Brookfield Residential Properties Inc.

Q1 2022 Interim Report

First Quarter 2022 Overview and Outlook

Brookfield Residential's first quarter results continue to reflect the demand for residential homes and land across North America where we were able to capitalize on our well-positioned land holdings with opportunistic entitled land sales and execute on our housing backlog. Across our markets, we continue to see positive underlying fundamentals and demographic shifts during household formation together with a historical supply shortage. However, we continue to experience near-term setbacks relating to cost increases, product shortages and the impacts on future sales of higher mortgage rates on overall affordability in the markets that we operate.

For the three months ended March 31, 2022, income before income taxes was $119 million compared to $81 million in 2021. Included in the results were earnings of $23 million from our affiliate unconsolidated entities compared to earnings of $39 million in 2021. Adjusting for this, our adjusted income before income taxes relating to our residential and mixed-use operations was $96 million compared to $42 million in 2021.

Additional operating and financial highlights for the three months ended March 31, 2022 include:

- Continued execution on our strong backlog entering the year with 427 home closings at a housing gross margin of 18% where average home selling prices increased 14% to $606,000 from the first quarter of 2021.
- Net new home orders of 738 resulting in total backlog units of 1,852 units with a value of $1.2 billion (including our unconsolidated entities).
- Land activity remained strong with 396 lot closings, which included two bulk lot sales at our coastal Southern California communities contributing $65 million to our land gross margin leading to an increase to our overall land gross margins at 40%.
- Brookfield Residential paid dividends of $375 million to Brookfield Asset Management while maintaining adequate liquidity to support the increased activity in the current operating environment.
- Net debt to total capitalization ratio of 47%, which reflects a cash balance of $83 million and $368 million drawn on our unsecured revolving credit facility.

As we look ahead to the remainder of 2022, our outlook for the balance of the year remains positive. We continue to monitor the impact of supply chain disruptions and the effects it may have on our cycle times as it has caused some delays in our ability to close homes. Based on our outlook at this early point in the year, we offer the following limited guidance for 2022. For our U.S. operations, we expect to close approximately 1,800 homes and 3,760 lots, excluding our share of unconsolidated entities. For our Canadian markets, we expect to close approximately 890 homes and 790 lots. We also project a number of multi-family, commercial and industrial parcel sales in both countries.

Subsequent to the end of the first quarter, we launched a marketing effort to sell our Fifth + Broadway mixed-use development in Nashville. As the property is entering the stabilized stage, we are exploring the recapitalization opportunities and anticipate the transaction to close within the year.

BROOKFIELD RESIDENTIAL PROPERTIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This interim report, incorporated herein by reference, contains “forward-looking statements” within the meaning of applicable Canadian securities laws and United States ("U.S.") federal securities laws. Forward-looking statements can be identified by the words “may,” “believe,” “will,” “anticipate,” “expect,” “plan,” “intend,” “estimate,” “project,” “future,” and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters. Such statements are neither historical facts nor assurances of future performance. Instead, they reflect management’s current beliefs and are based on information currently available to management as of the date on which they are made. The forward-looking statements in this interim report may include, among others, statements with respect to:

- the current business environment and outlook, including statements regarding: the duration and impact of the coronavirus pandemic ("COVID-19") on our financial position and homebuilding operations; the duration, impact and effectiveness of government measures including orders, stimulus, aid, assistance and other government programs in response to COVID-19; economic and market conditions in the U.S. and Canadian housing markets and our ability to respond to such conditions; the effect of seasonality on the homebuilding business; the impact of changes to Canadian mortgage rules affecting the ability of prospective homebuyers to qualify for mortgage financing; the potential offset of the Canadian shared equity program on the impact of stress test mortgage rules in Canada; home prices and affordability in the communities, home closings resulting therefrom, and the timing thereof; international trade factors, including changes in trade policy, such as trade sanctions and increased tariffs; the impact of actual, proposed or potential interest rate changes in the U.S. and Canada and resulting consumer confidence;– the effect of inflation; volatility in the global price of commodities, including the price of oil and lumber; unexpected cost increases that could impact our margins; disruptions in the global supply chain adversely impacting product availability and causing delays; the economic and regulatory uncertainty surrounding the energy industry and pipeline approvals and the impact thereof on demand in our markets including future investment, particularly in Alberta; consumer confidence and the resulting impact on the housing market; change in consumer behavior and preferences; our relationship with operational jurisdictions and key stakeholders; our ability to meet our obligations under our North American unsecured credit facility; our costs to complete related to our letters of credit and performance bonds; expected project completion times; our ability to realize our deferred tax assets; our ability to grow and market our mixed-use development operations, identifying other mixed-use opportunities, and our ability to execute on our plans for a mixed-use operational platform and expected redevelopment opportunities resulting therefrom; home price growth rates and affordability levels generally; recovery in the housing market and the pace thereof; reduction in our debt levels and the timing thereof; our expected unit and lot sales and the timing thereof; expectations for 2022 and beyond;
- possible or assumed future results, including our outlook and any updates thereto, how we intend to use and the availability of additional cash flow, the operative cycle of our business and expected timing of income and expected performance and features of our projects, the continued strategic expansion of our business operations, our assumptions regarding normalized sales, our projections regarding revenue and housing inventory, the impact of acquisitions on our operations in certain markets;
- the expected closing of transactions;
- the expected exercise of options contracts and lease options;
- the effect on our business of business acquisitions;
- business goals, strategy and growth plans;
- trends in home prices in our various markets and generally;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the homebuilding industry;
- the ability to generate sufficient cash flow from our assets to repay maturing bank indebtedness and project-specific financings and take advantage of new opportunities;
- the ability to meet our covenants and re-pay interest payments on our unsecured senior notes and the requirement to make payments under our construction guarantees;

- the ability to create value in our land development business and meet our development plans;
- the visibility of our future cash flow;
- social and environmental conditions, policies and risks;
- governmental policies and risks;
- cyber-security and privacy related risks;
- health and safety risks;
- expected backlog and closings and the timing thereof;
- the sufficiency of our access to and the sources of our capital resources;
- the impact of foreign exchange rates on our financial performance and market opportunities;
- the impact of credit rating agencies' rating on our business;
- the timing of the effect of interest rate changes on our cash flows;
- the effect of debt and leverage on our business and financial condition;
- the effect on our business of existing lawsuits; and
- damage to our reputation from negative publicity

Although management of Brookfield Residential believes that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information in this interim report are based upon reasonable assumptions and expectations, readers of this interim report should not place undue reliance on such forward-looking statements and information because they involve assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of Brookfield Residential to differ materially from anticipated future results, performance, or achievements expressed or implied by such forward-looking statements and information.

Various factors, in addition to those discussed elsewhere in this interim report, that could affect the future results of Brookfield Residential and could cause actual results, performance, or achievements to differ materially from those expressed in the forward-looking statements and information include, but are not limited to, those factors included under the sections entitled “Cautionary Statements Regarding Forward-Looking Statements” and “Business Environment and Risks” of the Annual Report for the fiscal year ended December 31, 2021.

The forward-looking statements and information contained in this interim report are expressly qualified by this cautionary statement. Brookfield Residential undertakes no obligation to publicly update or revise any forward-looking statements, whether written or oral, or information contained in this interim report, whether as a result of new information, future events or otherwise, except as required by law. However, any further disclosures made on related subjects in subsequent public disclosure should be consulted.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT’S DISCUSSION AND ANALYSIS

This management’s discussion and analysis ("MD&A") relates to the period ended March 31, 2022 and has been prepared with an effective date of May 11, 2022. It should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this interim report. All dollar amounts discussed herein are in U.S. dollars, unless otherwise stated. Amounts in Canadian dollars are identified as “C$.” The condensed consolidated financial statements referenced herein have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”).

This MD&A includes references to gross margin percentage which is not specified, defined, or determined under U.S. GAAP and is therefore considered a non-GAAP financial measure. This non-GAAP financial measure is unlikely to be comparable to similar financial measures presented by other issuers. For a full description of this non-GAAP financial measure, please refer to “Non-GAAP Financial Measures" in this MD&A.

OVERVIEW

Brookfield Residential Properties Inc. (unless the context requires otherwise, references in this interim report to “we,” “our,” “us,” the “Company” and “Brookfield Residential” refer to Brookfield Residential Properties Inc. and the subsidiaries through which it conducts all of its homebuilding and land development operations) is a wholly-owned subsidiary of Brookfield Asset Management Inc. ("BAM") and has been in operation for over 60 years. We are the flagship North American residential property company of BAM, a leading global alternative asset manager with approximately $690 billion of assets under management.

Brookfield Residential is a leading North American homebuilder and land developer with operations in Canada and the United States. We entitle and develop land to create master-planned communities to create shared value for our stakeholders through a balanced mix of revenue-generating consumer and commercial deliverables. We build and sell lots to third-party builders, conduct our own homebuilding operations and, in select developments, establish commercial areas. We also participate in select strategic real estate opportunities, including infill projects, mixed-use developments, infrastructure projects and joint ventures.

Our disciplined land entitlement process, synergistic operations and capital flexibility allow us to pursue land investment, traditional homebuilding and mixed-use development in typically supply-constrained markets where we have strategically invested. Canada, Pacific U.S. and Central and Eastern U.S. are the three operating segments related to our land and housing operations that we focus on. Our Canadian operations are primarily in the Alberta (Calgary and Edmonton) and Ontario (Greater Toronto Area) markets. Our Pacific U.S. operations include Northern California (San Francisco Bay Area and Sacramento), Southern California (Los Angeles and San Diego / Riverside), Oregon (Portland), Washington (Seattle), and Hawaii (Honolulu Mixed-Use). Our Central and Eastern U.S. operations include Washington, D.C. Area, Colorado (Denver), Texas (Austin / Houston / Dallas), Arizona (Phoenix), Florida (Tampa), Georgia (Atlanta), North Carolina (Raleigh) and Tennessee (Nashville Mixed-Use).

By targeting these markets that have strong underlying economic fundamentals we believe that over the longer term they offer robust, diversified housing demand, barriers to entry for competitors and close proximity to areas where employment growth is expected.

Brookfield Residential invests in markets for the long term, building new communities and homes where people want to live today and in the future. Our developments are places of character and value. We create a plan for each development - a blueprint that guides the land development process from start to finish. This tailored approach results in a community with attributes that make it unique - attributes that make our communities the best places to call home. It is what drives us to commit the resources needed to make a positive, lasting social impact in all of the communities in which we build.

Principal Business Activities

Through the activities of our operating subsidiaries, we develop land for our own communities and sell lots to other homebuilders and third parties and design, construct and market single family and multi-family homes in our own and others’ communities. We operate through local business units which are involved in all phases of the planning and building of our master-planned communities, infill projects and mixed-use developments in each of our markets. These operations include sourcing and evaluating land acquisitions, site planning, obtaining entitlements, developing the land, product design, constructing, marketing and selling homes and providing homebuyer customer service. We also develop or sell land for the construction of commercial shopping centers in our communities. By offering this flexible, integrated operating model, we maintain balanced and diversified operations providing value at the various stages of the land development process while also being responsive to the economic conditions within each market where we do business.

As a result, Brookfield Residential has developed a reputation for delivering innovative, award-winning master-planned communities and residential products. Our reputation stems from our passion to create "The Best Places to Call Home." This goes beyond the physical structures we build. To us, it's also about creating sustainable communities that offer a high quality of life and truly make a difference in people's lives. That's why our business is more than a traditional housing operation. The master-planned communities we develop typically also feature community centres, parks, recreational areas, schools, commercial areas and other amenities. As we grow our mixed-use platform, we are uniquely positioned to apply our distinct expertise to urban redevelopment projects that are residentially anchored.

Land Acquisition

Our traditional land development and homebuilding industry involves converting raw or undeveloped land into residential housing built by us and/or like-minded building partners, as well as commercial areas to add to the community placemaking strategy and provide added value creation. This process begins with the purchase or control of raw land and is followed by the entitlement and development of the land, and the marketing and sale of homes constructed on the land.

As a land developer in all of our markets, we target the acquisition of raw land during the low point of the economic cycle. Due to our local presence and collective capital strength, we are uniquely positioned to acquire underutilized land or brownfield development opportunities as they arise. We make diligent investments in supply-constrained markets with strong underlying economic fundamentals informed by strategic land studies to review growth patterns.

Entitlement Process & Land Development

Our unique approach to land development begins with our disciplined approach to acquiring land in the path of growth in dynamic and resilient markets in North America that have barriers to entry caused by infrastructure or entitlement processes. We create value through the planning and entitlement process, developing and marketing residential lots and commercial sites and working with industry partners who share the same vision and values. We plan to continue to grow this business over time by selectively acquiring land that either enhances our existing inventory or provides attractive projects that are consistent with our overall strategy and management expertise.

These larger tracts held for development afford us a true "master-planned" development opportunity that, following entitlement and assuming market conditions allow, creates a multi-year stream of cash flow. Creating this type of community requires a long-term view of how each piece of land should be developed with a vision of how our customers live in each of our communities. Through strong relationships with the jurisdictions and key stakeholders where we operate, we create shared value and infrastructure that supports great places.

We may also purchase smaller infill or re-use parcels, or in some cases finished lots for housing. As a city grows and intensifies, so do its development opportunities. Inner city revitalization opportunities contribute to the strategic expansion of our business. We develop and construct homes in previously urbanized areas on underutilized land. Urban developments provide quick turnarounds from acquisition to completion, create new revenue streams, and infuse new ideas and energy into the Company.

We also consider the opportunity for mixed-use and commercial space within the community to cultivate the live, work and play experience that many customers desire today, in addition to building homes and community amenities, as part of the planning process.

Mixed-use development is a continuous focus of the Company. We have been developing commercial properties within our master-planned communities for decades. Seton, in Calgary, Alberta, is a prime example of adding value to a master plan through appropriate mixed-use planning and building on our own land. A shift in consumer behavior has resulted in further demand for infill/brownfield locations. With many municipalities also focused on urban intensification, we believe these trends will create a significant pipeline of redevelopment opportunities. Premier mixed-use projects in Tennessee (Nashville) and Hawaii (Honolulu) allow us to design and build leading-edge mixed-use developments in some of the most vibrant urban centers in the U.S.

Our core land and homebuilding operations remain our focus and priority; however, we see our position in mixed-use development as a significant opportunity that reflects some potential shifts in our residential portfolio to continue to meet customer needs and lifestyle preferences. We believe Brookfield Residential has the necessary entitlement and re-entitlement expertise to implement this strategic focus, including the determination of appropriate future uses for a site, including retail, office, hospitality, for sale residential, and for rent residential.

Home Construction and Consumer Deliverables

Having a homebuilding operation gives us the opportunity to monetize our land and provides us with market knowledge through our direct contact with the homebuyers to understand customer preferences and product choices, we construct homes on lots that have been developed by us or that we purchase from others. In markets where the Company has significant land holdings, homebuilding is carried out on a portion of the land in specific market segments and the balance of lots are sold to and built on by third-party builders. Certain master-planned communities will also include the development of mixed-use space, consisting of retail or commercial assets, which we will build and add value through leasing, before selling to a third-party operator.

Brookfield Residential Properties Portfolio

Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at March 31, 2022 were $6.4 billion.

As of March 31, 2022, we controlled 76,540 single family lots (serviced lots and future lot equivalents) and 106 multi-family, industrial and commercial serviced parcel acres. Controlled lots and acres include those we directly own and our share of those owned by unconsolidated entities. Our controlled lots and acres provide a strong foundation for our future lot and acre sales and homebuilding business, as well as visibility on our future cash flow. The number of building lots and acre parcels in each of our primary markets as of March 31, 2022 is as follows:

	Single Family Housing & Land Under and Held for Development[1]								Multi-Family, Industrial & Commercial Parcels Under Development	
	Housing & Land		Unconsolidated Entities		Total Lots		Status of Lots 3/31/2022		Total Acres	
	Owned	Options	Owned	Options	3/31/2022	12/31/2021	Entitled	Unentitled	3/31/2022	12/31/2021
Calgary	14,435	—	2,341	—	16,776	16,972	9,418	7,358	48	55
Edmonton	9,853	—	—	—	9,853	9,928	4,643	5,210	7	12
Ontario	7,007	—	2,135	—	9,142	9,604	5,160	3,982	1	1
Canada	31,295	—	4,476	—	35,771	36,504	19,221	16,550	56	68
Northern California	2,534	7,255	182	—	9,971	10,016	2,603	7,368	—	—
Southern California	5,532	—	589	210	6,331	6,026	4,197	2,134	—	—
Other	—	—	435	—	435	452	435	—	1	1
Pacific U.S.	8,066	7,255	1,206	210	16,737	16,494	7,235	9,502	1	1
Denver	6,506	—	—	—	6,506	6,558	6,506	—	10	10
Austin	10,233	—	—	—	10,233	10,488	10,233	—	38	37
Phoenix	1,827	—	673	—	2,500	2,509	2,500	—	—	—
Washington, D.C. Area	3,425	797	10	—	4,232	4,311	4,195	37	—	—
Other	—	—	561	—	561	588	561	—	1	2
Central and Eastern U.S.	21,991	797	1,244	—	24,032	24,454	23,995	37	49	49
Total	61,352	8,052	6,926	210	76,540	77,452	50,451	26,089	106	118
Entitled lots	42,721	2,004	5,726	—	50,451	49,763				
Unentitled lots	18,631	6,048	1,200	210	26,089	27,689				
Total March 31, 2022	61,352	8,052	6,926	210	76,540					
Total December 31, 2021	62,091	8,126	6,817	418		77,452				

(1) *Land held for development will include some multi-family, industrial and commercial parcels once entitled.*

RESULTS OF OPERATIONS

Key financial results and operating data for the three months ended March 31, 2022 compared to the three months ended March 31, 2021 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Three Months Ended March 31 2022	2021
Key Financial Results		
Housing revenue	$ 259	$ 371
Land revenue	199	73
Housing gross margin ($)	47	72
Housing gross margin (%)	18%	19%
Land gross margin ($)	80	21
Land gross margin (%)	40%	29%
Total gross margin ($)	127	93
Total gross margin (%)	28%	21%
Income before income taxes	119	81
Income tax expense	(10)	—
Net income	109	81
Net income attributable to Brookfield Residential	36	61
Basic earnings per share	$ 0.28	$ 0.47
Diluted earnings per share	$ 0.28	$ 0.46
Key Operating Data		
Home closings for Brookfield Residential (units)	427	698
Home closings for unconsolidated entities (units)	1	—
Average home selling price for Brookfield Residential (per unit)	$ 606,000	$ 532,000
Average home selling price for unconsolidated entities (per unit)	$ 856,000	$ —
Net new home orders for Brookfield Residential (units)	737	985
Net new home orders for unconsolidated entities (units)	1	—
Backlog for Brookfield Residential (units)	1,809	2,194
Backlog for unconsolidated entities (units)	43	—
Backlog value for Brookfield Residential	$ 1,141	$ 1,200
Backlog value for unconsolidated entities	$ 37	$ —
Active housing communities for Brookfield Residential	64	79
Lot closings for Brookfield Residential (single family units)	396	588
Lot closings for unconsolidated entities (single family units)	104	299
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	9	4
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	2	—
Acre closings for Brookfield Residential (raw and partially finished)	101	—
Acre closings for unconsolidated entities (raw and partially finished)	1	—
Average lot selling price for Brookfield Residential (single family units)	$ 478,000	$ 117,000
Average lot selling price for unconsolidated entities (single family units)	$ 137,000	$ 136,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 973,000	$ 948,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ 633,000	$ —
Average per acre selling price for Brookfield Residential (raw and partially finished)	$ 9,000	$ —
Average per acre selling price for unconsolidated entities (raw and partially finished)	$ 117,000	$ —
Active land communities for Brookfield Residential	16	18
Active land communities for unconsolidated entities	16	6

Segmented Information

We operate in three operating segments within North America related to our land and housing operations: Canada, Pacific U.S. and Central and Eastern U.S. Each of the Company's segments specializes in land entitlement and development and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of risk factors. The following table summarizes information relating to revenues, gross margin and assets by operating segment for the three months ended March 31, 2022 and 2021.

	Three Months Ended March 31	
(US$ millions, except unit activity and average selling price)	**2022**	**2021**
Housing revenue		
Canada	$ 67	$ 60
Pacific U.S.	96	179
Central and Eastern U.S.	96	132
Total	$ 259	$ 371
Land revenue		
Canada	$ 40	$ 47
Pacific U.S.	153	16
Central and Eastern U.S.	6	10
Total	$ 199	$ 73
Housing gross margin		
Canada	$ 11	$ 10
Pacific U.S.	18	39
Central and Eastern U.S.	18	23
Total	$ 47	$ 72
Land gross margin		
Canada	$ 12	$ 15
Pacific U.S.	65	5
Central and Eastern U.S.	3	1
Total	$ 80	$ 21
Home closings (units)		
Canada	137	144
Pacific U.S.	117	293
Central and Eastern U.S.	173	261
	427	698
Unconsolidated Entities	1	—
Total	428	698
Average home selling price		
Canada	$ 485,000	$ 420,000
Pacific U.S.	819,000	611,000
Central and Eastern U.S.	557,000	506,000
	606,000	532,000
Unconsolidated Entities	856,000	—
Average	$ 606,000	$ 532,000

	As at March 31	
	2022	**2021**
Active housing communities		
Canada	34	38
Pacific U.S.	10	13
Central and Eastern U.S.	20	28
Total	64	79

	Three Months Ended March 31	
	2022	2021
Lot closings (single family units)		
Canada	185	340
Pacific U.S.	158	115
Central and Eastern U.S.	53	133
	396	588
Unconsolidated entities	104	299
Total	500	887
Acre closings (multi-family, industrial and commercial)		
Canada	9	4
Pacific U.S.	—	—
Central and Eastern U.S.	—	—
	9	4
Unconsolidated entities	2	—
Total	11	4
Acre closings (raw and partially finished)		
Canada	101	—
Pacific U.S.	—	—
Central and Eastern U.S.	—	—
	101	—
Unconsolidated entities	1	—
Total	102	—
Average lot selling price (single family units)		
Canada	$ 162,000	$ 125,000
Pacific U.S.	969,000	139,000
Central and Eastern U.S.	115,000	76,000
	478,000	117,000
Unconsolidated entities	137,000	136,000
Average	$ 407,000	$ 123,000
Average per acre selling price (multi-family, industrial and commercial)		
Canada	$ 950,000	$ 948,000
Pacific U.S.	—	—
Central and Eastern U.S.	—	—
	973,000	948,000
Unconsolidated entities	633,000	—
Average	$ 900,000	$ 948,000
Average per acre selling price (raw and partially finished)		
Canada	$ 9,000	$ —
Pacific U.S.	—	—
Central and Eastern U.S.	—	—
	9,000	—
Unconsolidated entities	117,000	—
Average	$ 10,000	$ —

	As at March 31	
	2022	2021
Active land communities		
Canada	7	8
Pacific U.S.	1	1
Central and Eastern U.S.	8	9
	16	18
Unconsolidated entities	16	6
Total	32	24

(US$ millions)	As at March 31 2022	As at December 31 2021
Total assets		
Canada	$ 1,091	$ 1,078
Pacific U.S.	1,252	1,237
Central and Eastern U.S.	2,118	2,051
Corporate and other	1,190	1,162
Equity Investment in Affiliate	792	770
Total	$ 6,443	$ 6,298

For additional financial information with respect to our revenues, earnings and assets, please refer to the accompanying condensed consolidated financial statements and related notes included elsewhere in this interim report.

Three Months Ended March 31, 2022 Compared with Three Months Ended March 31, 2021

Net Income

Consolidated net income for the three months ended March 31, 2022 and 2021 is as follows:

(US$ millions, except per share amounts)	Three Months Ended March 31 2022	Three Months Ended March 31 2021
Consolidated net income	$ 109	$ 81
Net income attributable to Brookfield Residential	$ 36	$ 61
Basic earnings per share	$ 0.28	$ 0.47
Diluted earnings per share	$ 0.28	$ 0.46

The increase of $28 million in consolidated net income for the three months ended March 31, 2022 compared to the same period in 2021 was the result of an increase in gross margins of $34 million primarily due to increased activity in our land operations, a increase in other income of $18 million due to a change in unrealized gain from investment related to our Brookfield Single Family Rental ("BSFR") investment, and higher commercial rent income, and a decrease in selling, general and administrative expenses of $3 million. This was partially offset by a decrease in earnings from affiliate unconsolidated entities of $16 million primarily due to a decrease in earnings from equity accounted investments, partially offset by increased fee income and disposition of certain investments recognized in the previous year, increase in income tax expense of $10 million, and an increase in depreciation expense of $1 million.

Results of Operations – Housing

A breakdown of our results from housing operations for the three months ended March 31, 2022 and 2021 is as follows:

Consolidated

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2022		Three Months Ended March 31 2021	
Home closings		427		698
Revenue	$	259	$	371
Gross margin	$	47	$	72
Gross margin (%)		18%		19%
Average home selling price	$	606,000	$	532,000

Housing revenue and gross margin were $259 million and $47 million, respectively, for the three months ended March 31, 2022, compared to $371 million and $72 million for the same period in 2021. The decrease in revenue and gross margin were primarily the result of 271 fewer home closings, mainly coming from our Pacific U.S. and Central and Eastern U.S. operating segments, offset by a 34% increase in average home selling price in our Pacific U.S. segment. Gross margin percentage decreased 1% when compared to the same period in 2021 due to increased direct housing costs, geographic and product mix of homes closed when compared to the same period in 2021.

A breakdown of our results from housing operations by our land and housing operating segments is as follows:

Canada

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2022		Three Months Ended March 31 2021	
Home closings		137		144
Revenue	$	67	$	60
Gross margin	$	11	$	10
Gross margin (%)		16%		17%
Average home selling price	$	485,000	$	420,000
Average home selling price (C$)	$	615,000	$	531,000

Housing revenue in our Canadian segment for the three months ended March 31, 2022 increased by $7 million when compared to the same period in 2021, primarily due to 15% higher average home selling prices, partially offset by 7 fewer home closings. The increase in average home selling prices was primarily due to the product and geographic mix of homes closed in our Ontario market where average home selling prices increased 20%. The decrease in home closings was primarily the result of fewer closings in our Edmonton market. Gross margin increased $1 million and gross margin percentage decreased 1% for the three months ended March 31, 2022 when compared to the same period in 2021 primarily as a result of increased direct housing costs, product and geographic mix of homes closed, partially offset with lower incentives on homes closed when compared to the same period in 2021.

Pacific U.S.

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2022		Three Months Ended March 31 2021	
Home closings		117		293
Revenue	$	96	$	179
Gross margin	$	18	$	39
Gross margin (%)		19%		22%
Average home selling price	$	819,000	$	611,000

Housing revenue in our Pacific U.S. segment for the three months ended March 31, 2022 decreased by $83 million when compared to the same period in 2021, primarily due to 176 fewer home closings, partially offset by 34% higher average selling prices, primarily in our Southern California markets. Gross margin decreased $21 million as a result of fewer home closings, and gross margin percentage decreased 3% primarily as a result of increased direct housing costs, product and geographic mix of homes closed when compared to the same period in 2021.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2022	2021
Home closings	173	261
Revenue	$ 96	$ 132
Gross margin	$ 18	$ 23
Gross margin (%)	19%	17%
Average home selling price	$ 557,000	$ 506,000

Housing revenue in our Central and Eastern U.S. segment for the three months ended March 31, 2022 decreased by $36 million when compared to the same period in 2021, resulting from 88 fewer home closings, primarily in our Washington market, and 10% higher average home selling prices. The increase in average home selling price is primarily the result of geographic and product mix of homes closed within the operating segment. Gross margin decreased $5 million as a result of fewer homes closings, while gross margin percentage increased 2% primarily as a result of the mix of homes closed, combined with lower incentives on homes closed when compared to the same period in 2021.

Home Sales – Incentives

We grant our homebuyers sales incentives from time-to-time in order to promote sales of our homes. The type and amount of incentives will vary on a community-by-community and home-by-home basis. Incentives are recognized as a reduction to sales revenue at the time title passes to the homebuyer and the sale is recognized. For the three months ended March 31, 2022, total incentives recognized as a percentage of gross revenues decreased 1% as a result of decreased incentives provided across our Canada and Central and Eastern U.S. operating segments, primarily due to improving market conditions when compared to the same period in 2021.

Our incentives on homes closed by operating segment for the three months ended March 31, 2022 and 2021 were as follows:

	Three Months Ended March 31			
	2022		2021	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 2	3%	$ 3	4%
Pacific U.S.	1	1%	2	1%
Central and Eastern U.S.	3	3%	6	5%
	$ 6	2%	$ 11	3%

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders for the three months ended March 31, 2022 totaled 738 units, a decrease of 248 units or 25% when compared to the same period in 2021. Average monthly sales per community by reportable segment for the three months ended March 31, 2022 were: Canada – 3 units (2021 – 3 units); Pacific U.S. – 5 units (2021 – 6 units); Central and Eastern U.S. – 5 units (2021 – 5 units). We were selling from 64 active housing communities at March 31, 2022 compared to 79 communities at March 31, 2021.

The net new home orders for the three months ended March 31, 2022 and 2021 by our land and housing operating segments were as follows:

(Units)	Three Months Ended March 31 2022	2021
Canada	255	302
Pacific U.S.	158	245
Central and Eastern U.S.	324	438
	737	985
Unconsolidated entities	1	—
Total	738	985

Home Sales – Cancellations

The overall cancellation rates for the three months ended March 31, 2022 and 2021 remain unchanged at 5%. The cancellation rates for the three months ended March 31, 2022 and 2021 for our land and housing operating segments were as follows:

	Three Months Ended March 31			
	2022		2021	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	1	0%	3	1%
Pacific U.S.	15	9%	10	4%
Central and Eastern U.S.	26	7%	36	8%
	42	5%	49	5%

Home Sales – Backlog

Our backlog, which represents the number of new homes under sales contracts, as at March 31, 2022 and 2021 by operating segment, was as follows:

	As at March 31			
	2022		2021	
(US$ millions, except unit activity)	**Units**	**Value**	**Units**	**Value**
Canada	758	$ 409	733	$ 349
Pacific U.S.	320	283	584	400
Central and Eastern U.S.	731	449	877	451
	1,809	1,141	2,194	1,200
Unconsolidated entities	43	37	—	—
Total	1,852	$ 1,178	2,194	$ 1,200

We expect substantially all of our backlog to close in 2022 and 2023, subject to future cancellations. The units in our backlog for the three months ended March 31, 2022 decreased when compared to the same period in 2021 as a result of lower net new home orders where we continue to sell out of communities with our active selling communities now at 64 compared to 79 at March 31, 2021. Total backlog value decreased by $22 million when compared to the same period in 2021 mainly due to lower units in backlog overall and the product mix of the homes sold under contract.

Results of Operations – Land

A breakdown of our results from land operations for the three months ended March 31, 2022 and 2021 is as follows:

Consolidated

	Three Months Ended March 31	
(US$ millions, except unit activity, percentages and average selling price)	**2022**	**2021**
Lot closings (single family units)	396	588
Acre closings (multi-family, industrial and commercial)	9	4
Acre closings (raw and partially finished)	101	—
Revenue	$ 199	$ 73
Gross margin	$ 80	$ 21
Gross margin (%)	40%	29%
Average lot selling price (single family units)	$ 478,000	$ 117,000
Average per acre selling price (multi-family, industrial and commercial)	$ 973,000	$ 948,000
Average per acre selling price (raw and partially finished)	$ 9,000	$ —

Land revenue totaled $199 million and land gross margin totaled $80 million for the three months ended March 31, 2022, an increase of $126 million and $59 million, respectively, when compared to the same period in 2021. The increase in land revenue and gross margin were primarily due to two large transactions selling a total of 158 lots at an average selling price of $1 million per lot. These transactions resulted in a gross margin increase of $64 million and a gross margin percentage of 42% when compared to the same period in 2021. The increase in average single family lot selling prices was primarily due to the geographic mix of lots closed, with a higher proportion coming from Calgary and Southern California which had higher average lot selling prices in 2022.

A breakdown of our results from land operations for our operating segments is as follows:

Canada

(US$ millions, except unit activity, percentages and average selling price)	**Three Months Ended March 31** **2022**	**2021**
Lot closings (single family units)	185	340
Acre closings (multi-family, industrial and commercial)	9	4
Acre closings (raw and partially finished)	101	—
Revenue	$ 40	$ 47
Gross margin	$ 12	$ 15
Gross margin (%)	30%	32%
Average lot selling price (single family units)	$ 162,000	$ 125,000
Average lot selling price (C$) (single family units)	$ 205,000	$ 158,000
Average per acre selling price (multi-family, industrial and commercial)	$ 950,000	$ 948,000
Average per acre selling price (C$) (multi-family, industrial and commercial)	$ 1,203,000	$ 1,200,000
Average per acre selling price (raw and partially finished)	$ 9,000	$ —
Average per acre selling price (C$) (raw and partially finished)	$ 12,000	$ —

Land revenue in our Canadian segment for the three months ended March 31, 2022 was $40 million, a decrease of $8 million when compared to the same period in 2021. The decrease was primarily the result of 155 fewer single family lot closings, offset by a 30% increase in average single family lot selling prices due to the mix of land sold within the operating segment. Gross margin decreased $3 million compared to the same period during 2021 primarily as a result of fewer closings, and gross margin percentage decreased 1% mainly due to the mix of land sold.

Pacific U.S.

(US$ millions, except unit activity, percentages and average selling price)	**Three Months Ended March 31** **2022**	**2021**
Lot closings (single family units)	158	115
Revenue	$ 153	$ 16
Gross margin	$ 65	$ 5
Gross margin (%)	42%	31%
Average lot selling price (single family units)	$ 969,000	$ 139,000

Land revenue in our Pacific U.S. segment increased $137 million and gross margin increased $60 million for the three months ended March 31, 2022 when compared to the same period in 2021. The increases were due to mix of lots sold as the current period included two bulk lot sale transactions in our coastal Southern California communities for 158 lot closings at a 597% higher average selling price and a 42% gross margin.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	**Three Months Ended March 31** **2022**	**2021**
Lot closings (single family units)	53	133
Revenue	$ 6	$ 10
Gross margin	$ 3	$ 1
Gross margin (%)	50%	10%
Average lot selling price (single family units)	$ 115,000	$ 76,000

Land revenue in our Central and Eastern U.S. segment for the three months ended March 31, 2022 was $6 million, representing a decrease of $4 million when compared to the same period in 2021. The decrease was primarily the result of 80 fewer single family lot closings mainly in our Austin market, offset by a 51% higher average single family lot selling prices overall due to the geographic and mix of lots sold. Gross margin increased by $2 million when compared to the same period in 2021 and gross margin percentage increased by 40% due to higher average selling prices and the geographic mix of land sold within the operating segment.

Earnings from Unconsolidated Entities - Land and Housing

Earnings from land and housing unconsolidated entities for the three months ended March 31, 2022 totaled $10 million, compared to $9 million for the same period in 2021.

A summary of Brookfield Residential's share of the land operations from unconsolidated entities is as follows:

	Three Months Ended March 31	
(US$ millions, except unit activity, percentages and average selling price)	**2022**	**2021**
Lot closings (single family units)	104	299
Acre closings (multi-family, industrial and commercial)	2	—
Revenue	$ 16	$ 41
Gross margin	$ 5	$ 10
Gross margin (%)	31%	24%
Average lot selling price (single family units)	$ 137,000	$ 136,000
Average per acre selling price (multi-family, industrial and commercial)	$ 633,000	$ —
Average per acre selling price (raw and partially finished)	$ 117,000	$ —

Brookfield's share of land revenue within unconsolidated entities decreased $25 million and gross margin decreased $5 million for the three months ended March 31, 2022 when compared to the same period in 2021. The decrease was primarily due to our Phoenix joint ventures which had 195 lot closings in the prior year with no comparative sales in the current period. Gross margin decreased $5 million and gross margin percentage increased by 7% due to mix of land sold within our unconsolidated land and housing entities when compared to the prior year.

Earnings from Unconsolidated Entities - Affiliate

A summary of Brookfield Residential's share of earnings from affiliate unconsolidated entities is as follows:

	Three Months Ended March 31	
(US$ millions)	**2022**	**2021**
Earnings from unconsolidated Entities - affiliate	$ 23	$ 39

For the three months ended March 31, 2022, earnings from affiliate unconsolidated entities was $23 million, compared to earnings of $39 million in the prior year. The decrease was primarily the result of a decrease in earnings from equity accounted investments, partially offset by increased fee income and disposition of certain investments recognized in the previous year.

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three months ended March 31, 2022 and 2021 are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2022**	**2021**
General and administrative expense	$ 33	$ 35
Sales and marketing expense	20	26
Share-based compensation	5	1
	$ 58	$ 62

Selling, general and administrative expense was $58 million for the three months ended March 31, 2022, a decrease of $4 million when compared to the same period in 2021. General and administrative expense decreased $2 million for the three months ended March 31, 2022 primarily due to lower management fees paid to Brookfield Properties Development ("BPD") as a result of decreased development and construction activity when compared to the same period in 2021. Sales and marketing expense for the three months ended March 31, 2022 decreased $6 million when compared to the same period in 2021, primarily due to fewer home closing costs resulting from decreased housing activity. Share-based compensation increased by $4 million resulting from the change in fair value of our share-based compensation liabilities for the three months ended March 31, 2022 compared to the same period in 2021.

Other (Income) / Expense

The components of other (income) / expense for the three months ended March 31, 2022 and 2021 are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2022**	**2021**
Change in unrealized gain from investment	$ (13)	$ (1)
Income from commercial properties	(9)	1
Preferred share dividend income	(6)	(6)
Investment income	(5)	(10)
Other	(4)	(3)
Joint venture management fee income	(2)	(2)
	$ (39)	$ (21)

For the three months ended March 31, 2022, other income increased $18 million when compared to the same period in 2021. The increase in other income is attributable to a $12 million change in unrealized gain from investment related to our BSFR Investment, an increase in income from commercial properties of $10 million and an increase in other income for $1 million when compared to the same period. This was partially offset by a decrease of $5 million in investment income. Refer to Note 15 "Fair Value Measurements" for further details on our investment in BSFR.

Income Tax Expense / (Recovery)

For the three months ended March 31, 2022, income tax expense increased $10 million when compared to the same period in 2021. The components of current and deferred income tax expense / (recovery) are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2022**	**2021**
Current income tax expense	$ 3	$ 1
Deferred income tax expense / (recovery)	7	(1)
	$ 10	$ —

For the three months ended March 31, 2022, current income tax expense increased $2 million when compared to the same period in 2021. The increase in current income tax expense primarily relates to an increase in taxable income from our U.S. operations in the three months ended March 31, 2022 compared to the same period in 2021.

For the three months ended March 31, 2022, deferred income tax expense increased $8 million when compared to the same period in 2021. The increase primarily relates to the change in geographic mix of income, an increase in non-deductible share-based compensation expense and an increase in the equity in earnings from unconsolidated entities – affiliate.

Foreign Exchange Translation

The U.S. dollar is the functional and presentation currency of the Company. Each of the Company’s subsidiaries, affiliates and jointly controlled entities determines its own functional currency and items included in the financial statements of each subsidiary and affiliate are measured using that functional currency. The Company’s Canadian operations are self-sustaining. The financial statements of its self-sustaining Canadian operations are translated into U.S. dollars using the current rate method.

Assets and liabilities of subsidiaries or unconsolidated entities having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at March 31, 2022, the rate of exchange was C$1.2508 equivalent to US$1 (December 31, 2021 – C$1.2637 equivalent to US$1). Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the three months ended March 31, 2022, the average rate of exchange was C$1.2665 equivalent to US$1 (March 31, 2021 – C$1.2660 equivalent to US$1). The resulting foreign currency translation adjustments are recognized in other comprehensive income (“OCI”). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the condensed consolidated statements of operations as other (income) / expense, except for those related to monetary liabilities qualifying as hedges of the Company’s investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

The financial results of our Canadian operations are translated into U.S. dollars for financial reporting purposes. Foreign currency translation gains and losses are recorded as the exchange rate between the two currencies fluctuates. These gains and losses are included in OCI and accumulated OCI. The translation of our Canadian operations and hedging instrument resulted in a net gain of $7 million for the three months ended March 31, 2022, compared to a net gain of $10 million during the same period in 2021.

QUARTERLY OPERATING AND FINANCIAL DATA

	2022	2021				2020		
(US$ millions, except unit activity and per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Quarterly Operating Data								
Home closings (units)	427	885	750	788	698	845	850	634
Lot closings (single family units)	396	1,253	190	381	588	1,454	726	164
Acre closings (multi-family, industrial and commercial)	9	69	3	13	4	39	—	—
Acre closings (raw and partially finished)	101	102	—	99	—	—	—	—
Net new home orders (units)	737	714	493	521	985	817	1,144	622
Backlog (units)	1,809	1,499	1,670	1,927	2,194	1,907	1,935	1,638
Backlog value	$ 1,141	$ 942	$ 1,000	$ 1,098	$ 1,200	$ 1,013	$ 973	$ 771
Quarterly Financial Data								
Revenue	$ 457	$ 679	$ 446	$ 475	$ 444	$ 650	$ 453	$ 323
Direct cost of sales	(330)	(508)	(355)	(383)	(351)	(515)	(361)	(268)
Gross margin	127	171	91	92	93	135	92	55
Selling, general and administrative expense	(58)	(114)	(61)	(63)	(62)	(88)	(61)	(53)
Interest expense	(12)	(9)	(11)	(13)	(12)	(5)	(2)	—
Earnings from unconsolidated entities	33	49	95	37	48	5	—	4
Other income	33	22	29	9	17	9	19	19
Lease expense	(4)	(4)	(4)	(3)	(3)	(4)	(4)	(3)
Income before income taxes	119	115	139	59	81	52	44	22
Income tax expense	(10)	(12)	(2)	—	—	(2)	—	(5)
Net income	109	103	137	59	81	50	44	17
Net income attributable to non-controlling interest	73	69	77	27	20	47	30	5
Net income attributable to Brookfield Residential	$ 36	$ 34	$ 60	$ 32	$ 61	$ 3	$ 14	$ 12
Foreign currency translation	7	1	(16)	9	9	37	15	27
Comprehensive income	$ 43	$ 35	$ 44	$ 41	$ 70	$ 40	$ 29	$ 39
Earnings per common share attributable to Brookfield Residential								
Basic	$ 0.28	$ 0.26	$ 0.47	$ 0.25	$ 0.47	$ 0.02	$ 0.11	$ 0.10
Diluted	$ 0.28	$ 0.26	$ 0.46	$ 0.25	$ 0.46	$ 0.02	$ 0.11	$ 0.10

We have historically experienced variability in our results of operations from quarter to quarter due to the seasonal nature of the homebuilding business and the timing of new community openings and the closing out of projects. We typically experience the highest rate of orders for new homes and lots in the first nine months of the calendar year, although the rate of orders for new homes is highly dependent upon the number of active communities. As new home deliveries trail orders for new homes by several months, we typically deliver a greater percentage of new homes in the second half of the year compared with the first half of the year. As a result, our revenues from the sales of homes are generally higher in the second half of the year. In terms of land sales, results are more variable from year to year given the nature of the development and monetization cycle.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's condensed consolidated balance sheets as at March 31, 2022 and December 31, 2021:

	As at	
(US$ millions)	March 31 2022	December 31 2021
Cash and restricted cash	$ 88	$ 121
Receivables and other assets	1,236	1,157
Land and housing inventory	2,578	2,574
Investments in unconsolidated entities - land and housing	384	357
Investment in unconsolidated entities - affiliate	792	770
Held-to-maturity investment	300	300
Commercial properties	897	873
Operating and financing lease right-of-use asset	111	82
Deferred income tax assets	41	48
Goodwill	16	16
	$ 6,443	$ 6,298
Accounts payable and other liabilities	$ 725	$ 738
Bank indebtedness and other financings	1,047	652
Notes payable	1,629	1,626
Operating and financing lease liability	115	90
Total equity	2,927	3,192
	$ 6,443	$ 6,298

Assets

Our assets as at March 31, 2022 totaled $6.4 billion. Our land and housing inventory, investments in land and housing unconsolidated entities, and commercial properties are our most significant assets with a combined book value of $3.9 billion, or approximately 61% of our total assets. The land and housing assets remained consistent when compared to December 31, 2021 primarily due to continued land development, partially offset by sales activity and turnover of inventory. Commercial properties increased primarily due to continued construction at the Lilia Waikiki mixed-use project and tenant improvement construction at the Nashville Fifth + Broadway mixed-use project, partially offset by depreciation on the Nashville mixed-use project. Our land and housing assets include land under development and land held for development, finished lots ready for construction, homes completed and under construction and model homes.

A summary of our residential land and housing portfolio lots owned, excluding unconsolidated entities, and their stage of development as at March 31, 2022 compared with December 31, 2021 is as follows:

	As at			
	March 31, 2022		December 31, 2021	
(US$ millions, except units)	Units	Book Value	Units	Book Value
Land held for development (lot equivalents)	60,458	$ 1,221	62,258	$ 1,238
Land under development and finished lots (single family units)	6,700	617	6,029	667
Housing units, including models	2,247	680	1,930	587
	69,405	$ 2,518	70,217	$ 2,492
Multi-family, industrial and commercial parcels (acres)	100	$ 60	111	$ 82

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at March 31 2022	As at December 31 2021
6.250% unsecured senior notes due September 15, 2027 (a)	600	600
5.125% unsecured senior notes due June 15, 2029 (b)	200	198
5.000% unsecured senior notes due June 15, 2029 (c)	350	350
4.875% unsecured senior notes due February 15, 2030 (d)	500	500
	1,650	1,648
Transaction costs	(21)	(22)
	$ 1,629	$ 1,626

(a) The Company's $600 million principal amount of 6.25% unsecured senior notes matures on September 15, 2027 with interest payable semi-annually. On or after September 15, 2022 the notes may be redeemed at 103.13% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after September 15, 2025 through maturity.

(b) On May 25, 2021, the Company and Brookfield Residential US LLC ("BRUS LLC") co-issued a private placement of C$250 million of unsecured senior notes. The notes have an eight-year term, are due on June 15, 2029, and bear interest at a fixed rate of 5.125% with interest payable semi-annually. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries. On or after June 15, 2024, the notes may be redeemed at 102.56% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity. The net proceeds of the offering were used to redeem the C$250 million aggregate principal amount of the unsecured senior notes due in 2023.

(c) On May 25, 2021, the Company and BRUS LLC co-issued a private placement of $350 million of unsecured senior notes. The notes have an eight-year term, are due June 15, 2029, and bear interest at a fixed rate of 5.0% with interest payable semi-annually. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries. On or after June 15, 2024, the notes may be redeemed at 102.5% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity. The net proceeds of the offering were used to redeem the $350 million aggregate principal amount of the unsecured senior notes due in 2025.

(d) The Company's $500 million principal amount of 4.875% unsecured senior notes mature February 15, 2030 with interest payable semi-annually. On or after February 15, 2025 the notes may be redeemed at 102.44% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after February 15, 2028 through maturity.

The Company and BRUS LLC are co-issuers of all private placements of unsecured senior notes. All unsecured senior notes include covenants that, among other things, place limitations on incurring additional indebtedness and making restricted payments. Under the limitation on additional indebtedness, we are permitted to incur specified categories of indebtedness but are prohibited from incurring further indebtedness if we do not satisfy either a consolidated net indebtedness to tangible net worth ratio, or a fixed charge coverage ratio, as applicable. The Company was in compliance with these debt incurrence covenants as at March 31, 2022.

Our actual fixed charge coverage, indebtedness to consolidated tangible net worth, and net indebtedness to tangible net worth ratio as at March 31, 2022 are reflected in the table below:

	Covenant	Actual as at March 31 2022
Minimum fixed charge coverage	2.0 to 1	2.94 to 1
Maximum net indebtedness to consolidated tangible net worth	3.0 to 1	0.98 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings represent our corporate unsecured revolving credit facility and construction and development loans and facilities that are used to fund the operations of our communities as land is developed and homes and commercial properties are constructed. We also use secured vendor take back ("VTB") mortgages to secure and acquire land for future development. Our bank indebtedness and other financings as at March 31, 2022 were $1,047 million, an increase of $395 million from December 31, 2021. The increase was primarily due to increased drawings on our revolving credit facility in addition to project-specific financings in our Nashville and Lilia mixed-use projects. As of March 31, 2022, the weighted average interest rate on our bank indebtedness and other financings was 4.3% (December 31, 2021 – 3.6%).

Future debt maturities are expected to either be refinanced or repaid from home closings, lot closings, or proceeds from mixed-use developments. Additionally, as at March 31, 2022, we had bank indebtedness capacity of $233 million that was available to complete land development and construction activities. The “Cash Flow” section below discusses future available capital resources should proceeds from our future home and/or lot closings not be sufficient to repay our debt obligations.

Bank indebtedness and other financings consist of the following:

	As at	
(US$ millions)	**March 31 2022**	**December 31 2021**
Project-specific financings (a)	$ 617	$ 603
Bank indebtedness (b)	368	—
Secured VTB mortgages (c)	70	58
	1,055	661
Transaction costs (a)(b)	(8)	(9)
	$ 1,047	$ 652

(a) Project-specific financings

(i) On December 29, 2021, OliverMcMillan/Brookfield Residential Nashville LLC, a wholly-owned subsidiary of the Company, finalized the mezzanine loan agreement for the Fifth + Broadway mixed use project in Nashville for $117 million, of which $97 million is from BAM Reinsurance Investments LP, a related party of the Company. Proceeds from the 364-day loan was used for general corporate purposes.

Interest is charged on the loan at a fixed rate of 6.0% per annum.

The loan contains restrictive covenants and requires BRUS LLC to maintain a minimum liquidity of $10 million and a minimum net worth of $100 million, exclusive of BRUS LLC's equity in the project. The loan is secured by a first priority equity pledge of 100% of BRUS LLC's interest in OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company and direct owner of the Fifth + Broadway Project. The following table reflects the covenants:

		Actual as at
(US$ millions)	**Covenant**	**March 31 2022**
Minimum liquidity	$ 10	$ 270
Minimum net worth	$ 100	$ 1,485

(ii) On June 17, 2021, OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company, finalized the amendment of the secured construction loan for the Fifth + Broadway mixed-used project in Nashville. The loan was extended through to July 2024, allowing OliverMcMillan Spectrum Emery LLC to borrow up to $360 million (December 31, 2021 – $360 million). As at March 31, 2022, there were $360 million of borrowings outstanding under the construction loan (December 31, 2021 – $358 million).

Interest was amended to be charged on the loan at a rate equal to LIBOR plus 3.15%, subject to a LIBOR rate floor of 0.25%, with the ability to convert the interest charged to a prime rate loan (December 31, 2021 – LIBOR plus 3.15%, subject to a LIBOR rate floor of 0.25%).

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $10 million and a minimum net worth of $100 million exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at March 31, 2022. The following table reflects the covenants:

(US$ millions)	Covenant	Actual as at March 31 2022
Minimum liquidity	$ 10	$ 270
Minimum net worth	$ 100	$ 1,520

(iii) On March 20, 2020, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, entered into a three-year secured construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The loan allows OliverMcMillan Kuhio LLC to borrow up to $156 million. As at March 31, 2022, there were $107 million of borrowings outstanding under the construction loan. (December 31, 2021 – $87 million)

Interest is charged on the loan at a rate equal to LIBOR plus 2.0%, with the ability to convert the interest charged to a prime rate loan.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $25 million and a minimum net worth of $250 million exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at March 31, 2022. The following table reflects the covenants:

(US$ millions)	Covenant	Actual as at March 31 2022
Minimum liquidity	$ 25	$ 270
Minimum net worth	$ 250	$ 1,527

(iv) As at March 31, 2022, the Company has two Canadian project-specific financings totaling $33 million (C$41 million) provided by various lenders (December 31, 2021 – $40 million (C$51 million)).

Project-specific financing totaling $23 million (C$29 million) has an interest rate of Canadian prime + 0.5%, is due on demand with 240 days' notice, and is secured by certain land and housing inventory assets of the Company's Alberta operations and a general charge over the property of South Seton Limited Partnership, a consolidated subsidiary of the Company (December 31, 2021 – $28 million (C$36 million)). This borrowing includes a minimum debt to equity covenant for South Seton Limited Partnership of no greater than 1.50 to 1. The Company was in compliance with this covenant as at March 31, 2022.

The following table reflects the debt to equity ratio covenant:

	Covenant	Actual as at March 31 2022
Maximum debt to equity ratio	1.50 to 1	0.42 to 1

Project-specific financing totaling $10 million (C$12 million) is held by a joint venture in our Alberta operations, a consolidated subsidiary of the Company, has an interest rate of Canadian prime + 0.5%, matures in November 2022, and is secured and without covenants (December 31, 2021 – $12 million (C$15 million)).

(b) Bank indebtedness

As at March 31, 2022, there were $368 million of borrowings outstanding under the North American unsecured revolving credit facility and we had available capacity of $233 million (December 31, 2021 – no borrowings outstanding and $592 million of available capacity, respectively). The Company is able to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

For U.S. dollar denominated borrowings, interest is charged on the facility at a rate equal to, at the borrower's option, either the adjusted LIBOR plus an applicable rate between 2.0% and 2.8% per annum or an alternative base rate ("ABR") plus an applicable rate between 1.0% and 1.8% per annum. For Canadian dollar denominated borrowings, interest is charged on the facility at a rate equal to either the Canadian dollar offered rate ("CDOR") plus an applicable rate between 2.0% and 2.8% per annum or the Canadian prime rate plus an applicable rate between 1.0% and 1.8% per annum.

The facility contains certain restrictive covenants including limitations on liens, dividends and other distributions, investments in subsidiaries and joint ventures that are not party to the loan. The facility requires the Company to maintain a minimum consolidated tangible net worth of $2.3 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at March 31, 2022, the Company was in compliance with all of our covenants relating to this facility. The following table reflects consolidated tangible net worth and consolidated total debt to capitalization covenants:

(US$ millions, except percentages)	**Covenant**	**Actual as at March 31 2022**
Minimum tangible net worth	$ 2,322	$ 2,911
Maximum total debt to capitalization	65%	49%

(c) Secured VTB mortgages

The Company has 12 secured VTB mortgages (December 31, 2021 – 10 secured VTB mortgages) in the amount of $70 million (December 31, 2021 – $58 million).

Eight secured VTB mortgages (December 31, 2021 – Seven secured VTB mortgages) in the amount of $38 million (December 31, 2021 – $42 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Residential (Ontario) LP. This debt is repayable in Canadian dollars of C$47 million (December 31, 2021 – C$52 million). The interest rates on this debt range from fixed rates of 0.0% to 6.0% and variable rates of Canadian prime plus 1.0% to 2.0%, and the debt is secured by the related land. As at March 31, 2022, the borrowings are not subject to any financial covenants.

Four secured VTB mortgages (December 31, 2021 – three secured VTB mortgages) in the amount of $18 million (December 31, 2021 – $17 million) relate to raw land held for development by various U.S. subsidiaries of the Company. The interest rates on the debt range from fixed rates of 0.5% to 4.0% and the debt is secured by the related land. As at March 31, 2022, these borrowings are not subject to any financial covenants.

Net Debt to Capitalization Calculation

Brookfield Residential's net debt to total capitalization ratio is defined as total interest-bearing debt less cash divided by total capitalization. We define capitalization to include total equity and interest bearing debt, less cash.

Our net debt to total capitalization ratio as at March 31, 2022 and December 31, 2021 was as follows:

	As at	
(US$ millions, except percentages)	**March 31 2022**	**December 31 2021**
Bank indebtedness and other financings	$ 1,047	$ 652
Notes payable	1,629	1,626
Total interest bearing debt	2,676	2,278
Less: cash and cash equivalents	(83)	(116)
	2,593	2,162
Total equity	2,927	3,192
Total capitalization	$ 5,520	$ 5,354
Net debt to total capitalization	47%	40%

Credit Ratings

Our access to financing depends on, among other things, suitable market conditions and the maintenance of suitable long-term credit ratings. Our credit ratings may be adversely affected by various factors, including but not limited to, increased debt levels, decreased earnings, declines in our customer demand, increased competition, a further deterioration in general economic and business conditions and adverse publicity. Any downgrades in our credit rating may impede our access to capital markets or raise our borrowing rates. We are currently rated by two credit rating agencies, Moody's and Standard & Poor's ("S&P"). We are committed to maintaining these ratings and improving them further over time. Our credit ratings at March 31, 2022 were as follows:

	Moody's	S&P
Corporate rating	B1	B
Outlook	Stable	Stable

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issuer of securities. Agency ratings are subject to change, and there can be no assurance that a rating agency will rate us and/or maintain our rating.

Cash Flow

Our principal uses of working capital include acquisitions of land, land development, home construction and mixed-use development. Cash flows for each of our communities depend upon the applicable stage of the development cycle and can differ substantially from reported earnings. Early stages of development require significant cash outlays for land acquisitions, site approvals and entitlements, construction of model homes, roads, certain utilities and other amenities and general landscaping. As these costs are capitalized, earnings reported for financial statement purposes during such early stages may significantly exceed cash flows. Later, cash flows can exceed earnings reported for financial statement purposes as cost of sales includes charges for substantial amounts of previously expended costs.

We believe that we currently have sufficient access to capital resources and will continue to use our available capital resources to fund our operations. Our future capital resources include cash flow from operations, borrowings under project-specific and other credit facilities and proceeds from potential future debt issues or equity offerings, if required.

At March 31, 2022, we had cash and cash equivalents, including restricted cash, of $88 million, compared to $121 million at December 31, 2021.

The net cash flows for the three months ended March 31, 2022 and 2021 were as follows:

	Three Months Ended March 31	
(US$ millions)	2022	2021
Cash flows (used in) / provided by operating activities	$ (8)	$ 65
Cash flows used in investing activities	(36)	(33)
Cash flows provided by / (used in) financing activities	12	(62)
Effect of foreign exchange rates on cash	—	1
Net change in cash and cash equivalents	$ (32)	$ (29)

Cash Flow (Used in) / Provided by Operating Activities

Cash flows used in operating activities during the three months ended March 31, 2022 totaled $8 million, compared to cash flows provided by operating activities of $65 million for the same period in 2021. During the three months ended March 31, 2022, cash used in operating activities was primarily impacted by our net income, a decrease in land and housing inventory due to sales activity and turnover of inventory. Acquisitions of land and housing inventory for the three months ended March 31, 2022 totaled $75 million, consisting of $16 million in Canada, $57 million in Pacific U.S. and $2 million in Central and Eastern U.S. Commercial property additions primarily related to continued construction on the Honolulu and Nashville mixed-use development projects, an increase in receivables and other assets, an increase in accounts payable and other liabilities and an increase in operating lease liabilities. During the three months ended March 31, 2021, cash provided by operating activities was primarily impacted by our net income, an increase in commercial properties primarily due to continued construction on the Nashville and Honolulu mixed-use development projects, a decrease in land and housing inventory due to sales activity and turnover of inventory, a decrease in receivables and other assets, an increase in accounts payable and other liabilities and a decrease in operating lease liabilities. Acquisitions of land and housing inventory for the three months ended March 31, 2021 totaled $27 million, consisting of $3 million in Canada, $20 million in Pacific U.S. and $4 million in Central and Eastern U.S.

Cash Flow Used in Investing Activities

During the three months ended March 31, 2022, cash flows used in investing activities totaled $36 million, compared to $33 million for the same period in 2021. During the three months ended March 31, 2022, cash used in investing activities was primarily impacted by investments of $39 million in land and housing unconsolidated entities and an increase in our loan receivables of $5 million. This was partially offset by $7 million of proceeds related to a sale of an investment in an unconsolidated entity and $1 million of distributions from our land and housing unconsolidated entities. During the three months ended March 31, 2021, cash used in investing activities was primarily impacted by an increase in our loan receivables of $44 million and investments of $5 million in land and housing unconsolidated entities. This was partially offset by $16 million distributions from our land and housing unconsolidated entities.

Cash Flow Provided by / (Used in) Financing Activities

Cash flows provided by financing activities for the three months ended March 31, 2022 totaled $12 million, compared to cash flows used in financing activities of $62 million for the same period in 2021. During the three months ended March 31, 2022, cash provided by financing activities was primarily from drawings on bank indebtedness of $368 million and $25 million net borrowings under project-specific and other financing. This was partially offset by a $375 million dividend paid to common shareholders and distributions from non-controlling interest of $6 million. During the three months ended March 31, 2021, cash used in financing activities was primarily from a $350 million dividend paid to common shareholders, and distributions from non-controlling interest of $30 million. This was partially offset by drawings on bank indebtedness of $286 million, and $31 million net borrowings under project-specific and other financings.

Contractual Obligations and Other Commitments

See Note 13 to the condensed consolidated financial statements, "Commitments, Contingent Liabilities and Other" for detailed information.

Shareholders’ Equity

At May 11, 2022, 129,756,910 Common Shares in the capital of the Company were issued and outstanding. In addition, Brookfield Residential has a stock option plan under which key officers and employees are granted options to purchase Non-Voting Class B Common Shares or settle the options in cash at the option of the holder. Each option granted can be exercised for one Non-Voting Class B Common Share or settled in cash for the fair value of one Common Share at the date of exercise. At May 11, 2022, 2,353,114 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the three months ended March 31, 2022.

Off-Balance Sheet Arrangements

In the ordinary course of business, and where market conditions permit, we enter into land and lot option contracts and invest in unconsolidated entities to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time until the options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of March 31, 2022, we had $16 million of primarily non-refundable option deposits and entitlement costs. The total remaining exercise price of these options was $49 million. Pursuant to the guidance in the United States Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810 *Consolidation*, we have consolidated $14 million of these option contracts where we consider the Company to hold the majority economic interest in the assets held under the options.

We also own 6,926 lots and control under option 210 lots through our proportionate share of land and housing unconsolidated entities. As of March 31, 2022, our investment in land and housing unconsolidated entities totaled $384 million. We have provided varying levels of guarantees of debt in our land and housing unconsolidated entities. As of March 31, 2022, we had recourse guarantees of $49 million with respect to debt in our land and housing unconsolidated entities. During the three months ended March 31, 2022, we did not make any loan re-margin repayments on the debt in our land and housing unconsolidated entities. Please refer to Note 4 to the condensed consolidated financial statements, “Investments in Unconsolidated Entities”, for additional information about our investments in unconsolidated entities.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of March 31, 2022, we had $75 million in letters of credit outstanding and $557 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds as at March 31, 2022 are $33 million and $187 million, respectively.

Transactions Between Related Parties

See Note 18 of the condensed consolidated financial statements, "Related Party Transactions", for detailed information.

Non-GAAP Financial Measures

Gross margin percentage on land and home sales are non-GAAP measures and are defined by the Company as gross margin of land and homes over respective revenues of land and homes. Management finds gross margin percentage to be an important and useful measurement, as the Company uses it to evaluate its performance and believes it is a widely accepted financial measure by users of its financial statements in analyzing its operating results. Gross margin percentage also provides comparability to similar calculations by its peers in the homebuilding industry. Additionally, gross margin percentage is important to the Company’s management because it assists its management in making strategic decisions regarding its construction pace, product mix and product pricing based upon the profitability generated on homes and land actually delivered during previous periods. However, gross margin percentage as presented may not be fully comparable to similarly titled measures reported by other companies because not all companies calculate this metric in an identical manner.

This measure is not intended to represent GAAP gross margin percentage and it should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BROOKFIELD RESIDENTIAL PROPERTIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(all dollar amounts are in thousands of U.S. dollars)
(Unaudited)

		As at	
	Note	March 31 2022	December 31 2021
Assets			
Cash and cash equivalents		$ 83,462	$ 116,469
Restricted cash	2	4,963	4,832
Receivables and other assets		1,235,839	1,157,213
Land and housing inventory	3	2,577,749	2,573,635
Investments in unconsolidated entities - land and housing	4	384,380	356,642
Investments in unconsolidated entities - affiliate	4	792,449	769,660
Held-to-maturity investment		300,000	300,000
Commercial properties	5	897,286	873,145
Operating and financing lease right-of-use asset		109,605	82,249
Deferred income tax assets	6	41,259	47,678
Goodwill		16,479	16,479
Total assets		$ 6,443,471	$ 6,298,002
Liabilities and Equity			
Accounts payable and other liabilities		$ 724,503	$ 737,669
Bank indebtedness and other financings	7	1,047,178	652,065
Notes payable	8	1,629,013	1,626,017
Operating and financing lease liability		115,286	89,943
Total liabilities		3,515,980	3,105,694
Common shares	9	626,594	626,594
Retained earnings	9	786,887	1,125,670
Non-controlling interest - land and housing		303,232	299,751
Non-controlling interest - affiliate		1,307,849	1,244,218
Accumulated other comprehensive loss		(97,071)	(103,925)
Total equity		2,927,491	3,192,308
Total liabilities and equity		$ 6,443,471	$ 6,298,002
Commitments, contingent liabilities and other	13		
Guarantees	14		
Subsequent events	19		

See accompanying notes to the condensed consolidated financial statements

BROOKFIELD RESIDENTIAL PROPERTIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(all dollar amounts are in thousands of U.S. dollars, except per share amounts)
(Unaudited)

		Three Months Ended March 31	
	Note	2022	2021
Revenue			
Housing		$ 258,606	$ 371,524
Land		198,673	72,841
Total revenue		457,279	444,365
Direct Cost of Sales			
Housing		(211,935)	(299,129)
Land		(118,393)	(52,626)
Total direct cost of sales		(330,328)	(351,755)
Gross margin		126,951	92,610
Selling, general and administrative expense		(58,450)	(61,253)
Interest expense		(11,821)	(11,716)
Earnings from unconsolidated entities - land & housing	4	9,828	8,928
Earnings from unconsolidated entities - affiliate	4	23,026	39,463
Other income	12	38,600	20,672
Lease expense		(4,143)	(3,528)
Depreciation		(5,291)	(3,903)
Income Before Income Taxes		118,700	81,273
Current income tax expense	6	(2,579)	(795)
Deferred income tax (expense) / recovery	6	(6,592)	873
Net Income		109,529	81,351
Other Comprehensive Income / (Loss)			
Unrealized foreign exchange gain / (loss) on:			
Translation of the net investment in Canadian subsidiaries and unconsolidated entities - affiliate		8,905	12,069
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		(2,050)	(2,700)
Comprehensive Income		$ 116,384	$ 90,720
Net Income Attributable To:			
Consolidated		$ 109,529	$ 81,351
Non-controlling interest - land and housing		9,681	4,026
Non-controlling interest - affiliate		63,631	16,769
Brookfield Residential		$ 36,217	$ 60,556
Comprehensive Income Attributable To:			
Consolidated		$ 116,384	$ 90,720
Non-controlling interest - land and housing		9,681	4,026
Non-controlling interest - affiliate		63,631	16,769
Brookfield Residential		$ 43,072	$ 69,925
Common Shareholders Earnings Per Share			
Basic	11	$ 0.28	$ 0.47
Diluted	11	$ 0.28	$ 0.46
Weighted Average Common Shares Outstanding *(in thousands)*			
Basic	11	129,757	129,757
Diluted	11	130,324	130,619

See accompanying notes to the condensed consolidated financial statements

BROOKFIELD RESIDENTIAL PROPERTIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(all dollar amounts are in thousands of U.S. dollars)
(Unaudited)

		Three Months Ended March 31	
	Note	**2022**	**2021**
Common Shares	9		
Opening balance		$ 626,594	$ 626,594
Ending balance		626,594	626,594
Retained Earnings			
Opening balance		1,125,670	1,393,099
Common share dividends	18	(375,000)	(350,000)
Net income attributable to Brookfield Residential		36,217	60,556
Ending balance		786,887	1,103,655
Accumulated Other Comprehensive Loss			
Opening balance		(103,925)	(107,171)
Other comprehensive income		6,854	9,369
Ending balance		(97,071)	(97,802)
Total Brookfield Residential Equity		$ 1,316,410	$ 1,632,447
Non-Controlling Interest - Land & Housing			
Opening balance		$ 299,751	$ 155,466
Net income attributable to non-controlling interest		9,681	4,026
Distributions		(6,200)	(29,614)
Contributions		—	60
Ending balance		$ 303,232	$ 129,938
Non-Controlling Interest - Affiliate			
Opening balance		$ 1,244,218	$ 1,073,016
Net income attributable to non-controlling interest		63,631	16,769
Ending balance		$ 1,307,849	$ 1,089,785
Total Equity		$ 2,927,491	$ 2,852,170

See accompanying notes to the condensed consolidated financial statements

BROOKFIELD RESIDENTIAL PROPERTIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(all dollar amounts are in thousands of U.S. dollars)
(Unaudited)

	Three Months Ended March 31	
Cash Flows (Used in) / Provided by Operating Activities	**2022**	**2021**
Net income	$ 109,529	$ 81,351
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings from unconsolidated entities - land and housing	(9,828)	(8,928)
Earnings from unconsolidated entities - affiliate	(23,026)	(39,463)
Deferred income tax expense / (recovery)	6,592	(873)
Share-based compensation expense	4,721	535
Depreciation	5,290	3,903
Right-of-use asset depreciation	1,780	1,379
Amortization of non-cash interest	2,165	1,997
Dividend income on held-to-maturity investment	(6,049)	(5,918)
Distributions of earnings from unconsolidated entities	1,531	28,607
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(54,290)	(38,561)
Decrease in land and housing inventory	1,565	49,389
Increase in commercial properties	(27,874)	(51,946)
Increase in operating lease liabilities	(1,239)	(993)
(Decrease) / Increase in accounts payable and other liabilities	(19,319)	44,959
Net cash (used in) / provided by operating activities	(8,452)	65,438
Cash Flows Used in Investing Activities		
Investments in unconsolidated entities	(39,438)	(4,983)
Distributions from unconsolidated entities	2,404	16,040
Sale of investment in unconsolidated entity	5,979	—
Increase in loan receivable	(4,877)	(43,638)
Net cash used in investing activities	(35,932)	(32,581)
Cash Flows Provided by / (Used in) Financing Activities		
Drawings under project-specific and other financings	62,581	47,654
Repayments under project-specific and other financings	(37,927)	(16,857)
Net drawings on bank indebtedness	368,219	286,338
Distributions to non-controlling interest	(6,200)	(29,614)
Contributions from non-controlling interest	—	60
Dividends paid to common shareholders	(375,000)	(350,000)
Payments made on the principal of financing leases	(146)	(50)
Net cash provided by / (used in) financing activities	11,527	(62,469)
Effect of foreign exchange rates on cash and cash equivalents	(19)	389
Change in cash, cash equivalents and restricted cash	(32,876)	(29,223)
Cash, cash equivalents and restricted cash at beginning of period	121,301	368,155
Cash, cash equivalents and restricted cash at end of period	$ 88,425	$ 338,932
Supplemental Cash Flow Information		
Cash interest paid	$ 32,663	$ 33,554
Cash taxes paid	$ 355	$ 1,047

See accompanying notes to the condensed consolidated financial statements

Note 1. Significant Accounting Policies

(a) Basis of Presentation

Brookfield Residential Properties Inc. (the “Company” or “Brookfield Residential”) was incorporated in Ontario, Canada and is a wholly-owned subsidiary of Brookfield Asset Management Inc. ("BAM") and has been developing land and building homes for over 60 years.

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company’s Annual Report for the year ended December 31, 2021.

The condensed consolidated financial statements include the consolidated accounts of Brookfield Residential, its subsidiaries, investments in unconsolidated entities and variable interest entities in which the Company is the primary beneficiary. All intercompany accounts, transactions and balances have been eliminated upon consolidation.

All dollar amounts discussed herein are in U.S. dollars and in thousands, unless otherwise stated. Amounts in Canadian dollars are identified as “C$.”

(b) Use of Estimates

The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the carrying amounts of particular assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas where judgment is applied include asset valuations, investments in unconsolidated entities, assessment of variable interest entities, assets and liabilities associated with assets held for sale, tax provisions, warranty costs, deferred income tax assets and liabilities, share-based compensation, and contingent liabilities including litigation. Actual results could differ materially from these estimates.

(c) Future Accounting Pronouncements

ASU 2016-13 *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016, and is effective January 1, 2023 with early adoption permitted. It is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. Adoption of the update is not expected to have a significant impact on the Company's financial position and results of operations.

ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform*, was issued in March 2020, and is effective from March 12, 2020 through December 31, 2022. The update provides optional guidance for a limited period of time to ease the potential burden of reference rate reform on financial reporting, in response to concerns about structural risks of interbank offered rates (IBOR), and particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR). Adoption of this update is not expected to have a significant impact on the Company's financial position and results of operations.

Note 2. Restricted Cash

At March 31, 2022, the Company has restricted cash primarily consisting of $5.0 million of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductible payments (December 31, 2021 – $4.7 million of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductible payments).

Note 3. Land and Housing Inventory

The following summarizes the components of land and housing inventory:

	As at	
	March 31 2022	December 31 2021
Land held for development	$ 1,220,547	$ 1,238,452
Land under development	677,169	748,390
Housing inventory	598,088	506,691
Model homes	81,945	80,102
	$ 2,577,749	$ 2,573,635

(all dollar amounts are in thousands of U.S. dollars)

The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. For the three months ended March 31, 2022 and 2021, no impairment indicators were identified.

Interest capitalized and expensed during the three months ended March 31, 2022 and 2021 was as follows:

	Three Months Ended March 31	
	2022	**2021**
Interest capitalized, beginning of period	$ 180,399	$ 188,646
Interest capitalized	14,641	17,784
Interest expensed to cost of sales	(10,123)	(15,876)
Interest capitalized, end of period	$ 184,917	$ 190,554

Land and housing inventory includes non-refundable deposits and other entitlement costs totaling $15.8 million (December 31, 2021 – $15.7 million) in connection with options that are not required to be consolidated in accordance with the guidance incorporated in ASC Topic 810. The total remaining exercise price of these options is $49.1 million (December 31, 2021 – $50.7 million), including the non-refundable deposits and other entitlement costs identified above.

Note 4. Investments in Unconsolidated Entities

(a) Land and Housing

As part of its land and housing operations, the Company participates in joint ventures and partnerships to explore opportunities while minimizing risk. As of March 31, 2022, the Company is invested in 27 unconsolidated entities (December 31, 2021 – 25 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities include $11.6 million (December 31, 2021 – $16.2 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 210 lots (December 31, 2021 – 418 lots) under option. The Company's share of the total exercise price of these options is $28.2 million (December 31, 2021 – $20.9 million). Summarized financial information on a 100% basis for the combined land and housing unconsolidated entities follows:

	As at	
	March 31 2022	**December 31 2021**
Assets		
Land and housing inventory	1,299,425	$ 1,524,897
Investments in unconsolidated entities	128,415	128,960
Other assets	370,991	319,201
	$ 1,798,831	$ 1,973,058
Liabilities and Equity		
Bank indebtedness and other financings	266,445	$ 349,690
Accounts payable and other liabilities	178,171	185,507
Brookfield Residential's interest	384,380	356,642
Others' interest	969,836	1,081,219
	$ 1,798,832	$ 1,973,058

	Three Months Ended March 31	
	2022	**2021**
Revenue and Expenses		
Revenue	$ 140,708	$ 65,139
Direct cost of sales	(102,646)	(45,225)
Other income and expenses	(7,579)	1,061
Net income	$ 30,483	$ 20,975
Total equity earnings	$ 9,828	$ 8,928

(all dollar amounts are in thousands of U.S. dollars)

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt on its unconsolidated entities. As at March 31, 2022, the Company had recourse guarantees of $48.6 million (December 31, 2021 – $50.1 million) with respect to debt of its land and housing unconsolidated entities.

(b) Affiliates

The Company recorded its investment in BUSI ("Brookfield US Inc.") using the equity method in accordance with ASC Topic 323 *Equity Method - Investments and Joint Ventures* for transactions with entities under common control. Under the equity method, the Company's investment is recorded at its proportionate share of the carrying amount of the underlying assets and liabilities of BUSI as at September 26, 2019. The Company's investment in BUSI is subsequently increased or decreased to recognize the Company's share of comprehensive income or loss after the initial recognition and for changes in ownership. As at March 31, 2022, the Company had an ownership interest of 9.1% in BUSI (December 31, 2021 – 9.1%)

Summarized activity in the balance of our investment in unconsolidated entities - affiliate for the current and prior period is as follows:

	As at	
	March 31 2022	**December 31 2021**
Equity Investment in BUSI		
Balance, beginning of period	$ 769,660	$ 605,615
Dilution gain	—	35,309
Earnings / (Loss) from unconsolidated entities	23,026	129,346
Other comprehensive (loss) / income	(237)	(610)
Balance, end of period	$ 792,449	$ 769,660

Summarized financial information of BUSI, excluding the assets and liabilities of BUSI's investment in the Company's controlled subsidiaries, (presented at 100%) is as follows:

	As at	
	March 31 2022	**December 31 2021**
Assets		
Investments	$ 7,214,982	$ 13,494,394
Investments in unconsolidated entities	5,204,961	5,167,070
Other assets	4,015,445	3,915,395
	$ 16,435,388	$ 22,576,859
Liabilities and Equity		
Loans payable	$ 2,229,608	$ 2,197,035
Other liabilities	955,950	1,087,495
Non-controlling interest	4,501,018	10,792,508
Brookfield Residential's interest	792,449	769,660
Others' Interest	7,956,363	7,730,161
	$ 16,435,388	$ 22,576,859

	Three Months Ended March 31	
	2022	**2021**
Revenue and Expenses		
Income	$ 564,280	$ 825,519
Expenses	(318,134)	(410,119)
Net income / (loss)	$ 246,146	$ 415,400
Other comprehensive loss	(2,609)	(3,188)
Comprehensive income / (loss)	$ 243,537	$ 412,212

(all dollar amounts are in thousands of U.S. dollars)

Note 5. Commercial Properties

The Company's components of commercial properties consist of the following:

	As at	
	March 31 2022	December 31 2021
Work in progress	$ 263,342	$ 239,919
Finished properties	658,093	652,992
	921,435	892,911
Less: accumulated depreciation	(24,149)	(19,766)
	$ 897,286	$ 873,145

Interest capitalized and expensed during the three months ended March 31, 2022 and 2021 was as follows:

	Three Months Ended March 31	
	2022	2021
Interest capitalized, beginning of period	$ 56,320	$ 52,537
Interest capitalized	1,877	1,616
Interest expensed to depreciation	(229)	(229)
Interest capitalized, end of period	$ 57,968	$ 53,924

Note 6. Income Taxes

The Company recorded an aggregate income tax expense of $9.2 million for the three months ended March 31, 2022 (three months ended March 31, 2021 – income tax recovery of $0.1 million), which is comprised of current income tax expense of $2.6 million (three months ended March 31, 2021 – income tax expense $0.8 million) and deferred income tax expense of $6.6 million (three months ended March 31, 2021 – income tax recovery of $0.9 million).

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the three months ended March 31, 2022 and 2021 is as follows:

	Three Months Ended March 31	
	2022	2021
Statutory rate	23.0%	23.0%
Non-temporary differences	1.4	0.4
Rate difference from statutory rate	2.2	(2.9)
Deferred tax asset valuation allowance impact	—	(30.3)
Portion of gains subject to different tax rates	(0.1)	18.1
Non-taxable preferred share dividends	(1.3)	(1.9)
Taxable income attributable to non-controlling interests	(17.8)	(7.4)
Other	0.3	0.9
Effective tax rate	7.7%	(0.1%)

The increase in the effective tax rate when compared to the same period in 2021 was primarily due to changes in the proportion of income in jurisdictions with different tax rates, an increase in non-deductible stock-based compensation expense and the partial reversal of the valuation allowance relating to equity in earnings from unconsolidated entities – affiliate in 2021 with no comparable adjustment in 2022. This was partially offset by an increase in the consolidation of income attributable to non-controlling interest for which the consolidated tax provision only includes our proportionate share.

As at March 31, 2022, the Company recorded deferred tax assets of $41.3 million (December 31, 2021 – $47.7 million). In evaluating the need for a valuation allowance against the Company's deferred tax assets as at March 31, 2022, the Company considered all available and objectively verifiable positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies and recent financial operations. The Company concluded it is more likely-than-not that all of its remaining U.S. and Canadian deferred tax assets will be realized in the future.

(all dollar amounts are in thousands of U.S. dollars)

Note 7. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	March 31 2022	December 31 2021
Project-specific financings (a)	$ 616,716	$ 602,406
Bank indebtedness (b)	368,186	—
Secured VTB mortgages (c)	69,877	58,330
	1,054,779	660,736
Transaction costs (a)(b)	(7,601)	(8,671)
	$ 1,047,178	$ 652,065

(a) Project-specific financings

(i) On December 29, 2021, OliverMcMillan/Brookfield Residential Nashville LLC, a wholly-owned subsidiary of the Company, finalized the mezzanine loan agreement for the Fifth + Broadway mixed use project in Nashville for $116.9 million, of which $96.9 million is from BAM Reinsurance Investments LP, a related party of the Company. Proceeds from the 364 day loan were used for general corporate purposes.

Interest is charged on the loan at a fixed rate of 6.0% per annum. During the three months ended March 31, 2022, the Company paid $1.8 million of interest, of which $1.5 million is to BAM Reinsurance Investments LP at the exchange amounts in the condensed consolidated statement of operations within interest expense.

The loan contains restrictive covenants and requires BRUS LLC to maintain a minimum liquidity of $10.0 million and a minimum net worth of $100.0 million, exclusive of BRUS LLC's equity in the project. The loan is secured by a first priority equity pledge of 100% of BRUS LLC's interest in OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company and direct ownership of the Fifth + Broadway Project. The Company was in compliance with these covenants as at March 31, 2022.

(ii) On June 17, 2021, OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company, finalized the amendment of the secured construction loan for the Fifth + Broadway mixed-used project in Nashville. The loan was extended through July 2024, allowing OliverMcMillan Spectrum Emery LLC to borrow up to $360.0 million. As at March 31, 2022, the Company has $360.0 million of borrowings outstanding under the construction loan (December 31, 2021 – $358.4 million).

Interest is charged on the loan at a rate equal to LIBOR plus 3.15%, subject to a LIBOR rate floor of 0.25%, with the ability to convert the interest charged to a prime rate loan. (December 31, 2021 – LIBOR plus 3.15%, subject to a LIBOR rate floor of 0.25%).

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $10.0 million and a minimum net worth of $100.0 million, exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at March 31, 2022.

(iii) On March 20, 2020, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, entered into a three-year secured construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The loan allows OliverMcMillan Kuhio LLC to borrow up to $155.7 million. As at March 31, 2022, the company has $106.8 million of borrowings outstanding under the construction loan (December 31, 2021 – $86.7 million).

Interest is charged on the loan at a rate equal to LIBOR plus 2.0%, with the ability to convert the interest charged to a prime rate loan.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $25.0 million and a minimum net worth of $250.0 million exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at March 31, 2022.

(iv) As at March 31, 2022, the Company has two Canadian project-specific financings totaling $33.0 million (C$41.2 million) provided by various lenders (December 31, 2021 – $40.4 million (C$51.0 million)).

Project-specific financing totaling $23.2 million (C$29.0 million) has an interest rate of Canadian prime + 0.50%, is due on demand with 240 days notice, and is secured by certain land and housing inventory assets of the Company's Alberta operations and a general charge over the property of South Seton Limited Partnership, a consolidated subsidiary of the Company (December 31, 2021 – $28.2 million (C$35.6

million)). This borrowing includes a minimum debt to equity covenant for South Seton Limited Partnership of no greater than 1.50 to 1. The Company was in compliance with this covenant as at March 31, 2022.

Project-specific financing totaling $9.8 million (C$12.2 million), held by a joint venture in our Alberta operations, a consolidated subsidiary of the Company, has an interest rate of Canadian prime + 0.50%, matures in November 2022, and is secured without covenants (December 31, 2021 – $12.2 million (C$15.4 million)).

(b) Bank indebtedness

As at March 31, 2022, there were $368.2 million of borrowings outstanding under the North American unsecured revolving credit facility, and available capacity of $233.5 million (December 31, 2021 – no borrowings outstanding and $592.0 million of available capacity, respectively). The Company is able to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

For U.S. dollar denominated borrowings, interest is charged on the facility at a rate equal to, at the borrower's option, either the adjusted LIBOR plus an applicable rate between 2.0% and 2.75% per annum or an alternative base rate ("ABR") plus an applicable rate between 1.0% and 1.75% per annum. For Canadian dollar denominated borrowings, interest is charged on the facility at a rate equal to either the Canadian dollar offered rate ("CDOR") plus an applicable rate between 2.0% and 2.75% per annum or the Canadian prime rate plus an applicable rate between 1.0% and 1.75% per annum.

The facility contains certain restrictive covenants including limitations on liens, dividends and other distributions, investments in subsidiaries and joint ventures that are not party to the loan. The facility requires the Company to maintain a minimum consolidated tangible net worth of $2.3 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at March 31, 2022, the Company was in compliance with all of its covenants relating to this facility.

(c) Secured VTB mortgages

The Company has 12 secured VTB mortgages (December 31, 2021 – 10 secured VTB mortgages) in the amount of $69.9 million (December 31, 2021 – $58.3 million). Secured VTB mortgages are repayable as follows: 2022 – $48.4 million; 2023 – $19.2 million; 2024 – $2.3 million; and 2025 – $0 million.

Eight secured VTB mortgages (December 31, 2021 – seven secured VTB mortgages) in the amount of $37.8 million (December 31, 2021 – $41.5 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Residential (Ontario) LP, wholly-owned subsidiaries of the Company. This debt is repayable in Canadian dollars of C$47.2 million (December 31, 2021 – C$52.4 million). The interest rates on the debt range from fixed rates of 0.0% to 6.0% and variable rates of Canadian prime plus 1.0% to 2.0% and the debt is secured by the related land. The Company was in compliance with this covenant as at March 31, 2022.

Four secured VTB mortgages (December 31, 2021 – three secured VTB mortgages) in the amount of $17.5 million (December 31, 2021 – $16.8 million) relate to raw land held for development by various U.S. subsidiaries of the Company. The interest rate on the debt ranges from fixed rates of 0.48% to 4.0% and the debt is secured by related land. As at March 31, 2022, these borrowings are not subject to any financial covenants.

(all dollar amounts are in thousands of U.S. dollars)

Note 8. Notes Payable

	As at	
	March 31 2022	**December 31 2021**
6.250% unsecured senior notes due September 15, 2027 (a)	600,000	600,000
5.125% unsecured senior notes due June 15, 2029 (b)	199,875	197,825
5.000% unsecured senior notes due June 15, 2029 (c)	350,000	350,000
4.875% unsecured senior notes due February 15, 2030 (d)	500,000	500,000
	1,649,875	1,647,825
Transaction costs	(20,862)	(21,808)
	1,629,013	$ 1,626,017

(a) The Company's $600 million principal amount of 6.25% unsecured senior notes matures on September 15, 2027 with interest payable semi-annually. On or after September 15, 2022 the notes may be redeemed at 103.13% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after September 15, 2025 through maturity.

(b) On May 25, 2021, the Company and BRUS LLC co-issued a private placement of C$250 million of unsecured senior notes. The notes have an eight-year term, are due on June 15, 2029, and bear interest at a fixed rate of 5.125% with interest payable semi-annually. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries. On or after June 15, 2024, the notes may be redeemed at 102.56% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity. The net proceeds of the offering were used to redeem the C$250 million aggregate principal amount of the unsecured senior notes due in 2023.

(c) On May 25, 2021, the Company and BRUS LLC co-issued a private placement of $350 million of unsecured senior notes. The notes have an eight-year term, are due June 15, 2029, and bear interest at a fixed rate of 5.0% with interest payable semi-annually. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries. On or after June 15, 2024, the notes may be redeemed at 102.50% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity. The net proceeds of the offering were used to redeem the $350 million aggregate principal amount of the unsecured senior notes due in 2025.

(d) The Company's $500 million principal amount of 4.875% unsecured senior notes mature February 15, 2030 with interest payable semi-annually. On or after February 15, 2025 the notes may be redeemed at 102.44% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after February 15, 2028 through maturity.

The Company and BRUS LLC are co-issuers of all private placements of unsecured senior notes. All unsecured senior notes include covenants that, among others, place limitations on incurring additional indebtedness and restricted payments. Under the limitation on additional indebtedness, Brookfield Residential is permitted to incur specified categories of indebtedness, but is prohibited from incurring further indebtedness if it does not satisfy either a net indebtedness to tangible net worth ratio of 3.0 to 1, or a fixed coverage ratio of 2.0 to 1, as applicable. The Company was in compliance with these financial covenants as at March 31, 2022.

(all dollar amounts are in thousands of U.S. dollars)

Note 9. Equity

Common Shares

The authorized Common Share capital of the Company consists of an unlimited number of voting Common Shares and Non-Voting Class B Common Shares.

There were no Common Shares issued during the three months ended March 31, 2022 and the year ended December 31, 2021.

	For the Period Ended	
	March 31 2022	December 31 2021
Common Shares issued, beginning of period	129,756,910	129,756,910
Common Shares issued	—	—
Common Shares issued and outstanding, end of period	129,756,910	129,756,910

The Company had no Non-Voting Class B Common Shares issued and outstanding as at March 31, 2022 and December 31, 2021.

Note 10. Share-Based Compensation

(a) Management Share Option Plan

During the three months ended March 31, 2022, there were no options granted to eligible employees (three months ended March 31, 2021 – no options granted).

The liability of $22.4 million (December 31, 2021 – $34.9 million) relating to stock options is included in accounts payable and other liabilities. The total stock based compensation cost recognized in selling, general and administrative expense resulting from the change in fair value of our share-based compensation liabilities for the three months ended March 31, 2022 was $4.7 million (March 31, 2021 – $0.5 million).

The following tables set out the number of Non-Voting Class B Common Shares that employees of the Company may acquire under options granted under the Company's Management Share Option Plan for the three months ended March 31, 2022 and 2021:

	March 31, 2022		March 31, 2021	
	Options	Weighted Average Per Share Exercise Price	Options	Weighted Average Per Share Exercise Price
Outstanding, beginning of period	3,510,114	$ 21.42	10,409,076	$ 22.20
Granted	—	—	—	—
Exercised	(1,130,000)	20.86	—	—
Cancelled	—	—	—	—
Outstanding, end of period	2,380,114	22.01	10,409,076	22.20
Options exercisable, end of period	1,563,314	$ 22.01	8,864,876	$ 22.28

A summary of the status of the Company's unvested options for the three months ended March 31, 2022 and 2021 are as follows:

	March 31, 2022		March 31, 2021	
	Options	Weighted Average Fair Value Per Option	Options	Weighted Average Fair Value Per Option
Unvested options outstanding, beginning of period	994,200	$ 11.16	1,721,600	$ 6.77
Granted	—	—	—	—
Vested	(177,400)	10.96	(177,400)	6.51
Cancelled	—	—	—	—
Unvested options outstanding, end of period	816,800	$ 11.20	1,544,200	$ 6.80

At March 31, 2022, there was $7.1 million (March 31, 2021 – $9.0 million) of unrecognized expenses related to unvested options, which is expected to be recognized over the remaining weighted average contract period of 1.3 years (March 31, 2021 – 2.1 years).

Note 11. Earnings Per Share

Basic and diluted earnings per share for the three months ended March 31, 2022 and 2021 were calculated as follows:

	Three Months Ended March 31	
	2022	**2021**
Numerator:		
Net income attributable to Brookfield Residential	$ 36,217	$ 60,556
Denominator (in '000s of shares):		
Basic weighted average shares outstanding	129,757	129,757
Diluted weighted average shares outstanding	130,324	130,692
Basic earnings per share	$ 0.28	$ 0.47
Diluted earnings per share	$ 0.28	$ 0.46

Note 12. Other (Income) / Expense

The Company's components of other (income) / expense consist of the following:

	Three Months Ended March 31	
	2022	**2021**
Change in unrealized gain from investment	$ (12,506)	$ (525)
(Income) / loss from commercial properties	(8,533)	1,430
Preferred share dividend income	(5,918)	(5,918)
Investment income	(5,489)	(10,296)
Other	(3,750)	(2,644)
Joint venture management fee income	(2,404)	(1,719)
	$ (38,600)	$ (19,672)

Note 13. Commitments, Contingent Liabilities and Other

The following table reflects the changes in the Company's estimated warranty liability for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31	
	2022	**2021**
Balance, beginning of period	$ 18,788	$ 16,718
Payments and other adjustments made during the period	(1,033)	(1,467)
Warranties issued during the period	1,038	2,001
Adjustments due to change in estimates	10	(744)
Balance, end of period	$ 18,803	$ 16,508

As at March 31, 2022, $13.6 million of the amounts held in other assets related to deposits on land purchase obligations (December 31, 2021 – $18.2 million). The total amount committed on these obligations is $207.3 million (December 31, 2021 – $267.0 million).

Note 14. Guarantees

In the ordinary course of business, the Company has provided construction guarantees in the form of letters of credit and performance bonds. As at March 31, 2022, these guarantees amounted to $632.7 million (December 31, 2021 – $658.7 million) and have not been recognized in the condensed consolidated financial statements. However, the proportionate development costs that relate to lots that have been sold are accrued in accounts payable and other liabilities. Such guarantees are required by the municipalities in which the Company operates before construction permission is granted.

(all dollar amounts are in thousands of U.S. dollars)

Note 15. Fair Value Measurements

Fair Value Hierarchy

Fair value hierarchical levels are directly determined by the amount of subjectivity associated with the valuation inputs of these assets and liabilities. The fair value hierarchy requires a company to prioritize the use of observable inputs and minimize the use of unobservable inputs in measuring fair value.

As at March 31, 2022, all of the Company's financial assets and liabilities are recorded at their carrying value as it approximates fair value due to their short term nature, with the exception of one of the Homebuilder Finance assets, and Brookfield Single Family Rental investment, which are recorded at their fair values.

Homebuilder Finance Investment

The Company has determined that the valuation of the Homebuilder Finance Investment under the fair value hierarchy falls under Level 3, due to the lack of observable pricing inputs and related market activity. The purchases of investments classified as Level 3 are as follows:

	Three Months Ended March 31, 2022
Purchases / Land Development Spend	$ 18,594

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of March 31, 2022:

Financial Instrument	Fair value as of 3/31/2022	Valuation technique	Unobservable inputs	Range (where applicable)
Homebuilder Finance Investment	$ 167,465	Discounted cash flow	Rate of return	12.2% - 25.2%

Brookfield Single Family Rental Investment

The Company has determined that the valuation of the Brookfield Single Family Rental Investment under the fair value hierarchy falls under Level 3, due to the lack of observable pricing inputs and related market activity.

The change in fair value of the investment has used Level 3 inputs to determine fair value is as follows:

	Three Months Ended March 31, 2022
Balance, beginning of period	$ 297,738
Purchase of investment	—
Change in unrealized gain from investment	11,466
Balance, end of period	$ 309,204

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of March 31, 2022:

Financial Instrument	Fair value as of 3/31/2022	Valuation technique	Unobservable inputs	Range (where applicable)
Single Family Rental Investment	$ 309,204	Discounted cash flow	Discount rate Capitalization rate	7.8% 5.3%

Net Investment Hedge

For the three months ended March 31, 2022, unrealized pre-tax loss of $2.1 million (March 31, 2021 – loss of $2.7 million), was recorded in other comprehensive income for hedges of net investments in foreign operations.

Note 16. Managing Risks

The Company is exposed to the following risks as a result of holding financial instruments: (a) market risk (i.e. interest rate risk, currency risk and other price risk that impact the fair values of financial instruments); (b) credit risk; and (c) liquidity risk. The following is a description of these risks and how they are managed:

(a) Market Risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates, such as changes in equity prices, commodity prices or credit spreads.

The Company manages market risk from foreign currency assets and liabilities and the impact of changes in currency exchange rates and interest rates, by funding assets with financial liabilities in the same currency and with similar interest rate characteristics, and holding financial contracts such as interest rate derivatives to minimize residual exposures.

Interest Rate Risk

The Company is exposed to financial risk that arises from fluctuations in interest rates. Some of the interest-bearing assets and liabilities of the Company are at floating rates and, accordingly, their fair values approximate their carrying value. The Company would be negatively impacted on balance, if interest rates were to increase. Based on net debt levels as at March 31, 2022, a 1% change in interest rates would have a $8.7 million impact on the Company's cash flows.

The fair value of debt with fixed interest rates is determined by discounting contractual principal and interest payments at estimated current market interest rates determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at March 31, 2022, the book value of all outstanding debt exceeded its fair value by $104.8 million (December 31, 2021 – fair value of all outstanding debt exceeded its book value by $40.6 million).

Currency Exchange Rate Risk

The Company conducts business in both Canadian and U.S. dollars and, therefore, is exposed to currency risks. Cash flows from Canadian and U.S. operations are exposed to foreign exchange risk as sales and operating expenses are denominated in local currencies. Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than the U.S. dollar.

The Company holds financial instruments to hedge the net investment in foreign operations whose functional and reporting currencies are other than the U.S. dollar. A 1% increase in the U.S. dollar would result in a C$2.1 million gain on these hedging instruments as at March 31, 2022 (December 31, 2021 – C$2.0 million gain). See Note 15 "Fair Value Measurements" for additional disclosure.

Other Price Risk

Other price risk is the risk of variability in fair value due to movements in equity prices or other market prices such as commodity prices and credit spreads.

(b) Credit Risk

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations. The Company assesses the credit worthiness of each counterparty before entering into contracts and ensures that counterparties meet minimum credit quality requirements. The Company does not expect to incur credit losses in respect of any of these counterparties. The maximum exposure in respect of receivables is equal to the carrying value.

(c) Liquidity Risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund an obligation as it comes due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

To ensure the Company is able to react to contingencies and investment opportunities quickly, the Company maintains sources of liquidity at the corporate and subsidiary levels. The primary source of liquidity consists of cash and other financial assets, net of deposits and other associated liabilities, and undrawn committed credit facilities.

The Company is subject to the risks associated with debt financing, including the ability to refinance indebtedness at maturity. The Company believes these risks are mitigated through the use of long-term debt instruments, maintaining debt levels that are in management's opinion relatively conservative, and by diversifying maturities over an extended period of time. The Company also seeks to include in its agreements terms that protect the Company from liquidity issues of counterparties that might otherwise impact the Company's liquidity.

(all dollar amounts are in thousands of U.S. dollars)

A summary of the Company's contractual obligations and purchase agreements as at March 31, 2022 is as follows:

	Payment Due by Period				
	Total	**Less than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**More than 5 Years**
Notes payable[1]	$ 1,649,875	$ —	$ —	$ —	$ 1,649,875
Interest on notes payable	609,327	89,619	179,237	179,237	161,234
Secured VTB mortgages[2][3]	69,877	48,407	21,470	—	—
Bank indebtedness[2][3]	368,186	—	368,186	—	—
Project-specific financings[2][3]	616,716	256,716	360,000	—	—
Accounts payable and other liabilities	724,503	724,503	—	—	—
Operating and financing lease obligations	406,892	9,116	21,953	20,860	354,963
Purchase agreements and other obligations[4]	216,432	195,440	16,128	3,016	1,848

(1) Amounts are included on the condensed consolidated balance sheets and exclude transaction costs. See Note 8 for additional information regarding notes payable.
(2) Amounts are included on the condensed consolidated balance sheets. See Note 7 for additional information regarding bank indebtedness and other financings and related matters.
(3) Amounts do not include interest due to the floating nature of the interest on the debt. See Note 7 for additional information regarding floating rate debt.
(4) See Note 13 for additional information regarding purchase agreements and other obligations.

(all dollar amounts are in thousands of U.S. dollars)

Note 17. Segmented Information

The following tables summarize select information on the Company's consolidated statements of operations by reportable segments:

	Three Months Ended March 31, 2022					
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Housing revenue	$ 66,490	$ 95,815	$ 96,301	$ —	$ —	$ 258,606
Land revenue	39,599	153,086	6,288	—	—	198,973
	106,089	248,901	102,589	—	—	457,579
Housing cost of sales	(54,979)	(78,188)	(78,768)	—	—	(211,935)
Land cost of sales	(27,379)	(87,359)	(3,655)	—	—	(118,393)
	(82,358)	(165,547)	(82,423)	—	—	(330,328)
Gross margin	23,731	83,354	20,166	—	—	127,251
Earnings from unconsolidated entities - land and housing	528	6,430	2,870	—	—	9,828
Earnings from unconsolidated entities - affiliate	—	—	—	—	23,026	23,026
(Expenses) / Income	(11,859)	(17,689)	(13,752)	2,195	—	(41,105)
Income before income taxes	$ 12,400	$ 72,095	$ 9,284	$ 2,195	$ 23,026	$ 119,000

	Three Months Ended March 31, 2021					
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Housing revenue	$ 60,428	$ 179,021	$ 132,075	$ —	$ —	$ 371,524
Land revenue	46,535	15,953	10,353	—	—	72,841
	106,963	194,974	142,428	—	—	444,365
Housing cost of sales	(49,962)	(140,243)	(108,924)	—	—	(299,129)
Land cost of sales	(31,987)	(11,097)	(9,542)	—	—	(52,626)
	(81,949)	(151,340)	(118,466)	—	—	(351,755)
Gross margin	25,014	43,634	23,962	—	—	92,610
Earnings from unconsolidated entities - land and housing	42	222	8,664	—	—	8,928
Earnings from unconsolidated entities - affiliate	—	—	—	—	39,463	39,463
(Expenses) / Income	(12,891)	(23,564)	(26,543)	3,270	—	(59,728)
Income before income taxes	$ 12,165	$ 20,292	$ 6,083	$ 3,270	$ 39,463	$ 81,273

(all dollar amounts are in thousands of U.S. dollars)

The following tables summarize select information on the Company's consolidated balance sheets by reportable segments:

	As at March 31, 2022					
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Land held for development	$ 399,965	$ 277,905	$ 542,677	$ —	$ —	$1,220,547
Land under development	181,446	190,964	301,962	2,797	—	677,169
Housing inventory	148,975	181,581	267,532	—	—	598,088
Model homes	21,401	39,049	21,495	—	—	81,945
Total land and housing inventory	751,787	689,499	1,133,666	2,797	—	2,577,749
Commercial properties	57,060	255,426	584,800	—	—	897,286
Investments in unconsolidated entities - land and housing	120,706	212,495	51,179	—	—	384,380
Investments in unconsolidated entities - affiliate	—	—	—	—	792,449	792,449
Held-to-maturity investment	—	—	—	300,000	—	300,000
Operating and financing lease right-of-use asset	11,349	41,018	47,951	9,288	—	109,606
Goodwill	—	—	—	16,479	—	16,479
Other assets [(1)]	150,172	53,322	300,649	861,379	—	1,365,522
Total assets	$1,091,074	$1,251,760	$2,118,245	$1,189,943	$ 792,449	$6,443,471

(1) Other assets presented in above table within the operating segments note includes receivables and others assets, cash, restricted cash, Homebuilder Finance investment, Brookfield Single Family Rental investment and deferred income tax assets.

	As at December 31, 2021					
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Land held for development	$ 393,787	$ 275,455	$ 569,209	$ —	$ —	$1,238,451
Land under development	202,672	241,842	301,076	2,801	—	748,391
Housing inventory	130,889	150,145	225,657	—	—	506,691
Model homes	20,894	34,868	24,340	—	—	80,102
Total land and housing inventory	748,242	702,310	1,120,282	2,801	—	2,573,635
Commercial properties	49,199	239,704	584,242	—	—	873,145
Investments in unconsolidated entities - land and housing	118,529	180,506	57,607	—	—	356,642
Investments in unconsolidated entities - affiliate	—	—	—	—	769,660	769,660
Held-to-maturity investment	—	—	—	300,000	—	300,000
Operating and financing lease right-of-use asset	11,511	41,600	19,764	9,374	—	82,249
Goodwill	—	—	—	16,479	—	16,479
Other assets [(1)]	150,411	72,433	268,882	834,466	—	1,326,192
Total assets	$1,077,892	$1,236,553	$2,050,777	$1,163,120	$ 769,660	$6,298,002

(1) Other assets presented in above table within the operating segments note includes receivables and others assets, cash, restricted cash, Homebuilder Finance investment, Brookfield Single Family Rental investment and deferred income tax assets.

Note 18. Related Party Transactions

Related parties include the directors, executive officers, director nominees or shareholders, and their respective immediate family members. There are agreements among our affiliates to which we are a party or subject to, including a name license. The Company's additional significant related party transactions as at and for the three months ended March 31, 2022 and 2021 were as follows:

- During the three months ended March 31, 2022, the Company incurred $21.0 million of management fees (three months ended March 31, 2021 – $23.4 million) related to the management agreement with our service providers, BPD. The management fee is determined by applicable rates on construction and development spending as well as assets under management, as defined in the management agreement. These transactions were recorded at the exchange amount within selling, general and administrative expense and commercial properties.
- On January 1, 2022, the Company increased the financing capacity on the loan with BPD from $100.0 million to $125.0 million. As at March 31, 2022, the loan had an outstanding balance of $114.2 million that was recorded within receivables and other assets (December 31, 2021 – $68.9 million). During the three months ended March 31, 2022, the Company recorded $0.6 million of interest income at the exchange amounts in the condensed consolidated statement of operations within other income (three months ended March 31, 2021 – $0.5 million).
- During the three months ended March 31, 2022, the Company amended a previously existing agreement with a consolidated subsidiary in order to provide financing of up to $75.0 million to include Brookfield Residential Land Holdings II. The loan bears interest at LIBOR + 2.25%. As at March 31, 2022, the loan had an outstanding balance of $37.3 million that was recorded within receivables and other assets (December 31, 2021 – $56.5 million).
- During the three months ended March 31, 2022, the Company earned $5.9 million of dividends from the preferred shares of Brookfield International Ltd. (three months ended March 31, 2021 – $5.9 million of dividends earned) that have been recorded in the condensed consolidated statements of operations within other income. As at March 31, 2022, a total of $66.1 million of accrued dividends is recorded within receivables and other assets (December 31, 2021 – $60.2 million). These transactions were recorded at the exchange amount.
- During the three months ended March 31, 2022, the Company declared and paid a dividend to the common shareholders, which include various subsidiaries of BAM, of $375.0 million. The transaction was recorded at the exchange amount.
- During the three months ended March 31, 2022, the Company contributed $14.6 million to BSI LB Borrower LLC ("BSI"), a related party of BAM. This investment is accounted for as an equity method investment and is recorded within receivables and other assets on the balance sheet.

Note 19. Subsequent Events

The Company performed an evaluation of subsequent events through May 11, 2022, which is the date that these consolidated financial statements were approved, and has determined the following subsequent events:

Subsequent to March 31, 2022, the Company has begun the marketing process for our Fifth + Broadway mixed-use development in Nashville, as such the property will be classified as an asset held for sale. The Company expects the sale to be completed within a year.

CORPORATE INFORMATION

CORPORATE PROFILE

Brookfield Residential Properties Inc. is a leading land developer and homebuilder in North America. We entitle and develop land to create master-planned communities, build and sell lots to third-party builders, and conduct our own homebuilding operations. We also participate in select, strategic real estate opportunities, including infill projects, mixed-use developments, and joint ventures. We are the flagship North American residential property company of Brookfield Asset Management Inc., a leading global alternative asset manager with approximately $690 billion of assets under management. Further information is available at BrookfieldResidential.com or Brookfield.com or contact:

BROOKFIELD RESIDENTIAL PROPERTIES INC.

4906 Richard Road S.W.

Calgary, Alberta T3E 6L1

Tel: (403) 231-8900

Fax: (403) 231-8960

Email: info@brookfieldrp.com

Website: www.BrookfieldResidential.com

BONDHOLDER INQUIRIES

Brookfield Residential welcomes inquiries from bondholders, analysts, media representatives and other interested parties. Questions relating to bondholder relations or media inquiries can be directed to Thomas Lui, Executive Vice President & Chief Financial Officer via e-mail at thomas.lui@brookfieldpropertiesdevelopment.com.