

OVERHEAD COST ALLOCATION MODEL

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Polar Dynamics Robotics, Inc.

Effective Date: January 1, 2024

1. PURPOSE AND SCOPE

1. This Overhead Cost Allocation Model (the "Model") establishes the
2. This Model applies to all overhead costs incurred in the developme

2. DEFINITIONS

1. "Direct Costs" shall mean expenses that can be directly attributed to a specific product or service.
2. "Indirect Costs" shall mean expenses that benefit multiple products or services but cannot be directly attributed to any one of them.
3. "Cost Pools" shall mean logical groupings of overhead costs that share a common cost driver.
4. "Cost Drivers" shall mean metrics used to allocate overhead costs to products or services based on their consumption of resources.

3. COST POOL CATEGORIZATION

1. Manufacturing Overhead

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Facility costs for temperature-controlled assembly areas

- - 2 -

Indirect manufacturing labor

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Quality control and testing

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Equipment maintenance and calibration

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Manufacturing supervision

2. Research & Development Overhead

-

Cold-environment testing facilities

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Engineering software licenses

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Prototype development

-

Technical documentation

-

Patent and IP maintenance

3. Administrative Overhead

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Executive compensation

-

Finance and accounting

-

Human resources

-

Legal and compliance

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Information technology

4. ALLOCATION METHODOLOGY

1. Primary Allocation Bases

The following cost drivers shall be used to allocate overhead costs:

a) Direct Labor Hours

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Applied to manufacturing supervision

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Quality control costs

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Training and safety programs

b) Machine Hours

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Equipment maintenance

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Facility utilities

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Production software licensing

c) Square Footage

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Facility rent/lease costs

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Property insurance

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Security services

d) Headcount

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HR administration

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IT support

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Office supplies

2. Secondary Allocation Methods

When primary allocation bases are insufficient, the following secondary allocation methods shall be employed:

a) Activity-Based Costing (ABC)

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For complex processes requiring detailed cost tracking

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Applied to R&D projects and new product development

b) Direct Charging

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For clearly identifiable costs benefiting specific products

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Used for specialized testing equipment and certifications

5. IMPLEMENTATION PROCEDURES

1. Cost Collection

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Overhead costs shall be collected monthly

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Costs shall be categorized into designated cost pools

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Supporting documentation must be maintained for all allocations

2. Allocation Timing

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Standard allocations performed quarterly

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Special allocations for project-specific costs as needed

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Year-end reconciliation and adjustment process

3. Documentation Requirements

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Detailed allocation worksheets

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Cost driver calculations

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Variance analysis reports

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Quarterly review documentation

6. SPECIAL CONSIDERATIONS

1. BlueCore(TM) Technology Platform

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Dedicated R&D overhead pool

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Specialized allocation for proprietary technology development

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Separate tracking for patent-related expenses

2. Cold Environment Testing

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Specific allocation for temperature-controlled facility costs

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Enhanced maintenance allocation for extreme condition equipment

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Special safety and compliance overhead

7. REVIEW AND ADJUSTMENT

1. The Model shall be reviewed annually by the Chief Financial Office

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Changes in business operations

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New product lines or services

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Organizational restructuring

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Market conditions

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Regulatory requirements

2. Material changes to the Model require approval from:

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Chief Financial Officer

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Chief Operating Officer

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Board of Directors (if deemed material)

8. COMPLIANCE AND REPORTING

1. The Finance Department shall:

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Maintain detailed allocation records

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Prepare quarterly allocation reports

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Conduct variance analysis

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Ensure GAAP compliance

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Support external audit requirements

9. AUTHORIZATION

This Overhead Cost Allocation Model has been approved and adopted by the undersigned authorized representatives of Polar Dynamics Robotics,

APPROVED AND ADOPTED:

Victoria Wells

Chief Financial Officer

Date: January 1, 2024

Sarah Nordstrom

Chief Operating Officer

Date: January 1, 2024

