreign currency translation and transactions:

The Company's functional and reporting currency is the U.S. dollar. Monetary assets and liabilities that are denominated in a currency other than the Company's functional currency are translated into the functional currency using the exchange rates in effect as of the balance sheet dates, and revenues and expenses are translated at the exchange rates prevailing when the transactions occurred. Gains and losses resulting from translation are recognized in other income (expense), net in the statements of operations and comprehensive loss in the period in which they arise. Non-monetary assets and liabilities are translated at historical exchange rates.

(h) Fair value measurement:

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. In determining fair value, the use of various valuation methodologies, including market, income and cost approaches is permissible. The inputs to these methodologies consider market comparable information, taking into account the data when available.

There are three levels of inputs that may be used to measure fair value based on the reliability of inputs, and a financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement:

- Level 1: Quoted market prices in active markets that the reporting entity has the ability to access at the date of the fair value measurement.
- Level 2: Inputs other than quoted market prices described in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement of the assets or liabilities.

3. Prepaid expenses and other current assets:

Prepaid expenses and other current assets are comprised of the following as of December 31, 2025:

	2025
Deferred transaction costs	$ 1,806
Total	$ 1,806

Deferred transaction costs are costs incurred directly related to the reverse capitalization of the Business Combination and concurrent PIPE Financing and have been deferred to be applied against the proceeds upon closing. The costs were incurred by Old Xanadu, a related party, on behalf of the Company (see Note 9), and are expected to be deductible for tax purposes.

(In thousands, except for share and per share amounts)

4. Income taxes:

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements. Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax bases of the assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance against deferred tax assets is recorded if, based on the weight of the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has recorded a valuation allowance against its deferred tax assets, primarily representing the current year loss, as of December 31, 2025 because the Company's management believes that it is more likely than not that these assets will not be fully realized.

The Company accounts for uncertainty in income taxes recognized in the financial statements by applying a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination by the taxing authorities. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement. The provision for income taxes includes the effects of any resulting tax reserves, or unrecognized tax benefits, that are considered appropriate as well as the related net interest and penalties. As of December 31, 2025 no accrued interest or penalties have been recorded.

5. Shareholders' equity:

(a) Common shares:

The following table summarizes the number and amount of common shares authorized and issued and outstanding as of December 31, 2025:

	December 31, 2025		
	Authorized	**Issued and Outstanding**	**Amount**
Common shares	Unlimited	1	-
Total	Unlimited	1	-

The common shares have one vote per share. Dividends may be declared and paid on common shares, subject in all cases to authorization by the Board of Directors.

The following table summarizes the changes in issued and outstanding common shares for the period ended December 31, 2025:

	Common Shares	
	Number	**Amount**
Balance as of October 2, 2025	1	$ -
Balance as of December 31, 2025	1	$ -

(In thousands, except for share and per share amounts)

6. Fair value measurement:

The carrying amounts of the Company's prepaid expenses and other current assets and due to related party approximate their fair values due to the short-term maturity of these instruments.

7. Net loss per share:

The following table sets forth the computation of basic net loss per share attributable to common shareholders for the period ended December 31:

		2025
Numerator:		
Net loss attributable to common shareholders, basic and diluted	$	(12)
Denominator:		
Weighted average common shares outstanding		1
Net loss per share attributable to common shareholders, basic and diluted	$	(12,035)

The Company has one common share.

8. Commitments and contingencies:

(a) Litigation:

From time to time, the Company may become a party to various legal proceedings in the ordinary course of business. Management believes that there are currently no claims or actions pending against the Company, the ultimate disposition of which could have a material adverse effect on the Company's results of operations, financial condition, or cash flows, including third party infringement claims, labor and employment claims and threatened claims, tax and other matters.

As of December 31, 2025, the Company was not subject to any material litigation or material pending litigation claims.

9. Related Party Transactions:

The Company's sole shareholder (prior to closing of the Business Combination), Director and Chief Executive Officer also serves as Director and Chief Executive Officer of Old Xanadu, a related party. Old Xanadu has provided, and continues to provide, working capital advances for the Company to meet its financial obligations. These advances are non-interest bearing and are due on demand. As of December 31, 2025, the Company owed Old Xanadu $1,818, which is included in Due to related party in the accompanying balance sheet. There were no formal repayment terms in place as of the reporting date.

10. Subsequent events:

The Company has evaluated all events occurring through April 9, 2026, the date on which the Annual Financial Statements were issued, and during which time, nothing has occurred outside the normal course of business operations that would require disclosure except the following:

a. On November 3, 2025, Old Xanadu entered into the Business Combination Agreement with SPAC and Xanadu.

   On the Closing Date, Xanadu, Old Xanadu and SPAC consummated the Business Combination. Upon closing, Xanadu became the parent entity of both Old Xanadu and SPAC. Pre-closing, Xanadu's authorized share capital was amended to consist of three classes of shares: multiple voting shares (the "Class A Multiple Voting Shares"), the Class B Subordinate Voting Shares, and preferred shares issuable in series. At closing of the Business Combination and PIPE Financing, only Class A Multiple Voting Shares and Class B Subordinate Voting Shares were issued and outstanding; no preferred shares have been issued. Each Class A Multiple Voting Share entitles the holder to ten votes per share and each Class B Subordinate Voting Share entitles the holder to one vote per share. Xanadu has authorized an unlimited amount of Class A Multiple Voting Shares, Class B Subordinate Voting Shares, and preferred shares, with no par value.

10. Subsequent events: (cont.)

On the Closing Date: (i) each outstanding Old Xanadu preferred share was converted into and exchanged for one Old Xanadu voting common share; and (ii) one minute thereafter, (A) each outstanding Old Xanadu voting common share (including those issued upon conversion of Old Xanadu preferred shares) was transferred to Xanadu in exchange for Class A Multiple Voting Shares, and (B) each outstanding Old Xanadu non-voting common share was transferred to Xanadu in exchange for Class B Subordinate Voting Shares, in each case, in a number equal to the Exchange Ratio (as defined in the plan of arrangement with respect to the Business Combination (the “Plan of Arrangement”)), with no fractional Xanadu shares issued.

One minute after the foregoing, (i) each option to acquire an Old Xanadu voting common share outstanding immediately prior to the Arrangement Effective Time (as defined in the Plan of Arrangement) (whether vested or unvested and notwithstanding the terms of any Old Xanadu equity incentive plan) was exchanged for options to acquire Class A Multiple Voting Shares and, (ii) each option to acquire an Old Xanadu non-voting common share outstanding immediately prior to the Arrangement Effective Time (whether vested or unvested and notwithstanding the terms of any Old Xanadu equity incentive plan) was exchanged for options to acquire Xanadu Class B Subordinate Voting Shares.

One minute after the foregoing, (i) the SFTrust Warrants (as defined in the Plan of Arrangement) outstanding immediately prior to the Arrangement Effective Time were exchanged for warrants to purchase Class A Multiple Voting Shares and, (ii) the RBC Warrants (as defined in the Plan of Arrangement) outstanding immediately prior to the Arrangement Effective Time were exchanged for warrants to purchase Class B Subordinate Voting Shares.

Holders of 19,428,395 SPAC Class A common shares exercised their right to redeem such shares for a pro rata portion of SPAC's trust account, resulting in aggregate redemption payments of approximately $201,154 ($10.35 per share) out of approximately $227,800 in the SPAC trust account at the time. After redemptions, 3,211,605 SPAC Class A shares remained outstanding and were exchanged for Class B Subordinate Voting Shares.

Concurrently with the closing of the Business Combination, Xanadu issued 27,500,000 Class B Subordinate Voting Shares to PIPE Investors at $10.00 per share for aggregate gross proceeds of $275,000 pursuant to subscription agreements entered into in connection with the Business Combination Agreement. As of December 31, 2025, contingent on the issuance of the Class B Subordinate Voting Shares, Xanadu has commitments of up to $28,950 associated with, and contingent on, the closing of the equity raise.

On March 27, 2026, in connection with the closing of the Business Combination, Xanadu was listed on Nasdaq and the TSX under the symbol “XNDU”.

For accounting purposes, the Business Combination was accounted for as a reverse recapitalization whereby Old Xanadu was treated as the accounting acquirer and SPAC was treated as the acquired company. Xanadu is the legal parent and is not considered to be the accounting acquirer or acquiree in the Business Combination in accordance with U.S. GAAP.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Xanadu Quantum Technologies Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Xanadu Quantum Technologies Inc. and subsidiaries (the Company) as of December 31, 2025 and 2024, the related consolidated statements of operations and comprehensive loss, shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2025, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2025, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company’s auditor since 2020.

Toronto, Canada
April 9, 2026

XANADU QUANTUM TECHNOLOGIES INC.
Consolidated Balance Sheets
(In thousands, except for share and per share amounts)

	December 31, 2025	December 31, 2024
Assets		
Current assets:		
Cash and cash equivalents	$ 16,164	$ 77,619
Accounts receivable, net	9,477	1,259
Materials and supplies	8,344	3,198
Prepaid expenses and other current assets	6,229	8,291
Total current assets	40,214	90,367
Property and equipment, net	18,313	15,376
Operating right-of-use assets, net	6,949	7,490
Intangible assets, net	5,128	3,532
Total assets	$ 70,604	$ 116,765
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 2,802	$ 1,652
Accrued expenses and other current liabilities	2,191	2,169
Deferred revenue	544	309
Deferred grant income	492	-
Short-term operating lease liabilities	1,074	996
Warrant liabilities	1,874	258
Total current liabilities	8,977	5,384
Long-term operating lease liabilities	7,185	7,877
Long-term debt	29,998	16,009
Total liabilities	$ 46,160	$ 29,270
Commitments and contingencies (note 19)		
Shareholders' equity:		
Common shares, no par value, 29,788,450 shares authorized, 4,959,800 and 4,924,563 shares issued and outstanding at December 31, 2025 and 2024, respectively	7,585	7,399
Convertible preferred shares, no par value, 18,104,551 shares authorized, 17,718,491 issued and outstanding at both December 31, 2025 and 2024	213,002	213,002
Additional paid-in capital	10,151	5,937
Accumulated deficit	(206,303)	(135,636)
Accumulated other comprehensive income (loss)	9	(3,207)
Total shareholders' equity	24,444	87,495
Total liabilities and shareholders' equity	$ 70,604	$ 116,765

Subsequent events (note 22)

On behalf of the Board of Directors

/s/ Christian Weedbrook	/s/ Michael Trzupek
Christian Weedbrook, CEO and Director	Michael Trzupek, CFO and Director

See accompanying notes to consolidated financial statements.

XANADU QUANTUM TECHNOLOGIES INC.
Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except for share and per share amounts)

	Year Ended December 31,		
	2025	**2024**	**2023**
Revenue	$ 4,617	$ 1,589	$ 2,479
Operating expenses:			
Cost of revenue (exclusive of depreciation and amortization below)	361	466	605
Research and development	55,237	39,223	35,718
General and administrative	15,415	6,863	6,034
Sales and marketing	1,190	1,051	607
Depreciation and amortization	5,849	4,869	3,730
Other operating income, net	(4,113)	(287)	(2,518)
Total operating expenses	73,939	52,185	44,176
Loss from operations	(69,322)	(50,596)	(41,697)
Other income (expense), net:			
Interest income (expense), net	1,209	4,670	6,507
Other income (expense), net	(2,554)	(42)	(402)
Total other income (expense), net	(1,345)	4,628	6,105
Net loss	$ (70,667)	$ (45,968)	$ (35,592)
Net loss per share, basic and diluted	$ (14.29)	$ (9.35)	$ (7.27)
Weighted average shares used in computing net loss per share, basic and diluted	4,944,814	4,917,324	4,892,803
Comprehensive loss:			
Net loss	$ (70,667)	$ (45,968)	$ (35,592)
Cumulative translation adjustment	3,216	(1,425)	457
Net comprehensive loss	$ (67,451)	$ (47,393)	$ (35,135)

See accompanying notes to consolidated financial statements.

Xanadu Quantum Technologies Inc.
Consolidated Statements of Shareholder's Equity
(In thousands, except for share and per share amounts)

	Common shares		Preferred shares		Total Share Capital	Additional paid-in capital	Deficit	Accumulated other comprehensive income (loss)	Total
	Number	Amount	Number	Amount					
Balance, January 1, 2023	4,872,083	$ 7,128	17,718,491	$ 213,002	$ 220,130	$ 911	$ (54,076)	$ (2,239)	$ 164,726
Loss for the year	-	-	-	-	-	-	(35,592)	-	(35,592)
Stock-based compensation	-	-	-	-	-	2,206	-	-	2,206
Exercise of stock options	40,377	159	-	-	159	(44)	-	-	115
Cumulative translation adjustment, net of tax	-	-	-	-	-	(13)	-	457	444
Balance, December 31, 2023	4,912,460	$ 7,287	17,718,491	$ 213,002	$ 220,289	$ 3,060	$ (89,668)	$ (1,782)	$ 131,899
Loss for the year	-	-	-	-	-	-	(45,968)	-	(45,968)
Stock-based compensation	-	-	-	-	-	2,893	-	-	2,893
Exercise of stock options	12,103	112	-	-	112	(30)	-	-	82
Cumulative translation adjustment, net of tax	-	-	-	-	-	14	-	(1,425)	(1,411)
Balance, December 31, 2024	4,924,563	$ 7,399	17,718,491	$ 213,002	$ 220,401	$ 5,937	$ (135,636)	$ (3,207)	$ 87,495
Loss for the year	-	-	-	-	-	-	(70,667)	-	(70,667)
Stock-based compensation	-	-	-	-	-	4,268	-	-	4,268
Exercise of stock options	35,237	186	-	-	186	(62)	-	-	124
Cumulative translation adjustment, net of tax	-	-	-	-	-	8	-	3,216	3,224
Balance, December 31, 2025	4,959,800	$ 7,585	17,718,491	$ 213,002	$ 220,587	$ 10,151	$ (206,303)	$ 9	$ 24,444

See accompanying notes to consolidated financial statements.

XANADU QUANTUM TECHNOLOGIES INC.
Consolidated Statements of Cash Flows
(In thousands, except for share and per share amounts)

	Year Ended December 31, 2025	2024	2023
Cash flows from operating activities:			
Net loss	$ (70,667)	$ (45,968)	$ (35,592)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	5,849	4,869	3,730
Amortization of operating right of use assets	887	815	788
Stock-based compensation	4,017	2,893	2,206
Amortization of debt issuance costs	9	135	159
Interest accretion on long-term debt	851	552	102
Change in fair value of warrant liabilities	1,616	9	195
Other non-cash adjustments, net	-	377	281
Change in operating assets and liabilities:			
Accounts receivable	(7,998)	47	91
Materials and supplies	(4,885)	(3,188)	(11)
Prepaid expenses and other current assets	1,680	(4,192)	(1,100)
Accounts payable	1,042	1,267	165
Accrued expenses and other current liabilities	(89)	1,285	(20)
Deferred revenue	225	308	(713)
Deferred grant income	472	-	-
Operating lease liabilities	(1,054)	(946)	(661)
Receipt of lease allowances	-	-	831
Net cash provided by (used in) operating activities	(68,045)	(41,737)	(29,549)
Cash flows from financing activities:			
Proceeds from exercise of stock options	124	82	115
Repayments of long-term debt	-	-	(2,509)
Proceeds from long-term debt	12,112	9,213	6,706
Net cash provided by (used in) financing activities	12,236	9,295	4,312
Cash flows from investing activities:			
Purchase of property and equipment	(6,179)	(4,767)	(8,899)
Proceeds from sale of property and equipment	-	-	449
Purchase of intangible assets	(2,684)	(1,908)	(1,519)
Net cash provided by (used in) investing activities	(8,863)	(6,675)	(9,969)
Effects of foreign exchange rates on cash and cash equivalents	3,217	(723)	668
Increase (decrease) in cash and cash equivalents	(61,455)	(39,840)	(34,538)
Cash and cash equivalents, beginning of year	77,619	117,459	151,997
Cash and cash equivalents, end of year	$ 16,164	$ 77,619	$ 117,459
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ -	$ -	216
Supplemental disclosure of non-cash investing and financing activities:			
Capitalized stock-based compensation	$ 251	$ -	$ -
Purchases of property and equipment included in accounts payable	$ 16	$ 110	$ 20
Operating lease right-of-use assets subject to lease liability	$ -	$ 427	$ -

See accompanying notes to consolidated financial statements.

1. Description of business:

Xanadu Quantum Technologies Inc., together with its wholly owned subsidiaries ("Old Xanadu") specializes in designing photonic devices and the platforms around them, including the experimentation and development of quantum computers available on the cloud with supporting software, along with quantum simulators and other related products and offerings.

Xanadu Quantum Technologies Inc. was incorporated under the *Canada Business Corporations Act* on December 7, 2016, and subsequently continued under the *Business Corporations Act* (Ontario) on October 29, 2025. The corporate office address is located at 777 Bay Street, Suite 2400, Toronto, Ontario.

2. Basis of presentation and summary of significant accounting policies:

(a) Basis of presentation:

The accompanying consolidated financial statements of the Old Xanadu are presented in U.S. dollars ("USD") and prepared on a going concern basis in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and pursuant to the accounting and disclosure rules and regulations of the Securities and Exchange Commission ("SEC").

(b) Principles of consolidation:

The consolidated financial statements of the Old Xanadu include the accounts of the Old Xanadu and all of its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

(c) Liquidity and capital management:

The accompanying consolidated financial statements have been prepared on a basis that assumes Old Xanadu will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. Old Xanadu has incurred recurring net losses and negative cash flows from operations since inception. As of December 31, 2025, and 2024, Old Xanadu had an accumulated deficit of $(206,303) and $(135,636), respectively. For the years ended December 31, 2025, 2024, and 2023 Old Xanadu incurred net losses of $(70,667), $(45,968), and $(35,592) respectively, and Old Xanadu had net cash outflows from operating activities of $(68,045), $(41,737), and $(29,549) respectively. As of December 31, 2025 and 2024, Old Xanadu had cash and cash equivalents of $16,164 and $77,619 and net working capital of $31,237 and $84,983, respectively.

On March 26, 2026, Old Xanadu successfully consummated its business combination with Crane Harbor Acquisition Corp. ("SPAC") and Xanadu Quantum Technologies Limited ("Xanadu") (the "Business Combination") and a concurrent PIPE investment (the "PIPE Financing"). These transactions resulted in gross proceeds of approximately $302 million (note 22).

Based on Old Xanadu's current operating plan, management believes that the existing cash and cash equivalents, combined with the proceeds from the Business Combination and PIPE Financing, will be sufficient to fund operations, research and development activities, and capital expenditure requirements for at least twelve months from the date these consolidated financial statements are issued.

(d) Use of estimates:

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments, and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The most significant estimates and assumptions are used in determining: (i) the fair value of underlying shares used in the valuation of equity-settled stock-based payments; (ii) long term revenue forecasts used in accounting for the SIF Loan (note 9), and (iii) the estimated percentage completion in fixed fee professional services revenue arrangements. These estimates, judgments, and assumptions are evaluated on an ongoing basis. Estimates are based on historical experience and other various assumptions management believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results and outcomes could differ materially from management's estimates, judgments, and assumptions.

2. Basis of presentation and summary of significant accounting policies: (cont.)

Old Xanadu's accounting estimates and assumptions may change over time in response to risks and uncertainties. As of the date of issuance of these consolidated financial statements, Old Xanadu is not aware of any specific event or circumstance that would require Old Xanadu to update estimates, judgments or revise the carrying value of any assets or liabilities.

(e) Cash and cash equivalents:

Old Xanadu considers all short term highly liquid investments purchased with original maturities at their acquisition date of three months or less to be cash equivalents. Old Xanadu maintains its cash and investments with high quality financial institutions, which, at times, may exceed federally insured limits. Old Xanadu did not hold any cash equivalents as of December 31, 2025 and 2024.

(f) Accounts receivable, net:

Accounts receivable are non-interest bearing and represent amounts billed and currently due from customers at the gross invoiced amount as well as unbilled amounts related to unconditional rights for consideration to be received for services performed but not yet invoiced. A receivable is recorded when Old Xanadu has an unconditional right to receive payment. Old Xanadu's accounts receivable includes trade, interest and other types of receivables.

On a periodic basis, management evaluates its accounts receivable and determines whether to provide an allowance for credit losses. This assessment is based on management's evaluation of the aging of accounts, historical collection experience and current economic expectations. As of December 31, 2025 and 2024, Old Xanadu has not recorded any allowance for doubtful accounts.

(g) Materials and supplies, net:

Materials and supplies are carried at average cost and recorded in material and supplies in the consolidated balance sheets. Materials and supplies used in research and development efforts are expensed when consumed if an alternative use exists, otherwise are expensed when incurred. Old Xanadu expensed $8,277, $1,935, and $nil of materials and supplies consumed for the years ended December 31, 2025, 2024, and 2023 respectively.

Materials and supplies are evaluated for excess quantities and obsolescence. This evaluation includes an analysis of Old Xanadu's current and future strategic plans, risk of technological obsolescence, and general market conditions. During the years ended December 31, 2025, 2024, and 2023 excess and obsolescence charges were $1,950, $nil, and $nil respectively.

(h) Property and equipment, net:

Property and equipment are stated at acquisition cost, less accumulated depreciation and impairment. Depreciation on property and equipment is computed on a straight-line basis over the estimated useful lives of the assets at the time of acquisition. Leasehold improvements are amortized over the lesser of the term of the lease or the useful life of the asset.

2. Basis of presentation and summary of significant accounting policies: (cont.)

The estimated useful lives of Old Xanadu's property and equipment are as follows:

Computer systems and servers	3 years
Lab equipment	7 years
Test and computer equipment	7 years
Furniture and fixtures	3 years
Leasehold improvements	Shorter of lease term or estimated useful life

Repairs and maintenance costs are expensed as incurred. Upon disposition of property and equipment, the cost and related accumulated depreciation are derecognized and any resulting gain or loss is reflected in other income (expense), net within the consolidated statements of operations and comprehensive loss.

(i) Intangible assets, net:

Old Xanadu's intangible assets include patents and external software licenses, which are carried at cost less accumulated amortization and impairment. Intangible assets with finite useful lives are amortized over their estimated useful lives on a straight-line basis.

Old Xanadu capitalizes costs associated with internal use software incurred during the application development stage. Capitalized costs include external direct costs of materials and services utilized in developing or obtaining internal-use software and payroll and payroll-related expenses for employees who are directly associated with and allocate time to the internal-use software project. Capitalization of such costs begins when the preliminary project stage is complete and ceases when the project is substantially complete and ready for its intended purpose. Costs incurred during the preliminary project and post-implementation stages are charged to expense.

Patents	3 years
Internally developed software	5 years
Third-party perpetual software licenses	3 years

(j) Impairment of long-lived assets:

Long-lived assets, including property and equipment and finite-lived intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. The determination of whether any impairment exists includes a comparison of estimated undiscounted future cash flows anticipated to be generated over the remaining life of the asset or asset group to its net carrying value. If the estimated undiscounted future cash flows associated with the asset or asset group are less than the carrying value, an impairment loss is recognized to the extent the carrying amount of the asset or asset group exceeds its fair value. Old Xanadu did not recognize any impairment losses on long-lived assets during the years ended December 31, 2025, 2024, and 2023.

(k) Foreign currency translation and transactions:

Old Xanadu's reporting currency is the U.S. dollar and its functional currency is the Canadian dollar. The functional currency of Old Xanadu's international subsidiaries is the currency of their primary economic environment. The results and financial position of the parent entity and foreign subsidiaries whose functional currency is not the U.S. dollar are translated at exchange rates in effect as of the consolidated balance sheet dates for assets and liabilities and at average exchange rates for revenues and expenses for the respective periods. Translation adjustments are included as a cumulative translation adjustment in accumulated other comprehensive income (loss).

2. Basis of presentation and summary of significant accounting policies: (cont.)

Monetary assets and liabilities that are denominated in a currency other than Old Xanadu’s functional currency are translated into the functional currency using the exchange rates in effect as of the consolidated balance sheet dates, and revenues and expenses are translated at the exchange rates prevailing when the transactions occurred. Gains and losses resulting from translation are recognized in other income (expense), net in the consolidated statements of operations and comprehensive loss in the period in which they arise. Non-monetary assets and liabilities are translated at historical exchange rates.

(l) Revenue recognition:

Old Xanadu derives revenue primarily from: (i) professional services related to research projects, proof of concept development, and quantum education and (ii) compute and other services which includes provision of compute services, such as co-development and execution of quantum algorithms on Old Xanadu’s quantum computing systems, and provision, on a non-exclusive basis via access to its photonic based-hardware, of quantum-computing-as-a-service (“QCaaS”).

Revenue is recognized based on the following five step model in accordance with Accounting Standards Codification (“ASC”) 606, *Revenue from Contracts with Customers*:

- Identify the contract,
- Identify the performance obligations,
- Determine the transaction price,
- Allocate the transaction price to the performance obligations, and
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Old Xanadu enters into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Payment terms on invoiced amounts are typically net 30 days or less. Contract durations generally range from six months to several years. A contract’s transaction price is allocated to each distinct performance obligation based on their estimated standalone selling price. Old Xanadu determines standalone selling price based on the observable price of a product or service when it sells the products or services separately in similar circumstances and to similar customers. Certain products and services have limited or no history of being sold on a standalone basis. In these instances, Old Xanadu determines standalone selling price by considering its overall pricing objectives and market conditions, including cost plus a reasonable margin. Significant pricing practices considered include Old Xanadu’s discounting practices, the value of the contracts, historical standalone sales, customer demographics, geographic locations, and the number and types of users within the contracts.

Revenue is recognized net of taxes collected from customers, which are subsequently remitted to governmental authorities.

Professional services arrangements often include a series of activities with progress billing milestones. Old Xanadu’s professional services constitute an activity that provides benefits that the customer receives and consumes as the services are performed. The transaction price is generally fixed and stated in the contract with the customer. Professional services revenue is recognized based on hours and, or costs incurred as appropriate. Revenue for partially completed professional service performance obligations deemed probable of being met is recognized using an input measure based on actual labor hours incurred to date relative to total estimated labor hours required to complete the project. For fixed price contracts, revenue is recognized based on the input measure noted above as control is expected to transfer over the period that the project is completed.

2. Basis of presentation and summary of significant accounting policies: (cont.)

Old Xanadu has determined that its QCaaS, including non-exclusive access to photonic hardware, is a stand-ready performance obligation to provide ongoing access to its cloud-based quantum technology platform service. The transaction price generally consists of a fixed fee for a stated volume of usage to be made available over a defined period of access. Fixed fee arrangements may also include a variable component whereby customers pay additional fees for usage exceeding contractual volume as defined by the contractual agreements. The performance obligation related to the fixed fee is satisfied over time and revenue is recognized on a straight-line basis over the access period. Any additional fees relating to extra usage are recognized in the period they occur.

Old Xanadu's compute services represent a performance obligation that is satisfied over-time. Revenue is recognized on a straight-line basis over the contract term.

The timing of revenue recognition, billings and cash collection may result in accounts receivable, contract assets, and deferred revenue on Old Xanadu's consolidated balance sheets. A receivable is recorded in the period in which Old Xanadu provides services when it has an unconditional right to payment. Contract assets represent rights to consideration for services completed and revenue recognized for contracts that have not yet been invoiced to customers, which have been included within accounts receivable on the consolidated balance sheets.

Old Xanadu records deferred revenue when amounts are invoiced under contract terms or payments are received in advance of revenue recognition from products or services described above. Deferred revenue is recognized as and when the related performance obligations are satisfied.

Old Xanadu defers commission payments to employees or third parties that are direct and incremental to the acquisition of customer contracts in the period the contract is executed and are recognized into sales and marketing expense over a period consistent with the transfer of goods or services to the customer if that period is greater than one year. No such costs were incurred in the years presented.

(m) Cost of revenue

Cost of revenue consists of direct expenses related to building specialized quantum hardware and delivering Old Xanadu's services. Cost of revenue includes direct manufacturing costs, personnel-related expenses, including stock-based compensation, and overhead costs, including operating lease expenses, allocated to customer-facing functions. Depreciation and amortization of quantum systems and related software are excluded from cost of revenue.

(n) Research and development:

Research and development expenses are charged to the consolidated statement of operations and comprehensive loss as incurred. Research and development expenses are comprised of costs in performing research and development activities and include personnel-related costs, process development costs, chip fabrication costs, consulting fees, lab materials, software costs, cloud computing costs, and other related costs.

Where tangible assets or software to be used in research and development activities is constructed by Old Xanadu or acquired, the costs are expensed as incurred unless those assets have an alternative future use. When assets with alternative future use are consumed in research and development activities they are recorded as research and development expenses.

2. Basis of presentation and summary of significant accounting policies: (cont.)

(o) Stock-based compensation:

Old Xanadu accounts for stock-based compensation in accordance with ASC 718, *Compensation — Stock Compensation*. Equity-settled stock-based payments to employees and others providing similar services are recognized as stock-based compensation expense based on the fair value of the equity instruments at the grant date. Stock-based compensation expense is recognized over the requisite service period on a straight-line basis, with a corresponding increase in additional paid-in capital within shareholders' equity. Old Xanadu recognizes forfeitures as they occur.

(p) Advertising expenses:

Advertising costs are expensed as incurred and are included in sales and marketing expenses in the consolidated statements of operations and comprehensive loss. These costs totaled $490, $264, and $77 for the years ended December 31, 2025, 2024, and 2023, respectively.

(q) Leases:

Old Xanadu enters into operating leases for its office space tenancies. Operating leases are included in operating lease right-of-use ("ROU") assets and operating lease liabilities on the consolidated balance sheets. As of December 31, 2025, and 2024, Old Xanadu had no finance lease contracts.

Old Xanadu determines the initial classification and measurement of its ROU assets and lease liabilities at the lease commencement date. Operating lease ROU assets and operating lease liabilities are recognized on the consolidated balance sheets based on the present value of minimum lease payments over the lease term. Old Xanadu's leases do not provide an implicit rate, and therefore, the incremental borrowing rate based on the information available on the commencement date is used to determine the present value of lease payments. The lease term includes options to extend or terminate the lease when it is reasonably certain that Old Xanadu will exercise that option. Lease expense is recognized on a straight-line basis over the lease term.

Old Xanadu's lease agreements include lease and non-lease components, which are accounted for separately in the determination of lease costs. Variable lease and non-lease components are excluded from the lease payments used to measure the ROU assets and lease liabilities and are recognized in the consolidated statements of operations and comprehensive loss in the year in which the obligation for those payments is incurred.

Old Xanadu accounts for a lease modification as a separate contract when the modification grants the lessee an additional right of use not included in the original lease and when lease payments increase commensurate with the standalone price for the additional right of use. When a lease modification results in a separate contract, it is accounted for in the same manner as a new lease.

(r) Investment tax credits and government assistance:

Refundable investment tax credits ("ITCs") pursuant to the Scientific Research and Experimental Development ("SR&ED") program and other government assistance including grants and wage subsidies related to current expenditures are recorded as other operating income (expense), net within the consolidated statements of operations and comprehensive loss. Non-refundable investment tax credits are recorded as a reduction in income tax expense. Old Xanadu accounts for investment tax credits and government grants and subsidies by analogy to International Accounting Standard 20, *Accounting for Government Grants and Disclosures of Government Assistance*. The investment tax credits, and government grants and subsidies are recognized in income in the period when the related expenditure is recognized as an expense provided there is reasonable assurance that Old Xanadu has complied with, and will continue to comply with, all conditions necessary to obtain the government assistance or credit. Government grants and assistance related to capitalized expenditures are recognized as a reduction to the carrying amount of the related asset.

2. Basis of presentation and summary of significant accounting policies: (cont.)

(s) Convertible preferred shares:

Old Xanadu applies the provisions of ASC 480, *Distinguishing Liabilities from Equity* in determining the classification of convertible preferred shares as permanent equity, temporary equity, or liabilities. Factors considered include conversion features, embedded features, redemption features, and the nature of the host instrument. Convertible preferred shares classified as equity are recognized at the issuance price net of issuance costs.

(t) Income taxes:

Old Xanadu accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the estimated future tax consequences of events that have been included in the consolidated financial statements or in Old Xanadu's tax returns. Under this method, deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts in the consolidated financial statements and the tax basis of assets and liabilities. In addition, deferred tax assets and liabilities are recorded for non-capital loss carryforwards and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which they are expected to be realized or settled. Deferred tax assets are evaluated for future realization and reduced by a valuation allowance to the amount that is more likely than not to be realized. Factors considered when assessing the likelihood of future realization of deferred tax assets include Old Xanadu's recent cumulative loss experience and expectations of future earnings, capital gains and investments in the applicable jurisdiction, carryforward periods available for tax reporting purposes, among others.

Old Xanadu evaluates tax positions taken or expected to be taken in the course of preparing tax returns and applies a two-step approach in recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the available evidence indicates that it is more likely than not that the position will be sustained upon examination by the applicable tax authority. The second step, for those tax positions that meet the recognition criteria, is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

(u) Net loss per share:

Basic net loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares of common shares outstanding during each period. Old Xanadu's potentially dilutive securities include outstanding stock options and convertible preferred shares. Diluted net loss per share gives effect to all potentially dilutive securities, assuming that such shares were outstanding and dilutive during each period, except when the inclusion of the potentially dilutive securities would have an anti-dilutive effect.

Old Xanadu applies the two-class method when computing net loss per share, as Old Xanadu has issued shares that meet the definition of participating securities. The two-class method allocates earnings between common shareholders and holders of participating securities. Old Xanadu's convertible preferred shares are deemed to be participating securities due to their rights to participate in dividends with common shares. In periods where there is a net loss, no allocation of undistributed net loss to the convertible preferred shares is performed as the holders of the convertible preferred shares are not contractually obligated to absorb Old Xanadu's losses. Old Xanadu recognizes interest and penalties related to uncertain tax provisions as a component of income tax expense.

2. Basis of presentation and summary of significant accounting policies: (cont.)

(v) Fair value measurement:

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. In determining fair value, the use of various valuation methodologies, including market, income and cost approaches is permissible. The inputs to these methodologies consider market comparable information, taking into account the principal or most advantageous market in which Old Xanadu would transact. The fair value hierarchy prioritizes which inputs should be used in measuring fair value and requires the use of observable market data when available. There are three levels of inputs that may be used to measure fair value based on the reliability of inputs, and a financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement:

- Level 1: Quoted market prices in active markets that the reporting entity has the ability to access at the date of the fair value measurement.

- Level 2: Inputs other than quoted market prices described in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value measurement of the assets or liabilities.

(w) Concentration of credit risk:

Financial instruments that potentially subject Old Xanadu to concentration of credit risk principally consist of cash and cash equivalents and accounts receivable. Old Xanadu's policy is to place its cash and cash equivalents with high quality financial institutions to limit the amount of credit exposure. For Old Xanadu's accounts receivable and grants receivable, credit risk is dependent upon the financial stability of individual customers or government entity. Old Xanadu performs ongoing evaluations of its customers' and grantor's financial condition and does not have a history of material credit losses. Refer to note 18 for additional information around Old Xanadu's significant customers. Other receivables represent an insignificant part of Old Xanadu's financial position.

(x) Adoption of accounting pronouncements

During the year ended December 31, 2025, Old Xanadu elected to voluntarily discontinue the use of certain private company accounting alternatives previously permitted by the Private Company Council ("PCC") and transitioned to the reporting and disclosure requirements applicable to Public Business Entities ("PBEs") as defined in the FASB ASC Master Glossary. Old Xanadu believes this transition provides greater transparency and enhances the comparability of its financial position and results of operations for its stakeholders.

This change in accounting principle has been applied retrospectively to all periods presented. The transition to PBE standards primarily impacted Old Xanadu's disclosures related to fair value measurements and income taxes (note 8). This change did not result in a material adjustment to Old Xanadu's consolidated balance sheets, statements of operations and comprehensive loss, or cash flows for any period presented.

(In thousands, except for share and per share amounts)

2. Basis of presentation and summary of significant accounting policies: (cont.)

Effective January 1, 2025, Old Xanadu adopted ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This standard requires enhanced disaggregation within the effective tax rate reconciliation and additional information regarding income taxes paid. Old Xanadu adopted this guidance on a retrospective basis; accordingly, prior period disclosures have been recast to conform to the new requirements.

(y) Recently issued but not yet adopted accounting pronouncements:

In November 2024, the FASB issued Accounting Standard Update No. 2024-03, "Income Statement — Reporting Comprehensive Income — Expense Disaggregation Disclosures" ("ASU 2024-03"). The standard requires additional expense disclosures by public business entities in the notes to the financial statements. The guidance is effective for annual periods beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2027, with early adoption permitted. Old Xanadu will adopt this guidance in the year-ended December 31, 2027 and is in the process of evaluating the impact of this standard on its consolidated financial statements.

In December 2025, the FASB issued ASU 2025-10, *Government Grants (Topic 832): Accounting for Government Grants Received by Business Entities*, which provides an authoritative framework for the recognition, measurement, and presentation of government grants. This guidance is effective for Old Xanadu for fiscal years beginning after December 15, 2028, and interim periods within those years, with early adoption permitted. Old Xanadu is currently evaluating the impact of this guidance on its consolidated financial statements but does not expect the adoption to have a material impact on its financial position, results of operations, or cash flows.

3. Accounts receivable, net:

Old Xanadu's accounts receivable include trade, interest and other receivables as of December 31, 2025 and 2024:

	2025	2024
Accounts receivable	$ 100	$ 607
Other receivables	86	437
Grant receivable	5,011	-
Contract assets	1,499	207
Sales tax receivable	963	8
Related party receivable (note 21)	1,818	-
Total	$ 9,477	$ 1,259

As of both December 31, 2025 and 2024, Old Xanadu's allowance for doubtful accounts was $nil.

(In thousands, except for share and per share amounts)

4. Prepaid expenses and other current assets:

Prepaid expenses and other current assets are comprised of the following as of December 31, 2025 and 2024:

	2025	2024
Prepaid materials and supplies	$ 3,675	$ 5,839
Prepaid professional services	154	881
Other prepaid expenses and current assets	2,400	1,571
Total	$ 6,229	$ 8,291

5. Accrued expenses and other current liabilities:

Accrued expenses and other current liabilities are comprised of the following as of December 31, 2025 and 2024:

	2025	2024
Accrued salaries and other payroll liabilities	$ 36	$ 90
Accrued professional services	1,962	774
Other accrued expenses and current liabilities	193	1,305
Total	$ 2,191	$ 2,169

6. Property and equipment, net:

Property and equipment, net consisted of the following:

	2025	2024
Computer systems and servers	$ 1,083	$ 823
Test and computer equipment	16,988	11,558
Lab equipment	9,604	8,605
Furniture and fixtures	286	273
Leasehold improvements	3,637	2,870
Total	$ 31,598	$ 24,129
Less: Accumulated depreciation	(13,285)	(8,753)
Property and equipment, net	$ 18,313	$ 15,376

During the years ended December 31, 2025, 2024, and 2023 Old Xanadu recognized depreciation expense of $4,310, $3,695, and $2,813 respectively, related to property and equipment.

(In thousands, except for share and per share amounts)

7. Intangible assets, net:

Intangible assets, net consisted of the following:

	As of December 31, 2025		
	Cost	Accumulated Amortization	Net Book Value
Patents	$ 2,226	$ (1,383)	$ 843
Internally developed software	7,586	(3,352)	4,234
External software licenses	180	(129)	51
Total	$ 9,992	$ (4,864)	$ 5,128

	As of December 31, 2024		
	Cost	Accumulated Amortization	Net Book Value
Patents	$ 1,531	$ (933)	$ 598
Internally developed software	4,980	(2,129)	2,851
External software licenses	163	(80)	83
Total	$ 6,674	$ (3,142)	$ 3,532

During the years ended December 31, 2025, 2024, and 2023, Old Xanadu recognized amortization expense of $1,539, $1,174, and $917 related to intangible assets, respectively.

As of December 31, 2025, estimated amortization expense related to intangible assets is as follows:

Fiscal years ending December 31,	
2026	$ 1,782
2027	1,466
2028	986
2029	632
2030	262
Thereafter	-
Total	$ 5,128

8. Income taxes:

The following table presents the components of net loss before income taxes generated by domestic and foreign operations:

	Years ended December 31,		
	2025	2024	2023
Domestic	$ (70,629)	$ (45,965)	$ (35,592)
Foreign	(38)	(3)	-
Net loss before income taxes	$ (70,667)	$ (45,968)	$ (35,592)

(In thousands, except for share and per share amounts)

8. Income taxes: (cont.)

The provision for income taxes as of December 31, 2025, 2024, and 2023 is reconciled to net loss before income taxes as follows:

	Years ended December 31,					
	2025		2024		2023	
Net Loss before income taxes	$ (70,667)		$ (45,968)		$ (35,592)	
Canadian federal statutory tax rate[1]	15%		15%		15%	
Expected provision for income taxes at federal statutory rate	$ (10,600)	15.0%	$ (6,895)	15.0%	$ (5,339)	15.0%
Foreign tax effects:						
Other	6	(0.0)%	-	-	-	-
Non-taxable or non-deductible items :						
Stock-based compensation	544	(0.8)%	453	(1.0)%	327	(0.9)%
Other	428	(0.6)%	60	(0.1)%	46	(0.1)%
Tax credits	(6,205)	8.8%	-	-	(1,770)	5.0%
Change in valuation allowance	13,179	(18.6)%	6,391	(13.9)%	6,768	(19.0)%
Return to provision true-up	323	(0.5)%	-	-	44	(0.1)%
Foreign exchange	2,325	(3.3)%	(9)	0.0%	(76)	0.1%
Provision for income taxes	-	-	-	-	-	-
Effective tax rate	-	-	-	-	-	-

(1) We apply the federal tax rate of 15% which is the federal statutory rate of Canada, net of the general tax reduction and tax abatement.

The components of Old Xanadu's deferred tax assets and liabilities as of December 31, 2025, 2024, and 2023 are as follows:

	Years ended December 31,		
	2025	2024	2023
Non-capital losses available for carryforward	$ 16,170	$ 14,002	$ 15,844
Investment tax credits	13,245	3,814	4,139
SR&ED Pool	12,336	2,074	2,250
Intangible assets	15,268	14,388	3,560
Lease liability	2,189	2,124	2,699
Donations	3	3	2
Deferred grant income	130	-	-
Total deferred tax assets	$ 59,341	$ 36,405	28,494
Property and equipment	(267)	(926)	(1,283)
Tax on investment credits	(2,778)	(767)	(832)
Financing costs	(93)	(62)	(71)
Right-of-use assets	(1,842)	(1,758)	(2,264)
Total deferred tax liabilities	$ (4,980)	$ (3,513)	$ (4,450)
Net deferred tax assets before valuation allowance	$ 54,361	$ 32,892	$ 24,044
Valuation allowance	(54,361)	(32,892)	(24,044)
Net deferred tax assets (liabilities)	$ -	$ -	$ -

(In thousands, except for share and per share amounts)

8. Income taxes: (cont.)

Old Xanadu has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets and determined that it is more likely than not that it will not realize most of the benefits of its deferred tax assets due to the cumulative operating loss in recent years. Accordingly, Old Xanadu has provided a full valuation allowance as at December 31, 2025, 2024, and 2023. The net increase in the valuation allowance of $21,469 in the year ended December 31, 2025 is primarily due to the impact of capitalized research and development expenses and current year operating losses. Old Xanadu will continue to reassess the valuation allowance quarterly and if future evidence allows for a partial or full release of the valuation allowance, a tax benefit will be recorded accordingly.

As at December 31, 2025, Old Xanadu has unused Canadian non-capital loss carry forwards of approximately $60,990 (2024: $52,839, 2023: $59,788), which are available to offset future taxable income. The loss carry forwards expire between 2042 and 2045. In addition, Old Xanadu has non-refundable Canadian ITCs of approximately $13,245 (2024: $3,814, 2023: $4,139) expiring between 2039 and 2044, which are available to be applied against future Canadian income taxes payable.

Old Xanadu had no material uncertain income tax positions for the years ended December 31, 2025, 2024, and 2023. During the years ended December 31, 2025, 2024, and 2023, there were no material interest or penalties related to uncertain tax positions. Old Xanadu remains subject to audit by the relevant tax authorities for the years ended 2022 through 2025.

9. Long-term debt:

As of December 31, 2025 and 2024, Old Xanadu's long-term debt is comprised of the Government of Canada Strategic Innovation Fund ("SIF") Loan, and the Government of Canada Federal Economic Development Agency ("FedDev") Loan as follows:

	As of December 31,	
	2025	**2024**
SIF Loan	$ 27,536	$ 13,978
FedDev Loan	2,462	2,031
Total long-term debt	$ 29,998	$ 16,009

(a) SIF Loan

Under the SIF Loan, SIF is committed to provide Old Xanadu contributions up to C$40,000 contingent on Old Xanadu incurring defined eligible expenditures. Contributions from SIF shall be used for the development of photonic-based, fault-tolerant quantum computers, including projects involving the adaptation of research findings for commercial applications, development of current products through the implementation of new or incremental technology, and development of process improvements which reduce the environmental footprint of current production. As of December 31, 2025 and 2024, Old Xanadu has received C$35,682 and C$19,214 in total funding from SIF, respectively.

(In thousands, except for share and per share amounts)

9. Long-term debt: (cont.)

Principal and interest amounts to be repaid under the SIF Loan are determined using a revenue-based formula and are capped at 150% of the principal amount. Repayments are due in up to 20 annual installments, commencing on April 30, 2028. If the total of the 20 revenue-based annual installments is less than the principal amount, any remaining repayment obligation will be forgiven. While revenue projections are inherently uncertain given the early stage of the quantum industry, Old Xanadu's interest calculation anticipates repayments commencing as early as 2028 and repayment of the full principal amount, at the 150% level, by the end of the 20 year repayment installment period.

The SIF Loan includes certain covenants requiring Old Xanadu to support high-skilled jobs in Canada, collaborate with Canadian institutions and small and medium-sized Canadian-based enterprises, and invest in R&D within Canada. Repayments of the SIF Loan can also be triggered upon default on loan covenants in the agreement, termination of the agreement, or upon a change of control that has not been approved by the Government of Canada. Old Xanadu determined the Business Combination did not constitute a change in control as defined in the SIF Loan and no approvals were required by the Government of Canada. As of December 31, 2025 and 2024, Old Xanadu was in compliance with all events that would trigger default or termination of the agreement.

Old Xanadu accounts for the SIF Loan as a liability on Old Xanadu's consolidated balance sheets in accordance with ASC 470-10-25, *Sales of Future Revenues*. The SIF Loan is initially measured at face value and is subsequently amortized using the effective interest method, which includes accrued interest expense over the estimated term of the SIF Loan. The amortization schedule is based on projected cash flows derived from Old Xanadu's long-term revenue forecast. Subsequent changes in forecasted cash flows will be accounted for under the retrospective method, which entails a new effective interest rate being computed each period based on the original proceeds received, actual cash flows to date, and the revised estimate of remaining cash flows. The new discount rate is then used to adjust the carrying value of the debt to the present value of the revised cash flows, discounted at the new effective interest rate. The offset is recognized in interest income (expense), net. As the SIF Loan is originated through a government program, a market rate of interest is not imputed in accordance with the scope limitations of ASC 835.

As of December 31, 2025 and 2024, Old Xanadu determined a weighted average effective interest rate of 4.69% and 5.52%, respectively, based on the most recent revenue projections at each reporting date. During the years ended December 31, 2025 and 2024, Old Xanadu recognized $897 and $511 of interest expense, respectively, related to the SIF Loan, inclusive of foreign exchange, respectively, within interest income (expense), net in the consolidated statements of operations and comprehensive loss. This included $182 of gains and $24 of losses related to retrospective method adjustments to the accrued interest portion of the SIF Loan during the years ended December 31, 2025 and 2024, respectively.

The following table summarizes the changes in the carrying value of the SIF Loan:

Balance as of December 31, 2023	$	6,413
Contributions received, net of changes in foreign exchange rates		7,054
Interest expense, net of changes in foreign exchange rates		511
Balance as of December 31, 2024	$	13,978
Contributions received, net of changes in foreign exchange rates		12,661
Interest expense, net of changes in foreign exchange rates		897
Balance as of December 31, 2025	$	27,536

(In thousands, except for share and per share amounts)

9. Long-term debt: (cont.)

As of December 31, 2025, Old Xanadu has classified the SIF Loan as non-current as repayments will not commence within the 12 months following the balance sheet date.

(b) FedDev Loan

Under the FedDev Loan, an aggregate principal amount of C$3,750 is made available to Old Xanadu based on Old Xanadu's incurrence of eligible expenditures. Proceeds from the FedDev Loan shall be used to advance and commercialize Old Xanadu's quantum products. As of December 31, 2025 and 2024, Old Xanadu had received C$3,375 and C$2,920, respectively, in gross proceeds from the FedDev Loan.

The FedDev Loan is repayable in 60 monthly installments commencing on April 1, 2027. As the FedDev Loan originated through a government program with regulated interest, a market rate of interest is not imputed in accordance with the scope exclusions of ASC 835.

The FedDev Loan includes certain event of defaults, including when Old Xanadu fails to meet the objectives or milestones outlined in the agreement. Repayment of the FedDev Loan can also be triggered upon the occurrence of an event of default stated in the agreement. As of December 31, 2025, Old Xanadu is not aware of any events that would trigger default of the agreement.

The following table summarizes the changes in the carrying value of the FedDev Loan:

Balance as of December 31, 2023	$	395
Contributions received, net of changes in foreign exchange rates		1,636
Balance as of December 31, 2024	$	2,031
Contributions received, net of changes in foreign exchange rates		431
Balance as of December 31, 2025	$	2,462

As of December 31, 2025, Old Xanadu has classified the FedDev Loan as non-current as repayments will not commence within the 12 months following the balance sheet date.

The following table summarizes the expected repayment schedule of the FedDev Loan.

2026	$	-
2027		364
2028		547
2029		547
2030		547
2031 and thereafter		732
Total repayments	$	2,737

10. Warrant liabilities:

As of December 31, 2025 and 2024, Old Xanadu's warrant liabilities are comprised of the SFTrust Warrants and RBC Warrants (each, as defined below) as follows:

		2025		2024
SFTrust Warrants	$	915	$	141
RBC Warrants		959		117
Total warrant liabilities	$	1,874	$	258

(In thousands, except for share and per share amounts)

10. Warrant liabilities: (cont.)

The fair value of Old Xanadu's warrant liabilities is estimated using a Black-Scholes option pricing model. Inherent in a Black-Scholes option pricing model are assumptions related to the fair value of the underlying common shares, expected stock-price volatility, expected term, risk-free interest rate and dividend yield.

(a) Silicon Valley Bank warrants:

In 2018, Silicon Valley Bank was issued 34,000 warrants. All 34,000 warrants issued have an exercise price of C$0.29 per share and a 10-year term from their original issuance. The fair value of the SFTrust warrants on their respective grant dates were recognized within additional paid-in capital with an offset to debt issuance costs.

In connection with a 2021 amendment, Silicon Valley Bank was issued warrants to purchase 24,164 voting common shares representing 0.1% of the fully diluted shares, post series B financing, on the same terms and conditions as established for other common shareholders. Half of the warrants vested immediately upon entering into the amendment with the other half were contingent upon the draw of the Silicon Valley Bank term loan ("SVB Term Loan") exceeding $5,000. All 12,082 vested warrants have an exercise price of $1.69 per share and a 12-year term from their original issuance. The warrants (collectively, the "SFTrust Warrants") are recognized as a current liability on the consolidated balance sheets and are measured at fair value of $915 and $141 as of December 31, 2025 and 2024, respectively. The remaining 12,082 warrants have expired because Old Xanadu did not draw more than $5,000 of the SVB Term Loan prior to its full repayment and extinguishment on April 30, 2023.

As of both December 31, 2025 and 2024, no warrants were exercised, and 46,082 warrants were issued and outstanding.

(b) RBC Warrants:

The RBC Warrants issued have an exercise price of $12.94 per share and a 12-year term from their original issuance. The RBC Warrants are recognized as a current liability on the consolidated balance sheets and are measured at fair value of $959 and $117 as of December 31, 2025 and 2024, respectively.

As of both December 31, 2025 and 2024, no RBC Warrants were exercised, and 13,999 RBC Warrants were issued and outstanding.

11. Shareholders' equity:

(a) Convertible preferred shares:

The following table summarizes the number and amount of convertible preferred shares authorized and issued and outstanding as of December 31, 2025, 2024, and 2023 by series:

	Authorized	Issued and Outstanding	Amount
Series A Preferred Shares	3,975,516	3,975,516	19,765
Series B Preferred Shares	6,034,735	6,034,735	99,774
Series C Preferred Shares	2,862,494	2,476,434	87,158
Series 1 Seed Preferred Shares	2,847,306	2,847,306	1,883
Series 2 Seed Preferred Shares	970,344	970,344	1,562
Series 3 Seed Preferred Shares	1,414,156	1,414,156	2,860
Total	18,104,551	17,718,491	213,002

Each preferred share is convertible, at the option of the holder, into one common share at the holder's option, subject to certain adjustments including weighted average anti-dilution protection and down-round anti-dilution adjustments. As of December 31, 2025 and 2024, the maximum number of common shares that could be required to be issued if converted is 17,718,491 shares. The preferred shares automatically convert into common shares in the event of: (i) the closing of a public offering that results in proceeds of at least $50,000 or (ii) the voluntary conversion of at least a preferred majority.

(In thousands, except for share and per share amounts)

11. Shareholders' equity: (cont.)

Holders of the preferred shares are entitled to vote together as one series with holders of the voting common shares on an as-converted basis.

The preferred shares are not redeemable at the option of the holders thereof or Old Xanadu.

The preferred shares of each class and series rank senior to the common shares and pari passu with each other class and series of preferred shares with respect to dividends and return of capital in the event of a liquidation event. Dividends are non-cumulative. The holders of the preferred shares shall be entitled to receive any dividends if and when declared by the Board of Directors.

In the event of a deemed liquidation triggered by the sale of substantially all assets or a change of control resulting in Old Xanadu holding less than 50% voting rights, dissolution or winding up of Old Xanadu, the holders of each preferred share shall receive their original issue price, plus any declared but unpaid dividends on such share. Thereafter, any assets remaining following distribution to the holders of the preferred shares would be distributed to the holders of the common shares and any other series of shares ranking junior to the preferred shares.

Old Xanadu has determined that the preferred shares are more akin to equity instruments and are classified as permanent equity under ASC 480, *Distinguishing Liabilities from Equity.* In addition, the economic characteristics and risks of the embedded conversion options are clearly and closely related to the preferred shares. As such, the conversion options are not required to be bifurcated from the host instruments under ASC 815, *Derivatives and Hedging*.

(b) Common shares:

The following table summarizes the number and amount of non-voting and voting common shares authorized and issued and outstanding as of December 31, 2025, 2024, and 2023:

	December 31, 2025		
	Authorized	**Issued and Outstanding**	**Amount**
Voting common shares	24,468,242	4,854,733	7,096
Non-voting common shares	5,320,208	105,067	489
Total	29,788,450	4,959,800	7,585

	December 31, 2024		
	Authorized	**Issued and Outstanding**	**Amount**
Voting common shares	24,468,242	4,854,733	7,096
Non-voting common shares	5,320,208	69,830	303
Total	29,788,450	4,924,563	7,399

	December 31, 2023		
	Authorized	**Issued and Outstanding**	**Amount**
Voting common shares	24,468,242	4,854,733	7,096
Non-voting common shares	5,320,208	57,727	191
Total	29,788,450	4,912,460	7,287

(In thousands, except for share and per share amounts)

11. Shareholders' equity: (cont.)

The voting common shares have one vote per share. Dividends may be declared and paid on both the voting and non-voting common shares, subject in all cases to the rights and preferences of the holders of the preferred shares and authorization by the Board of Directors. In the event of any voluntary or involuntary liquidation, dissolution or winding-up of Old Xanadu, after payment of all preferential amounts required to be paid to the holders of preferred shares, the holders of the common shares and non-voting common shares are entitled to share equally, share-for-share, in any distribution of the remaining assets of Old Xanadu.

The following table summarizes the changes in issued and outstanding voting and non-voting common shares for the years ended December 31, 2025, 2024, and 2023:

	Voting Common Shares		Non-Voting Common Shares	
	Number	Amount	Number	Amount
Balance as of January 1, 2023	4,854,733	$ 7,096	17,350	$ 32
Issuance upon exercise of stock options	-	-	40,377	159
Balance as of December 31, 2023	4,854,733	$ 7,096	57,727	$ 191
Issuance upon exercise of stock options	-	-	12,103	112
Balance as of December 31, 2024	4,854,733	$ 7,096	69,830	$ 303
Issuance upon exercise of stock options	-	-	35,237	186
Balance as of December 31, 2025	4,854,733	$ 7,096	105,067	$ 489

12. Stock-based compensation:

Under Old Xanadu's 2017 Equity Incentive Plan (the "2017 Plan"), the Board of Directors is authorized to grant restricted shares and stock options for up to 1,393,773 non-voting common shares.

In April 2018, the Board of Directors approved the 2018 Equity Incentive Plan (the "2018 Plan"). The total option pool available for grant was 5,749,323 non-voting common shares under the 2018 Plan. As of December 31, 2025, 873,830 and nil options are still available for grant under the 2018 Plan and the 2017 Plan, respectively.

The options granted to date under the 2017 Plan and 2018 Plan have a service condition with the following vesting terms: (a) 25% of the options granted vest on a date that is one year after the date of grant and (b) the remaining unvested options vest in equal monthly installments for an additional 36 months.

The options terms initially dictated that the options would expire 10 years from the original grant date and 90 days from an employee's termination date. On September 5, 2025, a resolution was passed to extend the exercise period of options granted to certain terminated employees to June 30, 2026 and in the case of one employee to November 27, 2026. During the year ended December 31, 2025, Old Xanadu recorded $97 in stock option expense related to these modifications. There are no further amounts to recognize as all awards impacted had vested at the time of modification.

(In thousands, except for share and per share amounts)

12. Stock-based compensation: (cont.)

The following is a summary of Old Xanadu's stock options activity during the years ended December 31, 2025, 2024, and 2023:

	Number of Options	Weighted average exercise price (CAD)	Weighted average remaining contractual term (years)	Aggregate intrinsic value (CAD)
Balance as of January 1, 2023	1,857,041	$ 4.64	7.70	$ 23,307
Granted	1,830,772	17.63		
Exercised	40,377	3.86		
Expired and forfeited	214,454	14.20		
Balance as of December 31, 2023	3,432,982	$ 10.98	7.96	$ 26,440
Granted	685,875	18.79		
Exercised	12,103	9.19		
Expired and forfeited	235,326	13.28		
Balance as of December 31, 2024	3,871,428	$ 12.23	7.42	$ 25,987
Granted	804,768	47.48		
Exercised	35,237	5.02		
Expired and forfeited	255,269	18.16		
Balance as of December 31, 2025	4,385,690	$ 18.34	6.65	$ 397,700
Exercisable as of December 31, 2025	2,758,736	$ 10.07	5.33	$ 272,990
Unvested as of December 31, 2025	1,626,954	$ 32.37	8.89	$ 124,710

The fair value of the options granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2025	2024	2023
Dividend yield	—	—	—
Risk free rate	3.87%	4.28%	3.94%
Expected volatility(1)	37.76%	37.98%	37.75%
Expected option term (in years)(2)	6.00	6.00	5.98
Weighted average fair value of underlying common shares at grant date (CAD)(3)	$ 47.48	$ 18.94	$ 18.68
Fair value of options granted (CAD)	$ 20.53	$ 8.36	$ 7.72

(1) The expected volatility is based on that of comparable publicly traded companies.

(2) The expected term of stock options granted was calculated using the simplified method, which represents the average of the contractual term and the weighted-average vesting period of the option. Old Xanadu uses the simplified method because it does not have sufficient historical exercise data for its options to provide a reasonable basis upon which to estimate the expected term.

(3) The fair value of underlying common shares was determined by the Board of Directors at each award grant date based on a variety of factors, including the results obtained from an independent third-party valuation, the illiquid nature of Old

(In thousands, except for share and per share amounts)

12. Stock-based compensation: (cont.)

Xanadu's common shares, arm's-length sales of Old Xanadu's share capital, the effect of the rights and preferences of the preferred shareholders, and the prospects of a liquidity event, among others.

For the years ended December 31, 2025, 2024, and 2023, the total intrinsic value of stock options exercised was $1,402, C$116, and C$565 respectively.

The following table summarizes the stock-based compensation expense classified in the consolidated statements of operations and comprehensive loss for the years ended December 31, 2025, 2024, and 2023:

	2025	2024	2023
Cost of revenue	$ 110	$ 16	$ 33
Research and development	3,048	2,357	1,827
General and administrative	783	460	334
Sales and marketing	76	60	12
Total stock-based compensation expense	$ 4,017	$ 2,893	$ 2,206

For the years ended December 31, 2025, 2024, and 2023, total stock-based compensation capitalized to intangible assets was $251, $nil, and $nil respectively.

As of December 31, 2025, total unrecognized stock-based compensation cost related to unvested stock options was $15,764. This amount will be recognized over a weighted-average period of approximately 1.66 years.

13. Fair value measurement:

The carrying amounts of Old Xanadu's cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses and other current liabilities approximate their fair values due to the short-term maturity of these instruments. Apart from these instruments, the carrying amounts and fair values of Old Xanadu's financial assets and liabilities were as follows as of December 31, 2025, 2024, and 2023:

	2025		2024	
	Fair value	Carrying amount	Fair value	Carrying amount
Warrant liabilities – Level 3	$ 1,874	$ 1,874	$ 258	$ 258
SIF Loan – Level 3	23,609	27,536	10,688	13,978
FedDev Loan – Level 2	2,463	2,463	2,031	2,031

See note 10 for Old Xanadu's use of the Black-Scholes option pricing model in estimating the fair value of its warrant liabilities. The significant unobservable input used in the fair value measurement of Old Xanadu's warrant liabilities is the fair value of the underlying common shares, which was determined to be $77.82, $13.73, and $13.45 as of December 31, 2025, 2024, and 2023, respectively. A significant increase (decrease) to this input in isolation would have resulted in a significantly higher (lower) fair value measurement. Old Xanadu estimates the volatility of the underlying common stock for its warrants based on historical and implied volatility of select peer companies. The risk-free interest rate is based on the U.S. Treasury zero-coupon yield curve on the valuation date for a maturity commensurate with the expected remaining term of the warrants. The expected term of the warrants is assumed to be equal to their remaining contractual term. The dividend rate is based on the historical rate, which Old Xanadu anticipates remaining at zero. During the years ended December 31, 2025, 2024, and 2023, Old Xanadu recognized an increase of $1,616, a decrease of $12, and an increase of $196 related to the change in fair value of its warrant liabilities, respectively, within other income (expense), net in the statements of operations and comprehensive loss.

(In thousands, except for share and per share amounts)

13. Fair value measurement: (cont.)

The following summarizes the change in fair value of Old Xanadu's warrant liabilities for the years ended December 31, 2025 and 2024. Changes in fair value have been recognized within other income (expense), net in the consolidated statements of operations and comprehensive loss.

Fair value as of December 31, 2023	$	270
Change in fair value, net of changes in foreign exchange rates		(12)
Fair value as of December 31, 2024	$	258
Change in fair value, net of changes in foreign exchange rates		1,616
Fair value as of December 31, 2025	$	1,874

The fair values of Old Xanadu's long-term debt, including the SVB Term Loan, SIF Loan and FedDev Loan, are estimated based on discounting future cash flows at currently available interest rates with comparable terms.

The fair value measurement of the SIF Loan is considered a Level 3 valuation as it is based on a significant unobservable input related to the projected timing and amount of future revenues which determine expected future repayments.

14. Leases:

Old Xanadu enters into operating leases for its office space tenancies. As of December 31, 2025 and 2024, Old Xanadu's leases had a remaining lease term of eight years and nine years respectively. Old Xanadu has a one-time termination option to cancel one of its office space leases as of 2030 but has not included this termination option in the lease term as Old Xanadu does not expect to exercise this option. Old Xanadu's operating leases do not contain non-lease components.

Old Xanadu's office space leases are subject to annual operating costs that may change from time to time during the lease term. These costs are accounted for as variable lease payments and are recognized in the consolidated statements of operations and comprehensive loss in the year in which the obligation for these payments is incurred. These annual operating costs are a non-lease component, which are accounted for separately in the determination of lease costs.

The following table presents the components of lease cost for the years ended December 31, 2025, 2024, and 2023:

		2025		2024		2023
Operating lease cost						
Fixed lease cost	$	1,149	$	1,138	$	988
Lease cost relating to variable lease payments not included in the measurement of lease liabilities		971		1,014		1,069
Total operating lease cost	$	2,120	$	2,152	$	2,057
Total additions (reductions) to operating ROU assets	$	(905)	$	(1,029)	$	(1,619)

The weighted average discount rate used to measure Old Xanadu's operating lease liabilities was 3.61% as of December 31, 2025, 2024, and 2023.

(In thousands, except for share and per share amounts)

14. Leases: (cont.)

Old Xanadu's future minimum operating lease payments as of December 31, 2025 are as follows:

2026	$	1,291
2027		1,388
2028		1,459
2029		1,459
Thereafter		3,484
Total future minimum lease payments	$	9,081
Less: Imputed interest		822
Total operating lease liabilities	$	8,259
Less: Current portion of operating lease liabilities		1,074
Long-term portion of operating lease liabilities	$	7,185

15. Investment tax credits and government assistance:

Old Xanadu is a participant in Phase 1 of the Canadian Quantum Champions Program ("CQCP"), a strategic initiative by the Government of Canada to support the development of scalable and fault-tolerant quantum computing platforms. Under the terms of the Contribution Agreement dated December 10, 2025, with His Majesty the King in Right of Canada, as represented by the Minister of Industry, Old Xanadu is eligible to receive a non-repayable financial contribution of up to CAD $23,000. This funding is designated to reimburse 100% of eligible costs—primarily consisting of direct labour and research and development activities—incurred through March 31, 2027.

Funding is disbursed upon the successful completion of specific project Milestones, which include the submission and technical validation of an Initial Framework Proposal, an Interim Report, and a Final Report regarding quantum fault tolerance and scalability. The Agreement requires Old Xanadu to maintain its head office and facilities in Toronto, Ontario, for the duration of the four-year term and subjects all claims to final adjustments and potential holdbacks by the Minister. Additionally, Old Xanadu must comply with strict reporting requirements, including providing audited annual financial statements and maintaining records for periodic government audits.

As of December 31, 2025, Old Xanadu recorded $5,011 of grant receivable. Old Xanadu was permitted to claim eligible expenditures incurred on or after May 26, 2025, and as such recorded $5,011 of grant income within other operating income for the 2025 fiscal year.

During the year-ended December 31, 2025, Old Xanadu received an additional $1,706 through other government grants and tax credits for which Old Xanadu recognized $1,215 within other operating income (expense), net (2024 - $336, 2023 - $343) in the consolidated statement of operations and comprehensive loss and $491 was recognized on the consolidated balance sheet as of December 31, 2025 as deferred grant income (December 31, 2024-$nil).

(In thousands, except for share and per share amounts)

16. Interest income (expense), net:

Old Xanadu's interest income (expense), net during the years ended December 31, 2025, 2024, and 2023 is comprised of the following:

	2025	2024	2023
Interest income	$ 2,060	$ 5,222	$ 6,789
Interest expense	(851)	(552)	(282)
Total	$ 1,209	$ 4,670	$ 6,507

Interest expense includes $(851), $(552), and $(79) related to non-cash interest for the SIF loan and $nil, $nil, and $(198) related to non-cash interest for the SVB Term Loan for the years ended December 31, 2025, 2024, and 2023 respectively. The balance of the interest expense in 2023 was related to the SVB loan.

17. Net loss per share:

The following table sets forth the computation of basic and diluted net loss per share attributable to common shareholders for the years ended December 31, 2025, 2024, and 2023:

	Year ended December 31,		
	2025	2024	2023
Numerator:			
Net loss attributable to common shareholders, basic and diluted	$ (70,667)	$ (45,968)	$ (35,592)
Denominator:			
Weighted average common shares outstanding	4,944,814	4,917,324	4,892,803
Net loss per share attributable to common shareholders, basic and diluted	$ (14.29)	$ (9.35)	$ (7.27)

Old Xanadu has two classes of common shares, voting common shares and non-voting common shares, each with identical participation rights to dividends and liquidation preferences, and therefore, the calculation of net loss per share as described above is identical to the calculation under the two-class method.

Since Old Xanadu was in a loss position for all periods presented, basic net loss per share is the same as diluted net loss per share for all periods as the inclusion of all potential common shares outstanding would have been anti-dilutive.

Potentially dilutive securities (upon conversion) that were not included in the diluted net loss per share calculations because they would be anti-dilutive were as follows:

	Year ended December 31,		
	2025	2024	2023
Preferred shares as convertible to common shares (note 11)	17,718,491	17,718,491	17,718,491
Warrants as exercisable to common shares (note 10)	60,081	60,081	60,081
Stock options issued and outstanding (note 12)	4,385,690	3,871,428	3,432,982
Total	22,164,262	21,650,000	21,211,554

(In thousands, except for share and per share amounts)

18. Revenue and related balances:

(a) Disaggregation of revenue

Old Xanadu's revenue disaggregated by revenue source is as follows for the years ended December 31, 2025, 2024, and 2023, respectively:

	Year ended December 31,		
	2025	**2024**	**2023**
Professional services	$ 4,218	$ 1,307	$ 1,746
Compute and other services	399	282	733
Total revenue	$ 4,617	$ 1,589	$ 2,479

The following summarizes Old Xanadu's revenue by geography for the years ended December 31, 2025, 2024, and 2023, based on customer location:

	Year ended December 31,		
	2025	**2024**	**2023**
Canada	$ 814	$ 934	$ 1,865
United States	3,545	400	488
Rest of world	258	255	126
Total revenue	$ 4,617	$ 1,589	$ 2,479

Rest of world includes countries where revenue from a single country is not greater than 10% of Old Xanadu's total consolidated revenue for the year ended December 31, 2025 and 2024.

(b) Contract balances

Old Xanadu had contract assets totaling $1,499 and $207 as of December 31, 2025 and 2024, respectively, which are included within accounts receivable in the consolidated balance sheets.

Old Xanadu had deferred revenue (or contract liabilities) totaling $544 and $309 as of December 31, 2025 and 2024, respectively, all of which was current. During the years ended December 31, 2025, 2024, and 2023, $309, $39, and $74 of revenue was recognized that was included in the deferred revenue balance as of December 31, 2024, 2023, and 2022, respectively. The increase in deferred revenue of $235 during the year-ended December 31, 2025 is primarily driven by cash payments received or receivable in advance of satisfying Old Xanadu's performance obligations.

(c) Transaction price allocated to remaining performance obligations

Old Xanadu's revenue contracts are primarily short-term in nature with a contract term of six months to several years. For these contracts, Old Xanadu has applied the practical expedient for performance obligations that have an original expected duration of one year or less and does not disclose the remaining performance obligation as of the end of the reporting period or when Old Xanadu expects to recognize the revenue.

As of December 31, 2025, approximately $5,154 of revenue is expected to be recognized from remaining performance obligations on existing contracts, of which 100% is expected to be recognized in the next 12 months.

(In thousands, except for share and per share amounts)

18. Revenue and related balances: (cont.)

(d) Significant customers

The following summarizes the percentage of revenue from significant customers which accounted for ten percent or more of total revenue for the years ended December 31, 2025, 2024, and 2023:

	Year ended December 31,		
	2025	2024	2023
Customer 1	44%	-	-
Customer 2	20%	10%	-
Customer 3	14%	53%	70%
Customer 4	-	-	15%

As of December 31, 2025, 2024, and 2023, none of the outstanding customers have a receivables balance which exceeds 10% of the total trade and other receivables balance.

19. Commitment and contingencies:

(a) Lease obligations

Refer to note 14 for information on Old Xanadu's lease obligations as of December 31, 2025.

(b) Litigation

From time to time, Old Xanadu may become a party to various legal proceedings in the ordinary course of business. Management believes that there are currently no claims or actions pending against Old Xanadu, the ultimate disposition of which could have a material adverse effect on Old Xanadu's results of operations, financial condition, or cash flows, including third party infringement claims, labor and employment claims and threatened claims, tax and other matters.

In the normal course of business, Old Xanadu may agree to indemnify third parties with whom it enters into contractual relationships, including customers, lessors, and parties to other transactions with Old Xanadu, with respect to certain matters. Pursuant to these arrangements, Old Xanadu indemnifies, holds harmless and agrees to reimburse the indemnified parties for certain losses suffered or incurred by the indemnified party. It is not possible to reasonably estimate the overall maximum amount of these indemnification obligations. Historically, Old Xanadu has not been required to make payments under these obligations and, therefore, no liabilities have been recorded for these obligations in Old Xanadu's consolidated balance sheets.

As of December 31, 2025 and 2024, Old Xanadu was not subject to any material litigation or material pending litigation claims.

20. Segment information:

Operating segments are defined as components of an enterprise for which separate discrete information is available for evaluation by the chief operating decision maker ("CODM") in deciding how to allocate resources and in assessing performance.

Old Xanadu's CODM is its Chief Executive Officer. The CODM has determined that Old Xanadu operates in a single operating and reportable segment and manages segment performance and resource allocation based upon consolidated net loss. The measure of segment assets is reported on the consolidated balance sheets as total consolidated assets. Significant expenses reviewed by the CODM include those that are presented in the consolidated statements of operations and comprehensive loss. The CODM evaluates actual results compared to forecasted results for consolidated net loss, including significant expenses, when making decisions about allocating resources.

(In thousands, except for share and per share amounts)

20. Segment information: (cont.)

Substantially all of Old Xanadu's long-lived assets are located in Canada. Refer to note 18 for additional information about Old Xanadu's revenue by geography.

The following table sets forth Old Xanadu's segment information of revenue, significant expenses and net loss:

	Year ended December 31, 2025	2024	2023
Revenue	$ 4,617	$ 1,589	$ 2,479
Less:			
Operating expenses excluding salaries and payroll expense			
Cost of revenue (exclusive of depreciation and amortization below)	(89)	(368)	-
Research and development	(25,839)	(14,793)	(15,198)
General and administrative	(11,308)	(3,743)	(3,913)
Sales and marketing	(490)	(264)	(77)
Salaries and share-based compensation expense	(34,477)	(28,435)	(23,776)
Depreciation and amortization	(5,849)	(4,869)	(3,730)
Interest income (expense), net	1,209	4,670	6,507
Other segment items(1)	1,559	245	2,116
Net loss	$ (70,667)	$ (45,968)	$ (35,592)

(1) Other segment items include other operating income, net and other income (expense), net which are reflected in the consolidated statements of operations and comprehensive loss.

21. Related party transactions and balances:

On October 2, 2025, Xanadu was incorporated for the purpose of facilitating the Business Combination. Xanadu is 100% owned by Old Xanadu's Chief Executive Officer.

As of December 31, 2025, Old Xanadu has paid $1,806 of deferred transaction costs related to the Business Combination and $12 of audit fees on behalf of Xanadu. The total of these charges are due and payable from Xanadu and recorded as a related party receivable within accounts receivable on the Consolidated Balance Sheet as at December 31, 2025. The amounts are due on demand and are non-interest bearing.

Upon the successful completion of the Business Combination, these deferred costs will be recognized as a reduction of equity with the combined companies. In the event the Business Combination is not consummated, these costs will be charged to expense in the period that such determination is made.

22. Subsequent events:

Old Xanadu has evaluated all events occurring through April 9, 2026, the date on which the Annual Financial Statements were issued, and during which time, no significant events occurred outside the normal course of business operations that would require disclosure except the following:

(a) On November 3, 2025, Old Xanadu entered into the Business Combination with SPAC, and Xanadu.

On the Closing Date, Xanadu, Old Xanadu and SPAC consummated the Business Combination. Upon closing, Xanadu became the parent entity of both Old Xanadu and SPAC. Pre-closing, Xanadu's authorized share capital was amended to consist of three classes of shares: multiple voting shares (the "Class A Multiple Voting Shares"), subordinate voting shares (the Class B Subordinate Voting Shares"), and preferred shares issuable in series. At closing of the Business Combination and PIPE Financing, only Class A Multiple Voting Shares and Class B Subordinate Voting Shares were issued and outstanding; no preferred shares have been issued. Each Class A Multiple Voting Share entitles the holder to ten votes per share and each Class B Subordinate Voting Share entitles the holder to one vote per share. Xanadu has authorized an unlimited amount of Class A Multiple Voting Shares, Class B Subordinate Voting Shares, and preferred shares, with no par value.

On the Closing Date: (i) each outstanding Old Xanadu preferred share was converted into and exchanged for one Old Xanadu voting common share; and (ii) one minute thereafter, (A) each outstanding Old Xanadu voting common share (including those issued upon conversion of Old Xanadu preferred shares) was transferred to Xanadu in exchange for Class A Multiple Voting Shares, and (B) each outstanding Old Xanadu non-voting common share was transferred to Xanadu in exchange for Class B Subordinate Voting Shares, in each case, in a number equal to the Exchange Ratio (as defined in the plan of arrangement with respect to the Business Combination (the "Plan of Arrangement")), with no fractional Xanadu shares issued.

One minute after the foregoing, (i) each option to acquire an Old Xanadu voting common share outstanding immediately prior to the Arrangement Effective Time (as defined in the Plan of Arrangement) (whether vested or unvested and notwithstanding the terms of any Old Xanadu equity incentive plan) was exchanged for options to acquire Class A Multiple Voting Shares and, (ii) each option to acquire an Old Xanadu non-voting common share outstanding immediately prior to the Arrangement Effective Time (whether vested or unvested and notwithstanding the terms of any Old Xanadu equity incentive plan) was exchanged for options to acquire Xanadu Class B Subordinate Voting Shares.

One minute after the foregoing, (i) the SFTrust Warrants (as defined in the Plan of Arrangement) outstanding immediately prior to the Arrangement Effective Time were exchanged for warrants to purchase Class A Multiple Voting Shares and, (ii) the RBC Warrant (as defined in the Plan of Arrangement) outstanding immediately prior to the Arrangement Effective Time were exchanged for warrants to purchase Class B Subordinate Voting Shares.

Holders of 19,428,395 SPAC Class A common shares exercised their right to redeem such shares for a pro rata portion of SPAC's trust account, resulting in aggregate redemption payments of approximately $201,154 ($10.35 per share) out of approximately $227,800 in the SPAC trust account at the time. After redemptions, 3,211,605 SPAC Class A shares remained outstanding and were exchanged for Class B Subordinate Voting Shares.

Concurrently with the closing of the Business Combination, Xanadu issued 27,500,000 Class B Subordinate Voting Shares to certain institutional and accredited investors at $10.00 per share for aggregate gross proceeds of $275,000 pursuant to subscription agreements entered into in connection with the Business Combination Agreement.

22. Subsequent events: (cont.)

As of December 31, 2025, contingent on the issuance of the Class B Subordinate Voting Shares, Old Xanadu has commitments of up to $28,950 of fees associated with the closing of the equity raise.

On March 27, 2026, in connection with the closing of the Business Combination, Xanadu was listed on Nasdaq and the TSX under the symbol "XNDU".

For accounting purposes, the Business Combination will be accounted for as a reverse recapitalization whereby Old Xanadu will be treated as the accounting acquirer and SPAC will be treated as the acquired company. Xanadu is the legal parent and is not considered to be the accounting acquirer or acquiree in the Business Combination in accordance with U.S. GAAP.

(b) Prior to the Closing, Old Xanadu undertook a pre-closing reorganization. Pursuant to the pre-closing reorganization, Old Xanadu (among other things) transferred certain intangible assets of Old Xanadu to a wholly-owned subsidiary of Old Xanadu, resulting in an increase in the capital dividend account of Old Xanadu. The benefits of the capital dividend account were determined and allocated to certain Old Xanadu shareholders, as determined by the Old Xanadu Board.

(c) On March 30, 2026, the holder of the outstanding SFTrust Warrants elected to settle the instruments through a cashless net exercise feature. Per the terms of the warrant agreement, the holder surrendered 2,447 warrants to cover the aggregate exercise price, resulting in the issuance of 517,527 Class A Multiple Voting Shares.