# Brookfield Residential Properties ULC

## Q1 2023 Interim Report

## First Quarter 2023 Overview and Outlook

Brookfield Residential saw homebuyers across North America return to the market in the first quarter of 2023 as we adjusted home prices and incentives to address housing affordability considerations from persistent inflation and mortgage rate fluctuations. This has led to stronger than anticipated sales rates for the first quarter with positive response from our recent community openings and conversion of our speculative inventory to backlog. From a land perspective, results were lower than the previous year primarily due to opportunistic entitled land sales that occurred in 2022 which resulted in significant land revenue.

For the three months ended March 31, 2023, income before income taxes was $24 million compared to $119 million in 2022. Included in the prior year results was $64 million of gross margin relating to two bulk lot sales at our Southern California communities and $23 million of earnings from our affiliate unconsolidated entities with no comparable transactions in the current year. Adjusting for this, income before income taxes was $32 million in 2022, compared to $24 million in the current period.

Operating and financial highlights for the three months ended March 31, 2023 include:

- Home closings of 515, a 21% increase compared to 427 in 2022. Housing gross margin increased to 19%, while average home selling prices increased by 6%
- Net new home orders of 545 contributing to the total backlog of 1,156 units with a value of $756 million
- Continued establishment of housing operations in new markets with opening of several housing communities where we have controlled and managed land positions, including Phoenix (Arizona), Houston (Texas) and Raleigh (North Carolina)
- Closed 272 single family lots with land gross margins of 30%
- Ended the quarter with a net debt to capitalization ratio of 44%
- Subsequent to the end of the quarter, Brookfield Residential declared a dividend of $120 million to Brookfield Corporation

Based on our outlook at this early point in the year, we offer the following limited guidance for 2023. For our U.S. operations, we expect to close approximately 1,370 homes and 1,825 lots, excluding our share of unconsolidated entities. For our Canadian markets, we expect to close approximately 805 homes and 500 lots. We also project a number of multi-family, commercial and industrial parcel sales in both countries. Continuing forward through 2023, we are focused on maintaining the sales velocity achieved for the first three months of the year and capitalizing on industry fundamentals that have remained stronger than expected.

# BROOKFIELD RESIDENTIAL PROPERTIES ULC



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS**



**CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**



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## 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; economic and market conditions in the U.S. and Canadian housing markets and our ability to respond to such conditions; the impact of actual, proposed or potential interest rate changes in the U.S. and Canada and the resulting impact on consumer confidence and the housing market; the effect of inflation; changes in consumer behavior and preferences; current trends in home prices in our various markets and affordability levels generally; the impact of mortgage and financing rules on borrowers; the effect of seasonality on the homebuilding business; home prices and affordability in our communities, home closings resulting therefrom, and the timing thereof; international trade factors, including changes in trade policy, such as trade sanctions and increased tariffs; 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 the impact thereof on demand in our markets including future investment, particularly in Alberta; 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; 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; the impact of COVID-19 generally; expectations for 2023 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;
- factors affecting our competitive position within the homebuilding industry;
- the ability to create value in our land development business and meet our development plans;
- expected inventory backlog and closings and the timing thereof;
- the expected closing of transactions generally;
- the expected exercise of options contracts and lease options;
- the effect on our business of business acquisitions;
- business goals, strategy and growth plans;
- the effect of challenging conditions on us;
- 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 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 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;
- 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, 2022.

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, 2023 and has been prepared with an effective date of April 27, 2023. 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 ULC (unless the context requires otherwise, references in this interim report to “we,” “our,” “us,” the “Company” and “Brookfield Residential” refer to Brookfield Residential Properties ULC and the subsidiaries through which it conducts all of its homebuilding and land development operations) is a wholly-owned subsidiary of Brookfield Corporation and has been in operation for over 60 years. We are the flagship North American residential property company of Brookfield Corporation, (NYSE:BN; TSN:BN), a global alternative asset manager.

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 / Orange County / 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) and North Carolina (Raleigh).

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.

### *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, 2023 were $5.2 billion.

As of March 31, 2023, we controlled 80,606 single family lots (serviced lots and future lot equivalents) and 65 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, 2023 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 3/31/2023 | | Total Acres | |
| | **Owned** | **Options** | **Owned** | **3/31/2023** | **12/31/2022** | **Entitled** | **Unentitled** | **3/31/2023** | **12/31/2022** |
| Calgary | 13,504 | — | 2,374 | 15,878 | 16,077 | 10,415 | 5,463 | 43 | 46 |
| Edmonton | 9,379 | — | 185 | 9,564 | 9,757 | 4,354 | 5,210 | 3 | 3 |
| Ontario | 7,644 | — | 1,976 | 9,620 | 9,554 | 4,644 | 4,976 | 6 | 6 |
| **Canada** | 30,527 | — | 4,535 | 35,062 | 35,388 | 19,413 | 15,649 | 52 | 55 |
| Northern California | 2,865 | 6,757 | 116 | 9,738 | 9,800 | 2,490 | 7,248 | — | — |
| Southern California | 5,516 | — | 594 | 6,110 | 6,178 | 3,940 | 2,170 | 2 | 2 |
| Other | — | — | 1,085 | 1,085 | 1,096 | 1,085 | — | — | — |
| **Pacific U.S.** | 8,381 | 6,757 | 1,795 | 16,933 | 17,074 | 7,515 | 9,418 | 2 | 2 |
| Denver | 6,366 | — | — | 6,366 | 6,402 | 6,366 | — | 10 | 10 |
| Austin | 9,682 | — | — | 9,682 | 9,763 | 9,682 | — | — | — |
| Phoenix | 7,870 | — | 150 | 8,020 | 8,020 | 8,020 | — | — | — |
| Washington, D.C. Area | 3,244 | 708 | 98 | 4,050 | 4,101 | 4,013 | 37 | — | — |
| Other | — | — | 493 | 493 | 503 | 493 | — | 1 | 2 |
| **Central and Eastern U.S.** | 27,162 | 708 | 741 | 28,611 | 28,789 | 28,574 | 37 | 11 | 12 |
| **Total** | 66,070 | 7,465 | 7,071 | 80,606 | 81,251 | 55,502 | 25,104 | 65 | 69 |
| Entitled lots | 48,362 | 1,417 | 5,723 | 55,502 | 56,204 | | | | |
| Unentitled lots | 17,708 | 6,048 | 1,348 | 25,104 | 25,047 | | | | |
| **Total March 31, 2023** | 66,070 | 7,465 | 7,071 | 80,606 | | | | | |
| **Total December 31, 2022** | 66,584 | 7,478 | 7,189 | | 81,251 | | | | |

[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, 2023 compared to the three months ended March 31, 2022 were as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| *(US$ millions, except percentages, unit activity, average selling price and per share amounts)* | **2023** | **2022** |
| **Key Financial Results** | | |
| Housing revenue | $ 331 | $ 259 |
| Land revenue | 33 | 199 |
| Housing gross margin ($) | 62 | 47 |
| Housing gross margin (%) | 19% | 18% |
| Land gross margin ($) | 10 | 80 |
| Land gross margin (%) | 30% | 40% |
| Total gross margin ($) | 72 | 127 |
| Total gross margin (%) | 20% | 28% |
| Income before income taxes | 24 | 119 |
| Income tax expense | (4) | (10) |
| Net income | 20 | 109 |
| Net income attributable to Brookfield Residential | 20 | 36 |
| Basic and diluted earnings per share | $ 0.10 | $ 0.28 |
| **Key Operating Data** | | |
| Home closings for Brookfield Residential (units) | 515 | 427 |
| Home closings for unconsolidated entities (units) | 1 | 1 |
| Average home selling price for Brookfield Residential (per unit) | $ 643,000 | $ 606,000 |
| Average home selling price for unconsolidated entities (per unit) | $ 712,000 | $ 856,000 |
| Net new home orders for Brookfield Residential (units) | 545 | 737 |
| Net new home orders for unconsolidated entities (units) | — | 1 |
| Backlog for Brookfield Residential (units) | 1,156 | 1,809 |
| Backlog for unconsolidated entities (units) | — | 43 |
| Backlog value for Brookfield Residential | $ 756 | $ 1,141 |
| Backlog value for unconsolidated entities | $ — | $ 37 |
| Active housing communities for Brookfield Residential | 75 | 64 |
| Lot closings for Brookfield Residential (single family units) | 272 | 396 |
| Lot closings for unconsolidated entities (single family units) | 87 | 104 |
| Acre closings for Brookfield Residential (multi-family, industrial and commercial) | — | 9 |
| 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) | $ 113,000 | $ 478,000 |
| Average lot selling price for unconsolidated entities (single family units) | $ 232,000 | $ 137,000 |
| Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial) | $ — | $ 973,000 |
| 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 | 16 |
| Active land communities for unconsolidated entities | 16 | 16 |

**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, 2023 and 2022.

| | Three Months Ended March 31 | |
|---|---|---|
| *(US$ millions, except unit activity and average selling price)* | **2023** | **2022** |
| Housing revenue | | |
| Canada | $ 79 | $ 67 |
| Pacific U.S. | 138 | 96 |
| Central and Eastern U.S. | 114 | 96 |
| Total | 331 | 259 |
| Housing gross margin | | |
| Canada | $ 15 | $ 11 |
| Pacific U.S. | 25 | 18 |
| Central and Eastern U.S. | 22 | 18 |
| Total | 62 | 47 |
| Home closings (units) | | |
| Canada | 190 | 137 |
| Pacific U.S. | 137 | 117 |
| Central and Eastern U.S. | 188 | 173 |
| | 515 | 427 |
| Unconsolidated entities | 1 | 1 |
| Total | 516 | 428 |
| Average home selling price | | |
| Canada | $ 418,000 | $ 485,000 |
| Pacific U.S. | 1,005,000 | 819,000 |
| Central and Eastern U.S. | 607,000 | 557,000 |
| | 643,000 | 606,000 |
| Unconsolidated entities | 712,000 | 856,000 |
| Average | $ 643,000 | $ 606,000 |

| | As at March 31 | |
|---|---|---|
| | **2023** | **2022** |
| Active housing communities | | |
| Canada | 36 | 34 |
| Pacific U.S. | 11 | 10 |
| Central and Eastern U.S. | 28 | 20 |
| | 75 | 64 |
| Unconsolidated entities | — | — |
| Total | 75 | 64 |

| | Three Months Ended March 31 | |
|---|---|---|
| | 2023 | 2022 |
| Land revenue | | |
| Canada | $ 31 | $ 40 |
| Pacific U.S. | 1 | 153 |
| Central and Eastern U.S. | 1 | 6 |
| Total | 33 | 199 |
| Land gross margin | | |
| Canada | $ 9 | $ 12 |
| Pacific U.S. | 1 | 65 |
| Central and Eastern U.S. | — | 3 |
| Total | 10 | 80 |
| Lot closings (single family units) | | |
| Canada | 272 | 185 |
| Pacific U.S. | — | 158 |
| Central and Eastern U.S. | — | 53 |
| | 272 | 396 |
| Unconsolidated entities | 87 | 104 |
| Total | 359 | 500 |
| Acre closings (multi-family, industrial and commercial) | | |
| Canada | — | 9 |
| Pacific U.S. | — | — |
| Central and Eastern U.S. | — | — |
| | — | 9 |
| Unconsolidated entities | — | 2 |
| Total | — | 11 |
| 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 | $ 113,000 | $ 162,000 |
| Pacific U.S. | — | 969,000 |
| Central and Eastern U.S. | — | 115,000 |
| | 113,000 | 478,000 |
| Unconsolidated entities | 232,000 | 137,000 |
| Average | $ 147,000 | $ 407,000 |
| Average per acre selling price (multi-family, industrial and commercial) | | |
| Canada | $ — | $ 950,000 |
| Pacific U.S. | — | — |
| Central and Eastern U.S. | — | — |
| | — | 973,000 |
| Unconsolidated entities | — | 633,000 |
| Average | $ — | $ 900,000 |
| 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 | |
|---|---|---|
| | 2023 | 2022 |
| Active land communities | | |
| Canada | 7 | 7 |
| Pacific U.S. | 1 | 1 |
| Central and Eastern U.S. | 8 | 8 |
| | 16 | 16 |
| Unconsolidated entities | 16 | 16 |
| Total | 32 | 32 |

| | As at | |
|---|---|---|
| *(US$ millions)* | March 31 2023 | December 31 2022 |
| Total assets | | |
| Canada | $ 1,098 | $ 1,089 |
| Pacific U.S. | 1,211 | 1,237 |
| Central and Eastern U.S. | 1,660 | 1,628 |
| Corporate and other | 1,259 | 1,189 |
| Total | $ 5,228 | $ 5,143 |

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, 2023 Compared with Three Months Ended March 31, 2022**

***Net Income***

Consolidated net income for the three months ended March 31, 2023 and 2022 is as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| *(US$ millions, except per share amounts)* | 2023 | 2022 |
| Consolidated net income | $ 20 | $ 109 |
| Net income attributable to Brookfield Residential | $ 20 | $ 36 |
| Basic and diluted earnings per share | $ 0.10 | $ 0.28 |

The decrease of $89 million in consolidated net income for the three months ended March 31, 2023 compared to the same period in 2022 was the result of a decrease in gross margin of $55 million, primarily due to large land transactions in Southern California last year with no comparable transactions in 2023, a decrease in earnings from our affiliate unconsolidated entity of $23 million as the Company no longer holds an interest in this investment, a decrease in other income of $16 million, a decrease in earnings from land and housing unconsolidated entities of $4 million and an increase in interest expense of $2 million. This was partially offset by a decrease in income tax expense of $6 million, a decrease in depreciation expense of $3 million and a decrease in selling, general and administrative expense of $2 million.

***Results of Operations – Housing***

A breakdown of our results from housing operations for the three months ended March 31, 2023 and 2022 is as follows:

*Consolidated*

| *(US$ millions, except unit activity, percentages and average selling price)* | **Three Months Ended March 31** **2023** | **2022** |
|---|---|---|
| Home closings | 515 | 427 |
| Revenue | $ 331 | $ 259 |
| Gross margin | $ 62 | $ 47 |
| Gross margin (%) | 19% | 18% |
| Average home selling price | $ 643,000 | $ 606,000 |

Housing revenue and gross margin were $331 million and $62 million, respectively, for the three months ended March 31, 2023, compared to $259 million and $47 million for the same period in 2022. The increase in revenue was primarily the result of 88 additional home closings and a 6% increase in average home selling prices. Gross margin increased $15 million and gross margin percentage increased 1% as a result of the product and geographic mix of homes closed and higher average home selling prices for the three months ended March 31, 2023 when compared to the same period in 2022.

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** **2023** | **2022** |
|---|---|---|
| Home closings | 190 | 137 |
| Revenue | $ 79 | $ 67 |
| Gross margin | $ 15 | $ 11 |
| Gross margin (%) | 19% | 16% |
| Average home selling price | $ 418,000 | $ 485,000 |
| Average home selling price (C$) | $ 566,000 | $ 615,000 |

Housing revenue in our Canadian segment for the three months ended March 31, 2023 increased by $12 million when compared to the same period in 2022, primarily due to 53 additional home closings, partially offset by 14% lower average home selling prices due to product mix. The increase in home closings was primarily the result of 51 more closings in our Calgary market. Gross margin increased $4 million and gross margin percentage increased 3% for the three months ended March 31, 2023 when compared to the same period in 2022 primarily as a result of additional home closings and product mix of homes sold when compared to the same period in 2022.

*Pacific U.S.*

| *(US$ millions, except unit activity, percentages and average selling price)* | **Three Months Ended March 31** **2023** | **2022** |
|---|---|---|
| Home closings | 137 | 117 |
| Revenue | $ 138 | $ 96 |
| Gross margin | $ 25 | $ 18 |
| Gross margin (%) | 18% | 19% |
| Average home selling price | $ 1,005,000 | $ 819,000 |

Housing revenue in our Pacific U.S. segment for the three months ended March 31, 2023 increased by $42 million when compared to the same period in 2022, primarily due to 23% higher average selling prices related to the product mix of homes sold in our Southern California markets and 20 additional home closings. Gross margin increased by $7 million primarily as a result of increased average home selling prices and the product and geographic mix of homes closed when compared to the same period in 2022, while gross margin percentage decreased by 1% due to higher incentives in the Bay Area market.

*Central and Eastern U.S.*

| *(US$ millions, except unit activity, percentages and average selling price)* | Three Months Ended March 31 2023 | 2022 |
|---|---|---|
| Home closings | 188 | 173 |
| Revenue | $ 114 | $ 96 |
| Gross margin | $ 22 | $ 18 |
| Gross margin (%) | 19% | 19% |
| Average home selling price | $ 607,000 | $ 557,000 |

Housing revenue in our Central and Eastern U.S. segment for the three months ended March 31, 2023 increased by $18 million when compared to the same period in 2022, resulting from 15 additional home closings, primarily in our Austin market, and 9% higher average home selling prices. The increase in average home selling prices is primarily the result of the price appreciation and product mix of the homes closed. Gross margin increased by $4 million as a result of higher average home selling prices and gross margin percentage remained consistent when compared to the same period in 2022.

***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, 2023, total incentives as a percentage of gross revenues increased by 2% as a result of increased incentives provided across our Pacific U.S. and Central and Eastern U.S. operating segments, primarily due to market conditions at the time the homes were sold when compared to prior year closings.

Our incentives on homes closed by operating segment for the three months ended March 31, 2023 and 2022 were as follows:

| | Three Months Ended March 31 | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| *(US$ millions, except percentages)* | Incentives Recognized | % of Gross Revenues | Incentives Recognized | % of Gross Revenues |
| Canada | $ 2 | 3% | $ 2 | 3% |
| Pacific U.S. | 3 | 2% | 1 | 1% |
| Central and Eastern U.S. | 7 | 5% | 3 | 3% |
| | $ 12 | 4% | $ 6 | 2% |

***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, 2023 totaled 545 units, a decrease of 193 units or 26%, respectively when compared to the same period in 2022. Average monthly sales per community by reportable segment for the three months ended March 31, 2023 were: Canada – 2 units (2022 – 3 units); Pacific U.S. 5 units (2022 – 5 units); Central and Eastern U.S. 2 units (2022 – 5 units). We were selling from 75 active housing communities at March 31, 2023 compared to 64 communities at March 31, 2022.

The net new home orders for the three months ended March 31, 2023 and 2022 by our land and housing operating segments were as follows:

| *(Units)* | Three Months Ended March 31 2023 | 2022 |
|---|---|---|
| Canada | 202 | 255 |
| Pacific U.S. | 153 | 158 |
| Central and Eastern U.S. | 190 | 324 |
| | 545 | 737 |
| Unconsolidated entities | — | 1 |
| Total | 545 | 738 |

***Home Sales – Cancellations***

The overall cancellation rate for the three months ended March 31, 2023 was 11%, compared to 5% during the same period in 2022. The increase in cancellation rates for the three months ended March 31, 2023 was driven by declining affordability and higher mortgage rates due to rising interest rates, creating general instability in the housing market.

The cancellation rates for the three months ended March 31, 2023 and 2022 for our land and housing operating segments were as follows:

| | Three Months Ended March 31 | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| *(Units, except percentages)* | **Units** | **% of Gross Home Orders** | **Units** | **% of Gross Home Orders** |
| Canada | 5 | 2 % | 1 | — % |
| Pacific U.S. | 12 | 7% | 15 | 9% |
| Central and Eastern U.S. | 47 | 20% | 26 | 7% |
| | 64 | 11% | 42 | 5% |

***Home Sales – Backlog***

Our backlog, which represents the number of new homes under sales contracts, as at March 31, 2023 and 2022 by operating segment, was as follows:

| | As at March 31 | | | |
|---|---|---|---|---|
| | 2023 | | 2022 | |
| *(US$ millions, except unit activity)* | **Units** | **Value** | **Units** | **Value** |
| Canada | 537 | $ 255 | 758 | $ 409 |
| Pacific U.S. | 232 | 246 | 320 | 283 |
| Central and Eastern U.S. | 387 | 255 | 731 | 449 |
| | 1,156 | 756 | 1,809 | 1,141 |
| Unconsolidated entities | — | — | 43 | 37 |
| Total | 1,156 | $ 756 | 1,852 | $ 1,178 |

We expect substantially all of our backlog to close in 2023 and 2024, subject to future cancellations. The units in backlog as at March 31, 2023 decreased when compared to March 31, 2022 mainly due to lower net new home orders, primarily Central and Eastern U.S. market. Total backlog value decreased by $422 million when compared to the same period in 2022 mainly due to lower units in backlog overall as a result of lower home sales and the product mix of the homes sold under contract. Our active selling communities are now at 75 compared to 64 at March 31, 2022.

***Results of Operations – Land***

A breakdown of our results from land operations for the three months ended March 31, 2023 and 2022 is as follows:

*Consolidated*

| | Three Months Ended March 31 | | | |
|---|---|---|---|---|
| *(US$ millions, except unit activity, percentages and average selling price)* | | **2023** | | **2022** |
| Lot closings (single family units) | | 272 | | 396 |
| Acre closings (multi-family, industrial and commercial) | | — | | 9 |
| Acre closings (raw and partially finished) | | — | | 101 |
| Revenue | $ | 33 | $ | 199 |
| Gross margin | $ | 10 | $ | 80 |
| Gross margin (%) | | 30% | | 40% |
| Average lot selling price (single family units) | $ | 113,000 | $ | 478,000 |
| Average per acre selling price (multi-family, industrial and commercial) | $ | — | $ | 973,000 |
| Average per acre selling price (raw and partially finished) | $ | — | $ | 9,000 |

Land revenue totaled $33 million and land gross margin totaled $10 million for the three months ended March 31, 2023. The decreases in revenue, gross margin and gross margin percentage were primarily due to two bulk lot sale transactions in 2022 from our Pacific U.S. segment (for 158 lot closings at $1 million per lot selling price which generated gross margins of $64 million and gross margin percentage of 42%) with no comparative sales for the current period.

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

*Canada*

| | Three Months Ended March 31 | | | |
|---|---|---|---|---|
| *(US$ millions, except unit activity, percentages and average selling price)* | | **2023** | | **2022** |
| Lot closings (single family units) | | 272 | | 185 |
| Acre closings (multi-family, industrial and commercial) | | — | | 9 |
| Acre closings (raw and partially finished) | | — | | 101 |
| Revenue | $ | 31 | $ | 40 |
| Gross margin | $ | 9 | $ | 12 |
| Gross margin (%) | | 29% | | 30% |
| Average lot selling price (single family units) | $ | 113,000 | $ | 162,000 |
| Average lot selling price (C$) (single family units) | $ | 153,000 | $ | 205,000 |
| Average per acre selling price (multi-family, industrial and commercial) | $ | — | $ | 950,000 |
| Average per acre selling price (C$) (multi-family, industrial and commercial) | $ | — | $ | 1,203,000 |
| 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, 2023 was $31 million, a decrease of $9 million when compared to the same period in 2022. The decrease was primarily the result of a 30% reduction in average single family lot selling prices due to the geographic and community mix of land sold within the operating segment, partially offset by 87 additional single family lot closings in 2022 compared to 2023. Gross margin decreased when compared to the same period during 2022 due to lower average selling prices and gross margin percentage decreased 1%.

*Pacific U.S.*

| (US$ millions, except unit activity, percentages and average selling price) | Three Months Ended March 31 2023 | 2022 |
|---|---|---|
| Lot closings (single family units) | — | 158 |
| Revenue | $ 1 | $ 153 |
| Gross margin | $ 1 | $ 65 |
| Gross margin (%) | 100% | 42% |
| Average lot selling price (single family units) | $ — | $ 969,000 |

Land revenue in our Pacific U.S. segment decreased by $152 million and gross margin decreased by $64 million when compared to the same period in 2022. The decreases were due to two bulk lot sale transactions in 2022 in our coastal Southern California communities for 158 lot closings at $1 million per lot selling price which generated gross margins of $64 million and a 42% gross margin percentage with no comparatives in the current period. Revenue recognized in the period was due to profit participation from previously closed land transactions.

*Central and Eastern U.S.*

| (US$ millions, except unit activity, percentages and average selling price) | Three Months Ended March 31 2023 | 2022 |
|---|---|---|
| Lot closings (single family units) | — | 53 |
| Revenue | $ 1 | $ 6 |
| Gross margin | $ — | $ 3 |
| Gross margin (%) | —% | 50% |
| Average lot selling price (single family units) | $ — | $ 115,000 |

Land revenue in our Central and Eastern U.S. segment for the three months ended March 31, 2023 was $1 million, representing a decrease of $5 million compared to the same period in 2022. Gross margin decreased by $3 million and gross margin percentage decreased by 50%. The decreases are primarily the result of no single family lot closings for the current period. Revenue recognized in the period was due to profit participation from previously closed land transactions.

***Earnings from Unconsolidated Entities - Land and Housing***

Earnings from land and housing unconsolidated entities for the three months ended March 31, 2023 totaled $6 million, compared to $10 million for the same period in 2022.

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

| (US$ millions, except unit activity, percentages and average selling price) | Three Months Ended March 31 2023 | 2022 |
|---|---|---|
| Lot closings (single family units) | 87 | 104 |
| Acre closings (multi-family, industrial and commercial) | — | 2 |
| Acre closings (raw and partially finished) | — | 1 |
| Revenue | $ 20 | $ 16 |
| Gross margin | $ 7 | $ 5 |
| Gross margin (%) | 35% | 31% |
| Average lot selling price (single family units) | $ 232,000 | $ 137,000 |
| 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 increased $4 million and gross margin increased $2 million for the three months ended March 31, 2023 when compared to the same period in 2022. The increase was primarily due to a 69% increase in the average single lot selling prices, partially offset by 17 fewer lot closings. Gross margin percentage increased by 4% due to the mix of land sold 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)* | 2023 | 2022 |
| Earnings from unconsolidated entities - affiliate | $ — | $ 23 |

As a result of the Reorganization Transaction that occurred in December 2022, Brookfield Residential no longer has an investment in affiliate, and therefore has no corresponding earnings going forward. See Note 5 (b) to the condensed consolidated financial statements, "Investments in Unconsolidated Entities" for further details.

***Selling, General and Administrative Expense***

The components of selling, general and administrative expense for the three months ended March 31, 2023 and 2022 are summarized as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| *(US$ millions)* | 2023 | 2022 |
| General and administrative expense | $ 35 | $ 33 |
| Sales and marketing expense | 21 | 20 |
| Share-based compensation | — | 5 |
| | $ 56 | $ 58 |

Selling, general and administrative expense was $56 million for the three months ended March 31, 2023, a decrease of $2 million when compared to the same period in 2022. General and administrative expense increased $2 million for the three months ended March 31, 2023 primarily due to increased management fees when compared to the same period in 2022. Sales and marketing expense for the three months ended March 31, 2023 increased $1 million as a result of higher housing activity when compared to the same period in 2022. Share-based compensation decreased by $5 million, resulting from the change in fair value of our share-based compensation liabilities for the three months ended March 31, 2023 compared to the same period in 2022.

***Other (Income) / Expense***

The components of other (income) / expense for the three months ended March 31, 2023 and 2022 are summarized as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| *(US$ millions)* | 2023 | 2022 |
| Preferred share dividend income | $ (6) | $ (6) |
| Other | (6) | (4) |
| Investment income | (5) | (5) |
| Income from commercial properties | (4) | (9) |
| Joint venture management fee income | (2) | (2) |
| (Income) / loss from investment company assets | — | (13) |
| | $ (23) | $ (39) |

For the three months ended March 31, 2023, other (income) / expense decreased $16 million when compared to the same period in 2022. The decrease in other (income) / expense is primarily attributable to a $14 million decrease in income from our investment company assets (primarily our Brookfield Single Family Rental investment) and a decrease in income from commercial properties of $5 million due to the sale of Fifth + Broadway in the prior year resulting in less leasing income.

### *Income Tax Expense*

For the three months ended March 31, 2023, income tax expense decreased $6 million when compared to the same period in 2022. The components of current and deferred income tax expense are summarized as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| *(US$ millions)* | **2023** | **2022** |
| Current income tax expense | $ 1 | $ 3 |
| Deferred income tax expense | 3 | 7 |
| | $ 4 | $ 10 |

For the three months ended March 31, 2023, current income tax expense decreased $2 million when compared to the same period in 2022. The decrease in current income tax expense primarily relates to a decrease in income in our U.S. operations in the three months ended March 31, 2023 compared to the same period in 2022.

For the three months ended March 31, 2023, deferred income tax expense decreased $4 million when compared to the same period in 2022. The decrease in deferred income tax expense primarily relates to a $6 million decrease in earnings from unconsolidated entities – affiliate and a $1 million decrease in non-deductible share-based compensation expense when compared to the same period in 2022, partially offset by the utilization of additional tax basis on the sale of land and housing inventory of $3 million with no comparable adjustment in 2022.

### *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, 2023, the rate of exchange was C$1.3517 equivalent to US$1 (December 31, 2022 – C$1.3546 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, 2023, the average rate of exchange was C$1.3522 equivalent to US$1 (March 31, 2022 – C$1.2665 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 $2 million for the three months ended March 31, 2023, compared to a net gain of $7 million during the same period in 2022.

## QUARTERLY OPERATING AND FINANCIAL DATA

| (US$ millions, except unit activity and per share amounts) | 2023 Q1 | 2022 Q4 | 2022 Q3 | 2022 Q2 | 2022 Q1 | 2021 Q4 | 2021 Q3 | 2021 Q2 |
|---|---|---|---|---|---|---|---|---|
| **Quarterly Operating Data** | | | | | | | | |
| Home closings (units) | 515 | 639 | 550 | 555 | 427 | 885 | 750 | 788 |
| Lot closings (single family units) | 272 | 1,058 | 211 | 220 | 396 | 1,253 | 190 | 381 |
| Acre closings (multi-family, industrial and commercial) | — | 26 | 4 | 9 | 9 | 69 | 3 | 13 |
| Acre closings (raw and partially finished) | — | 1 | — | — | 101 | 102 | — | 99 |
| Net new home orders (units) | 545 | 295 | 302 | 464 | 737 | 714 | 493 | 521 |
| Backlog (units) | 1,156 | 1,126 | 1,470 | 1,718 | 1,809 | 1,499 | 1,670 | 1,927 |
| Backlog value | $ 756 | $ 736 | $ 992 | $ 1,162 | $ 1,141 | $ 942 | $ 1,000 | $ 1,098 |
| **Quarterly Financial Data** | | | | | | | | |
| Revenue | $ 364 | $ 591 | $ 395 | $ 367 | $ 457 | $ 679 | $ 446 | $ 475 |
| Direct cost of sales | (292) | (446) | (302) | (290) | (330) | (508) | (355) | (383) |
| Gross margin | 72 | 145 | 93 | 77 | 127 | 171 | 91 | 92 |
| Selling, general and administrative expense | (56) | (77) | (75) | (63) | (58) | (114) | (61) | (63) |
| Interest expense | (14) | (22) | (19) | (15) | (12) | (9) | (11) | (13) |
| Earnings from unconsolidated entities | 6 | 48 | 53 | 91 | 33 | 49 | 95 | 37 |
| Gain on sale of commercial properties | — | 186 | — | — | — | — | — | — |
| Other income | 20 | 23 | 27 | 40 | 33 | 22 | 29 | 9 |
| Lease expense | (4) | (4) | (4) | (4) | (4) | (4) | (4) | (3) |
| Income before income taxes | 24 | 299 | 75 | 126 | 119 | 115 | 139 | 59 |
| Income tax expense | (4) | (36) | (4) | (6) | (10) | (12) | (2) | — |
| Net income | 20 | 263 | 71 | 119 | 109 | 103 | 137 | 59 |
| Net income attributable to non-controlling interest | — | 165 | 39 | 77 | 73 | 69 | 77 | 27 |
| Net income attributable to Brookfield Residential | $ 20 | $ 98 | $ 32 | $ 42 | $ 36 | $ 34 | $ 60 | $ 32 |
| Foreign currency translation | 2 | 14 | (50) | (21) | 7 | 1 | (16) | 9 |
| Comprehensive (loss) / income | $ 22 | $ 112 | $ (18) | $ 21 | $ 43 | $ 35 | $ 44 | $ 41 |
| Earnings per common share attributable to Brookfield Residential | | | | | | | | |
| Basic | $ 0.10 | $ 0.63 | $ 0.24 | $ 0.33 | $ 0.28 | $ 0.26 | $ 0.47 | $ 0.25 |
| Diluted | $ 0.10 | $ 0.63 | $ 0.24 | $ 0.33 | $ 0.28 | $ 0.26 | $ 0.46 | $ 0.25 |

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, 2023 and December 31, 2022:

| | As at | |
|---|---|---|
| *(US$ millions)* | **March 31 2023** | **December 31 2022** |
| Cash and restricted cash | $ 85 | $ 41 |
| Receivables and other assets | 806 | 749 |
| Investment company assets | 385 | 390 |
| Land and housing inventory | 2,780 | 2,776 |
| Investments in unconsolidated entities - land and housing | 323 | 334 |
| Held-to-maturity investment | 300 | 300 |
| Commercial properties | 291 | 291 |
| Operating and financing lease right-of-use asset | 79 | 79 |
| Deferred income tax assets | 163 | 167 |
| Goodwill | 16 | 16 |
| | $ 5,228 | $ 5,143 |
| Accounts payable and other liabilities | $ 471 | $ 508 |
| Bank indebtedness and other financings | 504 | 405 |
| Notes payable | 1,617 | 1,616 |
| Operating and financing lease liability | 89 | 89 |
| Total equity | 2,547 | 2,525 |
| | $ 5,228 | $ 5,143 |

***Assets***

Our assets as at March 31, 2023 totaled $5.2 billion. Our land and housing inventory, investments in land and housing unconsolidated entities and commercial properties together are our most significant assets with a combined book value of $3.4 billion, or approximately 65% of our total assets. The land and housing assets increased when compared to December 31, 2022 primarily due to continued land development, partially offset by sales activity and turnover of inventory. Our investments in unconsolidated entities - land and housing decreased $11 million primarily due to distributions from our joint ventures. 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, 2023 compared with December 31, 2022 is as follows:

| | As at | | | |
|---|---|---|---|---|
| | **March 31, 2023** | | **December 31, 2022** | |
| *(US$ millions, except units)* | **Units** | **Book Value** | **Units** | **Book Value** |
| Land held for development (lot equivalents) | 63,607 | $ 1,291 | 63,819 | $ 1,295 |
| Land under development and finished lots (single family units) | 7,908 | 720 | 8,152 | 652 |
| Housing units, including models | 2,020 | 722 | 2,091 | 775 |
| | 73,535 | $ 2,733 | 74,062 | $ 2,722 |
| Multi-family, industrial and commercial parcels (acres) | 58 | $ 47 | 61 | $ 54 |

***Notes Payable***

Notes payable consist of the following:

| (US$ millions) | As at March 31 2023 | As at December 31 2022 |
|---|---|---|
| 6.250% unsecured senior notes due September 15, 2027 (a) | 600 | 600 |
| 5.125% unsecured senior notes due June 15, 2029 (b) | 185 | 185 |
| 5.000% unsecured senior notes due June 15, 2029 (c) | 350 | 350 |
| 4.875% unsecured senior notes due February 15, 2030 (d) | 500 | 500 |
| | 1,635 | 1,635 |
| Transaction costs | (18) | (19) |
| | $ 1,617 | $ 1,616 |

(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) The Company's C$250 million principal amount of 5.125% unsecured senior notes matures on June 15, 2029, with interest payable semi-annually. 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.

(c) The Company's $350 million principal amount of 5.0% unsecured senior notes matures on June 15, 2029, with interest payable semi-annually. 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.

(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 Brookfield Residential US LLC ("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, 2023.

Our actual fixed charge coverage and net indebtedness to tangible net worth ratio as at March 31, 2023 are reflected in the table below:

| | Covenant | Actual as at March 31 2023 |
|---|---|---|
| Minimum fixed charge coverage | 2.0 to 1 | 5.31 to 1 |
| Maximum net indebtedness to consolidated tangible net worth | 3.0 to 1 | 0.83 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, 2023 were $504 million, an increase of $99 million from December 31, 2022. The increase was primarily due to increased drawings on our revolving credit facility. As of March 31, 2023, the weighted average interest rate on our bank indebtedness and other financings was 7.0% (December 31, 2022 – 6.7%).

Future debt maturities are expected to either be refinanced or repaid from home closings, lot closings, or proceeds from the sale of mixed-use developments. 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 2023 | | December 31 2022 |
| Bank indebtedness (a) | $ | 266 | $ | 166 |
| Project-specific financings (b) | | 182 | | 179 |
| Secured VTB mortgages (c) | | 58 | | 62 |
| | | 506 | | 407 |
| Transaction costs (a)(b) | | (2) | | (2) |
| | $ | 504 | $ | 405 |

*(a) Bank indebtedness*

As at March 31, 2023, there were $266 million of borrowings outstanding under the North American unsecured revolving credit facility and we had available capacity of $351 million (December 31, 2022 – $166 million borrowings outstanding and $449 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 Secured Overnight Financing Rate ("SOFR") 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 $1.9 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at March 31, 2023, 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 2023 |
|---|---|---|---|---|
| Minimum consolidated tangible net worth | $ | 1,936 | $ | 2,531 |
| Maximum total debt to capitalization | | 65% | | 47% |

*(b) Project-specific financings*

(i) On March 16, 2023, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, exercised its first extension option in its construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The construction loan was extended through March 2025. In addition, the use of LIBOR has been replaced with SOFR effective April 1, 2023. The loan allows OliverMcMillan Kuhio LLC to borrow up to $156 million. As at March 31, 2023, there were $140 million of borrowings outstanding under the construction loan. (December 31, 2022 – $136 million).

Interest is charged on the loan at a rate equal to LIBOR plus 2.0%.

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, 2023. The following table reflects the covenants:

| *(US$ millions)* | | Covenant | | Actual as at March 31 2023 |
|---|---|---|---|---|
| Minimum liquidity | $ | 25 | $ | 391 |
| Minimum net worth | $ | 250 | $ | 1,596 |

(ii) As at March 31, 2023, the Company has two Canadian project-specific financings totaling $42 million (C$56 million) provided by various lenders (December 31, 2022 – $43 million (C$58 million)).

Project-specific financing totaling $31 million (C$42 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, 2022 – $32 million (C$43 million)). This borrowing includes a maximum 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, 2023.

The following table reflects the debt to equity ratio covenant:

| | Covenant | Actual as at March 31 2023 |
|---|---|---|
| Maximum debt to equity ratio | 1.50:1 to 1 | 0.65 to 1 |

Project-specific financing totaling $11 million (C$15 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 2023, and is secured and without covenants (December 31, 2022 – $11 million (C$15 million)).

*(c) Secured VTB mortgages*

The Company has nine secured VTB mortgages (December 31, 2022 – eight secured VTB mortgages) in the amount of $58 million (December 31, 2022 – $62 million).

Seven secured VTB mortgages (December 31, 2022 – six secured VTB mortgages) in the amount of $48 million (December 31, 2022 – $48 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$65 million (December 31, 2022 – C$65 million). The interest rates on this debt range from fixed rates of 4.0% to 6.5% 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, 2023, the borrowings are not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2022 – two secured VTB mortgages) in the amount of $10 million (December 31, 2022 – $15 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, 2023, 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, 2023 and December 31, 2022 was as follows:

| | As at | |
|---|---|---|
| *(US$ millions, except percentages)* | **March 31 2023** | **December 31 2022** |
| Bank indebtedness and other financings | $ 504 | $ 405 |
| Notes payable | 1,617 | 1,616 |
| Total interest bearing debt | 2,121 | 2,021 |
| Less: cash and cash equivalents | (80) | (35) |
| | 2,041 | 1,986 |
| Total equity | 2,547 | 2,525 |
| Total capitalization | $ 4,588 | $ 4,511 |
| Net debt to total capitalization | 44% | 44% |

**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, 2023 were as follows:

| | **Moody's** | **S&P** |
|---|---|---|
| Corporate rating | B1 | B |
| Outlook | Stable | Negative |

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, 2023, we had cash and cash equivalents, including restricted cash, of $85 million, compared to $41 million at December 31, 2022.

The net cash flows for the three months ended March 31, 2023 and 2022 were as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| *(US$ millions)* | **2023** | **2022** |
| Cash flows (used in) / provided by operating activities | $ (33) | $ (8) |
| Cash flows (used in) / provided by investing activities | (21) | (36) |
| Cash flows (used in) / provided by financing activities | 98 | 12 |
| Effect of foreign exchange rates on cash | — | — |
| Net change in cash and cash equivalents | $ 44 | $ (32) |

*Cash Flow (Used in) / Provided by Operating Activities*

Cash flows used in operating activities during the three months ended March 31, 2023 totaled $33 million, compared to cash flows used in operating activities of $8 million for the same period in 2022. During the three months ended March 31, 2023, cash used in operating activities was primarily impacted by our net income, a decrease in accounts payable and other liabilities, an increase in receivables and other assets and an increase in land and housing inventory due to continued land development and home construction. Acquisitions of land and housing inventory for the three months ended March 31, 2023 totaled $30 million, consisting of $8 million in Canada, $20 million in Pacific U.S. and $2 million in Central and Eastern U.S. During the three months ended March 31, 2022, cash used in operating activities was primarily impacted by our net income, an increase in accounts receivable and other assets and an increase in commercial properties. 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.

*Cash Flow (Used in) / Provided by Investing Activities*

During the three months ended March 31, 2023, cash flows used in investing activities totaled $21 million, compared to cash flows used in investing activities of $36 million for the same period in 2022. During the three months ended March 31, 2023, cash used in investing activities was primarily impacted by an increase in our loan receivables of $38 million and investments of $6 million in land and housing unconsolidated entities. This was partially offset by $23 million of distributions from our land and housing unconsolidated entities. 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.

*Cash Flow (Used in) / Provided by Financing Activities*

Cash flows provided by financing activities for the three months ended March 31, 2023 totaled $98 million, compared to cash flows provided by financing activities of $12 million for the same period in 2022. During the three months ended March 31, 2023, cash provided by financing activities was primarily from drawings on bank indebtedness of $100 million partially offset by $2 million net repayments under project-specific and other financing. For 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.

**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 April 27, 2023, 202,732,644 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 April 27, 2023, 834,600 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, 2023.

**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, 2023, we had $17 million of primarily non-refundable option deposits and entitlement costs. The total remaining exercise price of these options was $28 million. Pursuant to the guidance in the United States Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810 *Consolidation*, we have consolidated $8 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 7,071 lots and control under option 299 lot equivalents through our proportionate share of land and housing unconsolidated entities. As of March 31, 2023, our investment in land and housing unconsolidated entities totaled $323 million. We have provided varying levels of guarantees of debt in our land and housing unconsolidated entities. As of March 31, 2023, we had recourse guarantees of $47 million with respect to debt in our land and housing unconsolidated entities. Please refer to Note 5 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, 2023, we had $59 million in letters of credit outstanding and $522 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, 2023 are $19 million and $150 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 ULC**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
*(all dollar amounts are in thousands of U.S. dollars)*
*(Unaudited)*

| | | As at | |
|---|---|---|---|
| | **Note** | **March 31 2023** | **December 31 2022** |
| **Assets** | | | |
| Cash and cash equivalents | | $ 80,376 | $ 35,486 |
| Restricted cash | 2 | 4,517 | 5,471 |
| Receivables and other assets | | 806,399 | 748,475 |
| Investment company assets | 3 | 385,255 | 390,278 |
| Land and housing inventory | 4 | 2,780,164 | 2,775,915 |
| Investments in unconsolidated entities - land and housing | 5 | 322,651 | 333,833 |
| Held-to-maturity investment | | 300,000 | 300,000 |
| Commercial properties | 6 | 290,850 | 290,687 |
| Operating and financing lease right-of-use asset | | 78,586 | 79,812 |
| Deferred income tax assets | 7 | 162,980 | 166,645 |
| Goodwill | | 16,479 | 16,479 |
| Total assets | | $ 5,228,257 | $ 5,143,081 |
| **Liabilities and Equity** | | | |
| Accounts payable and other liabilities | | $ 471,387 | $ 507,850 |
| Bank indebtedness and other financings | 8 | 504,121 | 404,811 |
| Notes payable | 9 | 1,617,333 | 1,616,165 |
| Operating and financing lease liability | | 87,967 | 88,864 |
| Total liabilities | | 2,680,808 | 2,617,690 |
| Common shares | 10 | 1,363,013 | 1,363,013 |
| Retained earnings | 10 | 1,059,881 | 1,039,446 |
| Non-controlling interest - land and housing | | 275,899 | 276,035 |
| Accumulated other comprehensive loss | | (151,344) | (153,103) |
| Total equity | | 2,547,449 | 2,525,391 |
| Total liabilities and equity | | $ 5,228,257 | $ 5,143,081 |
| Commitments, contingent liabilities and other | 13 | | |
| Guarantees | 14 | | |
| Subsequent events | 19 | | |

*See accompanying notes to the condensed consolidated financial statements*

**BROOKFIELD RESIDENTIAL PROPERTIES ULC**
**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 | 2023 | 2022 |
| **Revenue** | | | |
| Housing | | $ 331,283 | $ 258,606 |
| Land | | 32,637 | 198,673 |
| Total revenue | | 363,920 | 457,279 |
| **Direct Cost of Sales** | | | |
| Housing | | (269,357) | (211,935) |
| Land | | (22,951) | (118,393) |
| Total direct cost of sales | | (292,308) | (330,328) |
| Gross margin | | 71,612 | 126,951 |
| Selling, general and administrative expense | | (56,074) | (58,450) |
| Interest expense | | (13,782) | (11,821) |
| Earnings from unconsolidated entities - land & housing | 5 | 5,865 | 9,828 |
| Earnings from unconsolidated entities - affiliate | 5 | — | 23,026 |
| Other income | 12 | 22,518 | 38,600 |
| Lease expense | | (3,476) | (4,143) |
| Depreciation | | (2,441) | (5,291) |
| **Income Before Income Taxes** | | 24,222 | 118,700 |
| Current income tax expense | 7 | (688) | (2,579) |
| Deferred income tax expense | 7 | (3,235) | (6,592) |
| **Net Income** | | 20,299 | 109,529 |
| **Other Comprehensive Income / (Loss)** | | | |
| Unrealized foreign exchange gain / (loss) on: | | | |
| Translation of the net investment in Canadian subsidiaries and unconsolidated entities - affiliate | | 2,159 | 8,905 |
| Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries | | (400) | (2,050) |
| **Comprehensive Income** | | $ 22,058 | $ 116,384 |
| **Net Income Attributable To:** | | | |
| Consolidated | | $ 20,299 | $ 109,529 |
| Non-controlling interest - land and housing | | (136) | 9,681 |
| Non-controlling interest - affiliate | | — | 63,631 |
| Brookfield Residential | | $ 20,435 | $ 36,217 |
| **Comprehensive Income / (Loss) Attributable To:** | | | |
| Consolidated | | $ 22,058 | $ 116,384 |
| Non-controlling interest - land and housing | | (136) | 9,681 |
| Non-controlling interest - affiliate | | — | 63,631 |
| Brookfield Residential | | $ 22,194 | $ 43,072 |
| **Common Shareholders Earnings Per Share** | | | |
| Basic | 11 | $ 0.10 | $ 0.28 |
| Diluted | 11 | $ 0.10 | $ 0.28 |
| **Weighted Average Common Shares Outstanding** *(in thousands)* | | | |
| Basic | 11 | 202,733 | 129,757 |
| Diluted | 11 | 202,874 | 130,324 |

*See accompanying notes to the condensed consolidated financial statements*

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

| | Note | Three Months Ended March 31 2023 | Three Months Ended March 31 2022 |
|---|---|---|---|
| **Common Shares** | 10 | | |
| Opening balance | | $ 1,363,013 | $ 626,594 |
| Ending balance | | 1,363,013 | 626,594 |
| **Retained Earnings** | | | |
| Opening balance | | 1,039,446 | 1,125,670 |
| Common share dividends | | — | (375,000) |
| Net income attributable to Brookfield Residential | | 20,435 | 36,217 |
| Ending balance | | 1,059,881 | 786,887 |
| **Accumulated Other Comprehensive Loss** | | | |
| Opening balance | | (153,103) | (103,925) |
| Other comprehensive income | | 1,759 | 6,854 |
| Ending balance | | (151,344) | (97,071) |
| **Total Brookfield Residential Equity** | | $ 2,271,550 | $ 1,316,410 |
| **Non-Controlling Interest - Land & Housing** | | | |
| Opening balance | | $ 276,035 | $ 299,751 |
| Net income attributable to non-controlling interest | | (136) | 9,681 |
| Distributions | | — | (6,200) |
| Contributions | | — | — |
| Ending balance | | $ 275,899 | $ 303,232 |
| **Non-Controlling Interest - Affiliate** | | | |
| Opening balance | | $ — | $ 1,244,218 |
| Net income attributable to non-controlling interest | | — | 63,631 |
| Ending balance | | $ — | $ 1,307,849 |
| **Total Equity** | | $ 2,547,449 | $ 2,927,491 |

*See accompanying notes to the condensed consolidated financial statements*

**BROOKFIELD RESIDENTIAL PROPERTIES ULC**
**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** | **2023** | **2022** |
| Net income | $ 20,299 | $ 109,529 |
| **Adjustments to reconcile net income to net cash (used in) / provided by operating activities:** | | |
| Earnings from unconsolidated entities - land and housing | (5,865) | (9,828) |
| Earnings from unconsolidated entities - affiliate | — | (23,026) |
| Deferred income tax expense | 3,235 | 6,592 |
| Share-based compensation expense | (76) | 4,721 |
| Depreciation | 2,441 | 5,291 |
| Right-of-use asset depreciation | 2,690 | 1,780 |
| Amortization of non-cash interest | 1,158 | 2,164 |
| Dividend income on held-to-maturity investment | (5,918) | (6,049) |
| Distributions of earnings from unconsolidated entities | 760 | 1,531 |
| **Changes in operating assets and liabilities:** | | |
| Increase in receivables and other assets | (8,588) | (54,290) |
| (Increase) / Decrease in land and housing inventory | (2,723) | 1,565 |
| Increase in commercial properties | (1,928) | (27,874) |
| Decrease in operating lease liabilities | (2,199) | (1,239) |
| Decrease in accounts payable and other liabilities | (36,729) | (19,319) |
| Net cash (used in) / provided by operating activities | (33,443) | (8,452) |
| **Cash Flows (Used in) / Provided by Investing Activities** | | |
| Investments in unconsolidated entities | (5,539) | (39,438) |
| Distributions from unconsolidated entities | 22,965 | 2,404 |
| Sale of investment in unconsolidated entity | — | 5,979 |
| Increase in loan receivable | (38,099) | (4,877) |
| Net cash (used in) / provided by investing activities | (20,673) | (35,932) |
| **Cash Flows (Used in) / Provided by Financing Activities** | | |
| Drawings under project-specific and other financings | 11,262 | 62,581 |
| Repayments under project-specific and other financings | (13,521) | (37,927) |
| Net drawings on bank indebtedness | 100,423 | 368,219 |
| Distributions to non-controlling interest | — | (6,200) |
| Dividends paid to common shareholders | — | (375,000) |
| Payments made on the principal of financing leases | (143) | (146) |
| Net cash (used in) / provided by financing activities | 98,021 | 11,527 |
| Effect of foreign exchange rates on cash and cash equivalents | 31 | (19) |
| Change in cash, cash equivalents and restricted cash | 43,936 | (32,876) |
| Cash, cash equivalents and restricted cash at beginning of period | 40,957 | 121,301 |
| Cash, cash equivalents and restricted cash at end of period | $ 84,893 | $ 88,425 |
| **Supplemental Cash Flow Information** | | |
| Cash interest paid | $ 36,771 | $ 32,663 |
| Cash taxes paid | $ 2,847 | $ 355 |

*See accompanying notes to the condensed consolidated financial statements*

## Note 1. Significant Accounting Policies

*(a) Basis of Presentation*

Brookfield Residential Properties ULC (the “Company” or “Brookfield Residential”) is an Alberta unlimited liability corporation and is a wholly-owned subsidiary of Brookfield Corporation. The Company 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, 2022.

Certain comparative figures have been reclassified to conform to the current period presentation.

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, assessment of the probability of sale within the next twelve months relating to 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) Recently Adopted Accounting Pronouncements*

In June 2016, the FASB issued *ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*” *(“ASU 2016-13”). ASU 2016-13* replaces the current incurred loss impairment methodology with a methodology that requires immediate recognition of estimated credit losses on their financial assets over the entire life of the asset, using historical data, current conditions, and reasonable forecasts. ASU 2016-13 became effective for our fiscal year beginning after December 15, 2022, and we adopted the standard under the modified retrospective transition method. The adoption of ASU 2016-13 did not have a material impact on the Company’s condensed consolidated financial statements.

Receivables related primarily to development recovery receivables, real estate receivables and loan receivables. The Company performs ongoing credit evaluations of its receivables. Credit risk is assessed using a pooled approach where assets with similar risk profiles are grouped. These asset pools are assessed for credit risk based historical data, current economic conditions and relevant forecasts considered to be relevant by the Company. Allowances are maintained for potential credit losses based on this assessment.

## Note 2. Restricted Cash

At March 31, 2023, the Company has restricted cash primarily consisting of $4.5 million of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductible payments (December 31, 2022 – $5.5 million of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductible payments).

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

### Note 3. Investment Company Assets

The components of investment company assets are summarized as follows:

| | As at | |
|---|---|---|
| | **March 31 2023** | **December 31 2022** |
| Brookfield Single Family Rental Investment(1) | $ 327,521 | $ 329,968 |
| Homebuilder Finance Investments(2) | 57,734 | 60,310 |
| | $ 385,255 | $ 390,278 |

(1) See Note 15 "Fair Value Measurements" for further details. The Company has a 25.5% share of the Brookfield Single Family Rental fund as at March 31, 2023

(2) The Homebuilder Finance Investments include a 49% interest in Brookfield Residential US Land Holdings LLC ("BRUSLH LLC") and a 22.2% interest in Brookfield Residential US Land Holdings II LLC ("BRUSLH II"). Both of these investments are accounted for as equity method investments.

### Note 4. Land and Housing Inventory

The following summarizes the components of land and housing inventory:

| | As at | |
|---|---|---|
| | **March 31 2023** | **December 31 2022** |
| Land held for development | $ 1,290,961 | $ 1,294,985 |
| Land under development | 767,145 | 706,538 |
| Housing inventory | 632,016 | 688,840 |
| Model homes | 90,042 | 85,552 |
| | $ 2,780,164 | $ 2,775,915 |

The Company has reviewed all of its projects for indicators of impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. As at March 31, 2023 based on the analysis performed, no indicators of impairment were identified.

Interest capitalized and expensed during the three months ended March 31, 2023 and 2022 was as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| | **2023** | **2022** |
| Interest capitalized, beginning of period | $ 194,006 | $ 180,399 |
| Interest capitalized | 17,277 | 14,641 |
| Interest expensed to cost of sales | (13,769) | (10,123) |
| Interest capitalized, end of period | $ 197,514 | $ 184,917 |

Land and housing inventory includes non-refundable deposits and other entitlement costs totaling $17.2 million (December 31, 2022 – $17.2 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 $28.3 million (December 31, 2022 – $27.6 million), including the non-refundable deposits and other entitlement costs identified above.

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

**Note 5. 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, 2023, the Company is invested in 32 unconsolidated entities (December 31, 2022 – 32 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities include $4.5 million (December 31, 2022 – $4.5 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 299 lot equivalents (December 31, 2022 – 299 lots) under option. The Company's share of the total exercise price of these options is $9.6 million (December 31, 2022 – $9.6 million). Summarized financial information on a 100% basis for the combined land and housing unconsolidated entities follows:

| | As at | |
|---|---|---|
| | March 31 2023 | December 31 2022 |
| **Assets** | | |
| Land and housing inventory | $ 1,367,315 | $ 1,377,406 |
| Investments in unconsolidated entities | 186,108 | 111,800 |
| Other assets | 338,077 | 344,983 |
| | $ 1,891,500 | $ 1,834,189 |
| **Liabilities and Equity** | | |
| Bank indebtedness and other financings | $ 454,116 | $ 450,359 |
| Accounts payable and other liabilities | 158,684 | 97,968 |
| Brookfield Residential's interest | 322,651 | 333,833 |
| Others' interest | 956,049 | 952,029 |
| | $ 1,891,500 | $ 1,834,189 |

| | Three Months Ended March 31 | |
|---|---|---|
| | 2023 | 2022 |
| **Revenue and Expenses** | | |
| Revenue | $ 105,446 | $ 140,708 |
| Direct cost of sales | (73,381) | (102,646) |
| Other income / (expense) | 4,048 | (7,579) |
| Net income | $ 36,113 | $ 30,483 |
| Total equity earnings | $ 5,865 | $ 9,828 |

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt on its unconsolidated entities. As at March 31, 2023, the Company had recourse guarantees of $46.8 million (December 31, 2022 – $45.5 million) with respect to debt of its land and housing unconsolidated entities.

*(b) Affiliates*

On December 2, 2022, the Company completed a reorganization transaction (the "Reorganization Transaction") where it acquired the 89.6% interest in Brookfield Residential US Holdings LLC ("BRUSH") that it did not previously own from Brookfield US Inc. ("BUSI") in exchange for Common Shares in the Company, bringing the Company's total ownership of BRUSH to 100%. Additionally, the Company exchanged its 9.1% economic interest in BUSI for a partial redemption of Brookfield Residential Common Shares which resulted in a disposal of the Company's investment in BUSI. Summarized comparative information of BUSI (presented at 100%) is as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| | 2023 | 2022 |
| **Revenue and Expenses** | | |
| Income | $ — | $ 564,280 |
| Expenses | — | (318,134) |
| Net income | $ — | $ 246,146 |
| Other comprehensive loss | — | (2,609) |
| Comprehensive income | $ — | $ 243,537 |

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

### Note 6. Commercial Properties

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

| | As at | |
|---|---|---|
| | March 31 2023 | December 31 2022 |
| Finished properties | $ 298,862 | $ 296,877 |
| Work in progress | — | — |
| | 298,862 | 296,877 |
| Less: accumulated depreciation | (8,012) | (6,190) |
| | $ 290,850 | $ 290,687 |

Interest capitalized to commercial properties and commercial properties held for sale and expensed during the three months ended March 31, 2023 and 2022 was as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| | 2023 | 2022 |
| Interest capitalized, beginning of period | $ 9,621 | $ 56,320 |
| Interest capitalized | — | 1,877 |
| Interest expensed to depreciation | (37) | (229) |
| Interest capitalized, end of period | $ 9,584 | $ 57,968 |

### Note 7. Income Taxes

The Company recorded an aggregate income tax expense of $3.9 million for the three months ended March 31, 2023 (three months ended March 31, 2022 – $9.2 million), which is comprised of current income tax expense of $0.7 million (three months ended March 31, 2022 – $2.6 million) and deferred income tax expense of $3.2 million (three months ended March 31, 2022 – $6.6 million).

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the three months ended March 31, 2023 and 2022 is as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| | 2023 | 2022 |
| Statutory rate | 23.0% | 23.0% |
| Non-temporary differences | 0.7 | 1.4 |
| Rate difference from statutory rate | 0.8 | 2.2 |
| Portion of gains subject to different tax rates | — | (0.1) |
| Non-taxable preferred share dividends | (6.5) | (1.3) |
| Taxable income attributable to non-controlling interests | 0.3 | (17.8) |
| Other | (2.1) | 0.3 |
| Effective tax rate | 16.2% | 7.7% |

The increase in the effective tax rate when compared to the same period in 2022 was primarily due to the impact of the Reorganization Transaction in 2022 which resulted in the consolidated tax provision including 100% of the U.S. operations tax expense for the 2023 first quarter period. In the 2022 first quarter period, the Company only recorded income tax expense on 10% of the results from its U.S. operations.

As at March 31, 2023, the Company recorded deferred tax assets of $166.8 million (December 31, 2022 - $170.8 million) which were partly offset by valuation allowances of $3.8 million (December 31, 2022 - $4.2 million). In evaluating the need for a valuation allowance against the Company's deferred tax assets at March 31, 2023, 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 8. Bank Indebtedness and Other Financings**

Bank indebtedness and other financings consist of the following:

| | As at | |
|---|---|---|
| | March 31 2023 | December 31 2022 |
| Bank indebtedness (a) | $ 266,008 | $ 165,585 |
| Project-specific financings (b) | 181,809 | 179,241 |
| Secured VTB mortgages (c) | 58,568 | 62,356 |
| | 506,385 | 407,182 |
| Transaction costs (a)(b) | (2,264) | (2,371) |
| | $ 504,121 | $ 404,811 |

*(a) Bank indebtedness*

As at March 31, 2023, there were $266.0 million of borrowings outstanding under the North American unsecured revolving credit facility, and available capacity of $351.1 million (December 31, 2022 – $165.6 million borrowings outstanding and $448.7 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 SOFR plus an applicable rate between 2.0% and 2.75% per annum or an 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 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 $1.9 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at March 31, 2023, the Company was in compliance with all of its covenants relating to this facility.

*(b) Project-specific financings*

(i) On March 16, 2023, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, exercised its first extension option in its construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The construction loan was extended through March 2025. In addition, the use of LIBOR has been replaced with SOFR effective April 1, 2023. No other terms were changed. The loan allows OliverMcMillan Kuhio LLC to borrow up to $155.7 million. As at March 31, 2023, there were $140.1 million of borrowings outstanding under the construction loan (December 31, 2022 – $136.3 million).

Interest is charged on the loan at a rate equal to LIBOR plus 2.0%.

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, 2023.

(ii) As at March 31, 2023, the Company has two Canadian project-specific financings totaling $41.8 million (C$56.4 million) provided by various lenders (December 31, 2022 – $43.0 million (C$58.2 million)).

Project-specific financing totaling $31.0 million (C$41.9 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, 2022 – $31.7 million (C$42.8 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, 2023.

Project-specific financing totaling $10.8 million (C$14.5 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 2023, and is secured without covenants (December 31, 2022 – $11.3 million (C$15.4 million)).

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

*(c) Secured VTB mortgages*

The Company has nine secured VTB mortgages (December 31, 2022 – eight secured VTB mortgages) in the amount of $58.6 million (December 31, 2022 – $62.4 million). Secured VTB mortgages are repayable as follows: 2023 – $15.9 million; 2024 – $19.4 million; and 2025 and thereafter – $23.3 million.

Seven secured VTB mortgages (December 31, 2022 – six secured VTB mortgages) in the amount of $48.3 million (December 31, 2022 – $47.7 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$65.3 million (December 31, 2022 – C$64.5 million). The interest rates on the debt range from fixed rates of 4.0% to 6.5% 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, 2023.

Two secured VTB mortgages (December 31, 2022 – two secured VTB mortgages) in the amount of $10.3 million (December 31, 2022 – $14.7 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, 2023, these borrowings are not subject to any financial covenants.

**Note 9. Notes Payable**

| | As at | |
|---|---|---|
| | **March 31 2023** | **December 31 2022** |
| 6.250% unsecured senior notes due September 15, 2027 (a) | 600,000 | 600,000 |
| 5.125% unsecured senior notes due June 15, 2029 (b) | 184,950 | 184,550 |
| 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 |
| | 1,634,950 | 1,634,550 |
| Transaction costs | (17,617) | (18,385) |
| | 1,617,333 | $ 1,616,165 |

(a) The Company's $600 million principal amount of 6.25% unsecured senior notes matures on September 15, 2027 with interest payable semi-annually. 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) The Company's C$250 million principal amount of 5.125% unsecured senior notes matures on June 15, 2029, with interest payable semi-annually. 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.

(c) The Company's $350 million principal amount of 5.0% unsecured senior notes matures on June 15, 2029, with interest payable semi-annually. 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.

(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 charge coverage ratio of 2.0 to 1, as applicable. The Company was in compliance with these financial covenants as at March 31, 2023.

### Note 10. 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, 2023. During the year ended December 31, 2022, 72,975,734 Common Shares were issued during the year ended December 31, 2022.

| | For the Period Ended | |
|---|---|---|
| | March 31 2023 | December 31 2022 |
| Common Shares issued, beginning of period | 202,732,644 | 129,756,910 |
| Common Shares issued | — | 72,975,734 |
| Common Shares issued and outstanding, end of period | 202,732,644 | 202,732,644 |

The Company had no Non-Voting Class B Common Shares issued and outstanding as at March 31, 2023 and December 31, 2022.

### Note 11. Earnings Per Share

Basic and diluted earnings per share for the three months ended March 31, 2023 and 2022 were calculated as follows:

| | Three Months Ended March 31 | |
|---|---|---|
| | 2023 | 2022 |
| **Numerator:** | | |
| Net income attributable to Brookfield Residential | $ 20,435 | $ 36,217 |
| **Denominator (in ‘000s of shares):** | | |
| Basic weighted average shares outstanding | 202,733 | 129,757 |
| Diluted weighted average shares outstanding | 202,874 | 130,324 |
| Basic earnings per share | $ 0.10 | $ 0.28 |
| Diluted earnings per share | $ 0.10 | $ 0.28 |

### Note 12. Other (Income) / Expense

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

| | Three Months Ended March 31 | |
|---|---|---|
| | 2023 | 2022 |
| Preferred share dividend income | $ (5,918) | $ (5,918) |
| Investment income | (5,335) | (5,489) |
| Other | (4,915) | (3,750) |
| Income from commercial properties | (4,308) | (8,533) |
| Joint venture management fee income | (2,184) | (2,404) |
| Loss / (income) from investment company assets | 142 | (12,506) |
| | $ (22,518) | $ (38,600) |

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

**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, 2023 and 2022:

| | Three Months Ended March 31 | |
|---|---|---|
| | **2023** | **2022** |
| Balance, beginning of period | $ 18,289 | $ 18,788 |
| Payments and other adjustments made during the period | (2,540) | (1,033) |
| Warranties issued during the period | 2,980 | 1,038 |
| Adjustments due to change in estimates | 313 | 10 |
| Balance, end of period | $ 19,042 | $ 18,803 |

As at March 31, 2023, $6.6 million of the amounts held in other assets related to deposits on land purchase obligations (December 31, 2022 – $6.3 million). The total amount committed on these obligations is $283.8 million (December 31, 2022 – $285.8 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, 2023, these guarantees amounted to $581.2 million (December 31, 2022 – $645.5 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.

**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, 2023, 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 the Brookfield Single Family Rental investment, which is recorded at it's fair value.

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, 2023 |
|---|---|
| Balance, beginning of period | $ 329,968 |
| Change in unrealized gain from investment | (2,447) |
| Balance, end of period | $ 327,521 |

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of March 31, 2023:

| Financial Instrument | Fair value as of 3/31/2023 | Valuation technique | Unobservable inputs | Range (where applicable) |
|---|---|---|---|---|
| Single Family Rental Investment | $ 327,521 | Discounted cash flow | Discount rate<br>Capitalization rate | 7.8%<br>5.5% |

*Net Investment Hedge*

For the three months ended March 31, 2023, an unrealized pre-tax loss of $0.4 million (March 31, 2022 – loss of $2.1 million), was recorded in other comprehensive income for hedges of net investments in foreign operations.

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

### 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. There have been no material changes to the Company's financial risk exposure or risk management activities since December 31, 2022.

### 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, 2023 | | | | |
|---|---|---|---|---|---|
| | Canada | Pacific U.S. | Central and Eastern U.S. | Corporate and Other | Total |
| Housing revenue | $ 79,467 | $ 137,676 | $ 114,140 | $ — | $ 331,283 |
| Land revenue | 30,842 | 744 | 1,051 | — | 32,637 |
| | 110,309 | 138,420 | 115,191 | — | 363,920 |
| Housing cost of sales | (64,802) | (112,900) | (91,655) | — | (269,357) |
| Land cost of sales | (22,314) | 630 | (1,267) | — | (22,951) |
| | (87,116) | (112,270) | (92,922) | — | (292,308) |
| Gross margin | 23,193 | 26,150 | 22,269 | — | 71,612 |
| Earnings from unconsolidated entities - land and housing | 291 | 2,735 | 2,839 | — | 5,865 |
| (Expenses) / Income | (10,812) | (16,032) | (20,222) | (6,189) | (53,255) |
| Income before income taxes | $ 12,672 | $ 12,853 | $ 4,886 | $ (6,189) | $ 24,222 |

| | 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 |

*(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, 2023 | | | | |
|---|---|---|---|---|---|
| | **Canada** | **Pacific U.S.** | **Central and Eastern U.S.** | **Corporate and Other** | **Total** |
| Land held for development | $ 373,601 | $ 293,329 | $ 624,031 | $ — | $ 1,290,961 |
| Land under development | 196,326 | 175,694 | 395,125 | — | 767,145 |
| Housing inventory | 185,421 | 158,786 | 287,809 | — | 632,016 |
| Model homes | 23,118 | 43,142 | 23,782 | — | 90,042 |
| Total land and housing inventory | 778,466 | 670,951 | 1,330,747 | — | 2,780,164 |
| Commercial properties | 25,436 | 260,968 | 4,446 | — | 290,850 |
| Investments in unconsolidated entities - land and housing | 108,380 | 158,183 | 56,088 | — | 322,651 |
| Held-to-maturity investment | — | — | — | 300,000 | 300,000 |
| Operating and financing lease right-of-use asset | 10,079 | 38,811 | 20,753 | 8,943 | 78,586 |
| Goodwill | — | — | — | 16,479 | 16,479 |
| Other assets [(1)] | 175,706 | 82,502 | 248,194 | 933,125 | 1,439,527 |
| Total assets | $ 1,098,067 | $ 1,211,415 | $ 1,660,228 | $ 1,258,547 | $ 5,228,257 |

(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, 2022 | | | | |
|---|---|---|---|---|---|
| | **Canada** | **Pacific U.S.** | **Central and Eastern U.S.** | **Corporate and Other** | **Total** |
| Land held for development | $ 369,006 | $ 290,170 | $ 635,809 | $ — | $ 1,294,985 |
| Land under development | 226,668 | 144,656 | 335,214 | — | 706,538 |
| Housing inventory | 172,501 | 210,571 | 305,768 | — | 688,840 |
| Model homes | 20,430 | 43,157 | 21,965 | — | 85,552 |
| Total land and housing inventory | 788,605 | 688,554 | 1,298,756 | — | 2,775,915 |
| Commercial properties | 25,521 | 260,709 | 4,457 | — | 290,687 |
| Investments in unconsolidated entities - land and housing | 107,877 | 174,046 | 51,175 | 735 | 333,833 |
| Held-to-maturity investment | — | — | — | 300,000 | 300,000 |
| Operating and financing lease right-of-use asset | 10,247 | 39,310 | 21,225 | 9,030 | 79,812 |
| Goodwill | — | — | — | 16,479 | 16,479 |
| Other assets [(1)] | 156,956 | 74,133 | 252,310 | 862,956 | 1,346,355 |
| Total assets | $ 1,089,206 | $ 1,236,752 | $ 1,627,923 | $ 1,189,200 | $ 5,143,081 |

(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, 2023 and 2022 were as follows:

- During the three months ended March 31, 2023, the Company amended a previously existing management agreement with our service providers, Brookfield Properties Development ("BPD"), wholly owned subsidiaries of Brookfield Corporation, to adjust to the revised services provided by BPD, including the shift of the asset management fee to a separate Brookfield entity. During the three months ended March 31, 2023, the Company incurred $17.5 million of development and construction fees (three months ended March 31, 2022 – $21.0 million). The fees are determined by applicable rates on construction and development spending. These transactions were recorded at the exchange amount within selling, general and administrative expense and commercial properties.
- During the three months ended March 31, 2023, the Company entered into asset management agreements with our service providers, Brookfield Residential Real Estate JV Management and Brookfield Property Group (Canada) ULC, wholly owned subsidiaries of Brookfield Asset Management Ltd. The asset management fees under these agreements are determined by applicable rates of invested equity, as defined in the agreements. Previously, these fees were part of the management agreement with BPD. During the three months ended March 31, 2023, the Company incurred $5.9 million of management fees (three months ended March 31, 2022 – $nil). These transactions were recorded at the exchange amount within selling, general and administrative expense.
- As at March 31, 2023, the Company had a loan with BPD with an outstanding balance of $121.5 million that was recorded within receivables and other assets (December 31, 2022 – $103.6 million). During the three months ended March 31, 2023, the Company recorded $2.2 million of interest income at the exchange amounts in the condensed consolidated statement of operations within other income (three months ended March 31, 2022 – $0.6 million).
- As at March 31, 2023, the Company had a loan with BRUSLH II with an outstanding balance of $85.8 million that was recorded within receivables and other assets (December 31, 2022 – $65.8 million). During the three months ended March 31, 2023, the Company recorded $1.2 million of interest income in the condensed consolidated statement of operations within other income (three months ended March 31, 2022 – $0.2 million).
- During the three months ended March 31, 2023, the Company earned $5.9 million of dividends from the preferred shares of Brookfield International Ltd. (three months ended March 31, 2022 – $5.9 million of dividends earned) that have been recorded in the condensed consolidated statements of operations within other income. As at March 31, 2023, a total of $90.1 million of accrued dividends is recorded within receivables and other assets (March 31, 2022 – $66.1 million). These transactions were recorded at the exchange amount.

**Note 19. Subsequent Events**

The Company performed an evaluation of subsequent events through April 27, 2023, which is the date that these condensed consolidated financial statements were approved, and has determined the following subsequent event:

Subsequent to March 31, 2023, the Company declared a dividend to the common shareholder, Brookfield Corporation, of $120.0 million to be paid in April 2023.

# CORPORATE INFORMATION

## CORPORATE PROFILE

Brookfield Residential Properties ULC 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 Corporation, (NYSE: BN; TSX: BN), a global alternative asset manager. Further information is available at BrookfieldResidential.com or Brookfield.com or contact:

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## 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.