

**ESR Kendall Square Asset No.2 REIT
Co., Ltd.**

Financial Statements

November 30, 2022 and May 31, 2022

ESR Kendall Square Asset No.2 REIT Co., Ltd.

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Independent Auditor's Report

(English Translation of a Report Originally Issued in Korean)

To the Board of Directors and Shareholders of
ESR Kendall Square Asset No.2 REIT Co., Ltd.

Opinion

We have audited the accompanying financial statements of ESR Kendall Square Asset No.2 REIT Co., Ltd. (the Company), which comprise the statements of financial position as at November 30, 2022 and May 31, 2022, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the six-month periods then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ESR Kendall Square Asset No.2 REIT Co., Ltd. as at November 30, 2022 and May 31, 2022, and its financial performance and its cash flows for the six-month periods then ended in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS).

Basis for Opinion

We conducted our audits in accordance with Korean Standards on Auditing. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements of the Republic of Korea that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with the ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

Auditing standards and their application in practice vary among countries. The procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Korean IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Korean Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Korean Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up

to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Seoul, Korea

February 13, 2023

This report is effective as of February 13, 2023 the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

ESR Kendall Square Asset No.2 REIT Co., Ltd.
Statements of Financial Position
November 30, 2022 and May 31, 2022

<i>(in Korean won)</i>	Notes	November 30, 2022		May 31, 2022	
Assets					
Current assets					
Cash and cash equivalents	4,21,22	₩	9,923,405,884	₩	11,008,939,105
Short-term financial instruments	5,6,21,22		-		63,408,806
Other financial assets	7,21,22		16,444,661,238		15,394,566,550
Other current assets	8		824,082,389		678,777,176
Current tax assets			147,621,536		1,010,680
			<u>27,339,771,047</u>		<u>27,146,702,317</u>
Non-current assets					
Long-term financial instruments	6,21,22		16,777,658,400		16,777,658,400
Investment properties	9,12		825,242,859,334		830,710,587,906
Property and equipment			86,741,918		96,969,863
Other non-current financial assets	7,21,22		543,000,000		1,128,099,237
			<u>842,650,259,652</u>		<u>848,713,315,406</u>
Total assets		₩	<u>869,990,030,699</u>	₩	<u>875,860,017,723</u>
Liabilities					
Current liabilities					
Other financial liabilities	10,21,22,23,25	₩	8,272,808,491	₩	5,365,528,407
Other current liabilities	11		861,885,174		1,458,319,835
			<u>9,134,693,665</u>		<u>6,823,848,242</u>
Non-current liabilities					
Long-term borrowings	12,21,22,25		446,281,731,229		445,090,385,686
Other non-current financial liabilities	10,21,22,25		12,161,125,050		14,698,903,405
Other non-current liabilities	11		856,896,601		1,019,106,667
			<u>459,299,752,880</u>		<u>460,808,395,758</u>
Total liabilities			<u>468,434,446,545</u>		<u>467,632,244,000</u>
Equity					
Share capital	13		81,850,200,000		81,850,200,000
Other paid-in-capital	13		321,699,728,116		323,709,328,116
Retained earnings (Accumulated deficit)	14		(1,994,343,962)		2,668,245,607
Total equity			<u>401,555,584,154</u>		<u>408,227,773,723</u>
Total liabilities and equity		₩	<u>869,990,030,699</u>	₩	<u>875,860,017,723</u>

The above statements of financial position should be read in conjunction with the accompanying notes.

ESR Kendall Square Asset No.2 REIT Co., Ltd.
Statements of Comprehensive Income
Six-Month Periods Ended November 30, 2022 and May 31, 2022

<i>(in Korean won)</i>	Notes	November 30, 2022		May 31, 2022	
Operating revenues	17	₩	18,729,750,246	₩	16,543,576,568
Operating expenses	18		<u>10,989,315,035</u>		<u>8,923,696,757</u>
Operating profit			<u>7,740,435,211</u>		<u>7,619,879,811</u>
Non-operating income					
Financial income	19,22		554,844,701		136,026,682
Other income	20		<u>277,471,809</u>		<u>72,732,641</u>
			<u>832,316,510</u>		<u>208,759,323</u>
Non-operating expense					
Financial expenses	19,22		7,147,976,247		7,170,707,220
Other expenses	20		<u>105,465</u>		<u>7</u>
			<u>7,148,081,712</u>		<u>7,170,707,227</u>
Profit before income tax expenses			1,424,670,009		657,931,907
Income tax expenses	15		-		-
Profit for the period		₩	<u>1,424,670,009</u>	₩	<u>657,931,907</u>
Other comprehensive income			-		-
Total comprehensive profit for the period		₩	<u>1,424,670,009</u>	₩	<u>657,931,907</u>
Earnings per share					
Basic and diluted earnings per share	16	₩	17	₩	9

The above statements of comprehensive income should be read in conjunction with the accompanying notes.

ESR Kendall Square Asset No.2 REIT Co., Ltd.
Statement of Changes in Equity
Six-Month Periods Ended November 30, 2022 and May 31, 2022

<i>(in Korean won)</i>	Share capital	Other paid-in-capital	Retained earnings (Accumulated deficit)	Total
Balance at December 1, 2021	₩ 856,667,000	₩ 5,137,197,770	₩ (57,722,514)	₩ 5,936,142,256
Transfer of other paid-in-capital to retained earnings	-	(2,068,036,214)	2,068,036,214	-
Increase in issued capital	81,110,200,000	324,440,800,000	-	405,551,000,000
Capital reduction with consideration	(116,667,000)	(3,383,343,000)	-	(3,500,010,000)
Fund investment	-	(417,290,440)	-	(417,290,440)
Profit for the period	-	-	657,931,907	657,931,907
Balance at May 31, 2022	<u>₩ 81,850,200,000</u>	<u>₩ 323,709,328,116</u>	<u>₩ 2,668,245,607</u>	<u>₩ 408,227,773,723</u>
Balance at June 1, 2022	₩ 81,850,200,000	₩ 323,709,328,116	₩ 2,668,245,607	₩ 408,227,773,723
Transfer of other paid-in-capital to retained earnings	-	(2,000,000,000)	2,000,000,000	-
Fund investment	-	(9,600,000)	-	(9,600,000)
Dividends	-	-	(8,087,259,578)	(8,087,259,578)
Profit for the period	-	-	1,424,670,009	1,424,670,009
Balance at November 30, 2022	<u>₩ 81,850,200,000</u>	<u>₩ 321,699,728,116</u>	<u>₩ (1,994,343,962)</u>	<u>₩ 401,555,584,154</u>

The above statements of changes in equity should be read in conjunction with the accompanying notes.

ESR Kendall Square Asset No.2 REIT Co., Ltd.
Statement of Cash Flows
Six-Month Periods Ended November 30, 2022 and May 31, 2022

<i>(in Korean won)</i>	November 30, 2022	May 31, 2022
Cash flows from operating activities		
Profit for the period	₩ 1,424,670,009	₩ 657,931,907
Adjustments for:		
Depreciation of property and equipment	10,227,945	5,030,137
Depreciation of investment properties	6,028,579,310	5,413,983,834
Interest expense	7,147,976,247	7,170,707,220
Interest income	(554,844,701)	(136,026,682)
Other income	(209,117,028)	(187,820,005)
Gains on assets contributed	(277,061,000)	-
Miscellaneous income	-	(50,000,000)
	<u>12,145,760,773</u>	<u>12,215,874,504</u>
Changes in operating assets and liabilities:		
Increase in account receivables	(1,845,920)	(266,605,983)
Increase in accrued income	(325,867,536)	(585,099,237)
Decrease in prepaid value added tax	-	4,188,153,404
Increase in prepaid expenses	(145,305,213)	(444,881,525)
Increase (decrease) in non-trade payables	198,748,053	(2,281,329,056)
Increase in unearned revenues	-	1,099,078,150
Increase (decrease) in withholdings	(140,409,890)	506,107,826
	<u>(414,680,506)</u>	<u>2,215,423,579</u>
	<u>13,155,750,276</u>	<u>15,089,229,990</u>
Interest received	5,769,168	538,640,009
Interest paid	(5,785,877,028)	(11,600,915,219)
Income taxes paid	(146,610,856)	(1,008,300)
Net cash inflow from operating activities	<u>7,229,031,560</u>	<u>4,025,946,480</u>
Cash flows from investing activities		
Decrease in short-term financial instruments	66,084,535	53,150,701,738
Increase in short-term financial instruments	-	(53,214,110,544)
Increase in long-term financial instruments	-	(15,502,258,800)
Increase in short-term loans	-	(15,000,000,000)
Acquisition of investment properties (Land)	-	(204,442,834,776)
Acquisition of investment properties (Building)	-	(557,699,422,816)
Acquisition of investment properties (Construction in progress)	(283,789,738)	(12,222,074,557)
Acquisition of supplies	-	(102,000,000)
Increase in other deposits	-	(543,000,000)
Net cash outflow from investing activities	<u>(217,705,203)</u>	<u>(805,574,999,755)</u>
Cash flows from financing activities		
Increase in issued capital	-	405,551,000,000
Increase in short-term borrowings	-	52,771,182,957
Increase in long-term borrowings	-	418,000,000,000
Increase in leasehold deposits received	-	14,478,555,180
Dividends	(8,087,259,578)	-
Share issuance cost	(9,600,000)	(417,290,440)
Repayment of short-term borrowings	-	(80,914,713,476)
Capital reduction	-	(3,500,010,000)
Net cash inflow (outflow) from financing activities	<u>(8,096,859,578)</u>	<u>805,968,724,221</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,085,533,221)</u>	<u>4,419,670,946</u>
Cash and cash equivalents at the beginning of period	<u>11,008,939,105</u>	<u>6,589,268,159</u>
Cash and cash equivalents at the end of period	<u>₩ 9,923,405,884</u>	<u>₩ 11,008,939,105</u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

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Notes to the Financial Statements
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1. Reporting Entity

ESR Kendall Square Asset No.2 REIT Co., Ltd. (the “Company”) was established on July 20, 2021 under the Real Estate Investment Companies Act of the Republic of Korea. The Company obtained approval of the business authorization from the Ministry of Land, Infrastructure and Transport of the Republic of Korea on September 29, 2021. The Company is mainly engaged in providing its shareholder with returns earned from investing and managing investment properties, including real estate acquisition, maintenance, improvement and disposal, development, and trade of real estate lease securities. The Company’s head office is located on the 35th floor, Gukjegeumyung-ro 10, Yeongdeungpo-Gu, Seoul.

The Company’s major shareholders and their respective shareholdings as at November 30, 2022, are as follows:

Shareholders	Common shares	
	Number of shares	Percentage of ownership (%)
ESR Kendall Square REIT Co., Ltd.	81,850,200	100.00

2. Significant Accounting Policies

2.1 Basis of Preparation

The Company maintains its accounting records in Korean won and prepares statutory financial statements in the Korean language (Hangul) in accordance with International Financial Reporting Standards as adopted by the Republic of Korea (Korean IFRS). The accompanying separate financial statements have been condensed, restructured and translated into English from the Korean language financial statements.

Certain information attached to the Korean language financial statements, but not required for a fair presentation of the Company’s financial position, financial performance or cash flows, is not presented in the accompanying separate financial statements.

The separate financial statements of the Company have been prepared in accordance with Korean IFRS. These are the standards, subsequent amendments and related interpretations issued by the International Accounting Standards Board (IASB) that have been adopted by the Republic of Korea. The financial statements have been prepared on a historical cost basis, except for the following:

- Certain financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value
- assets held for sale – measured at fair value less costs to sell, and

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The preparation of financial statements requires the use of critical accounting estimates. Management also needs to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 3.

2.2 Changes in Accounting Policies and Disclosures

2.2.1 New and amended standards adopted by the Company

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing June 1, 2022.

(a) Amendments to Korean IFRS 1116 Lease – Practical expedient for COVID-19 - Related Rent Concessions

As a practical expedient, a lessee may elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the rent concession the same way it would account for the change applying this Standard if the change were not a lease modification. The amendment does not have a significant impact on the financial statements.

(b) Amendments to Korean IFRS 1103 Business Combination – Reference to the Conceptual Framework

The amendments update a reference of definition of assets and liabilities to be recognized in a business combination in revised Conceptual Framework for Financial Reporting. However, the amendments add an exception for the recognition of liabilities and contingent liabilities within the scope of Korea IFRS 1037 *Provisions, Contingent Liabilities and Contingent Assets*, and Korean IFRS 2121 *Levies*. The amendments also clarify that contingent assets should not be recognized at the acquisition date. The Company does not expect that these amendments have a significant impact on the financial statements.

(c) Amendments to Korean IFRS 1016 Property, Plant and Equipment - Proceeds before intended use

The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the entity is preparing the asset for its intended use. Instead, the entity will recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss. The Company does not expect that these amendments have a significant impact on the financial statements.

(d) Amendments to Korean IFRS 1037 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts : Cost of Fulfilling a Contract

The amendments clarify that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts when assessing whether the contract is onerous. The Company does not expect that these amendments have a significant impact on the financial statements.

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(e) Annual improvements to Korean IFRS 2018-2020

Annual improvements of Korean IFRS 2018-2020 Cycle should be applied for annual periods beginning on or after January 1, 2022, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

- Korean IFRS 1101 *First time Adoption of Korean International Financial Reporting Standards* – Subsidiaries that are first-time adopters
- Korean IFRS 1109 *Financial Instruments* – Fees related to the 10% test for derecognition of financial liabilities
- Korean IFRS 1041 *Agriculture* – Measuring fair value

2.2.2 New standards and interpretations not yet adopted by the Company

The following new accounting standards and interpretations that have been published that are not mandatory for November 30, 2022 reporting periods and have not been early adopted by the Company.

(a) Amendments to Korean IFRS 1001 Presentation of Financial Statements - Classification of Liabilities as Current or Non-current

The amendments clarify that liabilities are classified as either current or non-current, depending on the substantive rights that exist at the end of the reporting period. Classification is unaffected by the likelihood that an entity will exercise right to defer settlement of the liability or the expectations of management. Also, the settlement of liability includes the transfer of the entity's own equity instruments, however, it would be excluded if an option to settle them by the entity's own equity instruments if compound financial instruments is met the definition of equity instruments and recognized separately from the liability. The amendments should be applied for annual periods beginning on or after January 1, 2024, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

(b) Korean IFRS 1001 Presentation of Financial Statements - Disclosure of Accounting Policies

The amendments to Korean IFRS 1001 define and require entities to disclose their material accounting policies. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Company is in review for the impact of these amendments on the financial statements.

(c) Korean IFRS 1008 Accounting policies, changes in accounting estimates and errors - Definition of Accounting Estimates

The amendments define accounting estimates and clarify how to distinguish them from changes in accounting policies. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

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(d) Korean IFRS 1012 Income Taxes - Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments include an additional condition to the exemption to initial recognition of an asset or liability that a transaction does not give rise to equal taxable and deductible temporary differences at the time of the transaction. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

(e) New Standard: Korean IFRS 1117 Insurance Contract

Korean IFRS 1117 *Insurance Contracts* replaces Korean IFRS 1104 *Insurance Contracts*. This Standard estimates future cash flows of an insurance contract and measures insurance liabilities using discount rates applied with assumptions and risks at the measurement date. The entity recognizes insurance revenue on an accrual basis including services (insurance coverage) provided to the policyholder by each annual period. In addition, investment components (Refunds due to termination/maturity) repaid to a policyholder even if an insured event does not occur, are excluded from insurance revenue, and insurance financial income or expense and the investment income or expense are presented separately to enable users of the information to understand the sources of income or expenses. This Standard should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted for entities that applied Korean IFRS 1109 Financial Instruments. The Company does not expect that these establishments have a significant impact on the financial statements.

(f) Korean IFRS 1001 Presentation of Financial Statements - Disclosure of gain or loss on valuation of financial liabilities subject to adjustment of exercise price

If the entire or a part of financial instrument, whose exercise price is subject to change due to the issuer's share price, is classified as a financial liability, the carrying amount of the financial liability and related gains and losses shall be disclosed. The amendments should be applied for annual periods beginning on or after January 1, 2023, and earlier application is permitted. The Company does not expect that these amendments have a significant impact on the financial statements.

2.3 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares when they have a short maturity with a specified redemption date.

2.4 Financial Assets

The Company classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss

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- those to be measured at fair value through other comprehensive income, and
- those to be measured at amortized cost

(a) Classification

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. The Company reclassifies debt investments when, and only when its business model for managing those assets changes.

For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income. Changes in fair value of non-designated equity investment are recognized in profit or loss.

(b) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

A. Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. The Company classifies its debt instruments into one of the following three measurement categories:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt investment that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in 'financial income' using the effective interest rate method.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment loss (reversal of impairment loss), interest income and foreign exchange gains and losses which are

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recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'financial income' using the effective interest rate method. Foreign exchange gains and losses are presented in 'other income or expenses' and impairment losses are presented in 'other expenses'.

- Fair value through profit or loss: Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented net in the statement of profit or loss within 'financial income or expenses' in the year in which it arises.

(c) Impairment

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and fair value through other comprehensive income. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

- Financial assets measured at amortized cost

Financial assets measured at amortized costs are considered to have low credit risk if the risk of default is low and the issuer has sufficient ability to pay contractual cash flows in a short period of time. Therefore, any loss allowance is recognized as 12-month expected credit losses.

- Debt instruments measured at fair value through other comprehensive income

Debt instruments measured at fair value through other comprehensive income include government bonds, corporate bonds and trade receivables subject to discount. Loss allowances for debt instruments measured at fair value through other comprehensive income are recognized in profit or loss and reduces the amount that would have been recognized in other comprehensive income due to fair value valuation losses.

(d) Recognition and Derecognition

Regular way purchases and sales of financial assets are recognized or derecognized on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

If a transfer does not result in derecognition because the Company has retained substantially all the risks and rewards of ownership of the transferred asset, the Company continues to recognize the transferred asset in its entirety and recognizes a financial liability for the consideration received. The Company classified the financial liability as "borrowings" in the statement of financial position.

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(e) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the assets and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.5 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when an annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount.

An asset's recoverable is estimated for each individual asset or for each cash-generating unit to which the asset belongs if the recoverable amount cannot be estimated. The recoverable amount is the higher of the asset's or cash-generating unit's value in use or fair value less costs of disposal. Value in use is determined by discounting the future cash flows expected to be generated by the asset or cash-generating unit at an appropriate discount rate that reflects the current market assessment of the unadjusted asset's specific risk when estimating the time value of money and future cash flows.

Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss.

2.6 Financial liabilities

(a) Classification and measurement

The Company classifies non-derivative financial liabilities, except for financial liabilities at fair value through profit or loss, financial guarantee contracts and financial liabilities that arise when a transfer of financial assets does not qualify for derecognition, as financial liabilities carried at amortized cost in the statements of financial position.

(b) Derecognition

Financial liabilities are removed from the statement of financial position when they are extinguished; for example, when the obligation specified in the contract is discharged or cancelled or expired or when the terms of an existing financial liability are substantially modified. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

2.7 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation of the Company's property and equipment, consisting of supplies, is calculated using the straight-line method over the estimated useful lives (5 years).

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The assets' depreciation method, residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2.8 Investment Property

Investment property is a property held to earn rentals or for capital appreciation, or both. Investment property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is reported at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of an asset or as a separate asset if it is probable that future economic benefits associated with the assets will flow into the Company and the cost of an asset can be measured reliably. Routine maintenance and repairs are expensed as incurred.

While land is not depreciated, all other investment property is depreciated based on the respective assets' estimated useful lives of 50 years using the straight-line method.

The depreciation method, the residual value and the useful life of an asset are reviewed at the end of each reporting period and, if management judges that previous estimates should be adjusted, the change is accounted for as a change in an accounting estimate.

2.9 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

2.10 Capital stock and share issuance expenses

Proceeds from issuance of common shares are classified as contributed equity. Incremental costs directly attributable to the issuance of common shares are deducted against equity net of tax.

2.11 Revenue recognition

Rental income under operating leases is recognized in profit or loss on a straight-line basis during the term of the lease. The service falls under Korean IFRS 1116 *Leases* and is not subject to Korean IFRS 1115 *Revenue from Contracts with Customers* and there is no service identified as a performance obligation.

2.12 Financial income and financial costs

Financial income comprises of interest income. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Financial costs comprise of interest expenses. Interest expenses are recognized in profit or loss as incurred using the effective interest method.

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2.13 Income tax

Income tax expense for the period consists of current and deferred tax and is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

Under the Article 51-2 of Corporate Tax Law of the Republic of Korea, Income Deduction for Special Purpose Companies, etc., if the Company payouts 90% or more of its profit available for dividends as dividends, the Company shall be entitled to deduct such amount from its taxable income for the fiscal year.

2.14 Approval of issuance of the financial statements

The Company's financial statements as at and for the period ended November 30, 2022 were approved for issue by the Board of Directors on February 7, 2023 and are to be approved at the Annual General Meeting scheduled on February 22, 2023.

3. Critical Accounting Estimates and Assumptions

The preparation of financial statements requires the Company to make estimates and assumptions concerning the future. Management also needs to exercise judgement in applying the Company's accounting policies. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As the resulting accounting estimates will, by definition, seldom equal the related actual results, it can contain a significant risk of causing a material adjustment.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Additional information of significant judgement and assumptions of certain items are included in relevant notes.

The spread of Coronavirus disease 2019 ("COVID-19") has a material impact on the global economy. It may have a negative impact; such as, decrease in productivity, decrease or delay in sales, collection of existing receivables and others. Accordingly, it may have a negative impact on the financial position and financial performance of the Company.

Significant accounting estimates and assumptions applied in the preparation of the financial statements can be adjusted depending on changes in the uncertainty from COVID-19. Also, the ultimate effect of COVID-19 to the Company's business, financial position and financial performance cannot presently be determined.

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4. Cash and Cash Equivalents

Cash and cash equivalents as at November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022		May 31, 2022	
Bank deposits	₩	9,923,406	₩	11,008,939

5. Short-term Financial Instruments

Short-term financial instruments as at November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022		May 31, 2022	
Bank deposits ¹	₩	-	₩	63,409

¹ Reclassified to cash and cash equivalents as the pledge was released for the period ended November 30, 2022.

6. Financial Instruments Restricted in Use

Financial instruments that are restricted in use as at November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022		May 31, 2022	
Short-term financial instruments ¹	₩	-	₩	63,409
Long-term financial instruments ²		16,777,658		16,777,658
	₩	<u>16,777,658</u>	₩	<u>16,841,067</u>

¹ Reclassified to cash and cash equivalents as the pledge was released for the period ended November 30, 2022.

² Consist of bank deposits and time deposits are pledged on the leasehold deposits.

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7. Other Financial Assets

Other financial assets as at November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022	May 31, 2022
Account receivables	₩ 269,051	₩ 267,206
Accrued income	1,175,610	127,361
Short-term loans	15,000,000	15,000,000
Current assets	<u>₩ 16,444,661</u>	<u>₩ 15,394,567</u>
Other deposits	₩ 543,000	₩ 543,000
Accrued income	-	585,099
Non-current assets	<u>₩ 543,000</u>	<u>₩ 1,128,099</u>

8. Other Assets

Other assets as at November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022	May 31, 2022
Prepaid expenses	₩ 824,082	₩ 678,777

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9. Investment Properties

Investment properties as at November 30, 2022 and May 31, 2022, are as follows:

(in thousands of Korean won)

	November 30, 2022			May 31, 2022		
	Acquisition cost	Accumulated depreciation	Book amount	Acquisition cost	Accumulated depreciation	Book amount
Land	₩ 222,859,386	₩ -	₩ 222,859,386	₩ 222,859,386	₩ -	₩ 222,859,386
Buildings	601,319,786	(11,444,972)	589,874,814	601,042,725	(5,416,393)	595,626,332
Construction in progress	12,508,660	-	12,508,660	12,224,870	-	12,224,870
	<u>₩ 836,687,832</u>	<u>₩ (11,444,972)</u>	<u>₩ 825,242,860</u>	<u>₩ 836,126,981</u>	<u>₩ (5,416,393)</u>	<u>₩ 830,710,588</u>

Changes in investment properties for the periods ended November 30, 2022 and May 31, 2022, are as follows:

(in thousands of Korean won)

	November 30, 2022				May 31, 2022			
	Land	Buildings	Construction in progress	Total	Land	Building	Construction in progress	Total
Beginning balance	₩ 222,859,386	₩ 595,626,332	₩ 12,224,870	₩ 830,710,588	₩ 18,653,046	₩ 43,957,637	₩ -	₩ 62,610,683
Acquisitions/ Transfer	-	277,061	283,790	560,851	204,206,340	557,082,679	12,224,870	773,513,889
Depreciation	-	(6,028,579)	-	(6,028,579)	-	(5,413,984)	-	(5,413,984)
Ending balance	<u>₩ 222,859,386</u>	<u>₩ 589,874,814</u>	<u>₩ 12,508,660</u>	<u>₩ 825,242,860</u>	<u>₩ 222,859,386</u>	<u>₩ 595,626,332</u>	<u>₩ 12,224,870</u>	<u>₩ 830,710,588</u>

Details of acquisition for the period ended May 31, 2022, are as follows:

(in thousands of Korean won)	Purchase price ¹	Seller
Gimhae logistics park2	₩ 71,200,000	Kendall Square LP Gimhae Sangdong professional investors private real estate investment
Anseong logistics park2	324,500,000	Kendall Square LP Anseong professional investors private real estate investment
Anseong logistics park3	127,000,000	Kendall Square LP Iljuk professional investors private real estate investment
Icheon logistics park5	198,300,000	Kendall Square LP majang professional investors private real estate investment
Total	<u>₩ 721,000,000</u>	

¹ The amount excludes the additional cost related to purchase.

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Revenues and expenses related to investment properties for the periods ended November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022		May 31, 2022	
Operating revenues ¹	₩	18,520,633	₩	16,349,224
Operating expenses ²		8,706,279		6,637,147

¹ Operating revenues consist of rental income and management income.

² Operating expenses consist of insurance expense, depreciation expense, real estate management consignment fees, facility maintenance & administrative expense, taxes and dues, deemed rent.

Fair value of investment properties as at November 30, 2022 has no significant difference with the book amount.

The Company has provided collateral rights for the underlying mortgage on land and buildings and the insurance coverage rights of the property all risks insurance in relation to long-term borrowings and details are as follows:

<i>(in thousands of Korean won)</i>	Book value of the assets provided as collateral		Contract amount	Maximum amount of bonds (120%)		
Tranche A Loan	₩	61,736,699	₩	34,300,000	₩	41,160,000
Tranche C1-1		74,174,418		41,800,000		50,160,000
Tranche C1-2		338,174,832		187,900,000		225,480,000
Tranche C1-3		132,090,752		73,800,000		88,560,000
Tranche C2		206,557,499		114,500,000		137,400,000
Total	₩	812,734,200	₩	452,300,000	₩	542,760,000

The Company subscribes to the property all risks insurance (insured amount: ₩ 306,403 million) in relation to investment property.

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10. Other Financial Liabilities

Other financial liabilities as at November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022	May 31, 2022
Current liabilities		
Non-trade payables	₩ 2,343,188	₩ 2,144,440
Accrued expense	2,108,892	2,140,499
Leasehold deposits	3,872,139	1,107,052
Discount account on present value	(51,411)	(26,462)
	<u>₩ 8,272,808</u>	<u>₩ 5,365,529</u>
Non-current liabilities		
Leasehold deposits	₩ 13,350,459	₩ 16,115,546
Discount account on present value	(1,189,334)	(1,416,643)
	<u>₩ 12,161,125</u>	<u>₩ 14,698,903</u>

11. Other Liabilities

Other liabilities as at November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022	May 31, 2022
Current liabilities		
Withholdings	₩ -	₩ 120,000
Value added tax withholdings	372,344	392,754
Unearned revenue	489,541	945,566
	<u>₩ 861,885</u>	<u>₩ 1,458,320</u>
Non-current liabilities		
Unearned revenue	₩ 856,897	₩ 1,019,107
	<u>₩ 856,897</u>	<u>₩ 1,019,107</u>

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12. Long-term Borrowings

Details of long-term borrowings as at November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	Financial institution	Annual interest rate at November 30,		Maturity date	November 30, 2022		May 31, 2022	
		2022			₩	₩		
Tranche A	KB Insurance Co., Ltd.	2.50%		2024-11-30	₩ 34,300,000	₩	34,300,000	
Tranche C1-1	Kookmin Bank	2.50%		2024-12-20	32,751,000		32,751,000	
Tranche C1-1	KB Insurance Co., Ltd.	2.50%		2024-12-20	9,049,000		9,049,000	
Tranche C1-2	Kookmin Bank	2.50%		2024-12-20	147,225,000		147,225,000	
Tranche C1-2	KB Insurance Co., Ltd.	2.50%		2024-12-20	40,675,000		40,675,000	
Tranche C1-3	Kookmin Bank	2.50%		2024-12-20	57,824,000		57,824,000	
Tranche C1-3	KB Insurance Co., Ltd.	2.50%		2024-12-20	15,976,000		15,976,000	
Tranche C-2	Kookmin Bank	2.70%		2026-12-20	114,500,000		114,500,000	
	Less: discount account on present value				(6,018,269)		(7,209,614)	
	Total				<u>₩ 446,281,731</u>	<u>₩</u>	<u>445,090,386</u>	

Regarding the above borrowings, the Company provided the investment property as collateral and details are as follows:

<i>(in thousands of Korean won)</i>	Collateral	Book value	Secured amount	Related borrowings	Financial institutions
Investment properties	Anseong logistics park4	₩ 61,736,699	₩ 41,160,000	Tranche A	KB Insurance Co., Ltd
	Gimhae logistics park2	74,174,418	50,160,000	Tranche C1-1	KB Insurance Co., Ltd Kookmin Bank
	Anseong logistics park2	338,174,832	225,480,000	Tranche C1-2	KB Insurance Co., Ltd Kookmin Bank
	Anseong logistics park3	132,090,752	88,560,000	Tranche C1-3	KB Insurance Co., Ltd Kookmin Bank
	Ichoen logistics park5	206,557,499	137,400,000	Tranche C-2	Kookmin Bank
			<u>₩ 812,734,200</u>	<u>₩ 542,760,000</u>	

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13. Share Capital and Other Paid-in-Capital

Details of share capital as at November 30, 2022, are as follows:

<i>(in Korean won)</i>	Total number of issued shares	Par value per share	Share capital
Common shares	81,850,200 shares	₩ 1,000	₩ 81,850,200,000

Details of other paid-in-capital for the periods ended November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022	May 31, 2022
Additional paid-in-capital	₩ 321,699,728	₩ 323,709,328

14. Retained Earnings (Accumulated Deficit)

Details of retained earnings (accumulated deficit) as at November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022	May 31, 2022
Retained earnings (accumulated deficit)	₩ (1,994,344)	₩ 2,668,245

Changes in retained earnings (accumulated deficit) for the periods ended November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022	May 31, 2022
Beginning balance	₩ 2,668,246	₩ (57,723)
Other paid-in-capital	2,000,000	2,068,036
Dividends	(8,087,260)	-
Profit for the period	1,424,670	657,932
Ending balance	<u>₩ (1,994,344)</u>	<u>₩ 2,668,245</u>

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The disposition of accumulated deficit for the period ended November 30, 2022 is expected to be disposed at shareholders meeting on February 22, 2023. The appropriation of retained earnings for the period ended May 31, 2022, was appropriated on August 19, 2022.

The appropriation of retained earnings disposition of retained earnings (accumulated deficit) for the periods ended November 30, 2022 and May 31, 2022, are as follows:

<i>(in Korean won)</i>	November 30, 2022	May 31, 2022
Unappropriated retained earnings (undisposed accumulated deficits) carried over from prior period	₩ (3,419,013,971)	₩ 2,010,313,700
Profit for the period	<u>1,424,670,009</u>	<u>657,931,907</u>
Retained earnings available for appropriation (accumulated deficits available for disposition)	(1,994,343,962)	2,668,245,607
Transfers from other paid-in-capital		
Transfers from share premium	-	2,000,000,000
Appropriation of retained earnings		
Dividends for common shares ¹	<u>9,463,001,687</u>	<u>8,087,259,578</u>
Undisposed accumulated deficits to be carried forward	<u>₩ (11,457,345,649)</u>	<u>₩ (3,419,013,971)</u>

¹ In accordance with relevant laws and regulations, the Company may distribute dividends in excess of the distributable income under the Commercial Act up to the depreciation expenses for the current period.

Dividends for the for the periods ended November 30, 2022 and May 31, 2022, are calculated as follows:

<i>(in Korean won and in shares)</i>	November 30, 2022	May 31, 2022
1. Dividends	₩ 9,463,001,687	₩ 8,087,259,578
2. Total number of shares issued	81,850,200	81,850,200
3. Dividend per share (1./2.)	₩ 116	₩ 99
4. Par value	₩ 1,000	₩ 1,000
5. Dividend rate per share (3./4.)	11.56%	9.88%

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15. Income Tax Expense

Income tax expense is the sum of income tax calculated at the amount expected to be paid to the taxation authorities under the Corporate Tax Laws and adding or subtracting the changes in deferred tax in the current period.

Under the Article 51-2 of Corporate Tax Law of the Republic of Korea, Income Deduction for Special Purpose Companies, etc., if the Company pay-outs 90% or more of its profit available for dividends as dividends, the Company shall be entitled to deduct such amount from its taxable income for the fiscal year. Since there was no corporate tax to be paid, the Company has not recognized any income tax expenses.

16. Earnings per Share

Basic earnings per share for the periods ended November 30, 2022 and May 31, 2022, are as follows:

<i>(in Korean won and in shares)</i>	November 30, 2022		May 31, 2022	
Profit for the period	₩	1,424,670,009	₩	657,931,907
Weighted average number of common shares outstanding		81,850,200		72,471,775
Basic earnings per share	₩	<u>17</u>	₩	<u>9</u>

Weighted average number of common shares outstanding for the periods ended November 30, 2022 and May 31, 2022, are calculated as follows:

<i>(in shares)</i>	November 30, 2022		
	Number of shares	Accumulated number of days	Accumulated number of common shares outstanding
Beginning	81,850,200	183	14,978,586,600
Weighted average number of common shares outstanding			<u>81,850,200</u>

<i>(in shares)</i>	May 31, 2022		
	Number of shares	Accumulated number of days	Accumulated number of common shares outstanding
Beginning	740,000	17	12,580,000
Increase in issued capital	79,850,200	164	13,095,432,800
Increase in issued capital	81,850,200	1	81,850,200
Weighted average number of common shares outstanding			<u>72,471,775</u>

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Diluted losses per share

The Company did not issue any potential common shares. Therefore, basic losses per share is identical to diluted losses per share.

17. Operating Revenues

Operating revenues for the periods ended November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022		May 31, 2022	
Rental income	₩	17,733,784	₩	15,638,832
Management income		786,849		710,392
Other income		209,117		194,353
	₩	<u>18,729,750</u>	₩	<u>16,543,577</u>

The future minimum lease payments expected to be received in relation to the operating lease agreement as at November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022		May 31, 2022	
Within one year	₩	31,351,892	₩	34,857,976
Between 1 and 2 years		26,291,439		27,240,486
Between 2 and 3 years		26,319,908		26,065,182
Between 3 and 4 years		14,482,319		22,023,485
Between 4 and 5 years		3,768,723		8,105,658
Later than five years		1,994,117		3,323,528
	₩	<u>104,208,398</u>	₩	<u>121,616,315</u>

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18. Operating Expenses

Operating expenses for the periods ended November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022	May 31, 2022
Operating expenses related to investment properties:		
Insurance expenses	₩ 656,456	₩ 607,365
Depreciation	6,028,579	5,413,984
Real estate management consignment fees	678,750	599,313
Facility maintenance cost	-	3,539
Taxes and due	1,332,132	3,636
Deemed rent	10,362	9,309
	<u>8,706,279</u>	<u>6,637,146</u>
Other operating expenses:		
Asset management consignment fees	2,065,398	1,855,968
Other fees	150,409	318,552
Agency bank fee	-	50,000
Asset custody consignment fees	15,000	15,000
General affairs consignment fees	30,000	30,000
Salaries	12,000	12,000
Depreciation	10,228	5,030
	<u>2,283,035</u>	<u>2,286,550</u>
	<u>₩ 10,989,314</u>	<u>₩ 8,923,696</u>

19. Financial Income and Expenses

Financial income and expenses for the periods ended November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022	May 31, 2022
Financial income		
Interest income	₩ 554,845	₩ 136,027
Financial expenses		
Interest expenses	₩ 7,147,976	₩ 7,170,707

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20. Other Income and Expenses

Other income and expenses for the periods ended November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022		May 31, 2022	
Other income				
Gains on assets contributed	₩	277,061	₩	-
Miscellaneous income		411		72,733
	₩	277,472	₩	72,733
Other expenses				
Miscellaneous expenses	₩	105	₩	-

21. Financial Risk Management

21.1 Capital risk management

The primary objective of The Company's capital management is to maintain its ability to continuously provide return to its shareholders and stakeholders and to optimize its capital structure to reduce capital expenses.

The Company adopted debt-to-equity ratio for the capital management index, which is calculated by dividing total liabilities over total capital.

Debt-to-equity ratio as at November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022		May 31, 2022	
Liabilities	₩	468,434,447	₩	467,632,244
Equity		401,555,584		408,227,774
Debt-to-equity ratio		116.65%		114.55%

21.2 Financial risk factors

The Company's financial assets and liabilities are exposed to various risks including market risk, credit risk and liquidity risk. The Company's financial risk management focuses on identifying the potential risks that may arise from operating activities and eliminating or minimizing these risks to an acceptable level.

(a) Market risk

The Company has no assets or borrowings that are exposed to changes in foreign currency exchange rates or risk of interest rate fluctuations.

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(b) Credit risk

Credit risk refers to the risk that the customer or the counterparty will suffer financial losses due to failure to fulfil their contractual obligations in our ordinary transactions and investment activities.

- Level of exposure to credit risk

The carrying amount of the financial asset represents the maximum exposure to credit risk. The degree of exposure to credit risk as at November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>		November 30, 2022		May 31, 2022
Cash and cash equivalents	₩	9,923,406	₩	11,008,939
Short-term financial instruments		-		63,409
Long-term financial instruments		16,777,658		16,777,658
Other financial assets		16,987,661		16,522,666

(c) Liquidity risk

The Company has established a liquidity risk management framework for the management of the Company's short- and medium-term financial assets and liabilities and continuously monitors forecasts and actual cash flows to respond to the maturity profiles of these financial assets and liabilities. Management assesses that financial liabilities can be repaid through cash flows from operating activities and cash inflows from financial assets.

Analysis of liquidity risk as at November 30, 2022 and May 31, 2022, are as follows:

(in thousands of Korean won)

	November 30, 2022					
Book amount	Contractual cash flows	Within 1 year	1 year ~ 2 years	2 years ~ 5 years	Over 5 years	
Non-trade payables	₩ 2,343,188	₩ 2,343,188	₩ 2,343,188	₩ -	₩ -	₩ -
Accrued expenses	2,108,892	2,108,892	2,108,892	-	-	-
Long-term borrowings	446,281,731	482,141,151	11,536,500	45,836,500	424,768,151	-
Leasehold deposits	15,981,853	17,222,598	3,872,139	444,940	11,608,215	1,297,304
	<u>₩ 466,715,664</u>	<u>₩ 503,815,829</u>	<u>₩ 19,860,719</u>	<u>₩ 46,281,440</u>	<u>₩ 436,376,366</u>	<u>₩ 1,297,304</u>

(in thousands of Korean won)

	May 31, 2022					
Book amount	Contractual cash flows	Within 1 year	1 year ~ 2 years	2 years ~ 5 years	Over 5 years	
Non-trade payables	₩ 2,144,440	₩ 2,144,440	₩ 2,144,440	₩ -	₩ -	₩ -
Accrued expenses	2,140,499	2,140,499	2,140,499	-	-	-
Long-term borrowings	445,090,386	487,925,204	11,536,500	11,536,500	464,852,204	-
Leasehold deposits	15,779,493	17,222,598	1,107,052	3,210,027	11,608,215	1,297,304
	<u>₩ 465,154,818</u>	<u>₩ 509,432,741</u>	<u>₩ 16,928,491</u>	<u>₩ 14,746,527</u>	<u>₩ 476,460,419</u>	<u>₩ 1,297,304</u>

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22. Financial Instruments by Category and Fair Value

Financial instruments by category and fair value as at November 30, 2022 and May 31, 2022, are as follows:

(in thousands of Korean won)

	November 30, 2022		May 31, 2022	
	Book amount	Fair value	Book amount	Fair value
Financial assets at amortized cost				
Cash and cash equivalents	₩ 9,923,406	₩ 9,923,406	₩ 11,008,939	₩ 11,008,939
Short-term financial instruments	-	-	63,409	63,409
Long-term financial instruments	16,777,658	16,777,658	16,777,658	16,777,658
Other financial assets	16,987,661	16,987,661	16,522,666	16,522,666
	<u>₩ 43,688,725</u>	<u>₩ 43,688,725</u>	<u>₩ 44,372,672</u>	<u>₩ 44,372,672</u>
Financial liabilities at amortized cost				
Other financial liabilities	₩ 20,433,934	₩ 20,433,934	₩ 20,064,432	₩ 20,064,432
Long-term borrowings	446,281,731	446,281,731	445,090,386	445,090,386
	<u>₩ 466,715,665</u>	<u>₩ 466,715,665</u>	<u>₩ 465,154,818</u>	<u>₩ 465,154,818</u>

The Company determines that the acquisition or amortized costs of financial assets and liabilities other than the financial assets and liabilities measured at fair value are reasonable approximation of fair value.

Net gains or losses on each category of financial instruments for the periods ended November 30, 2022 and May 31, 2022, are as follows:

(in thousands of Korean won)

	November 30, 2022	May 31, 2022
Financial assets at amortized cost		
Interest income	₩ 554,845	₩ 136,027
Financial liabilities at amortized cost		
Interest expenses	₩ 7,147,976	₩ 7,170,707

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23.Related Party Transactions

Related parties as at November 30, 2022 and May 31, 2022.

November 30, 2022

May 31, 2022

Parent Company	ESR Kendall Square REIT Co., Ltd.	ESR Kendall Square REIT Co., Ltd.
Other related parties	Kendall Square REIT Management Co., Ltd. ESR Kendall Square Asset No.1 REIT Co., Ltd. CPP Investment Board Real Estate Holdings Inc. ESR Kendall Square REIT Holding PTE, LTD.	Kendall Square REIT Management Co., Ltd. ESR Kendall Square Asset No.1 REIT Co., Ltd. CPP Investment Board Real Estate Holdings Inc. ESR Kendall Square REIT Holding PTE, LTD.

Transactions with related parties for the periods ended November 30, 2022 and May 31, 2022, are as follows:

(in thousands of Korean won)

	Related party	Details	November 30, 2022	May 31, 2022
Other related party	Kendall Square REIT Management Co., Ltd.	Asset management consignment fees ¹	₩ 2,065,398	₩ 7,263,468

¹ Asset management consignment fees for ESR Kendall Square REIT Management Co., Ltd. for the period ended May 31, 2022, includes asset purchase fee ₩ 5,408 million, which is included in the acquisition cost of investment properties.

Outstanding balances to related parties as at November 30, 2022 and May 31, 2022, are as follows:

(in thousands of Korean won)

		November 30, 2022	May 31, 2022
	Related party	Non-trade payables	Non-trade payables
Other related party	Kendall Square REIT Management Co., Ltd.	₩ 2,271,938	₩ 2,041,565

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Fund transactions with related parties for the periods ended November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	Related party	Details	November 30, 2022	May 31, 2022
Parent Company	ESR Kendall Square REIT Co., Ltd.	Increase in issued capital	₩ -	₩ 405,551,000
		Dividends	8,087,260	-
Other related party	Kendall Square REIT Management Co., Ltd.	Reduction in class shares	-	3,500,010

Compensation for key management of the Company for the periods ended November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022	May 31, 2022
Short-term employee benefits	₩ 12,000	₩ 12,000

24. Operating Segments

The Company operates as a single reporting segment, considering the nature of the services that generate operating profits. Therefore, disclosure of operating income, net income before income tax expense, and total assets and liabilities by reporting sector was omitted in these reports.

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25. Cash flow

The significant non-cash transactions for the periods ended November 30, 2022 and May 31, 2022, are as follows:

<i>(in thousands of Korean won)</i>	November 30, 2022	May 31, 2022
Reclassification to current portion of unearned revenue	₩ 162,210	₩ 895,015
Transfer of other paid-in capital	2,000,000	2,068,036
Reclassification to current portion of leasehold deposit	2,765,087	1,107,052
Transfer of advances to non-trade payables payment	-	110,000
Reclassification to current portion of discount on present value of leasehold deposits	24,949	26,462

Changes in liabilities arising from financial activities for the period ended November 30, 2022, are as follows:

<i>(in thousands of Korean won)</i>	Beginning balance	Changes in non-cash transactions¹	Ending balance
Long-term borrowings	₩ 445,090,386	₩ 1,191,345	₩ 446,281,731
Leasehold deposits	15,779,493	202,360	15,981,853

¹ Changes in non-cash transactions include non-cash movements and interest payments which are presented as operating cash flows in the statement of cash flows when paid.

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26. Commitments

(a) Contract for the asset management services

The Company entered into a contract of the asset management services such as acquisition, management, development, improvement and disposal of real estate, lease, and sales of securities with ESR Kendall Square REIT Management Co., Ltd. Details of fees as follows:

Details

Management fees	<p>a. Real estates:</p> <p>(Purchase price + additional cost related to purchase) X 0.5% (Annual Percentage Rate)</p> <p>b. Assets except real estate such as collective investment securities and equity securities:</p> <p>(The amount of real estate that is the underlying asset at the time the consigner purchase + additional cost related to purchase) X 0.5% X consigner's ratio of shareholding</p>
Purchase fee	<p>a. Real estates:</p> <p>Purchase price X 1.0%(*)</p> <p>(*) 0.75%, in the case of real estate held by the asset manager's affiliated company is a collective investment business operator that is a collective investment scheme or a project finance investment company that is an asset management company pursuant to Article 51-2 of the Corporate Tax Act and Article 86-2 of the Enforcement Decree of the Corporate Tax Act.</p> <p>b. Assets except real estate such as collective investment securities and equity securities:</p> <p>The amount of real estate that is the underlying asset of assets for purchase X 1.0% (*) X Consigner's ratio of shareholding</p> <p>(*) 0.75%, in the cases of (i) the assets for purchased are shares of a real estate investment company under the Real Estate Investment Company Act and the asset manager or an affiliate of the asset manager is an asset management company of the relevant real estate investment company, (ii) the assets for purchased are collective investment securities issued by a real estate collective investment scheme and the asset manager's affiliated company is a collective investment business operator that is a collective investment scheme.</p>
Basic sales commission	0.5% of the sales amount calculated when each asset is sold
Development fee	<p>5% of the amounts that included acquisition tax (excluding land-related expenses, financial expenses, and operating expenses) and all expenses incurred from the completion date of land purchase to the date of approval of the building (temporary) use included in the acquisition tax table</p> <p>In consultation with the asset management company, the consigner decides to calculate and pay the fees based on the total estimated amount of development fees reasonably determined. And also, it is decided to settle according to the</p>

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difference between the estimated total development fee and the actual total development fee for the fiscal year in which the date of approval of the building (temporary) use belongs.

(b) General affairs consignment contract

The Company entered a general affairs consignment contract with Shinhan AITAS Co., Ltd. for affairs related to the issuance of shares, the operation, accounting and disclosure of the Company, and the board of directors and shareholder's meetings. Fees are paid ₩ 30 million per every fiscal year.

(c) Asset custody consignment contract

The Company entered a consignment contract for custody and management of assets such as real estate, securities, and cash with Woori Bank. Fees are paid ₩ 15 million per every fiscal year.

The company entered a consignment contract for custody and management of real estate with KB Real Estate Trust Co., Ltd. Separate fees are determined according to the "real estate collateral trust contract", and there is no amount of the trust fee for the current period. (Trust fee of previous period: ₩ 200,000 thousand)

(d) Loan agreement

Details of the loan agreement as at November 30, 2022, are as follows:

<i>(in thousands of Korean won)</i>	Contract amount		Loan amount	
Tranche A (KB Insurance Co., Ltd)	₩	34,300,000	₩	34,300,000
Tranche C-1 (Kookmin Bank, KB Insurance Co., Ltd)		303,500,000		303,500,000
Tranche C-2 (Kookmin Bank)		114,500,000		114,500,000
	₩	<u>452,300,000</u>	₩	<u>452,300,000</u>

(e) As at November 30, 2022, the Company has entered into the sales contract for the acquisition of Anseong logistics park and others and the total purchase amount excluding incidental costs is ₩ 252.4 billion and unpaid amount was ₩ 240.4 billion. the Company recognized the costs paid for the acquisition of logistics park as construction in progress.