

2020 | ANNUAL REPORT

Chief Executive Officer's Report

While 2020 has been defined by the COVID-19 global pandemic, I am proud of how Brookfield Residential was able to adapt to the constantly changing operating environment. The year began with strong home orders across our operations before COVID-19 related government restrictions in all our markets significantly impacted the spring selling season and limited both sales and operational activity from March to the middle of May. During that time, in virtually all of our operating markets, our operations were deemed to be an essential service and we continued our development and construction activities in a safe environment, albeit at a cautious pace. Due to the uncertainty of the impact COVID-19 would have on the overall economy, we critically assessed the timing of future community openings, our land development spending, conservatively managed our speculative home inventory and focused our efforts on the execution of our existing backlog while limiting new construction starts.

As restrictions began to lift in late spring, we saw the return of the homebuyer, particularly in the U.S. and Ontario markets, driven by pent up demand, historically low interest rates and a shift in consumer behavior with some degree of a flight to the suburbs. In Alberta, the market saw demand for our homes initially, but we experienced some levelling off in the fourth quarter as a result of the economic conditions. Despite missing many core weeks of our spring selling season, we were able to recover from the business interruptions to exceed our previously stated 2020 guidance with 2,873 homes and 2,511 single-family lots closed while building a strong backlog heading into 2021.

Additional operating and financial highlights for the year ended December 31, 2020 include:

- Brookfield Residential introduced and continued to prioritize several enhanced health and safety protocols for our team, trade partners and homebuyers to ensure a safe operating environment.
- Intensive focus towards the transition of marketing our homes and master-planned communities utilizing a digital format of engagement with current and future prospective homebuyers. This included a shift to virtual model home tours, as well as offering our homes to be toured at a time of the homebuyer's choosing through our MyTime system.
- Income before income taxes of \$91 million. Included in these results was a \$30 million share-based compensation fair value expense (compared to a recovery of \$16 million in 2019), a \$30 million loss from our unconsolidated equity investment in affiliates (compared to a gain of \$23 million in 2019) and a \$15 million loss on the extinguishment of our senior unsecured notes upon our refinancing (compared to \$9 million in 2019). Adjusting for these items in both years, our 2020 income before income taxes was \$166 million, compared to \$166 million in 2019.
- Overall net new home orders of 3,506, an increase in our U.S. operations of 30% while Canadian operations had a decrease of 13%. Our total backlog units totaled 1,907 with a value of \$1.0 billion, an increase of 50% in units and 68% in value, when compared to 2019.
- Our communities of Eastmark in Mesa, Arizona, New Haven, part of the Ontario Ranch masterplan community in Southern California, Easton Park in Austin, Texas and Audie Murphy Ranch in Southern California were among the top 50 selling master-planned communities in the U.S.
- Completed the construction of our Fifth + Broadway mixed-use development in Nashville, Tennessee. The grand opening will be in March 2021 and will feature approximately 200,000 square feet of restaurants and retail, 386 units in the for-rent apartment tower and 372,000 square feet of Class-A office space.
- At December 31, 2020, our net debt to total capitalization ratio was 35%, primarily due to the year's net income, cash balance of \$350 million and no borrowings outstanding on our \$675 million unsecured revolving credit facility.
- Brookfield Residential continued to execute on our capital plan in early 2020 with the successful issuance of \$500 million unsecured senior notes with an interest rate of 4.875% due in 2030. In September, we also amended and extended the maturity of our unsecured revolving credit facility to September 2022 on substantially the same terms and conditions. These transactions enhanced the laddering of our revolving credit facility and unsecured senior note maturities, while providing meaningful interest savings compared to our previously issued unsecured notes.
- Subsequent to the end of the year, Brookfield Residential declared a dividend of \$350 million to our parent, Brookfield Asset Management Inc., which is expected to be paid by the end of the first quarter of 2021.

As we look ahead to 2021, our view is that the land and housing business remains in a strong position with positive underlying fundamentals and demographic shifts in place to continue to drive household formation. In particular, we have seen our U.S. markets continue recent sales trends similar to the second half of 2020 with increased pricing and absorptions, while the Canadian markets have remained relatively flat. We also look to advance land sales to third-party builders within our U.S. master-planned communities as finished lots continue to be in high demand due to market conditions. We appreciate the continued support and adaptability of our team members and stakeholders, especially during the many challenges which arose in 2020.

Alan Norris
Chairman & Chief Executive Officer
February 10, 2021

BROOKFIELD RESIDENTIAL PROPERTIES PORTFOLIO

Our business is focused on land development and single family and multi-family homebuilding in the markets in which we operate. Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at December 31, 2020 were \$5.9 billion.

As of December 31, 2020, we controlled 78,867 single family lots (serviced lots and future lot equivalents) and 174 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 we control in each of our primary markets as of December 31, 2020 is as follows:

	Single Family Housing & Land Under and Held for Development ⁽¹⁾								Multi-Family, Industrial & Commercial Parcels Under Development	
	Unconsolidated				Status of Lots				Total Acres	
	Housing & Land		Entities		Total Lots		12/31/2020		12/31/2020	
	Owned	Options	Owned	Options	12/31/2020	12/31/2019	Entitled	Unentitled	12/31/2020	12/31/2019
Calgary	16,024	—	2,282	—	18,306	19,045	9,791	8,515	56	70
Edmonton	10,479	—	—	—	10,479	10,797	5,269	5,210	15	22
Ontario	7,117	—	1,030	—	8,147	8,293	2,593	5,554	1	1
Canada	33,620	—	3,312	—	36,932	38,135	17,653	19,279	72	93
Northern California	2,608	7,255	232	—	10,095	10,474	2,840	7,255	—	—
Southern California	5,188	—	712	1,001	6,901	7,597	5,675	1,226	—	—
Hawaii	3	—	—	—	3	48	3	—	—	—
California	7,799	7,255	944	1,001	16,999	18,119	8,518	8,481	—	—
Denver	6,927	—	—	—	6,927	7,328	6,927	—	10	10
Austin	11,092	—	—	—	11,092	12,120	11,092	—	37	37
Phoenix	1,580	—	1,851	—	3,431	4,032	3,431	—	55	14
Washington, D.C. Area	2,538	948	—	—	3,486	3,732	3,449	37	—	—
Central and Eastern U.S.	22,137	948	1,851	—	24,936	27,212	24,899	37	102	61
Corporate and Other	—	—	—	—	—	4,180	—	—	—	—
Total	63,556	8,203	6,107	1,001	78,867	87,646	51,070	27,797	174	154
Entitled lots	45,231	948	4,891	—	51,070	60,292				
Unentitled lots	18,325	7,255	1,216	1,001	27,797	27,354				
Total December 31, 2020	63,556	8,203	6,107	1,001	78,867					
Total December 31, 2019	70,422	9,132	7,091	1,001		87,646				

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

BROOKFIELD RESIDENTIAL PROPERTIES INC.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report, including the Chief Executive Officer's 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 annual report include, among others, statements with respect to:

- the current business environment and outlook, including statements regarding: the duration and impact of the novel coronavirus ("COVID-19") on our financial position and homebuilding operations; rising unemployment levels in both the U.S. and Canada; the duration, impact and effectiveness of government measures including orders, stimulus, aid, assistance and other government programs in response to COVID-19; economic and market conditions in the U.S. and Canadian housing markets and our ability to respond to such conditions; the effect of seasonality on the homebuilding business; the impact of the results of the 2020 US federal election; the impact of changes to Canadian mortgage rules affecting the ability of prospective homebuyers to qualify for mortgage financing; the potential offset of the Canadian shared equity program on the impact of stress test mortgage rules in Canada; home prices and affordability in the communities, home closings resulting therefrom, and the timing thereof; international trade factors, including changes in trade policy, such as trade sanctions and increased tariffs; the impact of actual, proposed or potential interest rate changes in the U.S. and Canada and resulting consumer confidence; volatility in the global price of commodities, including the price of oil; the economic and regulatory uncertainty surrounding the energy industry and pipeline approvals and the impact thereof on demand in our markets including future investment, particularly in Alberta; consumer confidence and the resulting impact on the housing market; change in consumer behavior and preferences; our relationship with operational jurisdictions and key stakeholders; our ability to meet our obligations under our North American unsecured credit facility; our costs to complete related to our letters of credit and performance bonds; expected project completion times; our ability to realize our deferred tax assets; our ability to grow our mixed-use development operations, identifying other mixed-use opportunities, and our ability to execute on our plans for a mixed-use operational platform and expected redevelopment opportunities resulting therefrom; home price growth rates and affordability levels generally; recovery in the housing market and the pace thereof; reduction in our debt levels and the timing thereof; our expected unit and lot sales and the timing thereof; realization of expected operational and administrative synergies from the Reorganization Transaction; expectations for 2020 and beyond;
- possible or assumed future results, including our outlook and any updates thereto, how we intend to use and the availability of additional cash flow, the operative cycle of our business and expected timing of income and expected performance and features of our projects, the continued strategic expansion of our business operations, our assumptions regarding normalized sales, our projections regarding revenue and housing inventory, the impact of acquisitions on our operations in certain markets;
- the expected closing of transactions;
- the expected exercise of options contracts and lease options;
- the effect on our business of business acquisitions;
- business goals, strategy and growth plans;
- trends in home prices in our various markets and generally;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the homebuilding industry;
- the ability to generate sufficient cash flow from our assets to repay maturing bank indebtedness and project specific financings and take advantage of new opportunities;
- the ability to meet our covenants and re-pay interest payments on our unsecured senior notes and the requirement to make payments under our construction guarantees;
- the ability to create value in our land development business and meet our development plans;
- the visibility of our future cash flow;
- social and environmental conditions, policies and risks;
- governmental policies and risks;
- cyber-security related risks;

- expected backlog and closings and the timing thereof;
- the sufficiency of our access to and the sources of our capital resources;
- the impact of foreign exchange rates on our financial performance and market opportunities;
- the impact of credit rating agencies' rating on our business;
- the timing of the effect of interest rate changes on our cash flows;
- the effect of debt and leverage on our business and financial condition; and
- the effect on our business of existing lawsuits.

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 annual report are based upon reasonable assumptions and expectations, readers of this annual 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 annual 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, 2020.

The forward-looking statements and information contained in this annual 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 annual 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 relates to the period ended December 31, 2020 and has been prepared with an effective date of March 2, 2021. It should be read in conjunction with the consolidated financial statements and the related notes thereto included elsewhere in this annual report. All dollar amounts discussed herein are in U.S. dollars, unless otherwise stated. Amounts in Canadian dollars are identified as "C\$." The consolidated financial statements referenced herein have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

OVERVIEW

Brookfield Residential Properties Inc. (unless the context requires otherwise, references in this annual report to "we," "our," "us," the "Company" and "Brookfield Residential" refer to Brookfield Residential Properties Inc. and the subsidiaries through which it conducts all of its homebuilding and land development operations) is a wholly-owned subsidiary of Brookfield Asset Management Inc. ("BAM") and has been in operation for over 60 years. We are the flagship North American residential property company of BAM, a leading global alternative asset manager with \$600 billion of assets under management.

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

Our disciplined land entitlement process, synergistic operations and capital flexibility allow us to pursue land investment, traditional homebuilding and mixed-use development in typically supply-constrained markets where we have strategically invested. We currently focus on the following three operating segments related to our land and housing operations: Canada, California and Central and Eastern U.S. Our Canadian operations are primarily in the Alberta (Calgary and Edmonton) and Ontario (Toronto) markets. Our California operations include Northern California (San Francisco Bay Area and Sacramento), Southern California (Los Angeles / Southland and San Diego / Riverside) and Hawaii (Honolulu). Our Central and Eastern U.S. operations include Washington, D.C. Area, Colorado (Denver), Texas (Austin), Arizona (Phoenix) and Tennessee (Nashville).

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

Principal Business Activities

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

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

Home Construction

We construct homes on lots that have been developed by us or that we purchase from others. Having a homebuilding operation allows us the opportunity to extract value from the land and provides us with market knowledge through our direct contact with the homebuyers.

Land Acquisition

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

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

Entitlement Process & Land Development

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

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

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

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

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

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

Consumer Deliverables

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

RESULTS OF OPERATIONS

Key financial results and operating data for the year ended December 31, 2020 compared to the year ended December 31, 2019 were as follows:

	Year Ended December 31	
	2020	2019
<i>(US\$ millions, except percentages, unit activity, average selling price and per share amounts)</i>		
Key Financial Results		
Housing revenue	\$ 1,446	\$ 1,550
Land revenue	293	388
Gross margin (\$)	336	387
Gross margin (%) ⁽¹⁾	19%	20%
Income before income taxes	91	203
Income tax expense	(3)	(5)
Net income	88	198
Net income attributable to Brookfield Residential	14	154
Basic earnings per share	\$ 0.11	\$ 1.19
Diluted earnings per share	\$ 0.11	\$ 1.19
Key Operating Data		
Home closings for Brookfield Residential (units)	2,873	2,930
Average home selling price for Brookfield Residential (per unit)	\$ 503,000	\$ 529,000
Net new home orders for Brookfield Residential (units)	3,506	3,066
Backlog for Brookfield Residential (units)	1,907	1,273
Backlog value for Brookfield Residential	\$ 1,013	\$ 603
Lot closings for Brookfield Residential (single family units)	2,511	3,170
Lot closings for unconsolidated entities (single family units)	718	1,017
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	42	43
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	14	26
Acre closings for Brookfield Residential (raw and partially finished)	—	152
Average lot selling price for Brookfield Residential (single family units)	\$ 108,000	\$ 105,000
Average lot selling price for unconsolidated entities (single family units)	\$ 108,000	\$ 119,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	\$ 496,000	\$ 684,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	\$ 443,000	\$ 1,017,000
Average per acre selling price for Brookfield Residential (raw and partially finished)	\$ —	\$ 162,000

(1) Gross margin percentage is a non-GAAP measure and has been presented as we find it useful in evaluating our performance and believe that it helps readers of our financial statements compare our operations with those of our competitors. However, gross margin percentage as presented may not be fully comparable to similarly-titled measures reported by our competitors. See the Non-GAAP Measures section in this Management's Discussion and Analysis (MD&A).

Segmented Information

We operate in three operating segments within North America related to our land and housing operations: Canada, California 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 years ended December 31, 2020 and 2019.

	Year Ended December 31	
	2020	2019
<i>(US\$ millions, except unit activity and average selling price)</i>		
Housing revenue		
Canada	\$ 359	\$ 366
California	580	725
Central and Eastern U.S.	507	459
Total	\$ 1,446	\$ 1,550
Land revenue		
Canada	\$ 89	\$ 149
California	105	118
Central and Eastern U.S.	99	55
Corporate and Other ⁽¹⁾	—	66
Total	\$ 293	\$ 388
Housing gross margin		
Canada	\$ 62	\$ 55
California	115	137
Central and Eastern U.S.	85	76
Total	\$ 262	\$ 268
Land gross margin		
Canada	\$ 29	\$ 65
California	18	32
Central and Eastern U.S.	27	20
Corporate and Other	—	2
Total	\$ 74	\$ 119
Home closings (units)		
Canada	944	1,000
California	829	994
Central and Eastern U.S.	1,100	936
Total	2,873	2,930
Average home selling price		
Canada	\$ 379,000	\$ 366,000
California	700,000	730,000
Central and Eastern U.S.	461,000	490,000
Average	\$ 503,000	\$ 529,000
Active housing communities		
Canada	34	35
California	17	21
Central and Eastern U.S.	29	37
Total	80	93

(1) Prior period amounts for the Corporate and Other segment include lot closings from the Homebuilder Finance Program, where these have been reclassified in the current period. See Note 1 (z) "Significant Accounting Policies - Reclassification" in the consolidated financial statements for additional information.

	Year Ended December 31	
	2020	2019
Lot closings (single family units)		
Canada	614	918
California	689	742
Central and Eastern U.S.	1,208	733
Corporate and Other ⁽¹⁾	—	777
	<u>2,511</u>	<u>3,170</u>
Unconsolidated entities	718	1,017
Total	<u>3,229</u>	<u>4,187</u>
Acre closings (multi-family, industrial and commercial)		
Canada	20	29
California	—	—
Central and Eastern U.S.	22	14
	<u>42</u>	<u>43</u>
Unconsolidated entities	14	26
Total	<u>56</u>	<u>69</u>
Acre closings (raw and partially finished)		
Canada	—	134
California	—	18
Central and Eastern U.S.	—	—
Total	<u>—</u>	<u>152</u>
Average lot selling price (single family units)		
Canada	\$ 115,000	\$ 117,000
California	152,000	151,000
Central and Eastern U.S.	79,000	69,000
Corporate and Other ⁽¹⁾	—	83,000
	<u>108,000</u>	<u>105,000</u>
Unconsolidated entities	108,000	119,000
Average	<u>\$ 108,000</u>	<u>\$ 109,000</u>
Average per acre selling price (multi-family, industrial and commercial)		
Canada	\$ 863,000	\$ 831,000
California	—	—
Central and Eastern U.S.	171,000	372,000
	<u>496,000</u>	<u>684,000</u>
Unconsolidated entities	443,000	1,017,000
Average	<u>\$ 479,000</u>	<u>\$ 805,000</u>
Average per acre selling price (raw and partially finished)		
Canada	\$ —	\$ 138,000
California	—	343,000
Central and Eastern U.S.	—	—
Average	<u>\$ —</u>	<u>\$ 162,000</u>

(1) Prior period amounts for the Corporate and Other segment include lot closings from the Homebuilder Finance Program, where these have been reclassified in the current period. See Note 1 (z) "Significant Accounting Policies - Reclassification" in the consolidated financial statements for additional information.

	As at	
	December 31 2020	December 31 2019
Active land communities		
Canada	9	12
California	2	4
Central and Eastern U.S.	11	12
	22	28
Unconsolidated entities	7	6
Total	29	34

	As at	
	December 31 2020	December 31 2019
<i>(US\$ millions)</i>		
Total assets		
Canada	\$ 1,065	\$ 1,095
California	1,087	1,198
Central and Eastern U.S.	1,992	1,870
Corporate and other	1,119	762
Equity Investment in BUSI	606	634
Total	\$ 5,869	\$ 5,559

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

Year Ended December 31, 2020 Compared with Year Ended December 31, 2019

Net Income

Consolidated net income for the years ended December 31, 2020 was \$88 million, compared to net income of \$198 million for the year ended December 31, 2019.

	Year Ended December 31	
	2020	2019
<i>(US\$ millions, except per share amounts)</i>		
Consolidated net income	\$ 88	\$ 198
Net income attributable to Brookfield Residential	\$ 14	\$ 154
Basic earnings per share	\$ 0.11	\$ 1.19
Diluted earnings per share	\$ 0.11	\$ 1.19

The decrease of \$110 million in consolidated net income for the year ended December 31, 2020 compared to the same period in 2019 was primarily the result of a decrease in earnings from affiliate unconsolidated entities of \$53 million due to changes in the fair value within the investment, a decrease in both housing and land gross margins of \$51 million, a decrease in earnings from land and housing unconsolidated entities of \$19 million, an increase in selling, general and administrative expenses of \$17 million primarily due to an increase in the fair value of our share based compensation expense, and an increase in lease expense of \$2 million. This was partially offset by a decrease in interest expense of \$27 million, an increase in other income of \$3 million, and a decrease in income tax expense of \$2 million.

A breakdown of the revenue and gross margin for the years ended December 31, 2020 and 2019 is as follows:

	Year Ended December 31	
	2020	2019
<i>(US\$ millions, except percentages)</i>		
Revenue		
Housing.....	\$ 1,446	\$ 1,550
Land.....	293	388
	<u>\$ 1,739</u>	<u>\$ 1,938</u>
Gross Margin		
Housing.....	\$ 262	\$ 268
Land.....	74	119
	<u>\$ 336</u>	<u>\$ 387</u>
Gross Margin (%)		
Housing.....	18%	17%
Land.....	25%	31%
	<u>19%</u>	<u>20%</u>

For the year ended December 31, 2020, total revenue decreased by \$199 million and total gross margin decreased by \$51 million when compared to the same period in 2019. The decrease in total revenue was primarily the result of 57 fewer home closings at a lower average selling price, and 659 fewer single family lot closings. The decrease in single family lot closings was primarily due to the inclusion of lot sales from the Homebuilder Finance program in revenues, cost of sales and gross margin in 2019, compared to the current period where the activity is recorded through other income as a result of reclassifying the Homebuilder Finance operations to better align with the requirements of ASC 946 Financial Services - Investment Companies. Based on this reclassification, Homebuilder Finance operations are excluded from revenues, cost of sales and gross margin in the year ended December 31, 2020. Also contributing to the decrease was closing 152 raw and partially finished acres in 2019 with no comparative closings in the current period, and a 27% decrease in multi-family, industrial and commercial acre selling prices. Total gross margin decreased as a result of lower housing and land gross margins, due to decreased activity and mix of land and homes sold when compared to 2019. Gross margin percentage decreased 1% when compared to the prior year primarily due to a reduction in lot and acre closings with higher margins as a result of the geographic mix of land sold.

Results of Operations – Housing

A breakdown of our results from housing operations for the years ended December 31, 2020 and 2019 is as follows:

Consolidated

	Year Ended December 31	
	2020	2019
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>		
Home closings.....	2,873	2,930
Revenue.....	\$ 1,446	\$ 1,550
Gross margin.....	\$ 262	\$ 268
Gross margin (%).....	18%	17%
Average home selling price.....	\$ 503,000	\$ 529,000

Housing revenue and gross margin were \$1,446 million and \$262 million, respectively, for the year ended December 31, 2020, compared to \$1,550 million and \$268 million for the same period in 2019. The decrease in revenue and gross margin were primarily the result of 221 fewer home closings in our Canadian and California operating segments and a 5% lower average selling price overall, partially offset by 164 additional home closings in our Central and Eastern U.S. operating segment. Gross margin percentage increased 1% when compared to the same period in 2019 primarily as a result of geographic and product mix of homes closed.

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

Canada

	Year Ended December 31	
	2020	2019
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>		
Home closings	944	1,000
Revenue	\$ 359	\$ 366
Gross margin	\$ 62	\$ 55
Gross margin (%)	17%	15%
Average home selling price	\$ 379,000	\$ 366,000

Housing revenue in our Canadian segment for the year ended December 31, 2020 decreased by \$7 million when compared to the same period in 2019, primarily due to 56 fewer home closings, partially offset by 4% higher average home selling prices. The decrease in home closings was the result of 116 fewer closings in our Calgary and Edmonton markets, partially offset by 60 additional home closings in our Ontario market. The increase in average home selling prices was primarily due to the product and geographic mix of homes closed, with a higher proportion of closings in the current period coming from our Ontario market, where average home selling prices increased 2% and were the highest in the operating segment due to product mix. Gross margin increased \$7 million for the year ended December 31, 2020 when compared to the same period in 2019 primarily as a result of the product and geographic mix of homes closed. Gross margin percentage increased 2% primarily as a result of the product mix and lower incentives provided on homes closed when compared to the same period in 2019.

California

	Year Ended December 31	
	2020	2019
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>		
Home closings	829	994
Revenue	\$ 580	\$ 725
Gross margin	\$ 115	\$ 137
Gross margin (%)	20%	19%
Average home selling price	\$ 700,000	\$ 730,000

Housing revenue in our California segment for the year ended December 31, 2020 decreased by \$145 million when compared to the same period in 2019, primarily due to 165 fewer home closings and 4% lower average selling prices. The decrease in home closings was the result of 192 fewer home closings in our Southern California and Hawaii markets, partially offset by 27 additional closings in our Northern California market. The decrease in average home selling price reflects the continued shift of product mix to more entry-level homes in our Southern California market. Gross margin decreased \$22 million as a result of fewer home closings and lower average home selling prices, and gross margin percentage increased 1% primarily as a result of the mix of homes sold, as well as lower incentives provided when compared to the same period in 2019.

Central and Eastern U.S.

	Year Ended December 31	
	2020	2019
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>		
Home closings	1,100	936
Revenue	\$ 507	\$ 459
Gross margin	\$ 85	\$ 76
Gross margin (%)	17%	17%
Average home selling price	\$ 461,000	\$ 490,000

Housing revenue in our Central and Eastern U.S. segment for the year ended December 31, 2020 increased by \$48 million when compared to the same period in 2019, primarily due to 164 additional home closings, partially offset by 6% lower average home selling prices. The increase in home closings was the result of 248 additional home closings in our Austin market, partially offset by 84 fewer home closings, mainly in our Washington market. The decrease in average home selling price is primarily the result of geographic and product mix of homes closed within the operating segment, as homes closed in Austin typically have a lower average selling price. Gross margin increased \$9 million as a result of additional homes closings when compared to the same period in 2019, and gross margin percentage remained consistent.

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 year ended December 31, 2020, total incentives recognized as a percentage of gross revenues remained consistent at 4% when compared to the same period in 2019.

Our incentives on homes closed by operating segment for the years ended December 31, 2020 and 2019 were as follows:

	Year Ended December 31			
	2020		2019	
	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
<i>(US\$ millions, except percentages)</i>				
Canada	\$ 18	5%	\$ 23	6%
California	13	2%	23	3%
Central and Eastern U.S.....	27	5%	21	4%
	<u>\$ 58</u>	<u>4%</u>	<u>\$ 67</u>	<u>4%</u>

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 year ended December 31, 2020 totaled 3,506 units, an increase of 440 units or 14% when compared to the same period in 2019. For the year ended December 31, 2020, the increase in net new home orders was primarily a result of higher net new orders in our California and Central and Eastern U.S. operating segments, partially offset by fewer net new orders in our Canadian operating segment when compared to the same period in 2019. Average monthly sales per community by reportable segment for the year ended December 31, 2020 were: Canada – 2 units (2019 – 3 units); California – 5 units (2019 – 3 units); Central and Eastern U.S. – 4 units (2019 – 3 units). We were selling from 80 active housing communities at December 31, 2020 compared to 93 at December 31, 2019.

The net new home orders for the years ended December 31, 2020 and 2019 by our land and housing operating segments were as follows:

	Year Ended December 31	
	2020	2019
<i>(Units)</i>		
Canada	963	1,105
California	1,241	952
Central and Eastern U.S.....	1,302	1,009
	<u>3,506</u>	<u>3,066</u>

Home Sales – Cancellations

The overall cancellation rates for the years ended December 31, 2020 and 2019 were 13% and 15%, respectively. The decrease in the cancellation rate for the year ended December 31, 2020 was driven by a lower number of cancellations and higher net new orders in our California and Central and Eastern U.S. operating segments, partially offset by a higher number of cancellations and fewer net new home orders in our Canadian operating segment. The cancellation rates for the years ended December 31, 2020 and 2019 for our land and housing operating segments were as follows:

	Year Ended December 31			
	2020		2019	
	Units	% of Gross Home Orders	Units	% of Gross Home Orders
<i>(Units, except percentages)</i>				
Canada	240	20%	230	17%
California	96	7%	109	10%
Central and Eastern U.S.....	179	12%	193	16%
	<u>515</u>	<u>13%</u>	<u>532</u>	<u>15%</u>

Home Sales – Backlog

Our backlog, which represents the number of new homes subject to sales contracts, as at December 31, 2020 and 2019 by operating segment, was as follows:

	As at December 31			
	2020		2019	
	Units	Value	Units	Value
<i>(US\$ millions, except unit activity)</i>				
Canada.....	575	\$ 281	556	\$ 221
California.....	632	389	219	167
Central and Eastern U.S.....	700	343	498	215
Total.....	1,907	\$ 1,013	1,273	\$ 603

We expect all of our backlog to close between 2021 and 2022, subject to future cancellations. The units in our backlog for the year ended December 31, 2020 increased when compared to the same period in 2019, due to higher units in backlog in all of our land and housing operating segments as a result of strong sales demand in the second half of 2020 following easing of government restrictions related to COVID-19. Total backlog value increased by \$410 million when compared to the same period in 2019 mainly due to higher units in backlog overall and the product mix of the homes closed under contract.

Results of Operations – Land

A breakdown of our results from land operations for the years ended December 31, 2020 and 2019 is as follows:

Consolidated

	Year Ended December 31	
	2020	2019
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>		
Lot closings (single family units).....	2,511	3,170
Acre closings (multi-family, industrial and commercial)	42	43
Acre closings (raw and partially finished).....	—	152
Revenue	\$ 293	\$ 388
Gross margin	\$ 74	\$ 119
Gross margin (%).....	25%	31%
Average lot selling price (single family units).....	\$ 108,000	\$ 105,000
Average per acre selling price (multi-family, industrial and commercial).....	\$ 496,000	\$ 684,000
Average per acre selling price (raw and partially finished).....	\$ —	\$ 162,000

Land revenue totaled \$293 million and land gross margin totaled \$74 million for the year ended December 31, 2020, a decrease of \$95 million and \$45 million, respectively, when compared to the same period in 2019. The decrease in land revenue was primarily due to 659 fewer single family lot closings, partially offset by 3% higher average single family lot selling prices. The decrease in single family lot closings was primarily due to the inclusion of 777 lot sales from the Homebuilder Finance program in revenues, cost of sales and gross margin in 2019, where these have been reclassified to other income in the current period. Also contributing to the decrease was closing 152 raw and partially finished acres in 2019 with no comparative closings in 2020, and a 27% decrease in multi-family, industrial and commercial acre average selling prices. Gross margin decreased primarily due to fewer single family lot sales at lower average selling prices, and gross margin percentage decreased 6% compared to the same period in 2019, primarily due to the product and geographic mix of land sold.

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

Canada

<i>(US\$ millions, except unit activity, percentages and average selling price)</i>	Year Ended December 31	
	2020	2019
Lot closings (single family units)	614	918
Acre closings (multi-family, industrial and commercial)	20	29
Acre closings (raw and partially finished)	—	134
Revenue	\$ 89	\$ 149
Gross margin	\$ 29	\$ 65
Gross margin (%)	33%	44%
Average lot selling price (single family units)	\$ 115,000	\$ 117,000
Average per acre selling price (multi-family, industrial and commercial)	\$ 863,000	\$ 831,000
Average per acre selling price (raw and partially finished)	\$ —	\$ 138,000

Land revenue in our Canadian segment for the year ended December 31, 2020 was \$89 million, a decrease of \$60 million when compared to the same period in 2019. The decrease was primarily the result of 304 fewer single family lot closings in our Calgary and Edmonton markets, closing 134 raw and partially finished acres in 2019 with no comparative sale in the current period, and 9 fewer multi-family, industrial and acre closings. Gross margin decreased \$36 million compared to the same period during 2019 primarily as a result of fewer closings, and gross margin percentage decreased 11% mainly due to the mix of land sold.

California

<i>(US\$ millions, except unit activity, percentages and average selling price)</i>	Year Ended December 31	
	2020	2019
Lot closings (single family units)	689	742
Acre closings (raw and partially finished)	—	18
Revenue	\$ 105	\$ 118
Gross margin	\$ 18	\$ 32
Gross margin (%)	17%	27%
Average lot selling price (single family units)	\$ 152,000	\$ 151,000
Average per acre selling price (raw and partially finished)	\$ —	\$ 343,000

Land revenue in our California segment for the year ended December 31, 2020 was \$105 million, a decrease of \$13 million when compared to the same period in 2019. The decrease was primarily the result of 53 fewer single family lot closings, and closing 18 raw and partially finished acres in 2019 with no comparative sale in the current period. Gross margin decreased \$14 million compared to the same period in 2019 mainly as a result of fewer lot and acre closings, and gross margin percentage decreased 10% as a result of the geographic mix of land sold in our Southern California market, where there were 14 high-margin lot closings in our Playa Vista community in 2019, with no comparative closings in the current year.

Central and Eastern U.S.

	Year Ended December 31	
	2020	2019
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>		
Lot closings (single family units).....	1,208	733
Acre closings (multi-family, industrial and commercial).....	22	14
Revenue.....	\$ 99	\$ 55
Gross margin.....	\$ 27	\$ 20
Gross margin (%).....	27%	36%
Average lot selling price (single family units).....	\$ 79,000	\$ 69,000
Average per acre selling price (multi-family, industrial and commercial).....	\$ 171,000	\$ 372,000

Land revenue in our Central and Eastern U.S. segment for the year ended December 31, 2020 was \$99 million, an increase of \$44 million when compared to the same period in 2019. The increase was primarily the result of 655 additional single family lot closings in our Arizona market from the launch of two new wholly-owned communities during 2020, and 14% higher average lot selling prices overall due to the geographic mix of lots sold during the year. Gross margin increased by \$7 million due to additional lot closings at a higher average selling price, while gross margin percentage decreased 9% as a result of the mix of land sold within the operating segment.

Earnings from Unconsolidated Entities - Land and Housing

Earnings from land and housing unconsolidated entities for the year ended December 31, 2020 totaled \$16 million, compared to \$35 million for the same period in 2019.

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

	Year Ended December 31	
	2020	2019
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>		
Lot closings (single family units).....	718	1,017
Acre closings (multi-family, industrial and commercial).....	14	26
Revenue.....	\$ 84	\$ 147
Gross margin.....	\$ 25	\$ 36
Gross margin (%).....	30%	24%
Average lot selling price (single family units).....	\$ 108,000	\$ 119,000
Average per acre selling price (multi-family, industrial and commercial).....	\$ 443,000	\$ 1,017,000

Land revenue within unconsolidated entities decreased \$63 million and gross margin decreased \$11 million for the year ended December 31, 2020 when compared to the same period in 2019. The decrease was primarily the result of 299 fewer single family lot closings due to a large bulk lot closing at one of our Phoenix joint ventures in the first quarter of 2019, with no comparative bulk lot closings in 2020, and a 9% decrease in average single family lot selling price due to mix of land sold within our unconsolidated land and housing entities when compared to the prior year. Also contributing to the decrease was 12 fewer multi-family, industrial and acre closings in the current year and 56% lower average acre selling prices due to mix of land sold.

(Loss) / Earnings from Unconsolidated Entities - Affiliate

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

	Year Ended December 31	
	2020	2019
<i>(US\$ millions)</i>		
(Loss) / Earnings from unconsolidated Entities - affiliate.....	\$ (30)	\$ 23

For the year ended December 31, 2020, loss from affiliate unconsolidated entities was \$30 million, compared to earnings of \$23 million in the prior year. The decrease was primarily a result of a dilution gain recorded during 2019 with no comparative amount in the current year and changes in the fair value of the underlying investments during 2020. (see Note 7 "Reorganization Transaction" of the consolidated financial statements for additional information relating to the transaction).

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the years ended December 31, 2020 and 2019 are summarized as follows:

<i>(US\$ millions)</i>	Year Ended December 31	
	2020	2019
General and administrative expense	\$ 126	\$ 145
Sales and marketing expense	105	115
Share-based compensation	30	(16)
	<u>\$ 261</u>	<u>\$ 244</u>

Selling, general and administrative expense was \$261 million for the year ended December 31, 2020, an increase of \$17 million when compared to the same period in 2019. General and administrative expense decreased \$19 million for the year ended December 31, 2020 primarily due to cost efficiencies as a result of entering into the management agreement with Brookfield Properties Development, partially offset by an increase in management fees paid to Brookfield Properties Development during the current period from the timing of the Company's development and construction activities. Sales and marketing expense for the year ended December 31, 2020 decreased \$10 million when compared to the same period in 2019, primarily due to lower commissions and closings costs resulting from lower activity and fewer active communities. Share-based compensation increased by \$46 million primarily resulting from the change in fair value of our share-based compensation liabilities for the year ended December 31, 2020 compared to the same period in 2019.

Other (Income) / Expense

The components of other (income) / expense for the years ended December 31, 2020 and 2019 are summarized as follows:

<i>(US\$ millions)</i>	Year Ended December 31	
	2020	2019
Investment income	\$ (31)	\$ (22)
Preferred share dividend income	(24)	(21)
Joint venture management fee income	(13)	(17)
Other	(5)	(4)
Consent solicitation costs	—	6
Loss on extinguishment of debt	15	3
	<u>\$ (58)</u>	<u>\$ (55)</u>

For the year ended December 31, 2020, other income increased \$3 million when compared to the same period in 2019. This was the result of a \$9 million increase in investment income primarily from higher interest earned from our Homebuilder Finance program, a \$3 million increase in dividend income from our preferred share investments, a \$1 million increase in other income primarily due to recovery of office lease expenditures from Brookfield Properties Development, and \$6 million in consent solicitation costs during 2019 with no comparative amounts during the current period. This was partially offset by a \$4 million decrease in joint venture management fee income, and a \$12 million increase in debt extinguishment costs related to refinancing the Company's senior unsecured notes, where \$8 million of premiums for early redemption, \$6 million of previously capitalized debt issuance costs and \$1 million of accrued interest were expensed in 2020. Refer to Note 14 "Notes Payable" in the consolidated financial statements for additional information relating to the loss on extinguishment of the 2022 unsecured senior notes.

Income Tax Expense / (Recovery)

Income tax expense for the year ended December 31, 2020 was \$3 million, compared to \$5 million for year ended December 31, 2019. The components of current and deferred income tax expense are summarized as follows:

<i>(US\$ millions)</i>	Year Ended December 31	
	2020	2019
Current income tax expense.....	\$ 7	\$ 8
Deferred income tax recovery.....	(4)	(3)
	<u>\$ 3</u>	<u>\$ 5</u>

For the year ended December 31, 2020, current income tax expense decreased \$1 million when compared to the same period in 2019. The decrease in current income taxes is primarily due to the impact of the Reorganization Transaction that occurred in September 2019 which resulted in our U.S. operations to be held in a limited liability company treated as a partnership for tax purposes that is 10% held by the Company and 90% held by Brookfield US Inc. ("BUSI"). As a result, the Company recorded current income tax expense on 10% of the taxable income from our U.S. operations throughout 2020 while in 2019, the Company only recorded current income tax expense on 10% of the taxable income from our U.S. operations starting in the fourth quarter of 2019. This was partially offset by an increase in current tax expense due to the impact of the release of certain final U.S. tax regulations in the second quarter of 2020.

For the year ended December 31, 2020, deferred income tax recovery increased \$1 million when compared to the same period in 2019. The change in deferred income taxes primarily relates to an increase in deferred income tax recovery as a result of lower taxable income in Canada when compared to the same period in 2019 and a decrease in deferred income tax expense due to the effect of a change in the Alberta corporate tax rate. This was partially offset by an increase in non-deductible stock compensation expense and an increase in valuation allowance relating to the outside basis difference in our affiliate unconsolidated entities.

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 December 31, 2020, the rate of exchange was C\$1.2734 equivalent to US\$1 (December 31, 2019 – C\$1.2989 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 year ended December 31, 2020, the average rate of exchange was C\$1.3397 equivalent to US\$1 (December 31, 2019 – C\$1.3267 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 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 gain of \$17 million for the year ended December 31, 2020, compared to a gain of \$36 million, respectively, in the same period in 2019.

QUARTERLY OPERATING AND FINANCIAL DATA

(US\$ millions, except unit activity and per share amounts)	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Quarterly Operating Data								
Home closings (units).....	845	850	634	544	882	674	763	611
Lot closings (single family units).....	1,454	726	164	167	1,578	578	756	258
Acre closings (multi-family, industrial and commercial)	39	—	—	3	20	10	3	10
Acre closings (raw and partially finished).....	—	—	—	—	18	134	—	—
Net new home orders (units).....	817	1,144	622	921	671	768	867	760
Backlog (units).....	1,907	1,935	1,638	1,650	1,273	1,484	1,390	1,286
Backlog value.....	\$ 1,013	\$ 973	\$ 771	\$ 750	\$ 603	\$ 744	\$ 730	\$ 685
Quarterly Financial Data								
Revenue.....	\$ 650	\$ 453	\$ 323	\$ 312	\$ 656	\$ 461	\$ 476	\$ 346
Direct cost of sales.....	(515)	(361)	(268)	(257)	(520)	(356)	(397)	(279)
Gross margin.....	135	92	55	55	136	105	79	67
Selling, general and administrative expense.....	(88)	(61)	(53)	(58)	(53)	(60)	(65)	(66)
Interest expense.....	(5)	(2)	—	(3)	(10)	(9)	(8)	(9)
Earnings / (Loss) from unconsolidated entities.....	5	—	4	(22)	34	9	11	4
Other income.....	9	19	19	4	15	12	9	14
Lease expense.....	(4)	(4)	(3)	(3)	(3)	(3)	(3)	(3)
Income / (Loss) before income taxes.....	52	44	22	(27)	119	54	23	7
Income tax (expense) / recovery.....	(2)	—	(5)	4	2	(5)	(6)	4
Net income / (loss).....	50	44	17	(23)	121	49	17	11
Net income / (loss) attributable to non-controlling interest.....	47	30	5	(8)	41	1	1	1
Net income / (loss) attributable to Brookfield Residential.....	\$ 3	\$ 14	\$ 12	\$ (15)	\$ 80	\$ 48	\$ 16	\$ 10
Foreign currency translation.....	37	15	27	(60)	15	(8)	14	15
Comprehensive income / (loss).....	\$ 40	\$ 29	\$ 39	\$ (75)	\$ 95	\$ 40	\$ 30	\$ 25
Earnings / (loss) per common share attributable to Brookfield Residential								
Basic.....	\$ 0.02	\$ 0.11	\$ 0.10	\$ (0.12)	\$ 0.61	\$ 0.37	\$ 0.12	\$ 0.08
Diluted.....	\$ 0.02	\$ 0.11	\$ 0.10	\$ (0.12)	\$ 0.61	\$ 0.37	\$ 0.12	\$ 0.08

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.

On September 26, 2019, the Company completed a reorganization (the "Reorganization Transaction") with Brookfield US Inc. ("BUSI"), a wholly-owned subsidiary of BAM, whereby the Company transferred its investment in its U.S. land development and homebuilding operations in exchange for a 12.3% economic interest and a 50% voting interest in BUSI (See Note 7 "Reorganization Transaction" of the consolidated financial statements). As a result of the Reorganization Transaction, 81% of U.S. operations net income is recorded in the consolidated financial statements as non-controlling interest.

Fourth Quarter Highlights

Key financial results and operating data for the three months ended December 31, 2020 compared to the three months ended December 31, 2019 were as follows:

	Three Months Ended December 31	
	2020	2019
<i>(US\$ millions, except percentages, unit activity, average selling price and per share amounts)</i>		
Key Financial Results		
Total revenue	\$ 650	\$ 656
Housing revenue	465	479
Land revenue	185	177
Gross margin (\$)	135	136
Gross margin ⁽¹⁾ (%)	21%	21%
Income before income taxes	52	119
Income tax (expense) / recovery	(2)	2
Net income	50	121
Net income attributable to Brookfield Residential	3	80
Basic earnings per share	\$ 0.02	\$ 0.61
Diluted earnings per share	\$ 0.02	\$ 0.61
Key Operating Data		
Home closings for Brookfield Residential (units)	845	882
Average home selling price for Brookfield Residential (per unit)	\$ 550,000	\$ 543,000
Net new home orders for Brookfield Residential (units)	817	671
Backlog for Brookfield Residential (units)	1,907	1,273
Backlog value for Brookfield Residential	\$ 1,013	\$ 603
Lot closings for Brookfield Residential (single family units)	1,454	1,578
Lot closings for unconsolidated entities (single family units)	188	231
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	39	20
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	13	26
Acre closings for Brookfield Residential (raw and partially finished parcels)	—	18
Average lot selling price for Brookfield Residential (single family units)	\$ 115,000	\$ 99,000
Average lot selling price for unconsolidated entities (single family units)	\$ 121,000	\$ 202,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	\$ 471,000	\$ 779,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	\$ 437,000	\$ 1,034,000
Average per acre selling price for Brookfield Residential (raw and partially finished parcels)	\$ —	\$ 343,000

(1) Gross margin percentage is a non-GAAP measure and has been presented as we find it useful in evaluating our performance and believe that it helps readers of our financial statements compare our operations with those of our competitors. However, gross margin percentage as presented may not be fully comparable to similarly-titled measures reported by our competitors. See the Non-GAAP Measures section in this Management's Discussion and Analysis (MD&A).

Net income for the three months ended December 31, 2020 was \$50 million compared to \$121 million for the same period in 2019. The decrease was primarily the result of a \$43 million increase in the fair value of our share based compensation expense and a \$21 million decrease in earnings from affiliate unconsolidated entities due to changes in fair value within the investment. Net income attributable to Brookfield Residential for the three months ended December 31, 2020 was \$3 million compared to \$80 million for the same period in 2019.

For the three months ended December 31, 2020, total revenue decreased \$6 million and gross margin decreased \$1 million, when compared to the same period in 2019. The decrease in total revenue was the result of a decrease in housing revenue, primarily resulting from 37 fewer home closings. This was partially offset by an increase in land revenue, primarily resulting from a 16% increase in single family lot selling prices, and 19 additional multi-family, industrial and commercial acre sales when compared to the same period in 2019. The decrease in total gross margin was primarily a result of fewer home and lot closings combined with product and geographic mix of homes and land sold.

For the three months ended December 31, 2020, housing revenue and housing gross margin were \$465 million and \$93 million, respectively, compared to \$479 million and \$89 million for the same period in 2019. The decrease in housing revenue was primarily due to 37 fewer home closings, partially offset by a 1% increase in the average home selling price. The increase in housing gross margin was primarily a result of a higher gross margin percentage in all of our operating segments due to geographic and product mix of homes closed within each operating segment.

Housing gross margin in our Canadian segment increased \$13 million when compared to the same period in 2019 as a result of 28 additional home closings and a 5% increase in the housing gross margin percentage, primarily due to 38% higher average home selling prices from the geographic and product mix of homes closed in the segment. The California segment's housing gross margin decreased \$11 million due to 78 fewer home closings and 3% lower average home selling prices. Central and Eastern U.S. housing gross margin increased \$2 million due to 13 additional home closings, partially offset by a 1% decrease in the average home selling prices.

For the three months ended December 31, 2020, land revenue and land gross margin were \$185 million and \$42 million, respectively, compared to \$177 million and \$48 million for the same period in 2019. The increase in revenue was mainly the result of a 16% increase in single family lot selling prices and 19 additional multi-family, industrial and commercial acre sales when compared to the same period in 2019. This was partially offset by 124 fewer single family lot closings, mainly coming from our Canadian operating segment, and closing 18 raw and partially finished acres in 2019 with no comparative closings in the current period. The decrease in land gross margin was primarily the result of fewer single family lot closings, and geographic and product mix of land sold.

Land gross margin in our Canadian segment decreased \$13 million when compared to the same period in 2019 as a result of 205 fewer single family lot closings and an 11% decrease in gross margin percentage due to geographic and product mix of land sold within the operating segment. The California segment's land gross margin increased \$7 million as a result of 44 additional single family lot closings and a 6% increase in gross margin percentage, partially offset by closing 18 raw and partially finished acres in 2019 with no comparative sale in the current period. Central and Eastern U.S. land gross margin remained consistent when compared to the same period in 2019.

For the three months ended December 31, 2020, earnings from land and housing unconsolidated entities decreased \$8 million when compared to the same period in 2019. The decrease in earnings was primarily due to 43 fewer single family lot closings, and 13 fewer multi-family, industrial and commercial acre sales at 58% lower average acre selling prices due to geographic and product mix of land sold within our unconsolidated entities.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's consolidated balance sheets as at December 31, 2020 and December 31, 2019:

	As at	
	December 31 2020	December 31 2019
<i>(US\$ millions)</i>		
Cash and restricted cash.....	\$ 368	\$ 124
Receivables and other assets.....	768	488
Land and housing inventory.....	2,657	3,059
Investments in unconsolidated entities - land and housing.....	307	330
Investment in unconsolidated entities - affiliate.....	606	634
Held-to-maturity investment.....	300	300
Commercial properties.....	710	469
Operating and financing lease right-of-use asset.....	82	90
Deferred income tax assets.....	55	49
Goodwill.....	16	16
	\$ 5,869	\$ 5,559
Accounts payable and other liabilities.....	\$ 608	\$ 577
Bank indebtedness and other financings.....	410	228
Notes payable.....	1,621	1,617
Operating and financing lease liability.....	89	93
Total equity.....	3,141	3,044
	\$ 5,869	\$ 5,559

Assets

Our assets as at December 31, 2020 totaled \$5.9 billion. Our land and housing inventory and investments in land and housing unconsolidated entities are our most significant assets with a combined book value of \$3.0 billion, or approximately 51% of our total assets. The land and housing assets decreased when compared to December 31, 2019 due to lower land acquisitions in 2020, partially offset by continued land development and home construction activity. 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 lots owned, excluding unconsolidated entities, and their stage of development as at December 31, 2020 compared with December 31, 2019 is as follows:

	As at			
	December 31, 2020		December 31, 2019	
	Units	Book Value	Units	Book Value
<i>(US\$ millions, except units)</i>				
Land held for development (lot equivalents).....	64,213	\$ 1,307	67,008	\$ 1,386
Land under development and finished lots (single family units).....	5,731	720	10,492	952
Housing units, including models.....	1,816	575	2,054	615
	71,760	\$ 2,602	79,554	\$ 2,953
Multi-family, industrial and commercial parcels (acres).....	115	\$ 55	140	\$ 105

Notes Payable

Notes payable consist of the following:

(US\$ millions)	As at	
	December 31 2020	December 31 2019
6.125% unsecured senior notes redeemed on March 12, 2020 (a)	\$ —	\$ 500
6.125% unsecured senior notes due May 15, 2023 (b)	196	192
6.375% unsecured senior notes due May 15, 2025 (c)	350	350
6.250% unsecured senior notes due September 15, 2027 (d)	600	600
4.875% unsecured senior notes due February 15, 2030 (e)	500	—
	1,646	1,642
Transaction costs (f)	(25)	(25)
	\$ 1,621	\$ 1,617

- (a) On June 25, 2013, the Company and Brookfield Residential US LLC ("BRUS LLC") co-issued a private placement of \$500 million of unsecured senior notes due July 1, 2022, at an interest rate of 6.125%. On March 12, 2020, these notes were redeemed in full at a redemption price equal to 101.531% of their aggregate principal amount, plus accrued and unpaid interest, using cash on hand and the net proceeds from the issuance of the unsecured senior notes due 2030.
- (b) On May 12, 2015, the Company issued C\$250 million of unsecured senior notes. The notes were offered in a private placement, with an eight-year term due May 15, 2023 at a fixed interest rate of 6.125%. The notes require semi-annual interest payments on May 15 and November 15 of each year until maturity. The Company's obligations to pay principal and interest on the unsecured senior notes are guaranteed by certain of the Company's subsidiaries. Upon consummation of the Reorganization Transaction, BRUS LLC became a co-issuer of the unsecured senior notes.
- (c) On May 12, 2015, the Company issued \$350 million of unsecured senior notes. The notes were offered in a private placement, with a ten-year term due May 15, 2025 at a fixed interest rate of 6.375%. The notes require semi-annual interest payments on May 15 and November 15 of each year until maturity. The Company's obligations to pay principal and interest on the unsecured senior notes are guaranteed by certain of the Company's subsidiaries. Upon consummation of the Reorganization Transaction, BRUS LLC became a co-issuer of the unsecured senior notes.
- (d) On September 23, 2019, the Company and BRUS LLC co-issued a private placement of \$600 million of unsecured senior notes. The notes have an eight-year term, are due September 15, 2027 and bear interest at a fixed rate of 6.25%. The notes require semi-annual interest payments on March 15 and September 15 of each year until maturity. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries.
- (e) On February 26, 2020, the Company and BRUS LLC co-issued a private placement of \$500 million of unsecured senior notes. The notes have a ten-year term, are due February 15, 2030 and bear interest at a fixed rate of 4.875%. The notes require semi-annual interest payments on February 15 and August 15 of each year until maturity. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries. The net proceeds of the offering were used to redeem the \$500 million aggregate principal amount of the unsecured senior notes due in 2022.
- (f) The transaction costs are costs related to the issuance of the Company's notes payable and are amortized using the effective interest rate method over the life of the related debt instrument. During the year ended December 31, 2020, the Company capitalized \$9 million of transaction costs associated with the unsecured senior notes due in 2030. As a result of the redemption of the unsecured senior notes due in 2022, the Company recorded a loss on extinguishment of debt, which included the write-off of net unamortized transaction costs of \$6 million.

All unsecured senior notes include covenants that, among others, 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 an indebtedness to consolidated tangible net worth ratio, net indebtedness to tangible net worth ratio, or a fixed charge coverage ratio, as applicable. The Company was in compliance with these financial incurrence covenants as at December 31, 2020.

Our actual fixed charge coverage, indebtedness to consolidated tangible net worth, and net indebtedness to tangible net worth ratio as at December 31, 2020 are reflected in the table below:

	Covenant	Actual as at December 31 2020
Minimum fixed charge coverage	2.0 to 1	2.41 to 1
Maximum indebtedness to consolidated tangible net worth	2.25 to 1	0.66 to 1
Maximum net indebtedness to consolidated tangible net worth	3.0 to 1	0.61 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. Our bank indebtedness and other financings as at December 31, 2020 were \$410 million, an increase of \$182 million from December 31, 2019. The increase was primarily the result of borrowings from our project-specific facilities to fund the construction at our Nashville and Honolulu mixed-use projects, and our secured VTB mortgages to fund our land acquisitions. As of December 31, 2020, the weighted average interest rate on our bank indebtedness and other financings was 4.4% (December 31, 2019 – 4.8%).

Future debt maturities are expected to either be refinanced or repaid from home closings, lot closings, or proceeds from mixed-use developments. Additionally, as at December 31, 2020, we had bank indebtedness capacity of \$598 million that was available to complete land development and construction activities. The “Cash Flow” section below discusses future available capital resources should proceeds from our future home and/or lot closings not be sufficient to repay our debt obligations.

Bank indebtedness and other financings consist of the following:

	As at	
	December 31 2020	December 31 2019
<i>(US\$ millions)</i>		
Project-specific financings (a)	\$ 356	\$ 180
Secured VTB mortgages (b)	62	55
Bank indebtedness (c)	—	—
Due to affiliates (d)	—	—
	418	235
Transaction costs (a)(c)	(8)	(7)
	\$ 410	\$ 228

(a) Project-specific financings

- (i) As at December 31, 2020, the Company has two Canadian project-specific financings totaling \$47 million (C\$60 million) provided by various lenders (December 31, 2019 - \$47 million (C\$62 million)).

Project-specific financing totaling \$39 million (C\$50 million) has an interest rate of Canadian Prime + 0.5%, matures in 2021, 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, 2019 - \$40 million (C\$52 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 December 31, 2020.

The following table reflects the debt to equity ratio covenant:

	Covenant	Actual as at December 31 2020
Maximum debt to equity ratio	1.50 to 1	0.59 to 1

Project-specific financing totaling \$8 million (C\$10 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 2021, and is secured and without covenants (December 31, 2019 - \$7 million (C\$9 million)).

- (ii) On November 29, 2018, OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company, entered into a five-year secured construction loan for the Fifth + Broadway mixed-used project in Nashville, Tennessee. The loan allows OliverMcMillan Spectrum Emery LLC to borrow up to \$360 million. As at December 31, 2020, there were \$284 million of borrowings outstanding under the construction loan (December 31, 2019 - \$133 million).

Interest is charged on the loan at a rate equal to LIBOR plus 3.35% subject to a LIBOR rate floor of 1.80%, with the ability to convert the interest charged to a prime rate loan.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of \$36 million and a minimum net worth of \$360 million. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at December 31, 2020. The following table reflects the covenants:

<i>(US\$ millions)</i>	Covenant	Actual as at December 31 2020
Minimum liquidity.....	\$ 36	\$ 822
Minimum net worth.....	\$ 360	\$ 1,193

The transaction costs are costs related to the issuance of the project facility, and are amortized using the effective interest rate method over the life of the project facility.

- (iii) On March 20, 2020, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, entered into a three-year secured construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The loan allows OliverMcMillan Kuhio LLC to borrow up to \$156 million. As at December 31, 2020, there were \$24 million of borrowings outstanding under the construction loan.

Interest is charged on the loan at a rate equal to LIBOR plus 2%, with the ability to convert the interest charged to a prime rate loan.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of \$75 million and a minimum net worth of \$250 million. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at December 31, 2020. The following table reflects the covenants:

<i>(US\$ millions)</i>	Covenant	Actual as at December 31 2020
Minimum liquidity.....	\$ 75	\$ 822
Minimum net worth.....	\$ 250	\$ 1,361

The transaction costs are costs related to the issuance of the project facility, and are amortized using the effective interest rate method over the life of the project facility.

(b) Secured VTB mortgages

The Company has 12 secured VTB mortgages (December 31, 2019 – 13 secured VTB mortgages) in the amount of \$62 million (December 31, 2019 – \$55 million).

10 secured VTB mortgages (December 31, 2019 – eight secured VTB mortgages) in the amount of \$47 million (December 31, 2019 – \$26 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\$60 million (December 31, 2019 – C\$34 million). The interest rates on this debt range from fixed rates of 4% to 6% and variable rates of Canadian Prime plus 1% to 2%, and the debt is secured by the related land. As at December 31, 2020, one secured VTB mortgage in our Calgary region is subject to a minimum shareholder's equity covenant of Brookfield Residential (Alberta) LP of C\$200 million. The following table reflects the minimum shareholder's equity covenant:

<i>(CAD\$ millions)</i>	Covenant	Actual as at December 31 2020
Minimum shareholder's equity.....	\$ 200	\$ 595

As at December 31, 2020, the remaining borrowings are not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2019 – five secured VTB mortgages) in the amount of \$15 million (December 31, 2019 – \$29 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% to 4% and the debt is secured by the related land. As at December 31, 2020, these borrowings are not subject to any financial covenants.

(c) Bank indebtedness

On September 4, 2020, the Company and BRUS LLC finalized the amendment and extension of the North American unsecured revolving credit facility. The unsecured revolving credit facility was extended through September 2022 on substantially the same terms and conditions, allowing the Company to borrow in either Canadian or U.S. dollars with borrowings allowable up to \$675 million.

As at December 31, 2020, there were no borrowings outstanding under the North American unsecured revolving credit facility and we had available capacity of \$598 million (December 31, 2019 - no borrowings outstanding and \$610 million of available capacity, respectively).

For U.S. dollar denominated borrowings, interest is charged on the facility at a rate equal to, at the borrower's option, either the adjusted LIBOR plus an applicable rate between 2.50% and 3.00% per annum or an alternative base rate ("ABR") plus an applicable rate between 1.50% and 2.50% 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 2.50% and 3.00% per annum or the Canadian prime rate plus an applicable rate between 1.50% and 2.00% per annum.

The facility contains certain restrictive covenants including limitations on liens, dividends and other distributions, investments in subsidiaries and joint ventures that are not party to the loan. The facility requires the Company to maintain a minimum consolidated tangible net worth of \$2.3 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at December 31, 2020, 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:

<i>(US\$ millions, except percentages)</i>	Covenant	Actual as at December 31 2020
Minimum tangible net worth	\$ 2,322	\$ 3,125
Maximum total debt to capitalization	65%	37%

The transaction costs are costs related to the issuance of the Company's facility, and are amortized using the effective interest rate method over the life of the facility.

(d) Due to affiliates

On May 27, 2019, Brookfield Residential Finance Corp., a wholly-owned subsidiary of the Company, entered into a \$300 million deposit agreement with a subsidiary of BAM. The principal is repayable on demand. Interest is charged on the principal at a rate of LIBOR plus 1.50%. As at December 31, 2020, the Company had no borrowings outstanding (December 31, 2019 - \$nil). These borrowings are not subject to 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 December 31, 2020 and December 31, 2019 was as follows:

<i>(US\$ millions, except percentages)</i>	As at	
	December 31 2020	December 31 2019
Bank indebtedness and other financings	\$ 410	\$ 228
Notes payable	1,621	1,617
Total interest bearing debt	2,031	1,845
Less: cash	(350)	(110)
	1,681	1,735
Total equity	3,141	3,044
Total capitalization	\$ 4,822	\$ 4,779
Net debt to total capitalization	35%	36%

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 December 31, 2020 were as follows:

	<u>Moody's</u>	<u>S&P</u>
Corporate rating	B1	B
Outlook	Stable	Stable

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

Cash Flow

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

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

At December 31, 2020, we had cash and cash equivalents, including restricted cash, of \$368 million, compared to \$124 million at December 31, 2019.

The net cash flows for the year ended December 31, 2020 and 2019 were as follows:

<i>(US\$ millions)</i>	<u>Year Ended December 31</u>	
	<u>2020</u>	<u>2019</u>
Cash flows provided by / (used in) operating activities	\$ 94	\$ (157)
Cash flows provided by investing activities	28	63
Cash flows provided by financing activities	117	146
Effect of foreign exchange rates on cash	5	(1)
	<u>\$ 244</u>	<u>\$ 51</u>

Cash Flow Provided by / (Used in) Operating Activities

Cash flows provided by operating activities during the year ended December 31, 2020 totaled \$94 million, compared to cash flows used in operating activities of \$157 million for the same period 2019. During the year ended December 31, 2020, cash provided by operating activities was primarily impacted by our net income, an increase in commercial properties primarily due to continued construction on the Nashville and Honolulu mixed-use development projects, a decrease in land and housing inventory due to sales activity and turnover of inventory, an increase in receivables and other assets, a decrease in accounts payable and other liabilities and a decrease in operating lease liabilities. Acquisitions of land and housing inventory for the year ended December 31, 2020 totaled \$189 million, consisting of \$72 million in Canada, \$68 million in California and \$49 million in Central and Eastern U.S. During the year ended December 31, 2019, cash used in operating activities was primarily impacted by our net income, an increase in commercial properties, an increase in land and housing inventory due to land development, home construction and strategic land purchases, an increase in receivables and other assets, a decrease in accounts payable and other liabilities and a decrease in operating lease liabilities. Acquisitions of land and housing inventory for the year ended December 31, 2019 totaled \$401 million, consisting of \$56 million in Canada, \$200 million in California, \$61 million in Central and Eastern U.S and \$84 million in Corporate and Other relating to our Homebuilder Finance program. The increase in commercial properties of \$197 million was largely due to continued construction at our Nashville mixed-use development project.

Cash Flow Provided by Investing Activities

During the year ended December 31, 2020, cash flows provided by investing activities totaled \$28 million, compared to \$63 million for the same period in 2019. During the year ended December 31, 2020, cash provided by investing activities was primarily impacted by \$53 million distributions from our land and housing unconsolidated entities. This was partially offset by an increase in our loan receivables of \$7 million and investments of \$18 million in land and housing unconsolidated entities, primarily in our joint ventures in Southern California. During the year ended December 31, 2019, we received \$300 million from the full redemption of our held-to-maturity investment in Brookfield BPY Holdings Inc., invested \$300 million into our held-to-maturity investment in Brookfield International Limited and received cash dividends relating to these investments of \$9 million. We also received \$66 million in distributions from our land and housing unconsolidated entities, collected \$19 million on our loan receivables, and acquired \$6 million of cash from the Reorganization Transaction. This was partially offset by our investment of \$37 million in land and housing unconsolidated entities, primarily in our joint ventures in Southern California.

Cash Flow Provided by Financing Activities

Cash flows provided by our financing activities for the year ended December 31, 2020 totaled \$117 million, compared to \$146 million for the same period in 2019. During the year ended December 31, 2020, cash provided by financing activities was primarily from \$147 million net borrowings under project-specific and other financings and contributions to non-controlling interest of \$48 million, partially offset by distributions from non-controlling interest of \$47 million, tax equivalent distribution of \$11 million, \$9 million of costs related to the extinguishment of the unsecured senior notes due in 2022, \$9 million of costs related to the issuance of the unsecured senior notes due in 2030, and \$2 million of costs related to the amendment and extension of the Company's unsecured revolving credit facility. The Company's unsecured senior notes due in 2022 were redeemed in full using the net proceeds from the issuance of the unsecured senior notes due in 2030, together with cash on hand. For the year ended December 31, 2019 cash provided by our financing activities was primarily from \$153 million net borrowing under project-specific and other financings and \$104 million from the sale of interests in consolidated subsidiaries. This was partially offset by net repayments on our bank indebtedness of \$77 million, payments of debt issuance costs of \$19 million, and distributions to non-controlling interest of \$15 million. Additionally, during the year ended December 31, 2019, the Company's unsecured senior notes due in 2020 were redeemed in full using the net proceeds from the issuance of the unsecured senior notes due in 2027, together with cash on hand. A total of \$11 million in debt issuance costs were incurred with the issuance of the unsecured senior notes due in 2027 and \$8 million in consent fees were paid relating to the senior notes due in 2022, 2023 and 2025.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at December 31, 2020 is as follows:

(US\$ millions)	Payment Due By Period				
	Total	Less than 1 Years	1 – 3 Years	3 – 5 Years	More than 5 Years
Notes payable ⁽¹⁾	\$ 1,646	\$ —	\$ 196	\$ 350	\$ 1,100
Interest on notes payable	686	127	217	157	185
Secured VTB mortgages ⁽²⁾⁽³⁾	62	27	32	3	—
Project-specific financings ⁽²⁾⁽³⁾	356	39	32	285	—
Accounts payable and other liabilities ⁽⁴⁾	608	608	—	—	—
Operating and financing lease obligations ⁽⁵⁾	400	10	18	17	355
Purchase agreements and other obligations ⁽⁶⁾	304	151	135	13	5

(1) Amounts are included on the consolidated balance sheets and exclude transaction costs. See Note 14 to the consolidated financial statements for additional information regarding unsecured senior notes payable.

(2) Amounts are included on the consolidated balance sheets. See Note 13 to the consolidated financial statements for additional information regarding bank indebtedness and other financings and related matters.

(3) Amounts do not include interest due to the floating nature of the interest on the debt. See Note 13 to the consolidated financial statements for additional information regarding floating rate debt.

(4) Amounts are included on the consolidated balance sheets. See Note 12 to the consolidated financial statements for additional information regarding accounts payable and other liabilities.

(5) Amounts relate to non-cancellable operating and financing leases involving office space, design centres and model homes. See Note 10 to the consolidated financial statements for additional information regarding lease agreements.

(6) See Note 20 to the consolidated financial statements for additional information regarding purchase agreements and other obligations.

Shareholders' Equity

At March 2, 2021, 129,756,910 Common Shares in the capital of the Company were issued and outstanding. In addition, Brookfield Residential has a stock option plan under which key officers and employees are granted options to purchase Non-Voting Class B Common Shares or settle the options in cash at the option of the holder. Each option granted can be exercised for one Non-Voting Class B Common Share or settled in cash for the fair value of one Common Share at the date of exercise. At March 2, 2021, 10,409,076 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the year ended December 31, 2020.

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 December 31, 2020, we had \$25 million of primarily non-refundable option deposits and entitlement costs. The total remaining exercise price of these options was \$76 million. Pursuant to the guidance in the United States Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810 *Consolidation*, as described in Note 5 "Land and Housing Inventory" to our consolidated financial statements included elsewhere in this annual report, we have consolidated \$8 million of these option contracts where we consider the Company holds the majority economic interest in the assets held under the options.

We also own 6,107 lots and control under option 1,001 lots through our proportionate share of land and housing unconsolidated entities. As of December 31, 2020, our investment in land and housing unconsolidated entities totaled \$307 million. We have provided varying levels of guarantees of debt in our land and housing unconsolidated entities. As of December 31, 2020, we had recourse guarantees of \$33 million with respect to debt in our land and housing unconsolidated entities. During the year ended December 31, 2020, we did not make any loan re-margin repayments on the debt in our land and housing unconsolidated entities. Please refer to Note 6 "Investments in Unconsolidated Entities" to our consolidated financial statements included later in this annual report 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 December 31, 2020, we had \$73 million in letters of credit outstanding and \$521 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds as at December 31, 2020 are \$46 million and \$143 million, respectively.

Transactions Between Related Parties

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 significant related party transactions as at and for the years ended December 31, 2020 and 2019 were as follows:

- During the year ended December 31, 2020, the Company entered into a management agreement with our service providers, Brookfield Properties Development, wholly-owned subsidiaries of BAM. The management fee is determined by applicable rates on construction and development spending as well as assets under management, as defined in the management agreement. During the year ended December 31, 2020, the Company incurred \$88 million of management fees (year ended December 31, 2019 – \$25 million). These transactions were recorded at the exchange amount within selling, general and administrative expense and commercial properties.
- During the year ended December 31, 2020, the Company entered into an agreement with Brookfield Properties Development to provide financing of up to \$50 million. As at December 31, 2020, the loan had an outstanding balance of \$36 million that was recorded within receivables and other assets. During the year ended December 31, 2020, the Company recorded \$2 million of interest income in the consolidated statement of operations. Subsequent to December 31, 2020, the loan capacity was increased from \$50 million to \$100 million.
- During the year ended December 31, 2020, the Company earned \$24 million of dividends from the preferred shares of Brookfield International Ltd. ("BIL") (year ended December 31, 2019 – \$14 million of dividends earned) that have been recorded in the consolidated statements of operations within other income. As at December 31, 2020, a total of \$36 million of accrued dividends is recorded within receivables and other assets. These transactions were recorded at the exchange amount.

- During the year ended December 31, 2020, the Company entered into an agreement for the management of the retail operations at our Nashville mixed-use project and during the year ended December 31, 2020, the Company paid leasing commissions of \$2 million to Brookfield Properties Retail Inc., a subsidiary of BAM. This transaction was recorded at the exchange amount within receivables and other assets.
- During the year ended December 31, 2020, the Company made a tax equivalent distribution of \$11 million to BUSI, a subsidiary of BAM. The distribution amount was determined based on the amount of U.S. federal and applicable state income tax that Brookfield Residential US Holdings LLC ("BRUSH") would be required to pay if it was a corporation for U.S. tax purposes.
- During the year ended December 31, 2019, the Company received \$300 million from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. that was recorded in the consolidated balance sheets. The Company also received \$7 million of dividends from these preferred shares for the year ended December 31, 2019, that were recorded in the consolidated statement of operations within other income. These transactions were recorded at the exchange amount.
- During the year ended December 31, 2019, the Company entered into a \$300 million deposit agreement with a subsidiary of BAM, and no borrowings were outstanding under the facility at December 31, 2020 or December 31, 2019. During the year ended December 31, 2019, the Company paid \$2 million of interest.
- During the year ended December 31, 2019, the Company purchased \$300 million of preferred shares of Brookfield International Ltd, a subsidiary of BAM, that were recorded in the consolidated balance sheets within held-to-maturity investments. The transaction was recorded at the exchange amount.
- On September 26, 2019, the Company completed the Reorganization Transaction with BUSI, a wholly-owned subsidiary of BAM, whereby the Company transferred its investment in its U.S. homebuilding operations for a 12.3% economic interest and a 50% voting interest in BUSI. The Company consolidated Brookfield Holdings (Meadows) LLC ("Meadows") and Brookfield Holdings (Hayden I) LLC ("Hayden I") that were previously owned by BUSI as part of the Reorganization Transaction. This transaction was treated as a common control transaction.
- During the year ended December 31, 2019, the Company sold 34% of its Homebuilder Finance program to a wholly-owned subsidiary of BAM for consideration of \$60 million. The transaction was recorded at the exchange amount.
- Subsequent to December 31, 2020, the Company declared and paid a dividend to the common shareholders, various subsidiaries of BAM of \$350 million.

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.

BUSINESS ENVIRONMENT AND RISKS

The following is a review of certain risks that could adversely impact our financial condition and results of operations. Additional risks and uncertainties not previously known to the Company, or that the Company currently deems immaterial, may also impact our operations and financial results.

Impact of COVID-19

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Beginning in the first quarter of 2020, we experienced economic shutdowns as a result of the COVID-19 pandemic which affected the global economy and the jurisdictions where we operate. This continued through the second quarter of 2020 and impacted our financial position and results. In the third quarter of 2020, businesses started to reopen and we saw signs of economic recovery and an increase in demand for single-family homes. We remain cautiously optimistic heading in 2021 but are aware of the challenges that lie ahead. Although vaccines have been approved in Canada, the United States and other countries, the timing of the rollout of such vaccines in Canada and throughout the United States remains uncertain. As such, it is not possible to reliably estimate the length and severity of COVID-19-related impacts on the financial results and operations of the Company. We have already taken and will continue to take actions to mitigate the effects of COVID-19, keeping in mind the interests of our employees and other stakeholders. Actions to date include (but are not limited to) the implementation of worksite and office safety protocols, cost control measures and contingency plans from both an operational and financial perspective. We also continue to assess and mitigate against the risk of temporary or longer term labour shortages or disruptions, including the impact on our ongoing development projects. Our response to the COVID-19 pandemic is guided by the World Health Organization, public health authorities and guidance issued by federal, provincial, state and municipal governments. We continue to closely monitor business operations and may take further actions in response to directives of government and public health authorities or that are in the best interests of employees or other stakeholders, as necessary. These changes and any additional changes in operations in response to COVID-19 could materially adversely impact operations and the financial performance of the Company.

The speed and extent of the continued spread of COVID-19, and the duration and intensity of resulting business disruption and related financial and social impact, remain uncertain, and such adverse effects may be material. Potential adverse impacts of COVID-19 include, but are not limited to:

- The risk of decreased demand for residential, retail or commercial real estate products and material reductions in the value of our property and occupancy rates;
- Issues delivering certain products and services, due to temporary or long-term supply chain disruptions and the impact of business closures, mobility restrictions, import/export restrictions, quarantine orders and other steps taken in response to COVID-19;
- Increased challenges collecting revenue or other accounts receivable from our customers and suppliers;
- Increased risk of sales contract cancellations;
- Potential challenges in completing land development construction activities or transactional activities in a timely manner, or at all;
- Temporary or long-term stoppage in development projects and labour shortages or disruptions;
- Potential challenges accessing credit and capital markets and the ability to make principal and interest payments or refinance any outstanding debt or satisfy our financial covenants; and
- Increased risks to IT systems and networks;

Further, we are unable to predict with any certainty the policies that may be adopted by federal, provincial, or municipal governments in Canada or the federal or state governments in the United States or any central bank in response to COVID-19, or the effect of such policies or governmental regulation on the Company or on the real estate and construction industries generally. Brookfield Residential continues to monitor these developments closely and will assess the applicability, eligibility and appropriateness of any government scheme or program.

The nature, extent and severity of the impact of COVID-19 on our business will also depend upon future developments, which are highly uncertain, rapidly evolving and cannot be predicted, including new information which may emerge concerning the severity of this outbreak and actions taken to contain COVID-19 or its impact, and the availability, quantity and successful deployment of efficacious vaccines, among others. Such developments, depending on their nature, duration and intensity, could have a material adverse effect on our business, financial position, results of operations or cash flows.

Risks related to the business and industry of the Company

The land development and homebuilding industry is significantly affected by changes in general and local economic and political conditions as well as real estate markets, which could reduce sales and profits, cause cancellations of home sales orders and materially negatively affect our business, results of operations and financial condition.

The land development and homebuilding industry is cyclical and is significantly affected by changes in general and local economic, political and industry conditions such as:

- employment and wage levels;
- availability and cost of financing for homebuyers including private and federal mortgage financing and mortgage insurance programs, as well as federal, provincial and state regulation of lending practices;
- regulatory changes, including zoning laws;
- interest rates;
- competitive and market supply and demand dynamics in our key markets, including those enabling existing homeowners to sell their existing homes at acceptable prices;
- the supply of available new or existing homes for sale, as well as other housing alternatives, such as apartments and residential rental property;
- foreclosure rates;
- inflation;
- real estate taxes, federal, provincial and state property and income tax provisions (including provisions for the deduction of mortgage interest payments and state property taxes and income tax rates and brackets in the United States), and any adverse changes in tax laws;
- the level of household debt affecting our customer base;
- the cost and availability of labor, materials and supplies;
- the Canadian, United States and global financial system and credit markets, including stock market, commodities market, currency market and credit market volatility;
- the supply of land suitable for development in our markets in Canada and the United States;
- consumer confidence;
- demographic housing trends, including population rates in our key markets, immigration rates and urban and suburban migration rates;
- decreases in rental rates for our mixed-use properties;
- an increase in competition for tenants and customers or decrease in demand by tenants and customers of our mixed-use properties;
- the financial condition of tenants in our mixed-use properties;
- an increase in operating costs that cannot be passed through to tenants of our mixed-use properties; and
- an inability to secure tenants or anchors necessary to support our mixed-use properties.

These factors could have a negative impact on housing demand and supply, which would negatively affect our business, results of operations and financial condition. For example, an oversupply of housing in general, as well as new home alternatives such as foreclosed homes, rental properties and resale homes, including homes held for sale by investors and speculators, may reduce our sales, depress prices and reduce margins, which could materially negatively affect our business, results of operations and financial condition. Despite some recent recovery, the United States and Canadian land development and homebuilding industry continues to face a number of challenges, with home foreclosures and tight credit standards continuing to have an effect on inventory and new home sale rates and prices.

It is difficult to predict the impact and severity that COVID-19 will have on the housing market and our homebuyers. Unemployment continues to remain high in both Canada and the United States, and the pace of economic recovery will depend on a multitude of factors including government mandates and policies, the availability of additional government stimulus packages, as well as the availability, quantity and successful deployment of efficacious vaccines. While the demand for housing has increased as a result of low-interest rates and suppressed demand, this may be offset in the long term by low wage growth, further disruptions in the supply-chain, ongoing or recurring business closures, mobility restrictions, restrictions in trade, stoppages in development or construction and other adverse impacts resulting from COVID-19. This could in turn impact homebuyer and consumer confidence, restrict the ability of homebuyers to access capital or sell their existing homes and could result in a slowdown of homebuyer traffic, an increase in order cancellations or a general inability to realize our backlog. While we continue to closely monitor developments and adjust our operations accordingly, we cannot predict with any certainty how COVID-19 will impact our operations.

An economic downturn in Ontario or Alberta, Canada or challenging real estate markets in the United States could have a material adverse effect on our business, operating results and financial condition.

Our Canadian markets continue to be materially impacted by COVID-19. While interest rates remain low, changes to the mortgage rules will continue to impact homebuyers as they adjust to what they can now afford as a result of the stress test combined with government policies relating to the Ontario real estate market and the Alberta energy sector surrounding pipeline approvals. Our Alberta operations will continue to be challenged due to the economic conditions stemming from amongst other things, the volatility in the price of and the long-term demand for crude oil, natural gas and other refined products as well as market access constraints. Any economic downturn, increase in unemployment, increase in interest rates, decrease in immigration or other changes in the general and local market, could have a material adverse effect on our Canadian operations and financial condition.

The housing market in the United States continues to be impacted by COVID-19 as well. In previous years, particularly in 2008 through 2010, the United States housing market experienced a severe downturn, exacerbated by, among other things, a decline in the overall economy, high unemployment, fear of job loss, volatility in the capital markets, an increase in the number of homes that were available for sale due to foreclosures, an inability of homebuyers to sell their current homes, a deterioration in the credit markets and the direct and indirect impact of the turmoil in the mortgage loan market. For example, the significant number of home mortgage foreclosures made the purchase of a foreclosed home an attractive alternative to purchasing a new home in some markets, which increased supply of homes and drove prices down further. Homebuilders responded to declining sales and increased cancellation rates on home purchase contracts with significant concessions, further adding to the price declines. With the decline in the values of homes and the inability of many homeowners to make their mortgage payments, the credit markets were significantly disrupted, putting strains on many households and businesses. In the face of these conditions, the overall economy weakened significantly, with high unemployment levels and substantially reduced consumer spending and confidence. As a result, demand for new homes hit historically low levels during that period.

Although the U.S. housing market has shown signs of recovery, many of the factors contributing to the downturn prior to the COVID-19 pandemic remain, and improved conditions do not extend consistently to every market in which we operate. We expect these uneven conditions to continue.

While the U.S. housing market has shown strong signs of recovery, if the current U.S. housing market does not continue to improve or improvement takes place over an extended period of time, or if similar conditions affect the Canadian homebuilding industry, our business, results of operations and financial condition may be materially adversely affected.

COVID-19 has also adversely disrupted the industry for retail and office properties. Some commercial tenants are experiencing financial pressure and are continuing to place demands on landlords to provide rent concessions. The financial hardships on some tenants are so severe they may leave the market entirely or declare bankruptcy, creating fluctuating vacancy rates in commercial properties. Tenants in good financial condition often consider offers from competing projects and may wait for the best possible deal before committing. The foregoing conditions could adversely affect our results of operations from our mixed-use properties.

If the market value of our land and housing inventories declines, our business, results of operations and financial condition could be materially adversely affected by impairments and write-downs, as well as if we cannot recover our costs fully when selling homes.

We acquire land in the ordinary course of our business. There is an inherent risk that the value of our land may decline after purchase, which also may affect the value of our housing inventories and homes under construction. The valuation of property is inherently subjective and based on the individual characteristics of each property, as well as general and local real estate market conditions. The risks discussed elsewhere in this section can cause these conditions to change and thereby subject valuations to uncertainty.

Moreover, all valuations are made on the basis of assumptions that may not prove to reflect economic or demographic reality. We may acquire options on or buy and develop land at a cost we will not be able to recover fully or on which we cannot build and sell homes profitably. For example, if housing demand decreases below what we anticipated when we acquired or developed our inventory, we may not be able to recover the related costs when selling homes. In addition, our deposits for building lots under option or similar contracts may be put at risk.

We regularly review the value of our land holdings and will continue to do so on a periodic basis. If market conditions deteriorate, our assumptions prove to be inaccurate or the value of our property otherwise declines, some of our assets may be subject to impairments and write-down charges, which could materially adversely affect our business, results of operations and financial condition. In addition, if we sell land or homes at a loss, our results of operations and financial condition could be materially adversely affected.

Budget deficits in certain regions could result in tax increases or decreased public services, discouraging buyers in these markets.

Prior to COVID-19, many provincial, state, regional and local governments in our served markets struggled to balance their budgets due to a number of factors. As a result, there have been significant cuts to government departments, subsidies, programs and public employee staffing levels, while taxes and fees have been increased. Combined with unprecedented levels of government stimulus and relief packages, lawmakers' efforts at all governmental levels to address these budget deficit issues and/or efforts to increase governmental revenues could, among other things, cause businesses and residents to leave, or discourage businesses or households from coming to, affected served markets, thereby limiting economic growth and/or resulting in significant delays and/or higher costs in obtaining required inspections, permits or approvals with respect to the development of our communities located in such markets. These negative impacts could adversely affect our ability to generate orders and revenues and/or to maintain or increase our housing gross profit margins in such markets, and the impact could be material and adverse to our consolidated financial statements.

An increase in interest and mortgage rates or a reduction in the availability of mortgage financing could adversely affect our ability to sell new homes and the price at which we can sell them.

Virtually all of the purchasers of our homes finance their acquisitions through mortgage financing. The Federal Reserve Bank of the United States increased interest rates in December 2015 for the first time since 2006 and has increased interest rates again several times since then, although in 2019 and 2020, interest rates decreased several times. In Canada, the Bank of Canada increased the interest rates in July 2017 for the first time since 2010 and increased interest rates again several times since then, before decreasing interest rates several times in 2019 and 2020. An increase in interest and mortgage rates, which may occur in both the United States and Canada in the near future, or a reduction in the availability of mortgage financing could depress new home sales because the increased effective monthly costs of mortgage financing would discourage potential homebuyers. Tax law changes can have a similar impact. See "Tax law changes could make home ownership more expensive or less attractive, which could have an adverse impact on demand for and sales prices of new homes." Even if potential purchasers do not need financing, these conditions could make it harder for them to resell their homes in the future, which would discourage potential homebuyers. These conditions could also increase cancellation rates on home purchase contracts, which would reduce our ability to realize our backlog. As a result, increased interest and mortgage rates and reduced mortgage availability could materially adversely affect our ability to sell new homes and the price at which we can sell them, which would have a material adverse effect on our business, results of operations and financial condition.

More restrictive mortgage regulation and fewer mortgage products could adversely affect our ability to sell new homes.

In Canada, bank regulators, the Ministry of Finance, CMHC and the Bank of Canada work in concert to manage mortgage lending practices. In addition, mortgage insurance is mandatory for mortgages with a loan-to-value ratio greater than 80%. This insurance covers the entire loan amount for its full duration. During the past seven years, mortgage insurance rules have been tightened to shorten amortization periods, increase minimum equity requirements and limit the insured loan amounts, all of which have made access to mortgages more difficult and have negatively impacted homebuyers' ability to purchase homes.

Canadian mortgage rules subject home buyers with down payments of 20% or more to stricter qualifying criteria that determine whether a homebuyer will be able to afford their principal and interest payments. The criteria uses the higher of the Bank of Canada's 5-year benchmark rate (currently 4.79%) or the potential home buyer's mortgage interest plus 2%. The rules, which came into effect on January 1, 2018, apply to new mortgage loan agreements and have decreased the borrowing and purchasing power of home buyers. The rules, have affected the purchasing power of new homebuyers and their ability to secure mortgage financing, negatively impacting the sale of new homes and the price at which we can sell them. The Canadian government has also introduced a new shared equity mortgage program to assist first-time homebuyers. However, we anticipate the benefits to prospective homebuyers from this program to be marginal.

Prior to the 2007 financial crisis, in the United States, a variety of mortgage products were available. As a result, more homebuyers were able to qualify for mortgage financing. Since 2007, however, there has been a significant decrease in the type of mortgage products available and a general increase in the qualification requirements for mortgages. Fewer loan products and tighter loan qualifications make it more difficult for some homebuyers to finance the purchase of new homes. This, coupled with higher mortgage interest rates for some mortgage products, has discouraged people from buying new homes. Beginning in January 2014, the U.S. Consumer Financial Protection Bureau began to enforce new rules regarding the origination of mortgages, including criteria for "qualified mortgages". In December 2017, U.S. regulations regarding "risk retention" for securitizations, including securitizations of residential mortgages, went into effect. Other new regulations are forthcoming as required to be implemented pursuant to the U.S. Dodd-Frank Act of 2010. These new regulations could increase the difficulty of obtaining mortgage financing and result in higher mortgage interest rates, further discouraging new home purchases.

In both markets, even if potential purchasers do not need financing, these conditions could make it harder for them to resell their homes in the future, which would discourage potential homebuyers. Overall, more restrictive mortgage regulation and fewer mortgage products could materially adversely affect our ability to sell new homes and the price at which we can sell them, which would have a material adverse effect on our business, results of operations and financial condition.

Tax law changes could make home ownership more expensive or less attractive, which could have an adverse impact on demand for and sales prices of new homes.

In the United States, unlike in Canada, significant expenses incurred for purposes of owning a home, including mortgage interest expense and real estate taxes, generally are deductible expenses for an individual's U.S. federal and, in some cases, state income taxes, subject to various limitations under current tax law and policy. On December 22, 2017, the Tax Cuts and Jobs Act was enacted which limited the federal deduction for mortgage interest so that it only applies to the first \$750,000 of a new mortgage (as compared to \$1 million under previous tax law) and introduced a \$10,000 cap on the federal deductions for state and local taxes. These changes are in effect for taxable years 2018 through 2025. These changes may adversely impact demand for and sales prices of new homes.

If the U.S. federal government or a state government further changes its income tax laws to eliminate or substantially modify these income tax deductions, the after-tax cost of owning a new home would increase for many potential purchasers of our homes. Increases in property tax rates by local governmental authorities, as experienced in response to reduced federal, state and provincial funding, can adversely affect the ability of potential purchasers of our homes to obtain financing or their desire to purchase new homes. In addition, increases in sales and other taxes could discourage potential homebuyers from purchasing one of our homes.

Any resulting loss or reduction of homeowner tax deductions, if such tax law changes were enacted without offsetting provisions, or any other increase in any taxes affecting homeowners, would adversely impact demand for and sales prices of new homes.

We may be unable to renew leases or re-lease space in our mixed-use properties as leases expire.

When our tenants decide not to renew their leases upon expiration, we may not be able to re-lease the space. Even if tenants do renew their lease or we can re-lease the space, the terms of renewal or new lease, taking into account, among other things, the cost of improvements to the property and leasing commissions, may be less favorable than the terms in the expired leases. In addition, changes in space utilization by our tenants may impact our ability to renew or re-lease space without the need to incur substantial costs in renovating or redesigning the internal configuration of the relevant property. If we are unable to promptly renew the leases or re-lease the space at similar rates or if we incur substantial costs in renewing or obtaining new leases for the space, our cash flow and results of operations could be adversely affected. COVID-19 may further impact the ability of tenants to renew their leases or to renew leases at favorable rates.

Our results of operations and cash flows may be adversely affected by vacancies and tenant defaults or bankruptcy in our mixed-use properties.

Our results of operations and cash flows may be adversely affected if we are unable to continue leasing a significant portion of our mixed-use properties. We depend on office, retail and apartment tenants to generate income from these properties. The current market conditions have negatively impacted these tenants on many levels. Despite improvement in certain economic measures, it will take time for many of our current or prospective tenants to achieve a financial outlook similar to what they had prior to the outbreak of COVID-19, if ever. The downturn has been particularly hard on retail tenants, many of whom have announced store closings and scaled back growth plans. This trend may be further exacerbated and accelerated by the impacts of COVID-19. If we are unable to sustain historical occupancy levels in our mixed-use real estate portfolio, our cash flows and results of operations could be adversely affected.

Our results of operations and cash flows may be adversely affected if a significant number of our tenants in our mixed-use properties default on their obligations to us. A default by a tenant may result in the inability for that tenant to re-lease space from us on economically favorable terms, or at all. In the event of a default by a tenant, we may experience delays in payments and incur substantial costs in recovering our losses.

In addition, our ability to collect rents and other charges will be difficult if the tenant is bankrupt or insolvent. The potential bankruptcies of tenants could make it difficult for us to enforce our rights as lessor and protect our investment.

Residential land development and homebuilding is a highly competitive industry, and competitive conditions may adversely affect our results of operations.

The residential land development and homebuilding industry is highly competitive. Residential land developers and homebuilders compete not only for homebuyers, but also for desirable properties, building materials, labor and capital. We compete with other local, regional and national homebuilders, often within larger communities designed,

planned and developed by those homebuilders. Any improvement in the cost structure or service of these competitors will increase the competition we face. We also compete with the resale of existing homes including foreclosed homes, sales by housing speculators and investors and rental housing. These competitive conditions could result in difficulty in acquiring suitable land at acceptable prices, increased selling incentives, lower sales volumes and prices, lower profit margins, impairments in the value of our inventory and other assets or increased construction costs and delays in construction, any of which could adversely affect our business, results of operations and financial condition.

Any increase in unemployment or underemployment may lead to an increase in the number of loan delinquencies and property repossessions and could reduce our sales.

People who are unemployed, underemployed or concerned about the loss, or potential loss, of their jobs are less likely to purchase new homes, may be forced to try to sell the homes they own and may face difficulties in making required mortgage payments. Therefore, any increase in unemployment or underemployment may lead to an increase in the number of loan delinquencies and property repossessions and may have an adverse impact on us both by reducing demand for the homes we build and by increasing the supply of homes for sale, which could reduce our sales, adversely affecting our business and results of operations. While the job market has shown signs of recovery, unemployment remains high and employers may choose to implement additional cost cutting measures, redundancies and furlough schemes in response to COVID-19.

Higher cancellation rates of home purchase contracts may have an adverse effect on our business, financial condition and results of operations.

Our backlog reflects agreements of sale with homebuyers for homes that have not yet been delivered. If prices for new homes decline, interest rates increase, the availability of mortgage financing diminishes, current homeowners find it difficult to sell their current homes, there is a further downturn in local, regional or national economic conditions or competitors increase their use of sales incentives, homebuyers may cancel their existing home purchase contracts with us in order to negotiate a lower price or because they cannot, or become reluctant to, complete the purchase.

In cases of cancellation, we remarket the home and usually retain any deposits we are permitted to retain. We may not have any recourse against the homeowners other than retention of their deposit, and the deposits may not cover the additional costs involved in remarketing the home and carrying of higher inventory. A significant number of cancellations could adversely affect our business, results of operations and financial condition.

Our business is seasonal in nature and quarterly operating results can fluctuate.

Our quarterly operating results generally fluctuate by season. We typically experience the highest rate of orders for new homes 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. Because 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, which is typically when we would receive payment. As a result, our revenues from sales of homes are generally higher in the second half of the year. If, due to construction delays or other reasons, including seasonal natural disasters such as hurricanes, tornadoes, floods and fires, we are unable to deliver our expected number of homes in the second half of the calendar year, the full year results of operations may be adversely affected. In many cases, we may not be able to recapture increased costs by raising prices because we fix our prices in advance of delivery by signing new sales contracts.

Our business, results of operations and financial condition could be adversely affected by significant inflation or deflation.

Inflation can adversely affect us by increasing costs of land, materials and labor. We may not be able to offset inflation-related cost increases because inflation can lead to an oversupply of homes relative to demand, which would make it difficult for us to increase the sales prices of homes. Moreover, our costs of capital could increase with inflation, and the purchasing power of our cash resources could decline. Governmental efforts to stimulate the economy have increased the risk of inflation and its resulting adverse impact on our business, results of operations and financial condition. In addition, inflation is often accompanied by higher interest rates as a result of changes to national monetary policies, which have a negative impact on mortgage financing and housing demand. In such an environment, we may not be able to raise home prices sufficiently to keep up with the rate of inflation.

On the other hand, a significant period of deflation could cause a decrease in overall spending and borrowing levels. This could lead to a further deterioration in economic conditions, including an increase in the rate of unemployment. Deflation could also cause the value of our inventories to decline or reduce the value of existing homes below the related mortgage loan balance, which could potentially limit market activity.

Any of these factors affecting one of our master-planned communities, a region or our business as a whole, many of which are beyond our control, could cause our business, results of operations and financial condition to deteriorate.

Extensive and complex regulation affecting the land development and homebuilding industry subject us to restrictions, additional costs and delays, which could limit our homebuilding or other activities or increase our expenses, which would adversely affect our business and results of operations.

We must comply with extensive and complex local, provincial, state and federal regulation affecting the land development and homebuilding industry. This includes regulation concerning building, health and safety (including COVID-19 measures), environmental and zoning matters, among others. Governmental regulation also affects sales activities, mortgage lending activities and other dealings with customers.

In particular, we are required to obtain the approval of numerous governmental authorities regulating matters such as permitted land uses, levels of density, the installation of utility services, zoning and building standards. These governmental authorities often have broad discretion to impose significant conditions to these approvals, if they are granted at all. The industry also has experienced an increase in regulation that limits the availability or use of land. Certain jurisdictions in which we operate have in the past approved, or approved for inclusion on their ballot, various “slow growth” or “no growth” initiatives that negatively impact the availability of land and building opportunities within those localities. Further similar initiatives would reduce our ability to operate in those areas, including where we may already own land, as well as cause delays and increase our costs and administration requirements.

In addition, new development projects may be subject to various assessments for schools, parks and other open spaces, new or improved streets and highways, adequate water and sewage facilities and other local services, and may be required to include low and moderate income housing. The costs of these services can be substantial, and if developers are required to fund some or all of the costs, our expenses would increase. These assessments may also raise the price that homebuyers must pay for our homes, which could reduce our sales. In addition, expanded energy efficiency regulation may be implemented in Canada or the United States, which, even if phased in over time, could significantly increase our costs of building homes and the prices of our homes, which could increase our expenses and reduce our sales. Furthermore, municipalities may restrict or place moratoriums on the availability of utilities such as water and sewage facilities.

We incur substantial costs related to compliance with regulatory requirements. Changes in applicable regulation or changes in circumstances may require us to apply for additional approvals or modify our existing approvals, and may impose other new restrictions or requirements that may cause us to determine that a property is not feasible for development or otherwise limit or delay our activities, or impose substantial additional costs and administration requirements. Legal challenges to our proposed communities brought by governmental authorities or private parties could have a similar impact. All of these consequences could materially adversely affect our business, results of operations or financial condition.

Regulations related to the protection of the environment, health and safety subject us to additional costs and delays which could adversely affect our business and results of operations.

We must comply with various regulations concerning the protection of the environment and related to health and safety. These regulations cover, for example: the discharge of pollutants, including asbestos, into the water and air; the handling of hazardous or toxic materials; and the clean-up of contaminated sites currently or formerly owned, leased or occupied by us. This environmental regulation results in substantial potential risk and liability, whether or not we caused or knew of the pollution, and can severely restrict land development and homebuilding activity in environmentally sensitive regions or areas. The presence of hazardous or toxic substances, or the failure to remediate such substances properly, may also adversely affect our ability to sell the land or to borrow using the land as security. Environmental regulations sometimes result in delays and could cause us to implement time-consuming and expensive compliance programs. They can also have an adverse impact on the availability and price of certain raw materials, such as lumber.

Furthermore, we could incur substantial costs, including clean-up costs, fines, penalties and other sanctions and damages from third-party claims for property damage or personal injury, as a result of our failure to comply with, or liabilities under, applicable environmental laws and regulations. In addition, we are often subject to third-party challenges, such as by environmental groups, under environmental laws and regulations to the permits and other approvals required for our construction activities.

Health and safety regulations, including those related to COVID-19, also impose an additional compliance burden on our operations. The implementation and ongoing maintenance of such compliance programs can be costly and the failure to observe or apply any of these rules could expose us to regulatory fines and penalties.

Difficulty in obtaining or retaining qualified trades workers and other labor relations issues could delay or increase the cost of home construction, which would adversely affect our business and results of operations.

Land developers and homebuilders are subject to risks related to labor and services, including shortages of qualified tradespeople. They may also face challenges as a result of unionization and labor disputes, for example, in the context of collective bargaining.

We depend on the continued availability of and satisfactory performance by subcontractors for the construction of our homes. In addition, the difficult operating environment over the last ten years in the United States has resulted in the failure of some subcontractors' businesses and may result in further failures. Furthermore, restrictions on immigration can create a shortage of skilled labor which may be exacerbated by policies and reforms implemented by the current U.S. federal government.

We are party to a collective bargaining agreement with the Universal Workers Union L.I.U.N.A. Local 183 pursuant to which we are required to use union members in connection with construction projects undertaken in Simcoe County, an area north of Toronto. Although we believe our relations with the union to be good, we may be affected in the future by strikes, work stoppages or other labor disputes. Any such events could have a material adverse effect on our business and results of operations. Moreover, our non-union laborers may become subject to labor union organizing efforts. If any current non-union laborers were to unionize, we would face increased risk of work stoppages and possibly higher labor costs.

When any of these difficulties occur, it causes delays and increases our costs, which could have an adverse effect on our business and results of operations.

Increases in minimum wage laws could adversely impact our labor costs for our projects in the United States and Canada.

Minimum wage laws in the provinces and states where we operate increased beyond inflation in 2020 and will continue to increase over the next number of years. In multiple provinces and states, including Ontario, Alberta, Arizona, California, Colorado and Washington D.C., increased minimum wages of up to \$15 per hour will result in increased labor costs for skilled laborers on our projects. If our ability to mitigate the financial impact of these increases through cost saving measures does not adequately counterbalance the increase in labor costs, our operating results on the sales of our properties may be adversely affected.

Our success depends on the availability of suitable undeveloped land and lots at acceptable prices and having sufficient liquidity to acquire those properties.

Our success in developing land and in building and selling homes depends in part upon the continued availability of suitable undeveloped land and lots at acceptable prices. The availability of undeveloped land and lots for purchase at favorable prices depends on a number of factors outside of our control, including the risk of competitive over-bidding on land and lots and restrictive governmental regulation. Should suitable land opportunities become less available, the number of homes we may be able to build and sell would be reduced, which would reduce our sales and profits, and have a material adverse effect on our business, results of operations and financial condition. In addition, our ability to make land purchases will depend upon whether we have sufficient liquidity to fund them.

If we are not able to develop and market our master-planned communities successfully or within expected timeframes, our business and results of operations will be adversely affected.

Before a master-planned community generates any revenues, material expenditures are incurred to acquire land, obtain development approvals and construct significant portions of project infrastructure, amenities, model homes and sales facilities. It generally takes several years for a master-planned community development to achieve cumulative positive cash flow. If we are unable to develop and market our master-planned communities successfully or to generate positive cash flows from these operations within expected timeframes, including as a result of unexpected costs or regulatory delay, it will have a material adverse effect on our business and results of operations.

Our business and results of operations will be adversely affected if poor relations with the residents of our communities negatively impact our sales.

As a master-planned community developer, we will sometimes be expected by community residents to resolve any issues or disputes that arise in connection with the development of our communities, including with respect to actions by subcontractors. Our sales may be negatively affected if any efforts we undertake to resolve these issues or disputes are unsatisfactory to the affected residents, which in turn would adversely affect our business and results of operations. In addition, our business and results of operations would be adversely affected if we are required to make material expenditures related to the settlement of these issues or disputes or to modify our community development plans.

A lack of availability or increased cost of required materials, supplies, utilities and resources, as well as unforeseen environmental and engineering problems, could delay or increase the cost of home construction, which would adversely affect our business and results of operations.

Land developers and homebuilders are subject to risks related to:

- the availability and cost of materials and supplies (and particularly increases in the price of lumber, wall board and cement, which are significant components of home construction costs);
- the availability of adequate utility infrastructure and services;

- material fluctuations in utility and resource costs; and
- unforeseen environmental and engineering problems.

Any of these issues could cause delays and increase our costs, which could have an adverse effect on our business and results of operations. In particular, the cost of petroleum products fluctuates and may increase as a result of natural disasters, geopolitical events or accidents. This could result in higher prices for any product utilizing petrochemicals, increased building material delivery costs and higher land development costs. For example, in 2020 there was extreme volatility in the price of lumber as a result of curtailed production from lumber mill closures due to COVID-19, forest fires in California and the Pacific Northwest followed by a surge in demand for single family homes in the latter half. This resulted in increased cost to our homes and products. Canadian lumber imported into the US was also subject to steep tariffs which was subsequently reduced in November.

Furthermore, certain areas in which we operate have historically been subject to utility and resource shortages, including significant changes to the availability of electricity and water. These areas have also experienced material fluctuations in utility and resource costs. Shortages of natural resources, particularly water, in our markets, may make it more difficult for us to obtain regulatory approval of new developments, increase our costs and cause delays in completing construction. Utility shortages and rate fluctuations may also adversely affect the regional economies in which we operate, which may have an adverse effect on our sales.

We may incur a variety of costs to engage in future growth or expansion of our operations or acquisitions or disposals of businesses, and may not be able to realize anticipated synergies and benefits from any such endeavors.

As a part of our business strategy, we may make acquisitions of, significant investments in, or disposals of businesses. Any future acquisitions, investments or disposals would be accompanied by risks such as:

- difficulties in assimilating the operations and personnel of acquired companies or businesses;
- diversion of our management's attention and financial resources from ongoing business concerns;
- our potential inability to maximize our financial and strategic position through the successful incorporation or disposition of operations;
- receipt of consent or approval from governmental authorities that could delay or prevent the completion of the acquisition;
- maintenance of uniform standards, controls, procedures and policies; and
- impairment of existing relationships with employees, contractors, suppliers and customers as a result of the integration of new management personnel and cost-saving initiatives.

In addition, acquisitions or other major investments can expose us to valuation risks, including the risk of writing off goodwill or impairing inventory and other assets related to such acquisitions. The risk of goodwill and other asset impairments increases during a cyclical housing downturn in which our profitability declines.

While we seek protection through warranties and indemnities in the case of acquisitions, for example, significant liabilities may not be identified in due diligence or come to light after the expiry of warranty or indemnity periods. Additionally, while we seek to limit our ongoing exposure, for example, through liability caps and period limits on warranties and indemnities in the case of disposals, some warranties and indemnities may give rise to unexpected and significant liabilities.

Any of these factors could have a material adverse effect on our business, results of operations and financial condition.

Home warranty and construction defect claims may subject us to liabilities as a general contractor and other losses.

As a homebuilder, we are subject to construction defect and home warranty claims arising in the ordinary course of our business. These claims are common in the homebuilding industry and can be costly.

Where we act as the general contractor, we are responsible for the performance of the entire contract, including work assigned to subcontractors. Claims may be asserted against us for construction defects, personal injury or property damage caused by the subcontractors, and if successful, these claims give rise to liability. We may not be indemnified against substantive claims, and even if we are, we may not be able to collect from the subcontracted party. Subcontractors are independent of the homebuilders that contract with them under normal management practices and the terms of trade contracts and subcontracts within the industry; however, if Canadian or U.S. regulatory agencies or courts reclassify the employees of subcontractors as employees of homebuilders, homebuilders using subcontractors could be responsible for wage, hour and other employment-related liabilities of their subcontractors.

We will sometimes become responsible for the losses or other obligations of general contractors we hire if there are unforeseen events like their bankruptcy, or an uninsured or under-insured loss claimed against them. The costs of insuring against construction defect and product liability claims are high, and the amount of coverage offered by insurance companies may be limited. There can be no assurance that this coverage will not be further restricted and

become more costly. If we are not able to obtain adequate insurance against these claims in the future, our business and results of operations will be adversely affected.

Increasingly in recent years, individual and class action lawsuits have been filed against homebuilders asserting claims of personal injury and property damage caused by a variety of issues, including faulty materials and the presence of mold in residential dwellings. Furthermore, decreases in home values as a result of general economic conditions may result in an increase in both non-meritorious and meritorious construction defect claims, as well as claims based on marketing and sales practices. Our insurance may not cover all of the claims arising from such issues, or such coverage may become prohibitively expensive. If we are not able to obtain adequate insurance against these claims, we may experience significant litigation costs and losses that could reduce our net income, even if we are successful in defending such claims.

We conduct certain of our operations through unconsolidated joint ventures with independent third parties in which we do not have a controlling interest.

These investments involve risks and are highly illiquid. We currently operate through a number of unconsolidated homebuilding and land development joint ventures with independent third parties in which we do not have a controlling interest. At December 31, 2020, we had invested an aggregate of \$307 million in these joint ventures. In addition, as part of our strategy, we intend to continue to evaluate additional joint venture opportunities.

There are a limited number of sources willing to provide acquisition, development, and construction financing to land development and homebuilding joint ventures, and if market conditions become more challenging, it may be difficult to obtain financing for our joint ventures on commercially reasonable terms.

In addition, we lack a controlling interest in some of these joint ventures and, therefore, are usually unable to require that our joint ventures sell assets or return invested capital, make additional capital contributions, or take any other action without the vote of at least one of our venture partners. Therefore, in some instances, absent partner agreement, we may be limited in our buy and sell decisions of assets and in such event will be unable to liquidate our joint venture investments to generate cash.

Our joint ventures typically obtain secured acquisition, development and construction financing. Historically, we and our joint ventures partners provided varying levels of guarantees of debt or other obligations of our unconsolidated joint ventures. These guarantees include construction completion guarantees, repayment guarantees and environmental indemnities. We accrue for guarantees we determine are probable and reasonably estimated, but we do not record a liability for the contingent aspects of any guarantees that we determine are reasonably possible but not probable. As of December 31, 2020, we had \$33 million outstanding in recourse guarantees related to our joint ventures.

Increased insurance risk will adversely affect our business, and, as a consequence, may result in uninsured losses or cause us to suffer material losses in excess of insurance limits, which could affect our business, results of operations and financial condition.

We are confronting reduced insurance capacity and generally lower limits for insurance against some of the risks associated with our business. Some of the actions that have been or could be taken by insurance companies include: increasing insurance premiums; requiring higher self-insured retention and deductibles; requiring collateral on surety bonds; imposing additional exclusions, such as with respect to sabotage and terrorism; and refusing to underwrite certain risks and classes of business. The imposition of any of the preceding actions will adversely affect our ability to obtain appropriate insurance coverage at reasonable costs.

In addition, certain types of risks, such as personal injury claims, may be, or may become in the future, either uninsurable or not economically insurable, or may not be currently or in the future covered by our insurance policies. Should an uninsured loss or a loss in excess of insured limits occur, we could sustain financial loss or lose capital invested in the affected property as well as anticipated future income from that property. In the United States, the coverage offered and the availability of general liability insurance for construction defects is currently limited and costly. These risks associated with insurance costs increases could affect our business, results of operations and financial condition.

We may face substantial damages or be enjoined from pursuing important activities as a result of existing or future litigation, arbitration or other claims.

In our land development and homebuilding activities, we are exposed to potentially significant litigation, arbitration proceedings and other claims, including breach of contract, contractual disputes and disputes relating to defective title, property misdescription or construction defects. Class action lawsuits can be costly to defend, and if we were to lose any certified class action suit, it could result in substantial liability for us. With respect to certain general liability exposures, including construction defect and product liability claims, due to the complex nature of these exposures, we are required to exercise significant judgment in interpretation of underlying current and future trends, assessment of claims and the related liability and reserve estimation. Furthermore, it is difficult to determine the extent to which

the assertion of construction defect claims will expand geographically. As a result, our insurance policies may not be available or adequate to cover any liability for damages.

Failure in our financial and commercial controls could result in significant cost overruns or errors in valuing sites.

We own and may purchase a number of sites each year and are therefore dependent on our ability to process a number of transactions (which include, among other things, evaluating the site purchase, designing the layout of the development, sourcing materials and subcontractors and managing contractual commitments) efficiently and accurately. Errors by employees, failure to comply with regulatory requirements and conduct of business rules, failings or inadequacies in internal control processes, equipment failures, natural disasters or the failure of external systems, including those of our suppliers or counterparties, could result in operational losses that could adversely affect our business, financial condition and operating results and our relationships with our customers.

Our business is susceptible to adverse weather conditions, other environmental conditions and natural and man-made disasters, which could adversely affect our business and results of operations.

Adverse weather conditions and natural and man-made disasters such as hurricanes, tornadoes, storms, earthquakes, floods, droughts, fires, snow, blizzards and other environmental conditions, as well as terrorist attacks, riots and electrical outages, can have a significant effect on our ability to develop and market our communities. These adverse conditions can cause physical damage to work in progress and new homes, delays and increased costs in the construction of new homes and disruptions and suspensions of our operations, whether caused directly or by disrupting or suspending operations of those upon whom we rely in our operations. For example, in fiscal 2017, Hurricane Harvey disrupted our businesses in Texas, which resulted in temporary reductions in sales and closings. While none of our U.S. properties were materially adversely affected by the recent significant wildfires throughout Southern California, we could experience labor shortages, construction delays, or utility company delays, which in turn could impact our results. If fires are again experienced, our properties may be affected in which event we may suffer losses to our properties and land value which may be difficult to realize. In such event, we cannot be certain insurance will adequately cover the damage which may result in certain unrecoverable losses. These conditions can mutually cause or aggravate each other, and their incidence and severity are unpredictable.

Certain areas in which we operate, particularly parts of Arizona and California, are susceptible to extreme or exceptional drought conditions. In response to these conditions and concerns when such conditions arise and may continue for an extended period of time or worsen, government officials have taken, or have proposed taking, a number of steps to preserve potable water supplies.

To address the governmental mandates and their own available potable water supplies, local water agencies/suppliers could potentially restrict, delay the issuance of, or proscribe new water connection permits for homes or businesses; increase the costs for securing such permits, either directly or by requiring participation in impact mitigation programs; adopt higher efficiency requirements for water-using appliances or fixtures; limit or ban the use of water for construction activities; impose requirements as to the types of allowed plant material or irrigation for outdoor landscaping that are more strict than state standards and less desired by consumers; and/or impose fines and penalties for noncompliance with any such measures. These local water agencies/suppliers could also increase rates and charges to residential users for the water they use, potentially increasing the cost of homeownership. We can offer no assurance whether, where and the extent to which these or additional conservation measures might be imposed by local water agencies/suppliers in California or by other federal, state or local lawmakers or regulators in Arizona and California. However, if potable water supplies become further constrained due to persistent drought conditions, tighter conservation requirements may be imposed that could limit, impair or delay our ability to acquire and develop land, and/or build and deliver homes (even if we have obtained water connection permits); increase our production costs; cause the fair value of affected land or land interests in our inventory to decline, which could result in inventory impairment or land option contract abandonment charges, or both; or negatively affect the economies of, or diminish consumer interest in living in, water-constrained areas. These impacts, individually or collectively, could adversely affect our business and consolidated financial statements, and the effect could be material.

If insurance is unavailable to us or is unavailable on acceptable terms, or if our insurance is not adequate to cover business interruptions or losses resulting from these conditions, our business and results of operations will be materially adversely affected. In addition, damage to new homes caused by these conditions may cause our insurance costs to increase.

Information technology failures and data security breaches could harm our business.

We use information technology and computer resources extensively in our operations. While we have implemented systems, protocols and processes to secure and protect our information, these security measures may not be sufficient for all possible scenarios and may be vulnerable to viruses, malicious code, cyber or phishing attacks, ransomware attacks, intentional penetration, natural disasters, hardware or software failure or error, third-party failure or error, telecommunications and network failure or error, service failure or error, user or employee error, faulty password management or other irregularities.

Breaches to our data security systems, including cyber-security related incidents, could, among other things, result in unauthorized users gaining access to our systems, the disclosure or misappropriation of assets or sensitive information (including personal and confidential information), the corruption of data or operational disruption. The result of these incidents could include, but is not limited to, lost revenue or loss of customers, increased insurance premiums, disrupted operations, misstated financial data, liability for stolen assets or information, increased cyber-security protection and remediation costs, regulatory penalties or fines, litigation and reputational damage adversely affecting our business and results of operations, all of which may result in us incurring expenses to rectify and resolve such incidents.

Data privacy laws are becoming increasingly demanding and more complex.

Laws surrounding the collection, storage, usage and transmission of personal data are becoming more demanding and complex. In particular, the California Privacy Act of 2018 ("CCPA"), which came into effect on January 1, 2020, provides a new private right of action for data breaches and requires companies that process information on California residents to adopt and implement protocols with respect to the collection and disclosure of personal information. On November 3, 2020, California passed Proposition 24, titled the California Privacy Rights Act of 2020 ("CPRA") which significantly amends the CCPA, expands the privacy rights of California residents and increases compliance requirements for business. The majority of the CPRA will become operative on January 1, 2023. Failure to abide by these new rules may result in regulatory fines and penalties, litigation and reputational damage.

We cannot predict the impact that changing climate conditions, including legal, regulatory and social responses thereto, may have on our business.

Various scientists, environmentalists, international organizations, regulators and other commentators believe that global climate change has added, and will continue to add, to the unpredictability, frequency and severity of natural disasters in certain parts of the world, which may cause delays in land development and construction which could increase our operating expenses and reduce our revenues. A number of legal and regulatory measures as well as social initiatives have been introduced in an effort to reduce greenhouse gas and other carbon emissions which some believe may be chief contributors to global climate change. We cannot predict the impact that changing climate conditions, if any, will have on our results of operations or our financial condition. Moreover, we cannot predict how legal, regulatory and social responses to concerns about global climate change will impact our business.

A major health and safety incident relating to our business could be costly in terms of potential liabilities and reputational damage.

Building sites are inherently dangerous, and operating in the homebuilding industry poses certain inherent health and safety risks. Due to health and safety regulatory requirements and the number of projects we work on, health and safety performance is critical to the success of our business. Any failure in health and safety performance may result in penalties for non-compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly in terms of potential liabilities and workers' compensation claims incurred as a result. Such a failure could also generate significant negative publicity and have a corresponding impact on our reputation, our relationships with relevant regulatory agencies or governmental authorities and our ability to win new business, which in turn could have a material adverse effect on our business, results of operation and financial condition.

Risks Related to financing and liquidity

If we are not able to raise capital on favourable terms or at all, our business and results of operations will be adversely affected.

We operate in a capital intensive industry and require capital to maintain our competitive position. The failure to secure additional debt or equity financing or the failure to do so on favorable terms will limit our ability to grow our business, which in turn will adversely affect our business and results of operations. We expect to make significant capital expenditures in the future to enhance and maintain the operations of our properties and to expand and develop our real estate inventory. If our plans or assumptions change or prove to be inaccurate, or if cash flow from operations proves to be insufficient due to unanticipated expenses or otherwise, we will likely seek to minimize cash expenditures and/or obtain additional financing in order to support our plan of operations.

The availability of financing from banks and the public debt markets have been volatile in the United States in recent years. Due to the uncertainties that exist in the credit markets, economy and for homebuilders in general, we cannot be certain that we will be able to replace existing financing or find additional sources of financing. If sufficient funding, whether obtained through public or private debt, equity financing or from strategic alliances, is not available when needed or is not available on acceptable terms, our business and results of operations will be adversely affected.

Our access to capital and our ability to obtain additional financing could be affected by any downgrade of our credit ratings.

The Company's corporate credit rating and ratings on the Company's senior unsecured notes and our current credit condition affect, among other things, our ability to access new capital, especially debt. Negative changes in these ratings may result in more stringent covenants and higher interest rates under the terms of any new debt. If our credit ratings are lowered or rating agencies issue adverse commentaries in the future, it could have a material adverse effect on our business, results of operations, financial condition and liquidity. In particular, a weakening of our financial condition, including a significant increase in our leverage or decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, result in a credit rating downgrade or change in outlook, or otherwise increase our cost of borrowing.

An inability to obtain additional performance, payment, completion and surety bonds and letters of credit could limit our future growth.

We are often required to provide performance, payment, completion and surety bonds or letters of credit to secure the completion of our construction contracts, development agreements and other arrangements. We have obtained facilities to provide the required volume of performance, payment, completion and surety bonds and letters of credit for our expected growth in the medium term; however, unexpected growth may require additional facilities. Our ability to obtain additional performance, payment, completion and surety bonds and letters of credit primarily depends on our capitalization, working capital, past performance, management expertise and certain external factors, including the capacity of the performance bond market. Performance, payment, completion and surety bond and letter of credit providers consider these factors, in addition to our performance and claims record and provider-specific underwriting standards, which may change from time to time.

If our claims record or our providers' requirements or policies change or if the market's capacity to provide performance and completion bonds is not sufficient and we are unable to renew or amend our existing facilities on favorable terms or at all, we could be unable to obtain additional performance, payment, completion and surety bonds or letters of credit when required, which could limit our future growth or have a material adverse effect on our existing business, results of operations and financial condition.

Changes to foreign currency exchange rates could adversely affect the value of our results of operations and financial condition.

We have businesses with earnings in both the United States and Canada. Our financial results are reported in U.S. dollars. Changes in the U.S. dollar/Canadian dollar exchange rate will affect the value of the reported earnings and the value of those assets and liabilities denominated in foreign currencies. For example, an increase in the value of the U.S. dollar compared to the Canadian dollar would reduce our Canadian dollar-denominated revenue when reported in U.S. dollars, as occurred several times in 2020, and vice versa. Our results of operations and financial condition may be adversely affected by such exchange rate fluctuations.

Our significant levels of debt and leverage could adversely affect our business, financial condition or results of operations and prevent us from fulfilling our obligations under our debt instruments.

We have a significant amount of debt. As of December 31, 2020, the total principal amount of our debt outstanding was \$2 billion and we had no non-recourse guarantees of obligations of unconsolidated joint ventures. We also had \$598 million in undrawn commitments under our Canadian and U.S. credit facilities as of that date.

Subject to the limits under our debt instruments, we may be able to incur substantial additional debt from time to time, including but not limited to new credit facilities, to finance working capital, capital expenditures, investments or acquisitions or for other purposes. If we incur additional debt, the risks related to our level of debt and leverage could intensify. Specifically, a high level of debt and leverage could have important consequences, including:

- making it more difficult for us to satisfy our obligations with respect to our debt;
- increasing our vulnerability to adverse economic or industry conditions, reducing our ability to withstand competitive pressures and making us more vulnerable to a general economic downturn;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements, or requiring us to make non-strategic divestitures, particularly when the availability of financing in the capital markets is limited;
- requiring a substantial portion of our cash flows from operations for the payment of interest on our debt and reducing our ability to use our cash flows to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- exposing us to the risk of increased interest rates, since some of our borrowings are and will continue to be at variable rates of interest;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a competitive disadvantage to less leveraged competitors; and

- increasing our cost of borrowing.

If any of these conditions occur, or should we be unable to repay these obligations as they become due, our financial condition will be materially adversely affected.

In addition, our various debt instruments contain financial and other restrictive covenants that may limit our ability to, among other things, borrow additional funds that might be needed in the future. We also guarantee shortfalls under some of our community bond debt when the revenues, fees and assessments which are designed to cover principal and interest and other operating costs of the bonds are not paid. Historically, we financed many of our projects located in the United States individually through certain of our subsidiaries, and we expect to do so to a greater extent in the future, particularly in connection with our mixed-use development business. As a result, to the extent we increase the number of projects and our related investments, our total debt obligations may increase. In general, we repay the principal of our project debt from the proceeds of home and lot closings.

An increase in interest rates under our existing credit facilities and mortgages would increase the cost of servicing our debt and could have a material adverse effect on our financial condition and ability to pay interest on our debt obligations.

A significant amount of our existing borrowings consists of secured and unsecured credit facilities, some of which bear interest at variable rates. Our secured credit facilities bear interest at Canadian prime +0.5%. Our unsecured credit facility bears interest at either the adjusted LIBOR plus the applicable rate between 2.5% and 3% per annum or the alternate base rate plus the applicable rate between 1.5% and 2% per annum. This amount of variable interest rate debt exposes us to interest rate risk. As of December 31, 2020, a 1% change up or down in interest rates would have a \$4 million impact on our annual cash flows. If interest rates increase under the terms of these credit facilities or mortgages, our debt service obligations will increase even if the amount of our borrowings remain the same, which could have a material adverse effect on our net income and our ability to make timely interest payments on our debt.

The elimination of LIBOR could adversely affect our business, results of operations or financial condition.

In July 2017, the head of the United Kingdom Financial Conduct Authority announced plans to phase out the use of LIBOR by the end of 2021. In addition, other regulators have suggested reforming or replacing other benchmark rates. These may be replaced by the Secured Overnight Financing Rate (“SOFR”) or other benchmark rates over the next several years. Although the impact is uncertain at this time, the elimination of LIBOR could have an adverse impact on our business, results of operations, or financial condition.

As at December 31, 2020, we have approximately \$598 million of unused capacity on LIBOR-based debt, with no borrowings outstanding. This debt generally includes fallback features that allow for the use of an alternative rate if LIBOR is no longer available. The use of an alternative rate could result in increased costs, including increased interest expense, and increased borrowing and hedging costs in the future. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR, and we are unable to predict the effect of any such alternatives on our business, results of operations or financial condition.

We may not be able to generate sufficient cash to service all of our debt and may be forced to take other actions to satisfy our obligations under such debt, which may not be successful.

Our ability to make scheduled payments on or refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our credit facilities or otherwise in an amount sufficient to enable us to pay the principal, premium, if any, and interest on our debt obligations or to fund our other liquidity needs.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments, strategic acquisitions and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance all or a portion of our debt obligations. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all, or on terms that would not be disadvantageous to us or on terms that would not require us to breach the terms and conditions of our existing or future debt agreements. Even if successful, those alternatives may not allow us to meet our scheduled debt service obligations. The terms of some of our indebtedness restrict our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our debt obligations on commercially reasonable terms or at all, would materially and adversely affect our financial position and results of operations and our ability to satisfy our obligations.

If we cannot make scheduled payments on our debt, we will be in default under our relevant debt agreements and holders of that debt could declare all outstanding principal and interest on that debt to be due and payable, causing a cross-acceleration or cross-default under certain of our debt agreements, and we could be forced into bankruptcy, liquidation or restructuring proceedings.

We are a holding company and depend on our subsidiaries for our cash flow. Because a significant portion of our operations are conducted through our subsidiaries, our financial condition and ability to service our debt is partly dependent on our receipt of distributions or other payments from our subsidiaries.

We are a holding company and depend on our subsidiaries for our cash flow. A significant portion of our operations are conducted through our subsidiaries. As a result, our ability to service our debt is partly dependent on the earnings of our subsidiaries and the payment of those earnings to us in the form of dividends, loans or advances and through repayment of loans or advances from us. Our subsidiaries are legally distinct from us and our subsidiaries that are not guarantors of our debt have no obligation to pay amounts due on our debt or to make funds available to us for such payment. The ability of our subsidiaries to pay dividends, repay intercompany notes or make other advances to us are subject to restrictions imposed by applicable laws, tax considerations and the agreements governing our subsidiaries, including financial maintenance covenants, affiliate transaction restrictions, covenants related to the payment of dividends, limitations on liens and limitations on loans and investments. In addition, such payments may be restricted by claims against our subsidiaries by their creditors, including the holders of any debt securities they may issue, suppliers, vendors, lessors and employees.

Restrictive covenants and financial maintenance covenants in our financing agreements may restrict our ability to pursue our business strategy, react to market conditions or meet our capital or liquidity needs and increase the risk of default on our debt obligations.

The agreements governing our credit facilities and our other debt obligations will limit our ability, and the terms of any future indebtedness may limit our ability, among other things, to:

- incur or permit to exist liens;
- enter into sale and leaseback transactions;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- incur or guarantee additional debt;
- pay dividends or make distributions on our capital stock;
- make certain loans and investments;
- sell assets, including capital stock of restricted subsidiaries;
- agree to payment restrictions affecting our restricted subsidiaries;
- enter into transactions with our affiliates;
- enter into swap agreements; and
- designate any of our subsidiaries as unrestricted subsidiaries.

A breach of any of these restrictive covenants or our inability to comply with the applicable financial covenants could result in a default under the agreements governing our credit facilities, other borrowings or future borrowings. If a default occurs, lenders under our credit facilities or other debt instruments may elect to declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable. The lenders will also have the right in these circumstances to terminate any commitments they have to provide further borrowings. If we are unable to repay outstanding borrowings when due, the lenders under our credit facilities and holders of our other debt obligations will also have the right to proceed against the collateral granted to them to secure such debt obligations, if any. If the indebtedness under our credit facilities or our other indebtedness were to be accelerated, we cannot assure you that our assets would be sufficient to repay in full that indebtedness. The instruments governing certain of our credit facilities and our other debt obligations also contain cross-default provisions. Under these provisions, a default under one instrument governing our debt obligations may constitute a default under our other debt instruments.

Our guarantor subsidiaries and our U.S. project subsidiaries are also subject to financial maintenance covenants and certain default provisions that may be triggered upon a material adverse change to our business, among other events, in a number of our financing agreements. We could breach these financial maintenance covenants or default provisions due to circumstances beyond our control, such as a decline in the value of our assets.

Risks Relating to Our Structure

BAM currently controls Brookfield Properties Development (the "Manager"), a management company that employs our senior executive officers and certain shared services employees, which manages both our land development and homebuilding business and mixed use development opportunities, as well as other entities within the Brookfield group. BAM may from time to time have conflicts of interest with us and may, through the Manager, favor its own interests to the detriment of our business.

BAM owns 100% of our Manager, which manages our land development and homebuilding business, as well as mixed use development opportunities for us and for other entities within the Brookfield group. Our Manager and, through it, BAM, have other business interests besides ours and, as a result, may at times have potential or actual conflicts of interest with us. In resolving these conflicts of interest, the Manager may favor the interests of the other Brookfield entities that pursue mixed use development opportunities or other interests of BAM and its affiliates over our interests and those of our lenders or holders of our debt instruments.

Since January 1, 2019, all of our executive officers have been employees of the Manager and are responsible for managing both our business and the mixed use development opportunities across the Brookfield group. Their compensation is designed to reward performance in both of these areas. Accordingly, they may not have as much time to devote to our business and like the Manager, may at times have potential or actual conflicts of interest with us. Potential conflict of interest situations for the Manager and our executive officers may include the following:

- no agreement requires the Manager or our executive officers to pursue a business strategy that favors us, our lenders or holders of our debt instruments;
- BAM and its affiliates (including the Manager), are not limited in their ability to compete with us;
- our Manager and executive officers are not restricted from favoring the interests of parties other than us, including BAM and its affiliates, in resolving conflicts of interest with us; and
- the Manager decides whether to retain separate counsel, accountants or others to perform services for us.

Affiliates of our Manager are not limited in their ability to compete with us and are not obligated to offer us the opportunity to pursue additional assets or businesses.

The Manager, BAM, and their other affiliates are not prohibited from owning assets or engaging in businesses that compete directly or indirectly with us. Any of these entities may pursue opportunities to acquire or develop properties in the future, including but not limited to opportunities for mixed use developments, without any obligation to offer us the opportunity.

Our sole shareholder, BAM, may have interests as an equity holder that may conflict with the interests of creditors.

BAM beneficially owns, or controls or directs, directly or indirectly, 100% of our outstanding Common Shares. Accordingly, BAM has the ability to control our policies and operations. The interests of BAM may not in all cases be aligned with our creditors' interests. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of BAM might conflict with our creditors' interests. In addition, BAM may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in its judgment, could enhance its equity investment, even though such transactions might involve risks to holders of the notes. Furthermore, BAM may in the future own businesses that directly or indirectly compete with us. BAM also may pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. BAM holds a 50% voting interest and a majority economic interest in BUSI, an entity in which we have a minority economic interest and 50% voting interest following the Reorganization Transaction. BAM's strategy with respect to BUSI, including with respect to the distribution of BUSI's cash flow, may conflict with our creditors' interests.

Our relationship with our sole shareholder, BAM, and other affiliates may be on terms more or less favorable than those that could be obtained from third parties.

BAM beneficially owns, or controls or directs, directly or indirectly, 100% of our outstanding Common Shares. Our relationship with BAM and its affiliates includes certain related party transactions. See Note 25 to the consolidated financial statements for additional information on related party transactions. Additionally, we have the right to use the names "Brookfield" and "Brookfield Residential" pursuant to a license agreement between Brookfield Office Properties and Brookfield Global Asset Management Limited, a subsidiary of BAM. These and other arrangements with affiliates may not be on terms at least as favorable to us as those that could be negotiated with third parties, despite procedural protections to simulate arm's length negotiations, such as the prior approval of related party transactions by our independent directors. Conversely, the terms of our agreements with affiliates could be more favorable to us than would be available from a third party. In such event, should we be required to replace these arrangements, we might not be able to obtain terms as least as favorable as those with affiliates.

Management's Responsibility for Financial Reporting

Management of Brookfield Residential Properties Inc. ("Brookfield Residential") is responsible for the integrity and fair presentation of the financial information, including the consolidated financial statements and management's discussion and analysis and review, contained in this annual report. To fulfill this responsibility, the Company maintains policies, procedures, and a system of internal controls to ensure that its reporting practices and accounting and administrative procedures are appropriate and provide assurance that relevant and reliable information is produced. These controls include the careful selection and training of employees, the establishment of well-defined areas of responsibility and accountability for performance, the communication of policies and code of conduct throughout the Company, and an actively defined and clearly communicated tone-at-the-top.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and include some amounts based on management's best estimates and careful judgment in the circumstances. The consolidated financial statements include the accounts of Brookfield Residential and all of its subsidiaries (collectively, the "Company"). The financial information of the Company included in the Company's Annual Report is consistent with that in the consolidated financial statements.

Deloitte LLP, the independent auditors appointed by the shareholders, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Board of Directors and shareholders their opinion on the consolidated financial statements. Their report as an independent auditor is set out on the following page.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for overseeing management's performance of its financial reporting. The Board of Directors carries out these responsibilities and meets periodically with management, our internal auditors and independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related reporting and internal control matters before the financial statements are approved by the Board of Directors.

/s/ Alan Norris

Alan Norris
Chairman and Chief Executive Officer

/s/ Thomas Lui

Thomas Lui
Executive Vice President and Chief Financial Officer

Calgary, Canada
March 2, 2021

Independent Auditor's Report

To the Board of Directors and Shareholders of Brookfield Residential Properties Inc.

Opinion

We have audited the financial statements of Brookfield Residential Properties Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2020 and 2019 and the consolidated statements of operations, consolidated statements of equity, and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019 and its financial operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and

appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
March 2, 2021

CONSOLIDATED FINANCIAL STATEMENTS

BROOKFIELD RESIDENTIAL PROPERTIES INC. CONSOLIDATED BALANCE SHEETS

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

	Note	As at	
		December 31 2020	December 31 2019
Assets			
Cash and cash equivalents		\$ 350,306	\$ 109,923
Restricted cash	3	17,849	13,818
Receivables and other assets	4	767,592	488,716
Land and housing inventory	5	2,656,627	3,058,624
Investments in unconsolidated entities - land and housing	6	307,250	330,597
Investments in unconsolidated entities - affiliate	6	605,615	634,028
Held-to-maturity investment	8	300,000	300,000
Commercial properties	9	709,947	468,519
Operating and financing lease right-of-use asset	10	82,109	89,750
Deferred income tax assets	11	54,967	49,392
Goodwill		16,479	16,479
Total assets		<u>\$ 5,868,741</u>	<u>\$ 5,559,846</u>
Liabilities and Equity			
Accounts payable and other liabilities	12	\$ 608,040	\$ 577,074
Bank indebtedness and other financings	13	409,638	228,147
Notes payable	14	1,621,500	1,616,545
Operating and financing lease liability	10	88,559	92,834
Total liabilities		<u>2,727,737</u>	<u>2,514,600</u>
Common shares	16	626,594	626,594
Retained earnings		1,393,099	1,382,130
Non-controlling interest - land and housing	15	155,466	149,574
Non-controlling interest - affiliate	15	1,073,016	1,012,242
Accumulated other comprehensive loss		(107,171)	(125,294)
Total equity		<u>3,141,004</u>	<u>3,045,246</u>
Total liabilities and equity		<u>\$ 5,868,741</u>	<u>\$ 5,559,846</u>
Commitments, contingent liabilities and other	20		
Guarantees	21		
Subsequent events	26		

See accompanying notes to the consolidated financial statements

BROOKFIELD RESIDENTIAL PROPERTIES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(all dollar amounts are in thousands of U.S. dollars, except per share amounts)

	Note	Year Ended December 31	
		2020	2019
Revenue			
Housing		\$ 1,445,507	\$ 1,550,377
Land		292,764	387,981
Total revenue		1,738,271	1,938,358
Direct Cost of Sales			
Housing		(1,183,874)	(1,282,055)
Land		(218,796)	(269,523)
Total direct cost of sales		(1,402,670)	(1,551,578)
Gross margin		335,601	386,780
Selling, general and administrative expense		(260,450)	(244,407)
Interest expense		(9,975)	(36,090)
Earnings from unconsolidated entities - land & housing	6	16,469	34,680
(Loss) / Earnings from unconsolidated entities - affiliate	6	(29,544)	23,382
Other income	19	57,955	54,701
Lease expense	10	(13,748)	(11,653)
Depreciation		(4,984)	(4,383)
Income Before Income Taxes		91,324	203,010
Current income tax expense	11	(6,709)	(8,489)
Deferred income tax recovery	11	3,582	3,039
Net Income		88,197	197,560
Other Comprehensive Income / (Loss)			
Unrealized foreign exchange gain / (loss) on:			
Translation of the net investment in Canadian subsidiaries and unconsolidated entities - affiliate		21,973	45,262
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		(3,850)	(9,200)
Comprehensive Income		\$ 106,320	\$ 233,622
Net Income Attributable To:			
Consolidated		\$ 88,197	\$ 197,560
Non-controlling interest - land and housing	15	14,697	7,002
Non-controlling interest - affiliate	15	59,454	36,419
Brookfield Residential		\$ 14,046	\$ 154,139
Comprehensive Income Attributable To:			
Consolidated		\$ 106,320	\$ 233,622
Non-controlling interest - land and housing	15	14,697	7,002
Non-controlling interest - affiliate	15	59,454	36,419
Brookfield Residential		\$ 32,169	\$ 190,201
Common Shareholders Earnings Per Share			
Basic	18	\$ 0.11	\$ 1.19
Diluted	18	\$ 0.11	\$ 1.19
Weighted Average Common Shares Outstanding (in thousands)			
Basic	18	129,757	129,757
Diluted	18	131,266	129,786

See accompanying notes to the consolidated financial statements

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

	Note	Year Ended December 31	
		2020	2019
Common Shares	16		
Opening balance		\$ 626,594	\$ 626,594
Ending balance		626,594	626,594
Additional Paid-in-Capital			
Opening balance		—	367,433
Impact of common control Reorganization Transaction	7	—	(367,433)
Ending balance		—	—
Retained Earnings			
Opening balance		1,382,130	1,236,092
Impact of common control Reorganization Transaction		—	(8,101)
Net income attributable to Brookfield Residential		14,046	154,139
Tax equivalent distributions		(11,343)	—
Other		8,266	—
Ending balance		1,393,099	1,382,130
Accumulated Other Comprehensive Loss			
Opening balance		(125,294)	(161,356)
Other comprehensive income		18,123	36,062
Ending balance		(107,171)	(125,294)
Total Brookfield Residential Equity		\$ 1,912,522	\$ 1,883,430
Non-Controlling Interest - Land & Housing	15		
Opening balance		\$ 149,574	\$ 53,833
Additions		—	103,530
Net income attributable to non-controlling interest		14,697	7,002
Distributions		(47,352)	(14,791)
Contributions		48,133	—
Other		(9,586)	—
Ending balance		\$ 155,466	\$ 149,574
Non-Controlling Interest - Affiliate	15		
Opening balance		\$ 1,012,242	\$ —
Non-controlling interest attributable to common control transactions	7	—	975,823
Net income attributable to non-controlling interest		59,454	36,419
Other		1,320	—
Ending balance		\$ 1,073,016	\$ 1,012,242
Total Equity		\$ 3,141,004	\$ 3,045,246

See accompanying notes to the consolidated financial statements

BROOKFIELD RESIDENTIAL PROPERTIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year Ended December 31	
	2020	2019
Cash Flows Provided by / (Used in) Operating Activities		
Net income	\$ 88,197	\$ 197,560
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings from unconsolidated entities - land and housing	(16,469)	(34,680)
Loss / (Earnings) from unconsolidated entities - affiliate	29,544	(23,382)
Deferred income tax recovery	(3,582)	(3,039)
Share-based compensation expense / (recovery)	29,660	(15,557)
Depreciation	4,984	4,383
Right-of-use asset depreciation	6,555	6,007
Amortization of non-cash interest	5,767	6,676
Loss on extinguishment of debt	15,030	3,578
Dividend income on held-to-maturity investment	(24,066)	(8,648)
Distributions of earnings from unconsolidated entities	10,416	27,942
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(38,008)	(17,428)
Decrease / (Increase) in land and housing inventory	208,089	(52,191)
Increase in commercial properties	(216,525)	(196,774)
Decrease in operating lease liabilities	(3,569)	(2,545)
Decrease in accounts payable and other liabilities	(1,593)	(48,636)
Net cash provided by / (used in) operating activities	<u>94,430</u>	<u>(156,734)</u>
Cash Flows Provided by Investing Activities		
Investments in unconsolidated entities	(18,172)	(36,547)
Distributions from unconsolidated entities	53,132	66,097
Redemption of held-to-maturity investments	—	300,000
Purchase of held-to-maturity investments	—	(300,000)
Dividend income on held-to-maturity investment	—	8,648
(Increase) / Decrease in loan receivable	(7,452)	18,645
Cash acquired from common control Reorganization Transaction	—	5,989
Net cash provided by investing activities	<u>27,508</u>	<u>62,832</u>
Cash Flows Provided by Financing Activities		
Deposits from affiliates	—	200,000
Repayments on affiliate deposits	—	(200,000)
Drawings under project-specific and other financings	202,049	199,726
Repayments under project-specific and other financings	(53,663)	(46,369)
Net repayments on bank indebtedness	—	(77,084)
Drawings under unsecured senior notes payable	500,000	600,000
Repayments under unsecured senior notes payable	(500,000)	(600,000)
Payments of debt issuance costs	(11,449)	(18,796)
Payments of debt extinguishment costs	(8,930)	—
Contributions to non-controlling interest	48,133	—
Distributions from non-controlling interest	(47,352)	(14,791)
Sale of interests in consolidated subsidiaries	—	103,530
Tax equivalent distributions paid to common shareholders	(11,343)	—
Payments made on the principal of financing leases	(203)	(211)
Net cash provided by financing activities	<u>117,242</u>	<u>146,005</u>
Effect of foreign exchange rates on cash and cash equivalents	5,234	(1,494)
Change in cash, cash equivalents and restricted cash	244,414	50,609
Cash, cash equivalents and restricted cash at beginning of year	123,741	73,132
Cash, cash equivalents and restricted cash at end of year	<u>\$ 368,155</u>	<u>\$ 123,741</u>
Supplemental Cash Flow Information		
Cash interest paid	\$ 108,989	\$ 107,987
Cash taxes paid	\$ 3,108	\$ 27,193

See accompanying notes to the consolidated financial statements

BROOKFIELD RESIDENTIAL PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all dollar amounts are in thousands of U.S. dollars)

Note 1. Significant Accounting Policies

(a) Basis of Presentation

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

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and include the consolidated accounts of Brookfield Residential, its subsidiaries, investments in unconsolidated entities and variable interest entities in which the Company is the primary beneficiary. All intercompany accounts, transactions and balances have been eliminated upon consolidation.

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

(b) Revenue Recognition

Revenue is measured based on the consideration specified in a contract with a customer. The Company recognizes revenue when it satisfies a performance obligation by transferring control of a product or service to a customer. Taxes collected on behalf of a government authority for a revenue-producing transaction are excluded from revenue.

Land sales are recognized when title passes to the purchaser upon closing, all material conditions of the sales contract have been met and a significant cash down payment or appropriate security is received and collectability is probable. Revenues from the sale of homes are recognized when title passes to the purchaser upon closing, wherein all proceeds are received or collectability is probable. In certain circumstances, when title transfers but material future development is required, revenue is recognized at a point in time when the performance obligation is satisfied.

The Company grants homebuyers sales incentives from time-to-time in order to promote sales of its homes. These incentives will vary by type and by amount on a community-by-community and home-by-home basis. Incentives that impact the value of the home or the sales price paid, such as additional options, are reflected as a reduction to sales revenue. Incentives are recognized at the time title passes to the homebuyer and the sale is recognized.

The following are descriptions of principal activities, from which the Company generates its revenue. See Note 24 "Segmented Information" for detailed information about the Company's reportable segments.

- (i) Land Sales:* The land operations of the Company principally generate revenue from developing land for its own communities and selling lots to other homebuilders and third parties. The Company's duration of land contracts vary; however, the typical length of a contract is less than one year. Revenues from land sales are recognized at a point in time when the Company's performance obligations are achieved and collectability of the receivable is probable. Performance obligations are satisfied when title has transferred and all material conditions of the sales contract have been met. Generally, all elements of the transaction price are allocated to one performance obligation. Certain components of the transaction price that are considered constrained at the time the performance obligation is satisfied are recognized when it is determined that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Certain contracts may have a significant financing component in the form of a vendor take back ("VTB") mortgage receivable. These amounts are recognized as receivables, see Note 4 "Receivables and Other Assets" for more detailed information. Certain contracts may have a component of variable consideration, in the form of profit participation. When a contract includes profit participation, the Company will receive consideration from the builder who purchased the land, as a percentage of the ultimate sale of the home. Profit participation is generally determined to be constrained at the time the revenue contract is recognized. The Company will reassess and recognize profit participation as appropriate at the end of each reporting period.
- (ii) Housing Sales:* The homebuilding operations of the Company principally generate revenue from designing, constructing, and marketing single family and multi-family homes in its own and its developers' communities. The typical contract duration for housing contracts is less than one year. Revenues from the sale of homes are recognized at a point in time when the Company's performance obligations are achieved and collectability of the receivable is probable. Performance obligations are satisfied when the home is complete, consideration has been received, and title has transferred. All elements of the transaction price are allocated to the Company's one performance obligation.

Profit participation revenue, which is considered a form of variable consideration, is considered constrained in accordance with the United States Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606. The Company will not include an amount for profit participation when recognizing revenue on the contract at the time the lot is closed, due to constraints. The Company has reassessed, at the end of

BROOKFIELD RESIDENTIAL PROPERTIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(all dollar amounts are in thousands of U.S. dollars)

this reporting period, whether an amount can be estimated for profit participation and whether it meets the probability threshold.

For amounts not recognized due to constraints, the Company has determined the amounts cannot be reliably estimated due to the following factors outside of the Company's control: economic volatility, period of time between the lot sale and the ultimate home closing, fluctuations and difficult prediction of profits and pricing of the ultimate home closing.

The Company has elected to apply the practical expedient under ASC Topic 606, to not disclose information for unsatisfied performance obligations, for housing or land contracts where the performance obligation will be settled within one year.

(c) Land and Housing Inventory

- (i) Carrying values:* Inventories consist of land held for development, land under development, homes under construction, completed homes and model homes and are stated at cost, net of impairment losses. In accordance with ASC Topic 360 *Property, Plant and Equipment*, land and housing assets owned directly by the Company are reviewed for recoverability on a regular basis; the Company assesses these assets no less than quarterly for recoverability and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Indicators of impairment include, but are not limited to: significant decreases in local housing market values and selling prices of comparable homes; significant decreases in gross margins and sales absorption rates; accumulation of costs in excess of budget; actual or projected operating or cash flow losses; and current expectations that a real estate asset will more likely than not be sold before its previously estimated useful life. For communities where the current competitive and market dynamics indicate that these factors may be other than temporary, which may call into question the recoverability of the Company's investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analysis and a quantitative analysis reflecting market and asset specific information.

The qualitative competitive market analysis includes review of factors such as the target buyer and the macroeconomic characteristics that impact the performance of the Company's assets, such as unemployment and the availability of mortgage financing, among other things. Based on this qualitative competitive market analysis, adjustments to sales prices may be required in order to make the Company's communities competitive. The Company incorporates these adjusted prices in the quantitative analysis for the specific community.

Recoverability is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. To arrive at the estimated fair value of land and housing inventory, the Company estimates the future undiscounted cash flow for the life of each project. Specifically, on a land project, the Company estimates the timing of future land sales and the estimated revenue per lot, as well as estimated margins with respect to future land sales. On a housing project, the Company evaluates the margins on homes that have been closed, margins on sales contracts which are in backlog and estimated margins with regard to future home sales over the life of the project. For the land and housing inventory, the Company continuously evaluates projects where inventory is turning over more slowly than expected or whose average sales price and margins are declining and are expected to continue to decline. These projections take into account the specific business plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area. Such projections generally assume current home selling prices, cost estimates and sales rates for short-term projects are consistent with recent sales activity. For longer-term projects, planned sales rates for 2021 generally assume recent sales activity and normalized sales rates beyond 2021. Management identifies potentially impaired land and housing projects based on these quantitative factors as well as qualitative factors obtained from the local market areas. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired and is then written down to fair value using a discounted cash flow methodology which incorporates market participant assumptions.

Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rates, the timing and amount of the estimated future cash flows and discount rates, it is reasonably possible that actual results could differ from the estimates used in the impairment analysis. Assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. Because the projected cash flows used to evaluate the fair value of inventory are significantly impacted by changes in market conditions including reduced sales prices, a change in sales prices or changes in absorption estimates based on current market conditions and management's assumptions relative to future results could lead to additional impairments in certain communities during any given period.

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The Company has also entered into a number of option contracts to acquire land or lots in the future in accordance with specific terms and conditions. The majority of the option contracts require a non-refundable cash deposit based on a percentage of the purchase price of the property. Option contracts are recorded at cost. In determining whether to pursue an option contract, the Company estimates the option primarily based upon the expected cash flows from the optioned property. If the intent is to no longer pursue an option contract, the Company records a charge to earnings of the deposit amounts and any other related pre-acquisition entitlement costs in the period the decision is made.

- (ii) *Capitalized costs:* In addition to direct land acquisitions, land development and improvement costs and home construction costs, costs also include interest, real estate taxes and direct overhead related to development and construction, which are capitalized to inventory during the year beginning with the commencement of development and ending with the completion of construction or development.

The Company capitalizes certain interest costs to qualified inventory during the development and construction period in accordance with ASC Topic 835-20 *Capitalization of Interest*. Capitalized interest is charged to cost of sales when the related inventory is delivered. Interest incurred on home building indebtedness in excess of qualified inventory, as defined in ASC Topic 835-20, is charged to the consolidated statement of operations in the period incurred.

(d) Commercial Properties

Commercial properties include any properties that are currently leased out by Brookfield Residential and produce leasing revenue for the Company, are being developed to produce leasing revenue at a future date, or are being developed for eventual sale. Acquisitions of operating commercial properties are accounted for utilizing the acquisition method of accounting. Estimates of future cash flows and other valuation techniques are used to allocate the purchase price of acquired property between land, buildings and improvements, equipment, debt, liabilities assumed and identifiable intangible assets and liabilities, if applicable. Expenditures for significant betterments and improvements are capitalized. Maintenance and repairs are charged to expense when incurred. Construction and improvement costs incurred in connection with the development of new properties or the redevelopment of existing properties are capitalized. Completed commercial properties are carried at the cost basis less accumulated depreciation. Commercial properties under development are stated at cost and are not depreciated until available for use. Real estate taxes and interest costs incurred during development periods are capitalized. Capitalized interest costs are based on qualified expenditures and interest rates in place during the development period. Capitalized real estate taxes and interest costs are amortized over lives which are consistent with the developed assets.

Pre-development costs, which generally include legal and professional fees and other directly-related third party costs, are capitalized as part of the property being developed. In the event a development is no longer deemed to be probable, the costs previously capitalized are expensed.

Depreciation of completed commercial properties is recorded over the estimated useful life of 40 years using the straight-line method.

(e) Leases

An arrangement is determined to be a lease or not at inception. Operating and financing leases are included in operating and financing lease right-of-use ("ROU") assets and operating and financing lease liabilities on our consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and the lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at a commencement date based on the present value of the lease payments over the lease term. The Company will use the implicit rate when it is readily available. As the Company's leases do not contain an implicit rate, the Company used an incremental borrowing rate based on the information available at the commencement date in determining the present value of the lease payments. The Company has used an incremental borrowing rate, determined by taking a sum of: the appropriate U.S. or Canadian Government bond rate, and credit spread of the U.S. Industrial B1 and U.S. risk free rate or the Implied B1 Canadian composite bond yield and the Canadian risk free rate.

The Company's leases typically contain terms and conditions for options to extend or terminate the lease. Leases with termination or extension options which the Company is reasonably certain to exercise have been included as part of the ROU asset and liability. Termination or extension options which the Company is reasonably certain not to exercise have been excluded in the determination of the ROU asset and liability.

Lease expense for lease payments is recognized on a straight-line basis over the lease term.

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The Company's lease agreements contain both lease and non-lease components. The Company has elected to not separate non-lease components from either a lessee or lessor perspective for all classes of assets. The Company has applied the practical expedient for short term leases; short-term leases are recognized on a straight-line basis over the life of the lease, and are not recognized on the balance sheet.

For lease agreements where the Company is a sub-lessor, the Company has presented the lease expense on a gross basis on the consolidated statements of operations, and has recognized sub-lease income within "other income". See Note 10 "Leases" for sub-lease income recognized.

For lease agreements where the Company is a lessor, if the lease provides for tenant improvements, the Company determines whether the tenant improvements are owned by the tenant or the Company. When the Company is the owner of the tenant improvements, depreciation begins when improvements are substantially complete. When the tenant is the owner of the tenant improvements, any tenant allowance funded by the Company is treated as a lease incentive and amortized as an adjustment to rental income over the lease term.

(f) Loans and notes receivable

Loans and notes receivable are carried at amortized cost, with interest income recognized using the effective interest rate method. The effective interest rate method is used to recognize interest income on loan receivables on the basis of the contractual cash flows over the contractual term of the loan. A provision for credit loss is established when there is objective evidence that the Company will not be able to collect all amounts due for both principal and interest according to the contractual terms of the agreement. Interest income received on loans receivable is recorded as other income.

(g) Assets Held for Sale

Long-lived assets and groups of assets and liabilities which are considered to be disposal groups are presented as assets held for sale when the criteria in ASC Topic 360 *Property, Plant and Equipment* are met. Assets are reclassified as held for sale when management commits to a plan to sell the asset, the asset is available for immediate sale in its present condition subject to usual and customary terms, an active program to find a buyer is in place, the sale of the asset is probable within one year, the asset is being actively marketed at a price that is reasonable in relation to its fair value and it is unlikely that significant changes to the plan will be made.

While classified as held for sale, assets are carried at the lower of their carrying value and the fair value less costs to sell. Assets held for sale are not depreciated.

(h) Unconsolidated Entities

The Company holds interests in a number of unconsolidated entities in which it has less than a controlling interest to build homes or to develop and sell land to the unconsolidated entity members and other third parties. These unconsolidated entities are accounted for using the equity method. The Company recognizes its proportionate share of the earnings from the sale of lots and homes to other third parties. The Company does not recognize earnings from the purchase of lots from its unconsolidated entities and reduces its cost basis of the land purchased accordingly.

The Company holds an investment in a related entity, BUSI, which it does not control. This investment is accounted for using the equity method. This investment was initially recorded at its book value as it resulted from a transaction between entities under common control. The investment is adjusted for the Company's proportionate share of undistributed comprehensive income or loss, increased for contributions made and decreased for all distributions received. The equity investee holds an interest in an entity, which is consolidated by the Company. Accordingly, the undistributed equity earnings have been adjusted for amounts already included in the Company's consolidated financial statements. Dilution gains/losses resulting from changes in our interest resulting from transactions with entities under common control are treated as deemed contributions or distributions and recorded within equity.

(i) Use of Estimates

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

(j) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and all highly liquid short-term investments with original maturity less than 90 days. The carrying value of these investments approximates their fair value.

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(k) Restricted Cash

Restricted cash includes cash collateralization of development letters of credit, as well as funds in various cash accounts reserved for letters of credit, guarantees on completion of certain improvements, and guarantees on future insurance loss deductible payments.

(l) Income Taxes

Income taxes are accounted for in accordance with ASC Topic 740 *Income Taxes*. The provision for, or benefit from, income taxes is calculated using the asset and liability method, under which deferred tax assets and liabilities are recorded based on the difference between the accounting bases and tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. Additionally, for its investments in foreign or domestic partnerships, and in accordance with ASC Topic 740, the Company recognizes a deferred tax asset or liability based on the difference between the tax basis and accounting basis of their investment, this is known as the outside basis difference.

Provisions (benefits) for federal, state and provincial income taxes are calculated on reported pretax income (losses) based on current tax law and also include, in the applicable period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions (benefits) differ from the amounts currently receivable or payable because certain items of income and expense are recognized for financial reporting purposes in different periods than for income tax purposes. Significant judgment is required in determining income tax provisions (benefits) and evaluating tax positions. The Company establishes reserves for income taxes when, despite the belief that its tax positions are fully supportable, it believes that its positions may be challenged and disallowed by various tax authorities. The consolidated tax provisions (benefits) and related accruals include the impact of such reasonably estimated disallowances as deemed appropriate. To the extent that the probable tax outcome of these matters changes, such changes in estimates will impact the income tax provision (benefit) in the period in which such determination is made.

In accordance with ASC Topic 740, the Company assesses on a quarterly basis the realizability of its deferred tax assets. Significant judgment is required in estimating valuation allowances for deferred tax assets. A valuation allowance is established against a deferred tax asset if, based on the available evidence, it is more-likely-than-not that such asset will not be realized. The Company's assessment includes evaluating the following significant factors: an assessment of recent years' profitability and losses which considers the nature, frequency, and severity of current and cumulative losses; management's forecasts or expectation of profits based on margins and volumes expected to be realized; the long duration of twenty years in Canada before the expiry of non-capital losses, and taking into consideration that a portion of the deferred tax asset is composed of deductible temporary differences that are not subject to an expiry period until realized under tax law.

The Company bases its estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, on business plans and other expectations about future outcomes. Changes in existing tax laws or rates could affect actual tax results, and future business results may affect the amount of deferred tax liabilities or the valuation of deferred tax assets over time. The Company's accounting for deferred tax assets represents its best estimate of future events using the guidance provided by ASC Topic 740.

(m) Share-Based Compensation

The Company accounts for option grants and deferred share unit grants in accordance with ASC Topic 718 *Compensation-Stock Compensation*.

All options granted under the Management Share Option Plan have exercise prices equal to the assessed market value of the Company's Common Shares on the grant date, determined in accordance with the Company's Management Share Option Plan. Participants in the Management Share Option Plan can exercise their options to purchase Non-Voting Class B Common Shares at the exercise price or settle the options in cash at the option of the holder as options vest. The Company records the options as a liability and they are disclosed in accounts payable and other liabilities. The fair value of the options is determined and a true-up for compensation costs is recorded each reporting period for the changes in fair value prorated for the portion of the requisite service period rendered. The Company determines the fair value of the options using the Black-Scholes option pricing model.

The Company records the deferred share units as a liability and they are disclosed in accounts payable and other liabilities.

See Note 17 "Share-Based Compensation" for further discussion.

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(n) Foreign Currency Translation

The functional and presentation currency of the Company is the U.S. dollar. 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 and have a Canadian dollar functional currency. The financial statements of its 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. 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. 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 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.

(o) Earnings Per Share

Earnings per share is computed in accordance with ASC Topic 260 *Earnings Per Share*. Basic earnings per share is calculated by dividing net income attributable to Brookfield Residential by the weighted average number of Common Shares outstanding for the period. Diluted earnings per share is calculated by dividing net income attributable to Brookfield Residential for the period by the average number of Common Shares outstanding including all potentially dilutive issuable Non-Voting Class B Common Shares under the option plan.

(p) Advertising Costs

The Company expenses advertising costs as incurred, which are included in the consolidated statements of operations as selling, general and administrative expense.

(q) Warranty Costs

Estimated future warranty costs are accrued and charged to cost of sales at the time the revenue associated with the sale of each home is recognized. Factors that affect the Company's warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and cost per claim. Costs are accrued based upon historical experience.

(r) Variable Interest Entities

The Company accounts for its variable interest entities ("VIE") in accordance with ASC Topic 810 *Consolidation*. The decision to consolidate a VIE begins with establishing that a VIE exists. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investor lacks one of three characteristics associated with owning a controlling financial interest. Those characteristics (i) are the power to direct the activities of an entity that most significantly impact the entity's economic performance; (ii) the obligation to absorb the expected losses of the entity; and (iii) the right to receive the expected residual returns of the entity. The entity that has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE is considered to have a controlling financial interest in a VIE and is required to consolidate such entity. The Company has determined that it has a controlling financial interest in certain investments and land option contracts, which it considers VIEs that have been consolidated in these financial statements. See Note 5 "Land and Housing Inventory", Note 6 (a) "Investments in Unconsolidated Entities - Land and Housing", Note 6 (b) "Investments in Unconsolidated Entities - Affiliates" and Note 15 "Non-Controlling Interest" for further discussion on the consolidation of land option contracts and consolidated and unconsolidated entities.

(s) Derivative Financial Instruments and Risk Management Activities

The Company accounts for its derivative and hedging activities in accordance with ASC Topic 815 *Derivatives and Hedging*, which requires the Company to recognize all derivative instruments at their fair values as either assets or liabilities on its balance sheet. The accounting for changes in fair value (i.e. gains or losses) of a derivative instrument depends on whether the Company has designated it, and whether it qualifies, as part of a hedging relationship and on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging

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instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation. For hedges of net investments in foreign operations, any foreign exchange gains or losses on the hedging instrument are recorded in other comprehensive income as long as the hedge remains effective.

(t) Held-to-Maturity Investment

Held-to-maturity investments are recorded at fair value and are subsequently measured at amortized cost using the effective interest method, less any applicable provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Dividends received on held-to-maturity investments are recorded as other income.

(u) Investment Company Subsidiaries

The Company has interests in subsidiaries that are investment companies in accordance with ASC Topic 946 *Financial Services - Investment Companies*, which prescribes specialized accounting and reporting requirements for investment companies. As the Company consolidates these subsidiaries in accordance with ASC 810 *Consolidation*, the Company is required to retain the industry specific guidance applied by this entity under ASC 946.

The investment company assets are carried at fair value, which may be determined using a combination of observed transaction prices, industry wide accepted valuation techniques, or other valuation methodologies based on inputs that may be directly or indirectly market observable. See Note 4 "Receivables and Other Assets" and Note 22 "Fair Value Measurements".

(v) Goodwill

We record goodwill associated with acquisitions of businesses when the purchase price of the business exceeds the fair value of the net tangible and identifiable assets acquired. In accordance with ASC Topic 350, *Intangibles-Goodwill and Other* ("ASC 350"), we evaluate goodwill for potential impairment on at least an annual basis. We evaluate potential impairment by comparing the carrying value of each of our reporting units to their estimated fair values. We estimate fair value through various valuation methods, including the use of discounted expected future cash flows of each reporting unit.

(w) Fair Value Measurements

The FASB's authoritative guidance for fair value measurements establishes a three-level hierarchy based upon the inputs to the valuation model of an asset or liability. The fair value hierarchy and its application to the Company's assets and liabilities is as follows:

- Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2 – Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, or by model-based techniques in which all significant inputs are observable in the market.
- Level 3 – Valuation is derived from model-based techniques in which at least one significant input is unobservable and based on management's estimates about the assumptions that market participants would use to value the asset or liability.

When available, the Company uses quoted market prices in active markets to determine fair value. The Company considers the principal market and non-performance risks associated with its counterparties when determining the fair value measurements, if applicable.

(x) Common Control Transactions

The Company accounts for the purchase and sale of assets between entities under common control in accordance with ASC Topic 805-50 *Business Combinations - Related Issues*, which requires the Company to record assets and liabilities transferred between entities under common control at carrying value. Differences between the carrying amount of the consideration given or received and the carrying amount of the assets and liabilities transferred are recorded directly in additional paid-in-capital and retained earnings.

The transfer of consolidated entities under common control may result in a change in reporting entity in accordance with ASC Topic 250, *Accounting changes and Error Corrections*. Where material, this requires retrospective combination of the entities for all periods presented as if the combination had been in effect since the inception of common control.

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(y) *Non-controlling Interest*

In accordance with ASC Topic 810 *Consolidation*, the Company accounts for its non-controlling interest after considering the impact of the Company's direct and indirect interest in its subsidiaries.

Non-controlling interest represents ownership interests attributable directly or indirectly to third parties in certain consolidated subsidiaries, limited partnerships and VIEs. The portion of equity not owned by the Company in such entities is reflected as non-controlling interest within the equity section of the consolidated balance sheets. See Note 15 "Non-Controlling Interest".

In certain circumstances, the Company's equity method investee may own an interest in an entity or partnership consolidated by the Company. In these situations, the carrying amount of the investment and the Company's share of undistributed equity earnings, have been adjusted to reflect the fact that the Company has already consolidated the partnership with a corresponding adjustment made to non-controlling interest.

(z) *Reclassification*

Certain amounts in the consolidated balance sheets and statements of operations have been reclassified to conform with the December 31, 2020 presentation. Specifically, the Company's Homebuilder Finance assets were previously included in land and housing inventory, and are now in other assets, and earnings were previously included in land revenue and land cost of sales, and are now in other income to better align with the requirements of ASC 946 *Financial Services - Investment Companies*. See Note 4 "Receivables and Other Assets" for further information.

(aa) *Future Accounting Pronouncements*

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

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

Note 2. Change in Accounting Policies

On January 1, 2020, the Company retrospectively adopted Accounting Standards Update (ASU) 2018-13: *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*. The adoption of this amendment did not have a material impact on our financial position or results of operations.

Note 3. Restricted Cash

At December 31, 2020, the Company has restricted cash consisting of (i) \$17.7 million (December 31, 2019 – \$13.7 million) of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductible payments, and (ii) \$0.1 million (December 31, 2019 – \$0.1 million) relating to cash collateralization of development letters of credit.

Note 4. Receivables and Other Assets

The components of receivables and other assets are summarized as follows:

	As at	
	December 31 2020	December 31 2019
Receivables (a).....	\$ 392,431	\$ 373,988
Other assets (b).....	375,161	114,728
	\$ 767,592	\$ 488,716

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(a) The components of receivables are summarized as follows:

	As at	
	December 31 2020	December 31 2019
Development recovery receivables (i).....	\$ 101,924	\$ 113,980
Real estate receivables (ii).....	87,970	119,002
Loan receivables (iii).....	86,568	76,254
Sundry receivables (iv).....	58,827	24,297
Preferred shares dividends receivable (v).....	36,164	12,099
Proceeds and escrow receivables (vi).....	12,035	20,611
Refundable deposits.....	8,943	7,745
	\$ 392,431	\$ 373,988

- (i) The Company has entered into development and cost sharing arrangements for the recovery of development expenditures with certain metropolitan districts and developers whereby the Company has undertaken to put in place the infrastructure for certain communities. These receivables will be collected over the development life of the community and bear interest rates ranging from Canadian prime or U.S. prime plus 0.5% to 1.0% or a fixed rate of 0.0% to 8.5% (December 31, 2019 – Canadian prime or U.S. prime plus 0.5% to 1.0% to a fixed rate of 0.0% to 8.5%).
- (ii) Real estate receivables include VTB mortgage receivables. The VTB collection terms range from two months to five years and bear interest at Canadian prime plus 2.0% to 3.0% or a fixed interest rate of 0.0% to 6.0% (December 31, 2019 – Canadian prime plus 2.0% to 3.0% or a fixed interest rate of 0.0% to 6.0%).
- (iii) The Company entered into an agreement to provide financing of \$112.0 million in the form of a senior secured term loan that is secured by the underlying land to which it relates. The loan bears interest at 14% and matures in 2021. During the year ended December 31, 2020, \$27.5 million of principal was collected (year ended December 31, 2019 - \$18.6 million). As at December 31, 2020, the loan had an outstanding balance of \$48.8 million (December 31, 2019 - \$76.3 million).

During the year ended December 31, 2020, the Company entered into an agreement with our service provider, Brookfield Properties Development, a wholly-owned subsidiary of BAM, to provide financing of up to \$50.0 million. The loan bears interest at Canadian prime plus 0.75% or U.S. prime plus 0.75%, as applicable. As at December 31, 2020, the loan had an outstanding balance of \$36.3 million. Subsequent to December 31, 2020, the loan capacity was increased from \$50.0 million to \$100.0 million.

- (iv) Sundry receivables are comprised of lot interest receivables, homeowners association receivables, and other miscellaneous amounts.
- (v) Preferred shares dividends receivable are comprised of \$36.2 million of preferred share dividends receivable from the BIL preferred shares (December 31, 2019 - \$12.1 million). See Note 8 "Held-to-Maturity Investment" for details.
- (vi) Proceeds and escrow receivables relate to receivables held in trust due to timing of homes and lots closed at the period end date. The collections of these receivables typically occur shortly after the period end once the funds are released by the trust or escrow company.

As at December 31, 2020, allowances for doubtful accounts were \$nil (December 31, 2019 - \$nil).

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(b) The components of other assets are summarized as follows:

	As at	
	December 31 2020	December 31 2019
Investment company assets (i).....	\$ 255,376	\$ —
Non-refundable earnest funds and investigation fees (ii).....	49,816	27,124
Capitalized sales and marketing costs (iii).....	25,663	31,115
Other.....	21,180	15,168
Capital assets (iv).....	14,974	26,878
Prepaid expenses.....	8,152	14,443
	\$ 375,161	\$ 114,728

- (i) Investment company assets represents the Company's Homebuilder Finance program's investment in land assets of \$231.9 million, and Brookfield Single Family Rental investment assets of \$23.4 million (See Note 22 "Fair Value Measurements"). Homebuilder finance assets have been reclassified from inventory to other assets in accordance with ASC 946 *Financial Services - Investment Companies* (December 31, 2019 – \$174.0 million was recorded in land and housing inventory).
- (ii) Non-refundable earnest funds and investigation fees relate to non-refundable deposits and due-diligence costs on potential acquisitions and options that are incurred prior to taking title of a property.
- (iii) Capitalized sales and marketing costs are recorded at cost less accumulated amortization. Capitalized sales and marketing costs are amortized over unit closings and are included in selling, general and administrative expense on the consolidated statement of operations. Included in capitalized sales and marketing is accumulated amortization of \$32.8 million (December 31, 2019 – \$25.4 million).
- (iv) Capital assets are recorded at cost less accumulated depreciation. The Company provides for depreciation using the straight-line method. Leasehold improvements are depreciated over the term of the lease and equipment is depreciated over three to five years. Included in capital assets is accumulated depreciation of \$24.4 million (December 31, 2019 – \$21.5 million).

Note 5. Land and Housing Inventory

Land and housing inventory includes land held for development and land under development, which will be used in the Company's homebuilding operations or sold as building lots to other homebuilders, homes completed or under construction and model homes.

The following summarizes the components of land and housing inventory:

	As at	
	December 31 2020	December 31 2019
Land held for development.....	\$ 1,307,436	\$ 1,386,340
Land under development.....	774,074	1,056,884
Housing inventory.....	476,629	504,643
Model homes.....	98,488	110,757
	\$ 2,656,627	\$ 3,058,624

The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. For the years ended December 31, 2020 and 2019, no impairment charges were recognized.

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The locations of the projects reviewed are as follows:

	Number of Projects
Canada	41
California	42
Central and Eastern U.S.	36
	119
Unconsolidated entities	14
Total	133

The Company capitalizes interest which is later expensed as housing units and lots are sold. Interest capitalized and expensed during the years ended December 31, 2020 and 2019 was as follows:

	Year Ended December 31	
	2020	2019
Interest capitalized, beginning of year	\$ 173,353	\$ 163,236
Interest capitalized	82,716	68,928
Interest expensed to cost of sales	(67,423)	(58,811)
Interest capitalized, end of year	\$ 188,646	\$ 173,353

In the ordinary course of business, the Company has entered into a number of option contracts to acquire land or lots in the future in accordance with specific terms and conditions. As such, the Company has advanced deposits to secure these rights. The Company is required by ASC Topic 810 *Consolidation* to qualitatively assess whether it is the primary beneficiary of these options based on whether it has the power to control the significant activities of the VIE and an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The Company has evaluated its option contracts in accordance with this guidance and determined that, for those entities considered to be VIEs, it is the primary beneficiary of options with an aggregate exercise price of \$8.1 million (December 31, 2019 – \$8.1 million), which are required to be consolidated. In accordance with ASC Topic 810, the future exercise price for these options have been recorded in land and housing inventory, with a corresponding increase in accounts payable and other liabilities for the assumed third-party investment in the VIE. Where the land sellers are not required to provide the Company with financial information related to the VIE, certain assumptions by the Company are required in its assessment as to whether or not it is the primary beneficiary.

Land and housing inventory includes non-refundable deposits and other entitlement costs totaling \$24.8 million (December 31, 2019 – \$99.0 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 \$75.7 million (December 31, 2019 – \$96.1 million), including the non-refundable deposits and other entitlement costs identified above.

The number of lots in which the Company has obtained an option to purchase, excluding those already consolidated and those held through investment in unconsolidated entities, and their respective dates of expiry and aggregate exercise prices follow:

Years of Expiry	Number of Lots	Total Exercise Price
2021	885	\$ 6,578
2022	27	7,221
2023	1,234	3,093
2024	75	1,578
2025	4,840	34,390
Thereafter	1,142	22,796
	8,203	\$ 75,656

The Company holds agreements for a further 3,267 acres (December 31, 2019 – 3,461 acres) of longer-term land, with non-refundable deposits and other entitlement costs of \$2.2 million (December 31, 2019 – \$12.2 million), which is included in land and housing inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of \$72.3 million (December 31, 2019 – \$79.5 million). The Company has evaluated these options in accordance with ASC Topic 810, and has concluded that they are not the primary beneficiary. As such, they are not required to be consolidated.

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Note 6. 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 December 31, 2020, the Company invested in 15 unconsolidated entities (December 31, 2019 – 12 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities include \$16.1 million (December 31, 2019 – \$21.6 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 1,001 lots (December 31, 2019 – 1,001 lots) under option. The Company's share of the total exercise price of these options is \$38.9 million (December 31, 2019 – \$41.3 million). Summarized financial information on a 100% basis for the combined land and housing unconsolidated entities follows:

	As at	
	December 31 2020	December 31 2019
Assets		
Land and housing inventory.....	\$ 710,268	\$ 720,970
Investments in unconsolidated entities.....	147,695	151,524
Other assets.....	130,702	138,837
	<u>\$ 988,665</u>	<u>\$ 1,011,331</u>
Liabilities and Equity		
Bank indebtedness and other financings.....	\$ 126,067	\$ 113,194
Accounts payable and other liabilities.....	117,868	117,408
Brookfield Residential's interest.....	307,250	330,597
Others' interest.....	437,480	450,132
	<u>\$ 988,665</u>	<u>\$ 1,011,331</u>
Year Ended December 31		
	2020	2019
Revenue and Expenses		
Revenue.....	\$ 185,065	\$ 399,600
Direct cost of sales.....	(136,637)	(300,946)
Other income and expenses.....	7,947	4,407
Net income.....	<u>\$ 56,375</u>	<u>\$ 103,061</u>
Brookfield Residential's share of net income.....	<u>\$ 16,469</u>	<u>\$ 34,680</u>

In reporting the Company's share of net income, all intercompany profits from unconsolidated entities are eliminated on lots purchased by the Company from unconsolidated entities.

Unconsolidated entities in which the Company has a non-controlling interest are accounted for using the equity method. In addition, the Company has performed an evaluation of its existing unconsolidated entity relationships by applying the provisions of ASC Topic 810.

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt of its unconsolidated entities. At December 31, 2020, the Company had recourse guarantees of \$32.5 million (December 31, 2019 – \$6.2 million) with respect to debt of its land and housing unconsolidated entities.

(b) Affiliates

Through the Reorganization Transaction (see Note 7 "Reorganization Transaction" for additional information relating to the transaction), the Company acquired a 12.3% economic interest and a 50% voting interest in BUSI, a company under common control through Brookfield Residential's parent company, BAM.

The Company recorded its investment in BUSI using the equity method in accordance with ASC Topic 323 *Equity Method - Investments and Joint Ventures* for transactions with entities under common control. Under the equity method, the Company's investment is recorded at its proportionate share of the carrying amount of the underlying assets and liabilities of BUSI as at September 26, 2019. The Company's investment in BUSI is subsequently increased or decreased to recognize the Company's share of comprehensive income or loss after the initial

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recognition date and for changes in ownership.

At the time of the Reorganization Transaction BUSI had net assets with a carrying value of approximately \$3.6 billion (excluding pre-existing preferred shares and non-controlling interest). The Company's equity interest received from BUSI was measured and recorded at 12.3% of the carrying value of BUSI at September 24, 2019. As part of BUSI's business, it may acquire or dispose assets at its discretion which may cause the Company's percentage economic interest in BUSI to fluctuate to the extent BUSI acquires new assets funded through equity issuances. Subsequent to the Reorganization Transaction, BAM and BUSI closed the previously announced acquisition of Oaktree Capital Group on September 30, 2019 and as a result, the Company's percentage economic interest in BUSI was diluted to 9.5%.

The Company's maximum exposure to loss is limited to its investment in BUSI.

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

	For the Year Ended	
	December 31 2020	December 31 2019
Equity Investment in BUSI		
Balance, beginning of year.....	\$ 634,028	\$ —
Additions.....	—	444,986
Dilution gain.....	—	165,660
(Loss) / Earnings from unconsolidated entities.....	(29,544)	23,382
OCI.....	1,131	—
Balance, end of year.....	<u>\$ 605,615</u>	<u>\$ 634,028</u>

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

	As at	
	December 31 2020	December 31 2019
Assets		
Investments.....	\$ 7,087,439	\$ 5,029,025
Investments in unconsolidated entities.....	5,056,923	4,652,721
Other assets.....	4,201,913	4,630,511
	<u>\$ 16,346,275</u>	<u>\$ 14,312,257</u>
Liabilities and Equity		
Loans payable.....	\$ 3,310,113	\$ 3,672,568
Other liabilities.....	1,000,334	465,988
Non-controlling interest.....	5,658,270	3,485,813
Brookfield Residential's interest.....	605,615	634,028
Others' Interest.....	5,771,943	6,053,860
	<u>\$ 16,346,275</u>	<u>\$ 14,312,257</u>

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	Year Ended December 31	
	2020	2019
Revenue and Expenses		
Income	\$ 1,158,546	\$ 2,068,966
Expenses	(1,391,347)	(1,224,210)
Net (loss) / income	(232,801)	844,756
Other comprehensive income	7,748	419,257
Comprehensive (loss) / income	\$ (225,053)	\$ 1,264,013

In reporting the Company's share of net income, all intercompany profits from equity investments are eliminated. Unconsolidated entities in which the Company has a non-controlling interest are accounted for using the equity method.

Note 7. Reorganization Transaction

On September 26, 2019, the Company completed a reorganization (the "Reorganization Transaction") in order to facilitate operational and administrative synergies by combining all of BAM's direct U.S. investments into one corporate group and further expand the Company's business by including land banking assets owned by BAM's subsidiary BUSI.

As part of the Reorganization Transaction, Brookfield Residential US Corporation ("BRUSC"), Meadows and Hayden I became subsidiaries of a new limited liability company BRUSH.

Upon consummation of the Reorganization Transaction, BUSI became the direct owner of 89.6% of the economic interests in BRUSH. Brookfield Residential GP LLC ("BRGP"), Brookfield Residential's wholly-owned subsidiary, became the managing member of, and holds a 10.4% direct interest in BRUSH. Furthermore, the Company received a 12.3% economic interest and a 50% voting interest in the capital stock of BUSI.

Accordingly, at the time of completion of the Reorganization Transaction, the Company held direct and indirect interests in BRUSH of 21.4%. The Reorganization Transaction was structured such that the Company's minority economic interest in the capital stock of BUSI, together with BRGP's 10.4% economic interest in BRUSH, was equal to the fair value of the capital stock of BRUSC. The Company also holds a 50% voting interest in the capital stock of BUSI.

The impact on the Company's consolidated financial statements resulting from the Reorganization Transaction was as follows:

Increase in net assets resulting from contribution of Meadows and Hayden I	\$ 7,718
Increase in equity investment in BUSI	610,644
Decrease in deferred income tax	(18,073)
Increase in non-controlling interest	(975,823)
Decrease in additional paid-in-capital	367,433
Decrease in retained earnings	8,101

Note 8. Held-to-Maturity Investment

	As at	
	December 31 2020	December 31 2019
Brookfield International Ltd. Series I Class A Preference Shares ("BIL preferred shares")	\$ 300,000	\$ 300,000
	\$ 300,000	\$ 300,000

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(a) *Brookfield International Ltd.*

The Company holds \$300.0 million of BIL preferred shares that entitle their holders to receive, when declared, dividend payments at a rate of 8.0%, accrued quarterly. The BIL preferred shares are redeemable and retractable at any time and must be redeemed on the tenth anniversary of their issuance.

During the year ended December 31, 2020, the Company earned \$24.1 million of preferred share dividends (year ended December 31, 2019 -\$13.9 million of dividends earned). As at December 31, 2020 a total of \$36.2 million of accrued dividends is recorded in the consolidated balance sheets within receivables and other assets. See Note 4 "Receivables and Other Assets" for details.

Note 9. Commercial Properties

Commercial properties include any properties that are currently leased out by Brookfield Residential and produce leasing revenue for the Company, are being developed to produce leasing revenue at a future date, or are being developed for eventual sale. Completed commercial properties are stated at cost, less accumulated depreciation. Commercial properties under development are stated at cost. The Company's components of commercial properties consist of the following:

	As at	
	December 31 2020	December 31 2019
Work in progress	\$ 469,981	\$ 436,842
Finished properties	243,824	34,075
	713,805	470,917
Less: accumulated depreciation	(3,858)	(2,398)
	<u>\$ 709,947</u>	<u>\$ 468,519</u>

Note 10. Leases

The nature of the Company's leases are: office space, office equipment, land, design centers, vehicles, and model homes. Select leases include variable payments in the form of rent increases, these are dependent on the market rate. The term of the Company's leases range from less than one to 99 years, and include extension terms that are reasonably expected to be exercised.

The Company does not have any leases which have been entered into, but not yet commenced, where the Company is a lessee.

Included in lease expense are expenses for operating leases, financing lease interest and financing lease amortization. The Company has sublease income for the year ended December 31, 2020 of \$1.2 million included in other income (year ended December 31, 2019 - \$0.4 million).

The Company has committed to future minimum payments for leases as follows:

Years of Expiry	Operating Leases	Financing Leases
2021	\$ 9,747	\$ 311
2022	9,358	215
2023	8,701	135
2024	7,991	36
2025	8,550	1
Thereafter	355,133	—
Total lease payments	399,480	698
Less imputed interest	(311,570)	(49)
Total	<u>\$ 87,910</u>	<u>\$ 649</u>

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Note 11. Income Taxes

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the year ended December 31, 2020 and 2019 is as follows:

	Year Ended December 31	
	2020	2019
Statutory rate	24.0%	26.5%
Non-temporary differences	6.7	(2.2)
Rate difference from statutory rate	(14.5)	(9.1)
Deferred tax asset valuation allowance impact	7.9	7.1
Return to provision	7.1	(0.9)
Realized capital loss on foreign exchange	—	(10.1)
Change in statutory tax rate	1.9	2.7
Non-taxable preferred share dividends	(7.0)	(2.7)
Taxable income attributable to non-controlling interests	(23.4)	(5.8)
Other	0.7	(2.8)
Effective tax rate	<u>3.4%</u>	<u>2.7%</u>

The increase in the 2020 effective tax rate when compared to the same period in 2019 was primarily due to changes in the proportion of income in jurisdictions with different tax rates, an increase in non-taxable preferred share dividends and the impact of the Reorganization Transaction that results in the consolidation of income attributable to non-controlling interest for which the consolidated tax provision only includes our proportionate share. This was partially offset by the increase in valuation allowance for the outside basis difference in our investment in affiliate unconsolidated entities, an increase in non-deductible stock compensation expense and the impact of a return-to-provision adjustment recorded due to the release of certain final U.S. tax regulations.

The provision for income taxes by jurisdiction for the years ended December 31, 2020 and 2019 is set forth below:

	Year Ended December 31	
	2020	2019
Current		
Canada	\$ (89)	\$ (259)
U.S.	(5,768)	(7,102)
International	(852)	(1,128)
Current income tax expense	<u>(6,709)</u>	<u>(8,489)</u>
Deferred		
Canada	4,456	(413)
U.S.	(874)	3,452
Deferred income tax recovery	<u>3,582</u>	<u>3,039</u>
Total income tax expense	<u>\$ (3,127)</u>	<u>\$ (5,450)</u>

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The differences that give rise to the net deferred tax assets / (liabilities) are as follows:

	As at	
	December 31 2020	December 31 2019
Net deferred tax assets / (liabilities)		
Differences relating to land and housing inventory	\$ (6,415)	\$ (9,746)
Compensation deductible for tax purposes when paid	7,924	6,426
Operating loss carryforwards	52,271	49,752
Capital loss carryforwards	17,968	17,985
Impact of foreign exchange	(545)	778
Investment in unconsolidated entities - affiliate	38,282	31,179
Other	1,732	2,960
Net deferred tax assets before valuation allowance	111,217	99,334
Cumulative valuation allowance	(56,250)	(49,942)
Net deferred tax assets	<u>\$ 54,967</u>	<u>\$ 49,392</u>

The Company has Canadian federal non-capital loss carryforwards of approximately \$229.3 million (C\$291.9 million) as at December 31, 2020 (December 31, 2019 - \$211.2 million (C\$274.3 million). Federal non-capital loss carryforwards attributable to Canada may be carried forward up to 20 years to offset future taxable income and expire between 2032 and 2040. At December 31, 2020, the Company has Canadian capital loss carryforwards of \$156.2 million (C\$199.0 million) (December 31, 2019 - \$156.4 million (C\$203.1 million) which do not expire.

As a result of the Reorganization Transaction, the Company's investment in BRUS LLC is now held through a limited liability company treated as a partnership for tax purposes (BRUSH), which required the Company to reverse the existing deferred tax balance that was recorded on the consolidated books of BRUS LLC under the inside basis, and book the deferred tax relating to the outside basis difference of its interest in BRUSH. The outside basis difference is calculated by applying the tax rate applicable to the Company by the difference between the adjusted cost basis of the Company's investment in BRUSH, and 10.4% of the carrying amount of BRUSH's net assets, excluding any non-controlling interest that existed prior to the Reorganization Transaction. The Company assesses the outside basis difference at each reporting period, with any change being recorded in current or deferred taxes, as appropriate.

The Company records net deferred tax assets to the extent it believes these assets will more-likely-than-not be realized. At each reporting period, the Company evaluates the recoverability of its deferred tax assets by tax jurisdiction to determine if a valuation allowance is required. In making such determinations, the Company considers all available positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies and recent financial operations. This evaluation considers, among other factors, the nature, frequency and severity of cumulative losses, actual earnings, forecasts of future operating results, the duration of statutory carryforward periods, the Company's experience with loss carryforwards not expiring and the outlook of the housing industry and the broader economy.

In evaluating the need for a valuation allowance against the Company's deferred tax assets at December 31, 2020, the Company considered all available and objectively verifiable positive and negative evidence. The valuation allowance of \$56.3 million mainly relates to the realized capital losses in Canada and its investment in unconsolidated entities that have not met the more-likely-than-not realization threshold. 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.

Undistributed earnings of the Company's non-Canadian corporate affiliates as of December 31, 2020 were considered to be permanently reinvested. A determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable.

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Note 12. Accounts Payable and Other Liabilities

The components of accounts payable and other liabilities are summarized as follows:

	As at	
	December 31 2020	December 31 2019
Accounts payable (a)	\$ 418,494	\$ 400,888
Other liabilities (b)	189,546	176,186
	\$ 608,040	\$ 577,074

(a) The components of accounts payable are summarized as follows:

	As at	
	December 31 2020	December 31 2019
Trade payables and other accruals	\$ 153,802	\$ 156,313
Customer deposits	126,721	97,633
Development costs payable (i)	68,413	72,807
Real estate payables	33,362	32,104
Interest on notes payable	24,370	9,513
Accrued and deferred compensation	12,567	36,908
Current income taxes receivable	(741)	(4,390)
	\$ 418,494	\$ 400,888

(i) Development costs payable relate to provisions accrued for costs yet to be incurred within a subdivision where sales have taken place. The provision is based on the sold lots pro rata share of costs to be incurred for specified areas within each subdivision phase.

(b) The components of other liabilities are summarized as follows:

	As at	
	December 31 2020	December 31 2019
Share-based compensation (Note 17)	\$ 81,719	\$ 61,427
Other	34,488	44,105
Deferred revenue (i)	30,923	20,125
Purchase price consideration payable	17,584	23,869
Warranty costs (Note 20 (a))	16,718	18,546
Consolidated land option contracts (ii)	8,114	8,114
	\$ 189,546	\$ 176,186

(i) Of the \$20.1 million deferred revenue balance at December 31, 2019, \$18.9 million was recognized during the year ended December 31, 2020 (December 31, 2019 - \$12.9 million).

(ii) Consolidated land option contracts are the total future purchase price of land options contracts required to be consolidated under ASC Topic 810 *Consolidation*, with a corresponding amount recorded in land and housing inventory. See Note 5 "Land and Housing Inventory".

Note 13. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	December 31 2020	December 31 2019
Project-specific financings (a).....	\$ 355,815	\$ 180,352
Secured VTB mortgages (b).....	61,861	54,796
Bank indebtedness (c).....	—	—
Due to affiliates (d).....	—	—
	417,676	235,148
Transaction costs (a)(c).....	(8,038)	(7,001)
	\$ 409,638	\$ 228,147

(a) *Project-specific financings*

- (i) As at December 31, 2020, the Company has two Canadian project-specific financings totaling \$47.4 million (C\$60.3 million) provided by various lenders (December 31, 2019 - \$47.4 million (C\$61.6 million)).

Project-specific financing totaling \$39.3 million (C\$50.0 million) has an interest rate of Canadian Prime + 0.50%, matures in 2021, 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, 2019 - \$40.2 million (C\$52.2 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 December 31, 2020.

Project-specific financing totaling \$8.1 million (C\$10.3 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 2021, and is secured without covenants (December 31, 2019 - \$7.2 million (C\$9.3 million)).

- (ii) On November 29, 2018, OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company, entered into a five-year secured construction loan for the Fifth + Broadway mixed-used project in Nashville. The loan allows OliverMcMillan Spectrum Emery LLC to borrow up to \$360.0 million. As at December 31, 2020, the Company has \$284.4 million of borrowings outstanding under the construction loan (December 31, 2019 - \$132.9 million).

Interest is charged on the loan at a rate equal to LIBOR plus 3.35%, subject to a LIBOR rate floor of 1.80%, with the ability to convert the interest charged to a prime rate loan.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of \$36.0 million and a minimum net worth of \$360.0 million. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at December 31, 2020.

The transaction costs are costs related to the issuance of the project facility, and are amortized using the effective interest rate method over the life of the project facility.

- (iii) On March 20, 2020, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, entered into a three-year secured construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The loan allows OliverMcMillan Kuhio LLC to borrow up to \$155.7 million. As at December 31, 2020, the company has \$24.1 million of borrowings outstanding under the construction loan.

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

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of \$75.0 million and a minimum net worth of \$250.0 million. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at December 31, 2020.

The transaction costs are costs related to the issuance of the project facility, and are amortized using the effective interest rate method over the life of the project facility.

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(b) Secured VTB mortgages

The Company has 12 secured VTB mortgages (December 31, 2019 – 13 secured VTB mortgages) in the amount of \$61.9 million (December 31, 2019 – \$54.8 million). Secured VTB mortgages are repayable as follows: 2021 – \$27.3 million; 2022 – \$13.3 million, 2023 – \$19.1 million; and 2024 – \$2.2 million.

10 secured VTB mortgages (December 31, 2019 – eight secured VTB mortgages) in the amount of \$47.1 million (December 31, 2019 – \$26.0 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\$60.0 million (December 31, 2019 – C\$33.8 million). The interest rates on the debt range from fixed rates of 4.0% to 6.0% and variable rates of Canadian Prime plus 1.0% to 2.0% and the debt is secured by the related land. One secured VTB mortgage in our Calgary region is subject to a minimum shareholder's equity covenant of Brookfield Residential (Alberta) LP of C\$200.0 million. The Company was in compliance with this covenant as at December 31, 2020.

Two secured VTB mortgages (December 31, 2019 – five secured VTB mortgages) in the amount of \$14.7 million (December 31, 2019 – \$28.8 million) relates 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 December 31, 2020, these borrowings are not subject to any financial covenants.

(c) Bank indebtedness

On September 4, 2020, the Company and BRUS LLC finalized the amendment and extension of the North American unsecured revolving credit facility. The unsecured revolving credit facility was extended through September 2022 on substantially the same terms and conditions, allowing the Company to borrow in either Canadian or U.S. dollars with borrowings allowable up to \$675 million.

As at December 31, 2020, the Company had no borrowings outstanding under the North American unsecured revolving credit facility and we had available capacity of \$597.8 million (December 31, 2019 - no borrowings outstanding and \$610.4 million of available capacity, respectively).

For U.S. dollar denominated borrowings, interest is charged on the facility at a rate equal to, at the borrower's option, either an adjusted LIBOR plus an applicable rate between 2.50% and 3.00% per annum or the alternative base rate ("ABR") plus an applicable rate between 1.50% and 2.00% 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 2.50% and 3.00% per annum or the Canadian prime rate plus an applicable rate between 1.50% and 2.00% per annum.

The facility contains certain restrictive covenants including limitations on liens, dividends and other distributions, investments in subsidiaries and joint ventures that are not party to the loan. The facility requires the Company to maintain a minimum consolidated tangible net worth of \$2.3 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at December 31, 2020, the Company was in compliance with all of its covenants relating to this facility.

The transaction costs are costs related to the issuance of the Company's facility, and are amortized using the effective interest rate method over the life of the facility.

(d) Due to affiliates

On May 27, 2019, Brookfield Residential Finance Corp., a wholly-owned subsidiary of the Company, entered into a \$300.0 million deposit agreement with a subsidiary of BAM. The principal is repayable on demand. Interest is charged on the principal at a rate of LIBOR plus 1.50%. As at December 31, 2020, the Company had no borrowings outstanding (December 31, 2019 – no borrowings outstanding). These borrowings are not subject to financial covenants.

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Note 14. Notes Payable

	As at	
	December 31 2020	December 31 2019
6.125% unsecured senior notes redeemed on March 12, 2020 (a).....	\$ —	\$ 500,000
6.125% unsecured senior notes due May 15, 2023 (b).....	196,325	192,475
6.375% unsecured senior notes due May 15, 2025 (c).....	350,000	350,000
6.250% unsecured senior notes due September 15, 2027 (d).....	600,000	600,000
4.875% unsecured senior notes due February 15, 2030 (e).....	500,000	—
	1,646,325	1,642,475
Transaction costs (f).....	(24,825)	(25,930)
	\$ 1,621,500	\$ 1,616,545

- (a) On June 25, 2013, the Company and BRUS LLC co-issued a private placement of \$500.0 million of unsecured senior notes due July 1, 2022, at an interest rate of 6.125%. On March 12, 2020, these notes were redeemed in full at a redemption price equal to 101.531% of their aggregate principal amount, plus accrued and unpaid interest, using cash on hand and the net proceeds from the issuance of the unsecured senior notes due 2030.
- (b) On May 12, 2015, the Company issued a private placement of C\$250.0 million of unsecured senior notes. The notes have an eight-year term, are due May 15, 2023, and bear a fixed interest rate of 6.125%. The notes require semi-annual interest payments on May 15 and November 15 of each year until maturity. Obligations to pay principal and interest on the unsecured senior notes are guaranteed by certain of the Company's subsidiaries. Upon the consummation of the Reorganization Transaction, BRUS LLC became a co-issuer of the unsecured senior notes.

On or after May 15th of the year noted in the table below the Company is entitled to redeem all or part of the notes at the redemption prices (expressed as percentages of principal amount) set forth in the table below, plus accrued and unpaid interest on the notes redeemed:

	Notes Redemption Price
2020.....	101.53%
2021 and thereafter.....	100.00%

- (c) On May 12, 2015, the Company issued a private placement of \$350.0 million of unsecured senior notes. The notes have a ten-year term, are due May 15, 2025, and bear a fixed interest rate of 6.375%. The notes require semi-annual interest payments on May 15 and November 15 of each year until maturity. Obligations to pay principal and interest on the unsecured senior notes are guaranteed by certain of the Company's subsidiaries. Upon the consummation of the Reorganization Transaction, BRUS LLC became a co-issuer of the unsecured senior notes.

On or after May 15th of the year noted in the table below the Company is entitled to redeem all or part of the notes at the redemption prices (expressed as percentages of principal amount) set forth in the table below, plus accrued and unpaid interest on the notes redeemed:

	Notes Redemption Price
2020.....	103.19%
2021.....	102.13%
2022.....	101.06%
2023 and thereafter.....	100.00%

- (d) On September 23, 2019, the Company and BRUS LLC co-issued a private placement of \$600.0 million of unsecured senior notes. The notes have an eight-year term, are due September 15, 2027 and bear interest at a fixed rate of 6.250%. The notes require semi-annual interest payments on March 15 and September 15 of each year until maturity. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries.

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On or after September 15 of the years noted in the table below, the Company is entitled to redeem all or part of the notes at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest on the notes redeemed:

	Notes
	Redemption Price
2022	103.13%
2023	102.08%
2024	101.04%
2025 and thereafter	100.00%

The net proceeds of the offering were used to redeem the \$600.0 million aggregate principal amount of the unsecured senior notes due in 2020.

- (e) On February 26, 2020, the Company and BRUS LLC co-issued a private placement of \$500.0 million of unsecured senior notes. The notes have a ten-year term, are due February 15, 2030 and bear interest at a fixed rate of 4.875%. The notes require semi-annual interest payments on February 15 and August 15 of each year until maturity. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries.

On or after February 15 of the years noted in the table below, the Company is entitled to redeem all or part of the notes at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest on the notes redeemed:

	Notes
	Redemption Price
2025	102.44%
2026	101.63%
2027	100.81%
2028 and thereafter	100.00%

The net proceeds of the offering were used to redeem the \$500.0 million aggregate principal amount of the unsecured senior notes due in 2022 (see Note 14 (a)).

- (f) The transaction costs are costs related to the issuance of the Company's notes payable and are amortized using the effective interest rate method over the life of the related debt instrument. During the year ended December 31, 2020, the Company capitalized \$8.9 million of transaction costs associated with the unsecured senior notes due in 2030. As a result of the redemption of the unsecured senior notes due in 2022, the Company recorded a loss on extinguishment of debt in the first quarter of 2020, which included the write-off of net unamortized deferred financing fees of \$6.1 million.

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 an indebtedness to consolidated tangible net worth ratio condition of 2.25 to 1, a net indebtedness to tangible net worth ratio of 3.0 to 1, or a fixed coverage ratio of 2.0 to 1, as applicable. The Company was in compliance with these financial covenants as at December 31, 2020.

Certain derivative instruments, including redemption call options, have been identified as embedded in the notes payable, but as they are considered clearly and closely related to the unsecured senior notes payable, the derivatives are not accounted for separately.

Note 15. Non-Controlling Interest

In accordance with ASC Topic 810, non-controlling interest has been classified as a component of total equity and the net income on the consolidated statements of operations have been adjusted to include the net income attributable to non-controlling interest, which for the year ended December 31, 2020 was net income of \$74.2 million (December 31, 2019 – net income of \$43.4 million).

The following table provides additional information regarding non-controlling interests as presented in our consolidated balance sheets:

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	As at
	December 31, 2020
Affiliate (a).....	\$ 1,073,016
Land and housing (b).....	155,466

- (a) The non-controlling interest held by the Company's affiliate, BUSI, of \$1.1 billion represents a total of 81.1% not held by the Company as at December 31, 2020. This represents the 89.6% direct interest held by BUSI adjusted for the Company's 9.5% indirect interest in BRUSH held through its equity investment in BUSI.

Through the Reorganization Transaction, the Company's wholly owned subsidiary, BRGP became the sole managing member and 10.4% equity owner of BRUSH. BAM's subsidiary, BUSI owns 89.0% with the remaining 0.6% of BRUSH owned by a wholly owned subsidiary of BUSI. BUSI is controlled by BAM and Brookfield Residential holds a direct non-controlling minority interest (9.5%) in BUSI.

As BRGP is a wholly-owned subsidiary, the Company has control of BRUSH, despite only having a direct non-controlling minority interest of 10.4%. BRUSH is a VIE of the Company.

The Company is required by ASC Topic 810 to qualitatively assess whether it is the primary beneficiary of a VIE based on whether it has the power to control the significant activities of the VIE and an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The Company has evaluated its investment in accordance with this guidance and determined that it is the primary beneficiary of this VIE because the 10.4% direct investment in BRUSH is sufficient and conveys power to the Company.

The Company is not responsible to provide financial or other support to BRUSH, but may enter into intercompany loans with BRUSH, or its wholly owned subsidiaries. The creditors of BRUSH have recourse on the Company's general credit only to the extent that BRUS LLC, a subsidiary of BRUSH, is a co-issuer of outstanding unsecured senior notes.

As the Company is deemed to be the primary beneficiary of BRUSH, the Company must consolidate 100% of the assets and liabilities and operations of BRUSH. These consolidation procedures include applying the acquisition method and reflecting equity interests in the VIE held by other parties as a non-controlling interest.

As at December 31, 2020, the assets and liabilities of BRUSH totaled \$3.6 billion and \$2.2 billion, respectively (December 31, 2019 - \$3.4 billion and \$2.1 billion, respectively).

- (b) The non-controlling interest of land and housing of \$155.5 million (December 31, 2019 – \$149.6 million) includes a 47.8% share of the Company's Homebuilder Finance program and a 74.5% share of the Brookfield Single Family Rental fund not held by the Company as at December 31, 2020

Note 16. 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 year ended December 31, 2020 and the year ended December 31, 2019.

	For the Year Ended	
	December 31 2020	December 31 2019
Common Shares issued, beginning of year.....	129,756,910	129,756,910
Common Shares issued.....	—	—
Common Shares issued and outstanding, end of year.....	<u>129,756,910</u>	<u>129,756,910</u>

The Company had no Non-Voting Class B Common Shares issued and outstanding as at December 31, 2020 and December 31, 2019.

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Note 17. Share-Based Compensation

(a) Management Share Option Plan

Options issued under the Management Share Option Plan vest over a period of up to five years, expire 10 years after the grant date, and are settled through issuance of Non-Voting Class B Common Shares or in cash at the option of the holder. The exercise price of the options is the fair value of one Common Share at the grant date.

The fair value of the Company's stock option awards is estimated using the Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of the Company's stock option awards is expensed over the vesting period of the stock options. Expected volatility is measured using the historical volatility of the Company's publicly traded peer group. The risk-free rate for periods within the contractual life of the option award is based on the yield curve of a zero-coupon U.S. Treasury bond with a maturity equal to the expected term of the option award granted. The Company uses historical Brookfield Residential data to estimate option exercises and forfeitures within its valuation model. The expected term of the option awards granted is derived from historical exercise experience under the Company's option plan and represents the period of time that option awards granted are expected to be outstanding.

During the year ended December 31, 2020, there were no options granted to eligible employees (year ended December 31, 2019 – 887,000 options granted). The significant weighted average assumptions relating to the valuation of the Company's options outstanding during the year ended December 31, 2020 and 2019 are as follows:

	December 31 2020	December 31 2019
Dividend yield	—%	—%
Volatility rate	40.08%	30.23%
Risk-free interest rate	0.12%	1.62%
Expected option life (years)	1.2	3.7
Liquidity discount	25%	25%

The liability of \$44.5 million (December 31, 2019 – \$32.2 million) relating to stock options is included in accounts payable and other liabilities. The total stock based compensation cost recognized in selling, general and administrative expense resulting from the change in fair value of our share-based compensation liabilities for the year ended December 31, 2020 was an expense of \$21.7 million (December 31, 2019 – \$13.1 million recovery).

The following tables set out the number of Non-Voting Class B Common Shares that employees of the Company may acquire under options granted under the Company's Management Share Option Plan for the year ended December 31, 2020 and 2019:

	December 31, 2020		December 31, 2019	
	Options	Weighted Average Per Share Exercise Price	Options	Weighted Average Per Share Exercise Price
Outstanding, beginning of year	12,388,886	\$ 22.21	11,581,886	\$ 22.15
Granted	—	—	887,000	22.98
Exercised	(1,979,810)	22.25	(64,000)	22.96
Cancelled	—	—	(16,000)	22.96
Outstanding, end of year	10,409,076	22.20	12,388,886	22.21
Options exercisable, end of year	8,687,476	\$ 22.27	8,189,506	\$ 22.28

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A summary of the status of the Company's unvested options for the year ended December 31, 2020 and 2019 are as follows:

	December 31, 2020		December 31, 2019	
	Options	Weighted Average Fair Value Per Option	Options	Weighted Average Fair Value Per Option
Unvested options outstanding, beginning of year.....	4,199,380	\$ 4.23	5,644,758	\$ 7.21
Granted.....	—	—	887,000	5.10
Vested.....	(2,477,780)	5.18	(2,316,378)	3.59
Cancelled.....	—	—	(16,000)	2.94
Unvested options outstanding, end of year.....	1,721,600	\$ 6.77	4,199,380	\$ 4.23

At December 31, 2020, there was \$10.3 million (December 31, 2019 - \$13.8 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average contract period of 2.3 years (December 31, 2019 - 2.8 years).

(b) Deferred Share Unit Plan

Brookfield Residential has a Deferred Share Unit Plan ("DSUP") under which certain of its executive officers and directors can, at their option, receive all or a portion of their annual bonus awards or retainers in the form of deferred share units. The Company can also make additional grants of units to its executives and directors pursuant to the DSUP.

The following table sets out changes in and the number of deferred share units that executives, directors and senior operating management employees may redeem under Brookfield Residential's DSUP at December 31, 2020 and December 31, 2019:

	For the Year Ended	
	December 31 2020	December 31 2019
Outstanding, beginning of year.....	1,382,134	1,448,638
Granted and reinvested.....	—	—
Redeemed.....	—	(66,504)
Outstanding, end of year.....	1,382,134	1,382,134
Deferred share units vested.....	1,382,134	1,382,134

The liability of \$37.2 million (December 31, 2019 – \$29.3 million) relating to the DSUP is included in accounts payable and other liabilities. The financial statement impact relating to the DSUP for the years ended December 31, 2020 and 2019, which has been included in selling, general and administrative expense, is an expense of \$8.0 million and a recovery of \$2.5 million, respectively.

Note 18. Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2020 and 2019 were calculated as follows:

	Year Ended December 31	
	2020	2019
Numerator:		
Net income attributable to Brookfield Residential.....	\$ 14,046	\$ 154,139
Denominator (in '000s of shares):		
Basic weighted average shares outstanding.....	129,757	129,757
Diluted weighted average shares outstanding.....	131,266	129,786
Basic earnings per share.....	\$ 0.11	\$ 1.19
Diluted earnings per share.....	\$ 0.11	\$ 1.19

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Note 19. Other (Income) / Expense

The Company's components of other income consist of the following:

	Year Ended December 31	
	2020	2019
Investment income.....	\$ (30,813)	\$ (22,429)
Preferred share dividend income.....	(24,066)	(20,747)
Joint venture management fee income.....	(13,018)	(16,743)
Other.....	(5,088)	(3,954)
Consent solicitation costs.....	—	5,594
Loss on extinguishment of debt (a).....	15,030	3,578
	<u>\$ (57,955)</u>	<u>\$ (54,701)</u>

(a) As a result of the redemption of the \$500.0 million unsecured senior notes due in 2022 in the first quarter of 2020 (see Note 14 "Notes Payable" subsection (a)), the Company recorded a loss on extinguishment of debt, which included the write-off of net unamortized deferred financing fees of \$6.1 million, an early call premium of \$7.6 million, and accrued interest of \$1.3 million paid on extinguishment.

Note 20. Commitments, Contingent Liabilities and Other

(a) When selling a home, the Company's subsidiaries provide customers with a limited warranty. The Company has always maintained a strategy of being highly active in addressing construction defect claims through its customer service operation. Through this approach, the Company is able to connect with homeowners, provide maintenance advice, fix problems as they arise and prevent future defects from occurring, with the objective of addressing whatever situation presents itself before any litigation is necessary. The Company estimates the costs that may be incurred under each limited warranty and records a liability in the amount of such costs at the time the revenue associated with the sale of each home is recognized. In addition, the Company has insurance in place where its subsidiaries are subject to the respective warranty statutes in the state or province where the Company conducts business, which range up to ten years for latent construction defects. Factors that affect the Company's warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

The following table reflects the changes in the Company's estimated warranty liability for the year ended December 31, 2020 and 2019:

	Year Ended December 31	
	2020	2019
Balance, beginning of year.....	\$ 18,546	\$ 21,515
Payments and other adjustments made during the year.....	(7,880)	(11,144)
Warranties issued during the year.....	10,677	11,875
Adjustments due to change in estimates.....	(4,625)	(3,700)
Balance, end of year.....	<u>\$ 16,718</u>	<u>\$ 18,546</u>

(b) As at December 31, 2020, \$21.8 million of the amounts held in other assets related to deposits on land purchase obligations (December 31, 2019 – \$36.0 million). The total amount committed on these obligations is \$292.7 million (December 31, 2019 – \$169.4 million).

Note 21. 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 December 31, 2020, these guarantees amounted to \$593.3 million (December 31, 2019 – \$646.5 million) and have not been recognized in the 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.

The scope of these guarantees covers specific construction obligations of individual projects as they are developed, and the terms of these guarantees span the life of the projects, which range from three to ten years. The values of the guarantees are reduced as completion milestones are achieved on the projects.

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These guarantees are terminated only when the municipality has issued conditions to release a Final Acceptance Certificate or similar document to the Company, which verifies that the Company has fulfilled all its contractual obligations. Payments of the guarantees are triggered in the event expired letters of credit or performance bonds are not renewed and the contractual obligations have not been fulfilled. The Company historically has not been required to make any payments under these construction guarantees.

Note 22. Fair Value Measurements

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or ask prices, as appropriate. Where bid and ask prices are unavailable, the closing price of the most recent transaction of that instrument is used. In the absence of an active market, fair values are determined based on prevailing market rates for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Company looks primarily to external readily observable market inputs such as interest rate yield curves, currency rates and price and rate volatilities as applicable.

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 December 31, 2020, all of the Company's financial assets and liabilities are recorded at their carrying value as it approximates fair value due to their short term nature, with the exception of one of the Company's loan receivable balances, Homebuilder Finance assets, and Brookfield Single Family Rental investment, which are recorded at their fair values. These balances are included in receivables and other assets on the consolidated balance sheet. See Note 4 "Receivables and Other Assets".

Loan Receivable

The Company has determined that the valuation of the loan receivable balance under the fair value hierarchy will fall under Level 3, due to the lack of observable pricing inputs and related market activity.

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

	Year Ended December 31, 2020	
Balance, beginning of year.....	\$	76,254
Principal payments.....		(27,481)
Balance, end of year.....	\$	48,773

The following table summarizes the quantitative inputs and assumptions used to determine the loan receivable fair value as of December 31, 2020:

Financial Instrument	Fair value as of 12/31/2020	Valuation technique	Unobservable inputs	Rate
Receivable	\$ 48,773	Discounted cash flow	Interest rate	14%

Homebuilder Finance Investment

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

	Year Ended December 31, 2020	
Purchases / Land Development Spend.....	\$	178,217

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of December 31, 2020:

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Financial Instrument	Fair value as of 12/31/2020	Valuation technique	Unobservable inputs	Range
Land and land improvements	\$ 231,895	Discounted cash flow	Rate of return	11.8% - 16.8%

Brookfield Single Family Rental Investment

The Company has determined that the valuation of the Brookfield Single Family Rental investment under the fair value hierarchy will fall 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:

	Year Ended December 31, 2020	
Balance, beginning of year.....	\$	—
Purchase of investment.....		27,917
Change in unrealized loss from investment.....		(4,436)
Balance, end of year.....	\$	23,481

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of December 31, 2020:

Financial Instrument	Fair value as of 12/31/2020	Valuation technique	Unobservable inputs	Range (where applicable)
Single Family	\$ 23,481	Discounted cash flow	Discount rate Capitalization rate	8% 5.6%
		Transaction cost ⁽¹⁾	—	—%

(1) Valuation technique applied depends on the proximity of acquisition to the balance sheet date. For more recently acquired assets, the transaction cost best represents the fair value at December 31, 2020.

Net Investment Hedge

The Company uses foreign currency denominated debt instruments to manage its foreign currency exposures arising from net investments in foreign operations. For the year ended December 31, 2020, unrealized pre-tax loss of \$3.9 million (December 31, 2019 – loss of \$9.2 million), was recorded in other comprehensive income for hedges of net investments in foreign operations.

Note 23. Managing Risks

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

(a) Market Risk

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

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

Interest Rate Risk

The Company is exposed to financial risk that arises from fluctuations in interest rates. Some of the interest-bearing assets and liabilities of the Company are at floating rates and, accordingly, their fair values approximate their carrying value. The Company would be negatively impacted on balance, if interest rates were to increase. Based on net debt levels as at December 31, 2020, a 1% change in interest rates would have a \$3.8 million impact on the Company's cash flows.

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The fair value of debt with fixed interest rates is determined by discounting contractual principal and interest payments at estimated current market interest rates determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at December 31, 2020, the fair value of all outstanding debt exceeded its book value by \$69.2 million (December 31, 2019 – fair value of all outstanding debt exceeded its book value by \$58.9 million).

Currency Exchange Rate Risk

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

The Company holds financial instruments to hedge the net investment in foreign operations whose functional and reporting currencies are other than the U.S. dollar. A 1% increase in the U.S. dollar would result in a \$2.5 million gain on these hedging instruments as at December 31, 2020 (December 31, 2019 – \$2.5 million gain). See Note 22 “Fair Value Measurements” for additional disclosure.

Other Price Risk

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

(b) Credit Risk

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations. The Company’s exposure to credit risk in respect of financial instruments relates primarily to counterparty obligations regarding derivative contracts and receivables.

The Company assesses the credit worthiness of each counterparty before entering into contracts and ensures that counterparties meet minimum credit quality requirements. The credit risk of derivative financial instruments is generally limited to the positive fair value of the instruments, which, in general, tends to be a relatively small proportion of the notional value. Substantially all of the Company’s derivative financial instruments involve either counterparties that are banks or other financial institutions in North America that have embedded credit risk mitigation features. The Company does not expect to incur credit losses in respect of any of these counterparties. The maximum exposure in respect of receivables is equal to the carrying value.

(c) Liquidity Risk

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

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

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

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A summary of the Company's contractual obligations and purchase agreements as at December 31, 2020 is as follows:

	Payment Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Notes payable ⁽¹⁾	\$ 1,646,325	\$ —	\$ 196,325	\$ 350,000	\$ 1,100,000
Interest on notes payable.....	685,781	126,837	217,037	157,219	184,688
Secured VTB mortgages ⁽²⁾⁽³⁾	61,861	27,341	32,301	2,219	—
Project-specific financings ⁽²⁾⁽³⁾	355,815	39,265	32,186	284,364	—
Accounts payable and other liabilities ⁽⁴⁾ ...	608,040	608,040	—	—	—
Operating and financing lease obligations ⁽⁵⁾	400,178	10,058	18,409	16,578	355,133
Purchase agreements and other obligations ⁽⁶⁾	304,007	150,944	135,410	13,199	4,454

(1) Amounts are included on the consolidated balance sheets and exclude transaction costs. See Note 14 for additional information regarding notes payable.

(2) Amounts are included on the consolidated balance sheets. See Note 13 for additional information regarding bank indebtedness and other financings and related matters.

(3) Amounts do not include interest due to the floating nature of the interest on the debt. See Note 13 for additional information regarding floating rate debt.

(4) Amounts are included on the consolidated balance sheets. See Note 12 for additional information regarding accounts payable and other liabilities.

(5) Amounts relate to non-cancellable operating and financing leases involving office space, land, design centers and model homes. See Note 10 for additional information regarding lease agreements.

(6) See Note 20 for additional information regarding purchase agreements and other obligations.

Note 24. Segmented Information

As determined under ASC Topic 280 *Segment Reporting*, the Company has three operating segments related to our land and housing operations: Canada, California and Central and Eastern U.S., and one operating segment representing our equity investment in BUSI.

The Company is a land developer and residential homebuilder. The Company is organized and manages its business based on the geographical areas in which it operates. Each of the Company's land and housing operating segments specializes in lot 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 other risk factors.

Earnings performance is measured using income before income taxes. The accounting policies of the segments are the same as those referred to in Note 1 "Significant Accounting Policies."

Corporate and other is a non-operating segment that develops and implements strategic initiatives and supports the operating divisions by centralizing key administrative functions, such as accounting, finance and treasury, information technology, compliance, risk management, litigation, marketing and human resources. Corporate also provides the necessary administrative functions to support the Company.

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

Year Ended December 31, 2020						
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Housing revenue	\$ 357,757	\$ 580,386	\$ 507,364	\$ —	\$ —	\$ 1,445,507
Land revenue	89,270	104,673	98,821	—	—	292,764
	<u>447,027</u>	<u>685,059</u>	<u>606,185</u>	<u>—</u>	<u>—</u>	<u>1,738,271</u>
Housing cost of sales	(296,227)	(464,909)	(422,738)	—	—	(1,183,874)
Land cost of sales	(60,392)	(86,230)	(72,174)	—	—	(218,796)
	<u>(356,619)</u>	<u>(551,139)</u>	<u>(494,912)</u>	<u>—</u>	<u>—</u>	<u>(1,402,670)</u>
Gross margin	90,408	133,920	111,273	—	—	335,601
Earnings / (Loss) from unconsolidated entities - land and housing	4,423	(1,899)	13,945	—	—	16,469
Loss from unconsolidated entities - affiliate	—	—	—	—	(29,544)	(29,544)
Expenses	(44,504)	(76,568)	(93,969)	(16,161)	—	(231,202)
Income / (loss) before income taxes.	<u>\$ 50,327</u>	<u>\$ 55,453</u>	<u>\$ 31,249</u>	<u>\$ (16,161)</u>	<u>\$ (29,544)</u>	<u>\$ 91,324</u>

Year Ended December 31, 2019						
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Housing revenue	\$ 366,182	\$ 724,517	\$ 458,677	\$ —	\$ —	\$ 1,550,377
Land revenue	149,420	118,454	55,442	64,666	—	387,982
	<u>515,602</u>	<u>843,971</u>	<u>514,119</u>	<u>64,666</u>	<u>—</u>	<u>1,938,358</u>
Housing cost of sales	(311,412)	(588,152)	(382,491)	—	—	(1,282,055)
Land cost of sales	(84,438)	(85,357)	(35,256)	(64,472)	—	(269,523)
	<u>(395,850)</u>	<u>(673,509)</u>	<u>(417,747)</u>	<u>(64,472)</u>	<u>—</u>	<u>(1,551,578)</u>
Gross margin	119,752	170,462	96,372	194	—	386,780
Earnings from unconsolidated entities - land and housing	4,556	11,313	17,456	1,355	—	34,680
Earnings from unconsolidated entities - affiliate	—	—	—	—	23,382	23,382
Expenses	(59,501)	(96,222)	(78,212)	(7,897)	—	(241,832)
Income / (loss) before income taxes.	<u>\$ 64,807</u>	<u>\$ 85,553</u>	<u>\$ 35,616</u>	<u>\$ (6,347)</u>	<u>\$ 23,382</u>	<u>\$ 203,010</u>

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

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As at December 31, 2020

	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Land held for development.....	\$ 445,892	\$ 263,162	\$ 598,382	\$ —	\$ —	\$1,307,436
Land under development.....	210,605	198,366	362,092	3,011	—	774,074
Housing inventory.....	116,959	196,366	163,304	—	—	476,629
Model homes.....	20,177	52,020	26,291	—	—	98,488
Total land and housing inventory.....	793,633	709,914	1,150,069	3,011	—	2,656,627
Commercial properties.....	49,991	97,458	562,498	—	—	709,947
Investments in unconsolidated entities - land and housing.....	57,532	171,549	78,169	—	—	307,250
Investments in unconsolidated entities - affiliate.....	—	—	—	—	605,615	605,615
Held-to-maturity investment.....	—	—	—	300,000	—	300,000
Operating and financing lease right-of-use asset.....	12,821	38,732	20,850	9,706	—	82,109
Goodwill.....	—	—	—	16,479	—	16,479
Other assets ⁽¹⁾	151,023	69,629	180,225	789,837	—	1,190,714
Total assets.....	\$1,065,000	\$1,087,282	\$1,991,811	\$1,119,033	\$ 605,615	\$5,868,741

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

As at December 31, 2019

	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Land held for development.....	\$ 419,069	\$ 356,236	\$ 611,035	\$ —	\$ —	\$1,386,340
Land under development.....	236,597	288,146	354,795	177,346	—	1,056,884
Housing inventory.....	110,019	211,273	183,351	—	—	504,643
Model homes.....	24,551	59,309	26,897	—	—	110,757
Total land and housing inventory.....	790,236	914,964	1,176,078	177,346	—	3,058,624
Commercial properties.....	55,934	—	412,585	—	—	468,519
Investments in unconsolidated entities - land and housing.....	50,636	194,400	85,561	—	—	330,597
Investments in unconsolidated entities - affiliate.....	—	—	—	—	634,028	634,028
Held-to-maturity investment.....	—	—	—	300,000	—	300,000
Operating and financing lease right-of-use asset.....	14,876	42,557	22,285	10,032	—	89,750
Goodwill.....	—	—	—	16,479	—	16,479
Other assets ⁽¹⁾	183,213	46,455	173,596	258,585	—	661,849
Total assets.....	\$1,094,895	\$1,198,376	\$1,870,105	\$ 762,442	\$ 634,028	\$5,559,846

(1) Other assets presented in above table within the operating segments note includes receivables and others assets, cash, restricted cash and deferred income tax assets.

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Note 25. 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 significant related party transactions as at and for the years ended December 31, 2020 and 2019 were as follows:

- During the year ended December 31, 2020, the Company entered into a management agreement with our service providers, Brookfield Properties Development, wholly-owned subsidiaries of BAM. The management fee is determined by applicable rates on construction and development spending as well as assets under management, as defined in the management agreement. During the year ended December 31, 2020, the Company incurred \$88.4 million of management fees (year ended December 31, 2019 – \$25.0 million). These transactions were recorded at the exchange amount within selling, general and administrative expense and commercial properties.
- During the year ended December 31, 2020, the Company entered into an agreement with Brookfield Properties Development to provide financing of up to \$50.0 million. As at December 31, 2020, the loan had an outstanding balance of \$36.3 million that was recorded within receivables and other assets. During the year ended December 31, 2020, the Company recorded \$1.6 million of interest income in the consolidated statement of operations. Subsequent to December 31, 2020, the loan capacity was increased from \$50.0 million to \$100.0 million.
- During the year ended December 31, 2020, the Company earned \$24.1 million of dividends from the preferred shares of Brookfield International Ltd. (year ended December 31, 2019 – \$13.9 million of dividends earned, respectively) that have been recorded in the consolidated statements of operations within other income. As at December 31, 2020, a total of \$36.2 million of accrued dividends is recorded within receivables and other assets. These transactions were recorded at the exchange amount.
- During the year ended December 31, 2020, the Company entered into an agreement for the management of the retail operations at our Nashville mixed-use project and during the year ended December 31, 2020, the Company paid leasing commissions of \$1.5 million to Brookfield Properties Retail Inc., a subsidiary of BAM. This transaction was recorded at the exchange amount within receivables and other assets.
- During the year ended December 31, 2020, the Company made a tax equivalent distribution of \$11.3 million to BUSI, a subsidiary of BAM. The distribution amount was determined based on the amount of U.S. federal and applicable state income tax that BRUSH would be required to pay if it was a corporation for U.S. tax purposes.
- During the year ended December 31, 2019, the Company received \$300.0 million from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. that was recorded in the consolidated balance sheets. The Company also received \$6.9 million of dividends from these preferred shares for the year ended December 31, 2019, that were recorded in the consolidated statement of operations within other income. These transactions were recorded at the exchange amount.
- During the year ended December 31, 2019, the Company entered into a \$300.0 million deposit agreement with a subsidiary of BAM, and no borrowings were outstanding under the facility at December 31, 2020 or December 31, 2019. During the year ended December 31, 2019, the Company paid \$2.4 million of interest.
- During the year ended December 31, 2019, the Company purchased \$300.0 million of preferred shares of Brookfield International Ltd, a subsidiary of Brookfield Asset Management Inc., that were recorded in the consolidated balance sheets within held-to-maturity investments. The transaction was recorded at the exchange amount.
- On September 26, 2019, the Company completed a reorganization with BUSI, a wholly-owned subsidiary of BAM, whereby the Company transferred its investment in its U.S. homebuilding operations for a 12.3% economic interest and a 50% voting interest in BUSI. The Company consolidated Meadows and Hayden I that were previously owned by BUSI as part of the Reorganization Transaction. This transaction was treated as a common control transaction.
- During the year ended December 31, 2019, the Company sold 34% of its Homebuilder Finance program to a wholly-owned subsidiary of BAM for consideration of \$60.0 million. The transaction was recorded at the exchange amount.

Note 26. Subsequent Events

The Company performed an evaluation of subsequent events through March 2, 2021, which is the date that these consolidated financial statements were approved and has determined the following subsequent events:

Subsequent to December 31, 2020, the Company declared and paid a dividend to the common shareholders, various subsidiaries of BAM of \$350.0 million.

CORPORATE INFORMATION

CORPORATE PROFILE

Brookfield Residential Properties Inc. is a leading land developer and homebuilder in North America. We entitle and develop land to create master-planned communities, build and sell lots to third-party builders, and conduct our own homebuilding operations. We also participate in select, strategic real estate opportunities, including infill projects, mixed-use developments, and joint ventures. We are the flagship North American residential property company of Brookfield Asset Management Inc., a leading global alternative asset manager with \$600 billion of assets under management. 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.