

FOREIGN EXCHANGE RISK ANALYSIS

FOREIGN EXCHANGE RISK ANALYSIS

Polar Dynamics Robotics, Inc.

Prepared: January 11, 2024

Reference: FX-2024-001

1. EXECUTIVE SUMMARY

This Foreign Exchange Risk Analysis evaluates the currency exposure and risk mitigation strategies for Polar Dynamics Robotics, Inc. ("Company") based on its current operations, revenue streams, and international business activities.

through December 31, 2023.

2. SCOPE OF ANALYSIS

-

1. This analysis covers:

-

International revenue streams

-

Foreign currency denominated contracts

-

Supply chain exposure

-

Hedging strategies and instruments

-

Compliance with FX risk management policies

3. OPERATIONAL CURRENCY EXPOSURE

-

1. Primary Revenue Exposure

-

68% USD (United States Dollar)

-

15% EUR (Euro) - European cold storage facilities

-

12% CAD (Canadian Dollar) - Canadian distribution centers

-

5% Other currencies

- - 3 -

2. Cost Structure Exposure

-

75% USD - domestic operations and R&D

-

18% CNY (Chinese Yuan) - component sourcing

-

7% EUR - European engineering operations

4. MATERIAL CONTRACTS AND OBLIGATIONS

-

1. Long-term Supply Agreements

-

Component supply agreement with Shenzhen Precision Technologies (CNY)

- - 4 -

European distribution agreement with ColdChain GmbH (EUR)

-

Canadian logistics partnership with Arctic Storage Solutions (CAD)

-

2. Revenue Contracts

-

Multi-year service agreements predominantly in USD

-

European facility deployment contracts in EUR

-

Canadian distribution agreements in CAD

5. RISK ASSESSMENT

- - 5 -

1. Primary Risk Factors

-

EUR/USD volatility affecting European revenue

-

CNY/USD exposure in supply chain

-

CAD/USD fluctuations impacting Canadian operations

-

2. Risk Quantification

-

Estimated annual FX impact: \$1.2M - \$1.8M

-

Maximum projected exposure: \$2.5M

- - 6 -

Value at Risk (95% confidence): \$1.5M

6. HEDGING STRATEGY

-

1. Current Hedging Instruments

-

Forward contracts covering 60% of EUR exposure

-

Natural hedging through matched currency revenues/costs

-

Selective use of FX options for large contracts

-

2. Banking Relationships

-

Primary FX services: JP Morgan Chase

-

Secondary providers: Bank of America, HSBC

-

Credit facilities: \$10M equivalent for FX operations

7. RISK MITIGATION MEASURES

-

1. Operational Strategies

-

Contract provisions for currency adjustment

-

Geographic matching of revenues and costs

-

Working capital management in local currencies

-

2. Financial Controls

-

Monthly FX exposure reporting

-

Quarterly hedge effectiveness assessment

-

Regular review of counterparty credit limits

8. COMPLIANCE AND GOVERNANCE

- - 9 -

1. Policy Framework

-

Treasury Policy (DOC-TR-2023-001)

-

Hedging Policy (DOC-HD-2023-002)

-

Risk Management Guidelines (DOC-RM-2023-003)

-

2. Oversight

-

Quarterly review by Finance Committee

-

Annual audit of FX operations

- - 10 -

Regular reporting to Board of Directors

9. RECOMMENDATIONS

-

1. Short-term Actions

-

Increase EUR hedge ratio to 75%

-

Implement additional CNY forward contracts

-

Review Canadian exposure management strategy

-

2. Long-term Strategies

-

Develop additional natural hedging opportunities

-

Expand banking relationships for competitive pricing

-

Enhance treasury management systems

10. CERTIFICATION

This analysis has been prepared by the Treasury Department in consultation with external advisors and reviewed by the Finance Committee. The information contained herein is accurate as of the date of this report.

11. DISCLAIMERS

This document contains forward-looking statements and projections based on current market conditions. Actual results may vary materially from these projections. This analysis should be read in conjunction with the Company's management policies and financial statements.

Prepared by:

Victoria Wells

Chief Financial Officer

Polar Dynamics Robotics, Inc.

Reviewed by:

Financial Risk Committee

Date: January 11, 2024

