

ACCRUED EXPENSES POLICY

Purpose

To document the Company's process of accounting for items recorded on the accrued expenses account.

Recognition

The Company recognizes expenses based on when the related service has been provided or goods have been received/consumed as follows:

- The Company established the \$5,000 threshold for accrued expenses. It means that if the individual group of expenses is expected to be below \$5,000, no accrual is required (but it is allowed to record accruals below threshold if it does not create significant process inefficiencies).
- The expense is recorded when risks of ownership are passed to the Company through receipt or transit (depending on terms of a vendor contract). The product or service must have been received on or before the last day of the month in order to qualify as an expense.
- Sometimes, risks of ownership may transfer to the Company before receipt. In such case, the accrual for goods in transit is recorded based on the transportation proof received from the vendors if the shipment of goods in transit occurred on or before the last day of the month.
- When deciding whether expense should be recorded, it is irrelevant (does NOT matter), whether expense was budgeted for the current or next month.

To ensure the continuity of information used in the accrual accounting process, existing accruals are matched with actual invoices subsequently received and/or payments made.

The following categories of accruals are recorded regularly:

- Amounts due to third party vendors: Contractual dues, retainer fees, amounts due for professional services received, pending or threatened litigation, and actual or probable settlements recorded based on the representations received from the Legal.
- Amounts due to employee and contractors: Wages and independent contractor fees, commissions, accrued bonus payments, and related payroll taxes
- Other items: as relevant

Procedures

Finance and Operations are responsible to provide Accounting with the backup calculations, invoices received, other relevant details needed to support the accruals on the first day of the month-end close process.

The finance team is responsible for the monthly reconciliation of accrual accounts and maintenance of support for accrued liabilities. If the actual amounts of expenses incurred but not billed are known, the actuals should be used to record accruals (i.e. unbilled charges on metered usage of electricity). Otherwise, the Company will use best estimates derived from the past experience and adjusted for the current level of market prices. Sources of support for

accrued expenses include prior period vendor bills (considering the seasonality of expense if applicable) in conjunction with contracts.

Staff Accountant is responsible for populating based on template form and sending out emails to all of professional service providers regularly engaged by the Company's (including Legal Counsels, Tax, Accounting, and Other Professional Advisors). Staff Accountant is also responsible for communication with service providers to receive responses with estimated unbilled charges as well as any outstanding unpaid invoices due (to ensure all billed charges are recorded without omissions).

Additionally, controller reviews accrued expenses as part of the month-end close process to ensure that accrued amounts are complete and accurate.