COST ALLOCATION METHODOLOGY

Polar Dynamics Robotics, Inc.

Effective Date: January 1, 2024

1. PURPOSE AND SCOPE

1. This Cost Allocation Methodology ("Methodology") establishes the systematic approach for allocating direct and indirect costs across business units, product lines, and projects within Polar Dynamics Robotics, Inc. ("Company").

2. This Methodology applies to all cost centers, departments, and subsidiaries of the Company engaged in the development, manufacturing, and deployment of autonomous mobile robots and related technologies.

2. DEFINITIONS

1. "Direct Costs" means expenses that can be directly attributed to specific products, projects, or cost centers, including but not limited to:

a) Raw materials and components

b) Direct labor for robot assembly

c) Project-specific engineering hours

d) Custom software development

e) Product-specific testing and certification costs

2. "Indirect Costs" means shared expenses that benefit multiple products, projects, or cost centers, including but not limited to:

a) Research and development overhead

b) Facility operations and maintenance

c) Administrative support functions

d) Quality assurance programs

e) Corporate management expenses

3. COST POOLS AND ALLOCATION BASES

1. Primary Cost Pools:

a) Manufacturing Overhead Pool

b) Engineering and Development Pool

c) Sales and Marketing Pool

d) General and Administrative Pool

e) Research and Innovation Pool

2. Allocation Bases:

a) Direct Labor Hours

b) Machine Hours

c) Square Footage

d) Headcount

e) Revenue

f) Units Produced

4. ALLOCATION METHODOLOGY

1. Manufacturing Costs

- Direct materials allocated based on actual consumption
- Labor costs allocated based on time tracking systems
- Manufacturing overhead allocated using machine hours
- Cold-environment testing costs allocated by testing hours

2. Research and Development

- Core technology development costs allocated across product lines based on anticipated benefit
- IceNav platform development costs allocated based on projected usage
- Patent and IP costs allocated by technology application

3. Sales and Marketing

- Direct campaign costs allocated to specific product lines
- Trade show expenses allocated based on product representation
- Sales team costs allocated by revenue contribution

5. SPECIAL CONSIDERATIONS

1. Temperature-Controlled Testing Facilities

- Operating costs allocated based on facility usage hours
- Maintenance costs allocated based on equipment utilization
- Utility costs allocated based on power consumption metrics

2. Software Development

- Platform development costs allocated across product lines
- Custom feature development charged directly to specific products
- Maintenance costs allocated based on computational resource usage

6. REPORTING AND REVIEW

1. Cost allocation reports shall be generated monthly and reviewed by:

- Chief Financial Officer
- Controller
- Department Heads
- Project Managers

2. Quarterly Review Process

- Assessment of allocation accuracy
- Adjustment of allocation bases as needed
- Update of cost pools based on business changes
- Validation of allocation results

7. COMPLIANCE AND DOCUMENTATION

1. All cost allocations must be:

- Documented in the Company's ERP system
- Supported by appropriate worksheets and calculations
- Reviewed for GAAP compliance
- Maintained for audit purposes

2. Supporting documentation must be retained for seven (7) years.

8. AMENDMENTS AND UPDATES

1. This Methodology shall be reviewed annually by the Finance Department.

2. Modifications require approval from:

- Chief Financial Officer
- Chief Operating Officer
- Board of Directors (for material changes)

9. EFFECTIVE DATE AND APPROVAL

This Cost Allocation Methodology is effective as of January 1, 2024, as approved by:

POLAR DYNAMICS ROBOTICS, INC.

By: _

Katherine Wells

Chief Financial Officer

Date: _

By: _

Sarah Nordstrom

Chief Operating Officer

Date: _