

INVENTORY VALUATION REPORT

Q4 2023 - Polar Dynamics Robotics, Inc.

PREPARED BY: Katherine Wells, Chief Financial Officer

DATE: December 31, 2023

PERIOD COVERED: October 1, 2023 - December 31, 2023

1. EXECUTIVE SUMMARY

This Inventory Valuation Report presents a comprehensive analysis of Polar Dynamics Robotics, Inc.'s ("Company") inventory positions as of December 31, 2023. The valuation has been conducted in accordance with GAAP principles and the Company's established inventory accounting policies.

Total inventory value: \$14,275,000

Comprising:

- Raw Materials: \$5,850,000
- Work in Progress: \$4,125,000
- Finished Goods: \$4,300,000

2. VALUATION METHODOLOGY

1 Cost Basis

- First-in, First-out (FIFO) methodology applied consistently across all inventory categories
- Direct materials costs tracked through ERP system
- Labor allocation based on standard costs with quarterly true-up adjustments
- Overhead absorption rates reviewed and updated monthly

2 Lower of Cost or Net Realizable Value (LCNRV)

- Market value assessments conducted monthly
- Price protection agreements considered in NRV calculations
- Technological obsolescence factors incorporated into valuations

3. INVENTORY BREAKDOWN

1 Raw Materials (\$5,850,000)

- Proprietary cold-resistant actuators: \$2,100,000
- Thermal management system components: \$1,750,000
- Navigation sensors and hardware: \$1,200,000
- Chassis and structural components: \$800,000

2 Work in Progress (\$4,125,000)

- IceNav-enabled AMR units (partial assembly): \$2,500,000
- Control system integration: \$925,000
- Testing and calibration units: \$700,000

3 Finished Goods (\$4,300,000)

- Complete AMR units: \$3,200,000
- Spare parts and components: \$750,000
- Demonstration units: \$350,000

4. INVENTORY AGING ANALYSIS

1 Raw Materials

- 0-90 days: 75%
- 91-180 days: 20%
- 181-365 days: 5%
- >365 days: 0%

2 Work in Progress

- 0-30 days: 85%
- 31-60 days: 12%
- 61-90 days: 3%
- >90 days: 0%

3 Finished Goods

- 0-60 days: 80%
- 61-120 days: 15%
- 121-180 days: 5%
- >180 days: 0%

5. INVENTORY RESERVES

1 Current Reserves

- Obsolescence Reserve: \$425,000
- Excess Inventory Reserve: \$275,000
- Price Protection Reserve: \$150,000

Total Reserves: \$850,000

2 Reserve Methodology

- Obsolescence: Based on engineering change orders and product roadmap
- Excess: Statistical analysis of demand forecasts
- Price Protection: Contract-specific obligations and market conditions

6. INVENTORY TURNOVER METRICS

1 Turnover Ratios (Q4 2023)

- Raw Materials: 4.2x
- Work in Progress: 6.1x
- Finished Goods: 5.8x

Overall Inventory Turnover: 5.2x

2 Days Inventory Outstanding

- Raw Materials: 87 days
- Work in Progress: 60 days
- Finished Goods: 63 days

Average: 70 days

7. RISK FACTORS AND MITIGATION

1 Identified Risks

- Supply chain disruptions for specialized components
- Technology obsolescence risk
- Demand fluctuation in target markets
- Raw material price volatility

2 Mitigation Strategies

- Strategic supplier agreements with key vendors
- Regular engineering reviews for component obsolescence
- Dynamic pricing models
- Buffer stock maintenance for critical components

8. CERTIFICATION

The undersigned certifies that this inventory valuation report fairly presents, in all material respects, the inventory position of Polar Dynamics Robotics, Inc. as of December 31, 2023, in conformity with generally accepted accounting principles.

/s/ Katherine Wells

Katherine Wells

Chief Financial Officer

Polar Dynamics Robotics, Inc.

Date: January 15, 2024

9. DISCLAIMERS

This report is prepared solely for internal management use and potential transaction purposes. The information contained herein is confidential and proprietary to Polar Dynamics Robotics, Inc. While every effort has been made to ensure accuracy, values are subject to adjustment based on periodic physical inventory counts and year-end audit procedures. This report should be read in conjunction with the Company's audited financial statements and related notes.

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