Brookfield Residential

Brookfield Residential Properties Inc.

Q1 2021 Interim Report

First Quarter 2021 Overview and Outlook

Brookfield Residential's land and housing business remains in a strong position with continued positive underlying fundamentals and demographic shifts in place driving household formation. We see our U.S. markets continue recent home sales trends similar to the second half of 2020 with increased pricing and absorptions, and our Canadian markets experiencing similar activity in the first quarter of 2021 with higher activity in our Alberta markets from improved consumer confidence arising from increased personal savings and low interest rates. Housing market conditions have resulted in higher demand for land in many of our U.S. and Alberta master-planned communities as our homebuilding partners look to secure additional lot supply to meet the strong housing demand.

Additional operating and financial highlights for the quarter ended March 31, 2021 include:

- Income before income taxes of $81 million in 2021 compared to a loss before income taxes of $27 million in 2020. Included in these results was a $39 million gain from our unconsolidated equity investment in affiliates (compared to a loss of $24 million in 2020) and a $15 million loss on the extinguishments of our senior unsecured notes upon our refinancing done in 2020. Adjusting for these items in both years, our 2021 first quarter income before income taxes was $42 million compared to $12 million in 2020.
- Continued to execute on our strong backlog entering the year with 698 closings at a 19% gross margin, a 28% increase in units and 2% improvement in housing gross margin from the first quarter of 2020.
- Overall land activity increased with 588 lot closings, a 252% increase when compared to the same period last year due to increased demand for lots across our land development operations.
- Net new home orders of 985, an 8% increase in our U.S. operations and a 6% increase from our Canadian operations. Our total backlog units at March 31, 2021 totalled 2,194 units with a value of $1.2 billion, an increase of 33% in units and 60% in value, when compared to March 31, 2020.
- We held a successful grand opening of our mixed-use project in Nashville, Fifth + Broadway, which saw great interest in our retail space in the first few weeks of operations. With the completion of construction, we continue to advance the leasing of our premiere retail, multi-family and office space.
- Brookfield Residential paid a dividend of $350 million to Brookfield Asset Management while maintaining adequate liquidity to support the increased activity in the current operating environment.
- At March 31, 2021, our net debt to total capitalization ratio was 42% which includes a cash balance of $326 million and $286 million drawn on our unsecured revolving credit facility.

As we look ahead to the remainder of 2021, our outlook for the balance of the year remains positive. We continue to monitor the impact of rising home prices to offset increases in the cost of materials, such as lumber and labour, and its effects on overall affordability in both the U.S. and Canada. Based on our outlook at this early point in the year, we offer the following limited guidance for 2021. For our U.S. operations, we expect our growth to continue to increase year-over-year and project to close approximately 2,330 homes and 1,330 lots, excluding our share of unconsolidated entities. For our Canadian markets, we expect to close approximately 980 homes and 740 lots. We also project a number of multi-family, commercial and industrial parcel sales in both countries.

Subsequent to the end of the first quarter, we announced that we have agreed to acquire the Newland Communities' management company and their 5% general partner equity interest in 15 communities which strengthens our position as one of the largest U.S. master-planned community developers. With the addition of Newland Communities, we will widen our geographic footprint and regional operational skill sets by adding nine incremental markets and expanding offerings in five current markets.

BROOKFIELD RESIDENTIAL PROPERTIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- the current business environment and outlook, including statements regarding: the duration and impact of the coronavirus pandemic ("COVID-19") on our financial position and homebuilding operations; the duration, impact and effectiveness of government measures including orders, stimulus, aid, assistance and other government programs in response to COVID-19; economic and market conditions in the U.S. and Canadian housing markets and our ability to respond to such conditions; the effect of seasonality on the homebuilding business; the impact of changes to Canadian mortgage rules affecting the ability of prospective homebuyers to qualify for mortgage financing; the potential offset of the Canadian shared equity program on the impact of stress test mortgage rules in Canada; home prices and affordability in the communities, home closings resulting therefrom, and the timing thereof; international trade factors, including changes in trade policy, such as trade sanctions and increased tariffs; the impact of actual, proposed or potential interest rate changes in the U.S. and Canada and resulting consumer confidence; volatility in the global price of commodities, including the price of oil and lumber; unexpected cost increases that could impact our margins; 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; expectations for 2021 and beyond;
- possible or assumed future results, including our outlook and any updates thereto, how we intend to use and the availability of additional cash flow, the operative cycle of our business and expected timing of income and expected performance and features of our projects, the continued strategic expansion of our business operations, our assumptions regarding normalized sales, our projections regarding revenue and housing inventory, the impact of acquisitions on our operations in certain markets;
- the expected closing of transactions;
- the expected exercise of options contracts and lease options;
- the effect on our business of business acquisitions;
- business goals, strategy and growth plans;
- trends in home prices in our various markets and generally;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the homebuilding industry;
- the ability to generate sufficient cash flow from our assets to repay maturing bank indebtedness and project specific financings and take advantage of new opportunities;
- the ability to meet our covenants and re-pay interest payments on our unsecured senior notes and the requirement to make payments under our construction guarantees;
- the ability to create value in our land development business and meet our development plans;
- the visibility of our future cash flow;
- social and environmental conditions, policies and risks;
- governmental policies and risks;
- cyber-security and privacy related risks;
- health and safety risks;
- loss of key personnel;
- expected backlog and closings and the timing thereof;
- the sufficiency of our access to and the sources of our capital resources;

- the impact of foreign exchange rates on our financial performance and market opportunities;
- the impact of credit rating agencies' rating on our business;
- the timing of the effect of interest rate changes on our cash flows;
- the effect of debt and leverage on our business and financial condition;
- the effect on our business of existing lawsuits; and
- damage to our reputation from negative publicity.

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

Various factors, in addition to those discussed elsewhere in this interim report, that could affect the future results of Brookfield Residential and could cause actual results, performance, or achievements to differ materially from those expressed in the forward-looking statements and information include, but are not limited to, those factors included under the sections entitled “Cautionary Statements Regarding Forward-Looking Statements” and “Business Environment and Risks” of the Annual Report for the fiscal year ended December 31, 2020.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis relates to the period ended March 31, 2021 and has been prepared with an effective date of May 5, 2021. It should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this interim report. All dollar amounts discussed herein are in U.S. dollars, unless otherwise stated. Amounts in Canadian dollars are identified as "C$." The condensed consolidated financial statements referenced herein have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

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

OVERVIEW

Brookfield Residential Properties Inc. (unless the context requires otherwise, references in this interim report to "we," "our," "us," the "Company" and "Brookfield Residential" refer to Brookfield Residential Properties Inc. and the subsidiaries through which it conducts all of its homebuilding and land development operations) is a wholly-owned subsidiary of Brookfield Asset Management Inc. ("BAM") and has been in operation for over 60 years. We are the flagship North American residential property company of BAM, a leading global alternative asset manager with $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. Canada, California and Central and Eastern U.S. are the three operating segments related to our land and housing operations that we focus on. Our Canadian operations are primarily in the Alberta (Calgary and Edmonton) and Ontario (Greater Toronto Area) markets. Our California operations include Northern California (San Francisco Bay Area and Sacramento), Southern California (Los Angeles / Southland and San Diego / Riverside) and Hawaii (Honolulu Mixed-Use). Our Central and Eastern U.S. operations include Washington, D.C. Area, Colorado (Denver), Texas (Austin), Arizona (Phoenix) and Tennessee (Nashville Mixed-Use).

By targeting these markets that have strong underlying economic fundamentals 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.

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

Principal Business Activities

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

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

Home Construction

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. We construct homes on lots that have been developed by us or that we purchase from others.

Land Acquisition

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

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

Entitlement Process & Land Development

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

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

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

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

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

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

Brookfield Residential Properties Portfolio

Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at March 31, 2021 were $5.9 billion.

As of March 31, 2021, we controlled 77,496 single family lots (serviced lots and future lot equivalents) and 156 multi-family, industrial and commercial serviced parcel acres. Controlled lots and acres include those we directly own and our share of those owned by unconsolidated entities. Our controlled lots and acres provide a strong foundation for our future lot and acre sales and homebuilding business, as well as visibility on our future cash flow. The number of building lots and acre parcels in each of our primary markets as of March 31, 2021 is as follows:

	Single Family Housing & Land Under and Held for Development[1]								Multi-Family, Industrial & Commercial Parcels Under Development	
	Housing & Land		Unconsolidated Entities		Total Lots		Status of Lots 3/31/2021		Total Acres	
	Owned	**Options**	**Owned**	**Options**	**3/31/2021**	**12/31/2020**	**Entitled**	**Unentitled**	**3/31/2021**	**12/31/2020**
Calgary	15,887	—	2,271	—	18,158	18,306	9,643	8,515	53	56
Edmonton	10,303	—	—	—	10,303	10,479	5,093	5,210	15	15
Ontario	7,093	—	1,030	—	8,123	8,147	2,569	5,554	1	1
Canada	33,283	—	3,301	—	36,584	36,932	17,305	19,279	69	72
Northern California	2,593	7,255	224	—	10,072	10,095	2,817	7,255	—	—
Southern California	4,877	—	465	1,001	6,343	6,901	5,337	1,006	—	—
Hawaii	—	—	—	—	—	3	—	—	—	—
California	7,470	7,255	689	1,001	16,415	16,999	8,154	8,261	—	—
Denver	6,886	—	—	—	6,886	6,927	6,886	—	10	10
Austin	11,027	—	—	—	11,027	11,092	11,027	—	37	37
Phoenix	1,563	—	1,690	—	3,253	3,431	3,253	—	40	55
Washington, D.C. Area	2,390	941	—	—	3,331	3,486	3,294	37	—	—
Central and Eastern U.S.	21,866	941	1,690	—	24,497	24,936	24,460	37	87	102
Total	62,619	8,196	5,680	1,001	77,496	78,867	49,919	27,577	156	174
Entitled lots	44,294	941	4,684	—	49,919	51,070				
Unentitled lots	18,325	7,255	996	1,001	27,577	27,797				
Total March 31, 2021	62,619	8,196	5,680	1,001	77,496					
Total December 31, 2020	63,556	8,203	6,107	1,001		78,867				

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

RESULTS OF OPERATIONS

Key financial results and operating data for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Three Months Ended March 31 2021	2020
Key Financial Results		
Housing revenue	$ 371	$ 294
Land revenue	73	18
Housing gross margin ($)	72	49
Housing gross margin (%)	19%	17%
Land gross margin ($)	21	6
Land gross margin (%)	29%	33%
Total gross margin ($)	93	55
Total gross margin (%)	21%	18%
Income / (loss) before income taxes	81	(27)
Income tax recovery	—	4
Net income / (loss)	81	(23)
Net income / (loss) attributable to Brookfield Residential	61	(15)
Basic earnings / (loss) per share	$ 0.47	$ (0.12)
Diluted earnings / (loss) per share	$ 0.46	$ (0.12)
Key Operating Data		
Home closings for Brookfield Residential (units)	698	544
Average home selling price for Brookfield Residential (per unit)	$ 532,000	$ 540,000
Net new home orders for Brookfield Residential (units)	985	921
Backlog for Brookfield Residential (units)	2,194	1,650
Backlog value for Brookfield Residential	$ 1,200	$ 750
Active housing communities for Brookfield Residential	79	90
Lot closings for Brookfield Residential (single family units)	588	167
Lot closings for unconsolidated entities (single family units)	299	65
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	4	3
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	—	1
Average lot selling price for Brookfield Residential (single family units)	$ 117,000	$ 92,000
Average lot selling price for unconsolidated entities (single family units)	$ 136,000	$ 130,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 948,000	$ 819,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ —	$ 297,000
Active land communities for Brookfield Residential	18	26
Active land communities for unconsolidated entities	6	6

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 three months ended March 31, 2021 and 2020.

	Three Months Ended March 31	
(US$ millions, except unit activity and average selling price)	**2021**	**2020**
Housing revenue		
Canada	$ 60	$ 56
California	179	139
Central and Eastern U.S.	132	99
Total	$ 371	$ 294
Land revenue		
Canada	$ 47	$ 15
California	16	—
Central and Eastern U.S.	10	3
Total	$ 73	$ 18
Housing gross margin		
Canada	$ 10	$ 9
California	39	26
Central and Eastern U.S.	23	14
Total	$ 72	$ 49
Land gross margin		
Canada	$ 15	$ 5
California	5	1
Central and Eastern U.S.	1	—
Total	$ 21	$ 6
Home closings (units)		
Canada	144	158
California	293	173
Central and Eastern U.S.	261	213
Total	698	544
Average home selling price		
Canada	$ 420,000	$ 356,000
California	611,000	801,000
Central and Eastern U.S.	506,000	465,000
Average	$ 532,000	$ 540,000

	As at March 31	
	2021	**2020**
Active housing communities		
Canada	38	36
California	13	21
Central and Eastern U.S.	28	33
Total	79	90

	Three Months Ended March 31	
	2021	2020
Lot closings (single family units)		
Canada	340	123
California	115	—
Central and Eastern U.S.	133	44
	588	167
Unconsolidated entities	299	65
Total	887	232
Acre closings (multi-family, industrial and commercial)		
Canada	4	3
California	—	—
Central and Eastern U.S.	—	—
	4	3
Unconsolidated entities	—	1
Total	4	4
Average lot selling price (single family units)		
Canada	$ 125,000	$ 98,000
California	139,000	—
Central and Eastern U.S.	76,000	74,000
	117,000	92,000
Unconsolidated entities	136,000	130,000
Average	$ 123,000	$ 102,000
Average per acre selling price (multi-family, industrial and commercial)		
Canada	$ 948,000	$ 819,000
California	—	—
Central and Eastern U.S.	—	—
	948,000	819,000
Unconsolidated entities	—	297,000
Average	$ 948,000	$ 688,000

	As at March 31	
	2021	2020
Active land communities		
Canada	8	11
California	1	4
Central and Eastern U.S.	9	11
	18	26
Unconsolidated entities	6	6
Total	24	32

(US$ millions)	As at March 31 2021	As at December 31 2020
Total assets		
Canada	$ 1,082	$ 1,065
California	1,062	1,087
Central and Eastern U.S.	1,978	1,992
Corporate and other	1,182	1,119
Equity Investment in Affiliate	645	606
Total	$ 5,949	$ 5,869

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

Three Months Ended March 31, 2021 Compared with Three Months Ended March 31, 2020

Net Income / (Loss)

Consolidated net income for the three months ended March 31, 2021 and 2020 is as follows:

(US$ millions, except per share amounts)	Three Months Ended March 31 2021	2020
Consolidated net income / (loss)	$ 81	$ (23)
Net income / (loss) attributable to Brookfield Residential	$ 61	$ (15)
Basic earnings / (loss) per share	$ 0.47	$ (0.12)
Diluted earnings / (loss) per share	$ 0.46	$ (0.12)

The increase of $104 million in consolidated net income for the three months ended March 31, 2021 compared to the same period in 2020 was primarily the result of an increase in earnings from affiliate unconsolidated entities of $63 million due to disposition of certain investments and fair value changes within existing investments, an increase in housing and land gross margins of $38 million due to increased activity, a change in other income of $16 million due primarily to a loss on extinguishment of debt recorded in 2020 with no comparative loss in 2021, and an increase in earnings from land and housing unconsolidated entities from increased land activity of $7 million. This was partially offset by an increase in interest expense of $9 million, an increase in selling, general and administrative expenses of $4 million primarily due to higher management fees paid to Brookfield Properties Development when compared to the same period in 2020 due to increased development and construction activity, a decrease in income tax recovery of $4 million, and an increase in depreciation expense of $3 million as a result of the Fifth + Broadway mixed-use project becoming operational during the first quarter and depreciation commencing.

Results of Operations – Housing

A breakdown of our results from housing operations for the three months ended March 31, 2021 and 2020 is as follows:

Consolidated

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2021	2020
Home closings	698	544
Revenue	$ 371	$ 294
Gross margin	$ 72	$ 49
Gross margin (%)	19%	17%
Average home selling price	$ 532,000	$ 540,000

Housing revenue and gross margin were $371 million and $72 million, respectively, for the three months ended March 31, 2021, compared to $294 million and $49 million for the same period in 2020. The increase in revenue and gross margin were primarily the result of 154 additional home closings, mainly coming from our California and Central and Eastern U.S. operating segments, and an 18% increase in average home selling price in our Canadian segment.

Gross margin percentage increased 2% when compared to the same period in 2020 due to geographic and product mix of homes closed, combined with lower incentives on homes closed when compared to the same period in 2020.

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

Canada

	Three Months Ended March 31	
(US$ millions, except unit activity, percentages and average selling price)	**2021**	**2020**
Home closings	144	158
Revenue	$ 60	$ 56
Gross margin	$ 10	$ 9
Gross margin (%)	17%	16%
Average home selling price	$ 420,000	$ 356,000
Average home selling price (C$)	$ 531,000	$ 477,000

Housing revenue in our Canadian segment for the three months ended March 31, 2021 increased by $4 million when compared to the same period in 2020, primarily due to 18% higher average home selling prices, partially offset by 14 fewer home closings. 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 27% due to the geographic and product mix of homes closed within the market, and were the highest in the operating segment. The decrease in home closings was primarily the result of fewer closings in our Calgary market. Gross margin increased $1 million and gross margin percentage increased 1% for the three months ended March 31, 2021 when compared to the same period in 2020 primarily as a result of the product and geographic mix of homes closed, combined with lower incentives on homes closed when compared to the same period in 2020.

California

	Three Months Ended March 31	
(US$ millions, except unit activity, percentages and average selling price)	**2021**	**2020**
Home closings	293	173
Revenue	$ 179	$ 139
Gross margin	$ 39	$ 26
Gross margin (%)	22%	19%
Average home selling price	$ 611,000	$ 801,000

Housing revenue in our California segment for the three months ended March 31, 2021 increased by $40 million when compared to the same period in 2020, primarily due to 120 additional home closings, partially offset by 24% lower average selling prices. The increase in home closings was the result of additional home closings in our Southern California and Northern California markets. 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 increased $13 million as a result of additional home closings, and gross margin percentage increased 3% primarily as a result of the product and geographic mix of homes closed, combined with lower incentives provided when compared to the same period in 2020.

Central and Eastern U.S.

	Three Months Ended March 31	
(US$ millions, except unit activity, percentages and average selling price)	**2021**	**2020**
Home closings	261	213
Revenue	$ 132	$ 99
Gross margin	$ 23	$ 14
Gross margin (%)	17%	14%
Average home selling price	$ 506,000	$ 465,000

Housing revenue in our Central and Eastern U.S. segment for the three months ended March 31, 2021 increased by $33 million when compared to the same period in 2020, resulting from 48 additional home closings, primarily in our Washington market, and 9% higher average home selling prices. The increase in average home selling price is primarily the result of geographic and product mix of homes closed within the operating segment, with a higher proportion of closings in the current period coming from our Washington market where average selling prices are typically higher, compared with the prior period's higher proportion of closings in our Austin market which typically has a lower average selling price. Gross margin increased $9 million as a result of additional homes closings, and gross margin percentage increased 3% primarily as a result of the mix of homes closed, combined with lower incentives on homes closed when compared to the same period in 2020.

Home Sales – Incentives

We grant our homebuyers sales incentives from time-to-time in order to promote sales of our homes. The type and amount of incentives will vary on a community-by-community and home-by-home basis. Incentives are recognized as a reduction to sales revenue at the time title passes to the homebuyer and the sale is recognized. For the three months ended March 31, 2021, total incentives recognized as a percentage of gross revenues decreased 1% as a result of decreased incentives provided across all of our operating segments, primarily due to improving market conditions when compared to the same period in 2020.

Our incentives on homes closed by operating segment for the three months ended March 31, 2021 and 2020 were as follows:

	Three Months Ended March 31			
	2021		2020	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 3	4%	$ 3	5%
California	2	1%	3	2%
Central and Eastern U.S.	6	5%	6	6%
	$ 11	3%	$ 12	4%

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders for the three months ended March 31, 2021 totaled 985 units, an increase of 64 units or 7% when compared to the same period in 2020. For the three months ended March 31, 2021, the increase in net new home orders was a result of higher net new orders in our Central and Eastern U.S. and Canadian operating segments, partially offset by fewer net new orders in our California operating segment when compared to the same period in 2020. Average monthly sales per community by reportable segment for the three months ended March 31, 2021 were: Canada – 3 units (2020 – 3 units); California – 6 units (2020 – 5 units); Central and Eastern U.S. – 5 units (2020 – 3 units). We were selling from 79 active housing communities at March 31, 2021 compared to 90 at March 31, 2020.

The net new home orders for the three months ended March 31, 2021 and 2020 by our land and housing operating segments were as follows:

	Three Months Ended March 31	
(Units)	2021	2020
Canada	302	286
California	245	305
Central and Eastern U.S.	438	330
	985	921

Home Sales – Cancellations

The overall cancellation rates for the three months ended March 31, 2021 and 2020 were 5% and 14%, respectively. The decrease in the cancellation rate for the three months ended March 31, 2021 was driven by a lower number of cancellations in all of our operating segments and higher net new orders in our Central and Eastern U.S. and Canadian operating segments, partially offset by fewer net new home orders in our California operating segment. As a result of the COVID-19 pandemic, there was an increase in the numbers of cancellations across all of the Company's operating segments during the last half of March 2020, which also contributes to the year over year change.

The cancellation rates for the three months ended March 31, 2021 and 2020 for our land and housing operating segments were as follows:

	Three Months Ended March 31			
	2021		2020	
(Units, except percentages)	Units	% of Gross Home Orders	Units	% of Gross Home Orders
Canada	3	1%	80	22%
California	10	4%	32	9%
Central and Eastern U.S.	36	8%	40	11%
	49	5%	152	14%

Home Sales – Backlog

Our backlog, which represents the number of new homes under sales contracts, as at March 31, 2021 and 2020 by operating segment, was as follows:

	As at March 31			
	2021		2020	
(US$ millions, except unit activity)	Units	Value	Units	Value
Canada	733	$ 349	684	$ 260
California	584	400	351	222
Central and Eastern U.S.	877	451	615	268
Total	2,194	$ 1,200	1,650	$ 750

We expect all of our backlog to close between 2021 and 2022, subject to future cancellations. The units in our backlog for the three months ended March 31, 2021 increased when compared to the same period in 2020 as a result of increased demand with higher sales and lower cancellation rates. Total backlog value increased by $450 million when compared to the same period in 2020 mainly due to higher units in backlog overall and the product mix of the homes sold under contract.

Results of Operations – Land

A breakdown of our results from land operations for the three months ended March 31, 2021 and 2020 is as follows:

Consolidated

	Three Months Ended March 31	
(US$ millions, except unit activity, percentages and average selling price)	2021	2020
Lot closings (single family units)	588	167
Acre closings (multi-family, industrial and commercial)	4	3
Revenue	$ 73	$ 18
Gross margin	$ 21	$ 6
Gross margin (%)	29%	33%
Average lot selling price (single family units)	$ 117,000	$ 92,000
Average per acre selling price (multi-family, industrial and commercial)	$ 948,000	$ 819,000

Land revenue totaled $73 million and land gross margin totaled $21 million for the three months ended March 31, 2021, an increase of $55 million and $15 million, respectively, when compared to the same period in 2020. The increase in land revenue was primarily due to 421 additional single family lot closings and 27% higher average single family lot selling prices. The increase in single family lot closings was due to increased closings in all of our operating segments. The increase in average single family lot selling prices was primarily due to the geographic mix of lots closed, with a higher proportion coming from Calgary and Southern California which had higher lot selling prices in 2021. Gross margin increased primarily due to additional single family lot sales, and gross margin percentage decreased 4% compared to the same period in 2020, primarily due to the product and geographic mix of land sold.

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

Canada

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2021	2020
Lot closings (single family units)	340	123
Acre closings (multi-family, industrial and commercial)	4	3
Revenue	$ 47	$ 15
Gross margin	$ 15	$ 5
Gross margin (%)	32%	33%
Average lot selling price (single family units)	$ 125,000	$ 98,000
Average lot selling price (C$) (single family units)	$ 158,000	$ 132,000
Average per acre selling price (multi-family, industrial and commercial)	$ 948,000	$ 819,000
Average per acre selling price (C$) (multi-family, industrial and commercial)	$ 1,200,000	$ 1,100,000

Land revenue in our Canadian segment for the three months ended March 31, 2021 was $47 million, an increase of $32 million when compared to the same period in 2020. The increase was primarily the result of 217 additional single family lot closings and a 28% increase in average single family lot selling prices overall due to the mix of land sold within the operating segment. Gross margin increased $10 million compared to the same period during 2020 primarily as a result of additional closings, and gross margin percentage decreased 1% mainly due to the mix of land sold.

California

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2021	2020
Lot closings (single family units)	115	—
Revenue	$ 16	$ —
Gross margin	$ 5	$ 1
Gross margin (%)	31%	—%
Average lot selling price (single family units)	$ 139,000	$ —

Land revenue in our California segment increased $16 million and gross margin increased $4 million for the three months ended March 31, 2021 when compared to the same period in 2020. The increases were the result of 115 single family lot closings in our Southern California market with no comparative closings during 2020.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2021	2020
Lot closings (single family units)	133	44
Revenue	$ 10	$ 3
Gross margin	$ 1	$ —
Gross margin (%)	10%	—%
Average lot selling price (single family units)	$ 76,000	$ 74,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ —

Land revenue in our Central and Eastern U.S. segment for the three months ended March 31, 2021 was $10 million, representing an increase of $7 million when compared to the same period in 2020. The increase was primarily the result of 89 additional single family lot closings across all of our markets within the operating segment, and 3% higher average single family lot selling prices overall due to the geographic and mix of lots sold. Gross margin increased by $1 million due to additional lot closings at a higher average selling price, while gross margin percentage increased 10% 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 three months ended March 31, 2021 totaled $9 million, compared to $2 million for the same period in 2020.

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

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2021	2020
Lot closings (single family units)	299	65
Acre closings (multi-family, industrial and commercial)	—	1
Revenue	$ 41	$ 9
Gross margin	$ 10	$ 2
Gross margin (%)	24%	22%
Average lot selling price (single family units)	$ 136,000	$ 130,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ 297,000

Land revenue within unconsolidated entities increased $32 million and gross margin increased $8 million for the three months ended March 31, 2021 when compared to the same period in 2020. The increase was primarily the result of 234 additional single family lot closings, mainly coming from bulk lot closings in our Phoenix joint ventures, and a 5% increase 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.

Earnings / (Loss) from Unconsolidated Entities - Affiliate

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

(US$ millions)	Three Months Ended March 31 2021	2020
Earnings / (Loss) from unconsolidated Entities - affiliate	$ 39	$ (24)

For the three months ended March 31, 2021, earnings from affiliate unconsolidated entities was $39 million, compared to a loss of $24 million in the prior year. The increase was primarily a result disposition of certain investments and fair value changes within existing investments.

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three months ended March 31, 2021 and 2020 are summarized as follows:

(US$ millions)	Three Months Ended March 31 2021	2020
General and administrative expense	$ 35	$ 31
Sales and marketing expense	26	24
Share-based compensation	1	3
	$ 62	$ 58

Selling, general and administrative expense was $62 million for the three months ended March 31, 2021, an increase of $4 million when compared to the same period in 2020. General and administrative expense increased $4 million for the three months ended March 31, 2021 primarily due to higher management fees paid to Brookfield Properties Development resulting from increased development and construction activity when compared to the same period in 2020. Sales and marketing expense for the three months ended March 31, 2021 increased $2 million when compared to the same period in 2020, primarily due to higher commissions and closings costs resulting from increased housing activity. Share-based compensation decreased by $2 million primarily resulting from the change in fair value of our share-based compensation liabilities for the three months ended March 31, 2021 compared to the same period in 2020.

Other (Income) / Expense

The components of other (income) / expense for the three months ended March 31, 2021 and 2020 are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2021**	**2020**
Investment income	$ (10)	$ (7)
Preferred share dividend income	(6)	(6)
Other	(3)	(3)
Joint venture management fee income	(2)	(4)
Loss on extinguishment of debt	—	15
	$ (21)	$ (5)

For the three months ended March 31, 2021, other income increased $16 million when compared to the same period in 2020. This was the result of $15 million in debt extinguishment costs related to refinancing the Company's senior unsecured notes during 2020 while there was no comparative expenses during the current period. Also contributing to the change was a $2 million decrease in joint venture management fee income in our Southern California operations. These were partially offset by a $3 million gain recorded in investment income on the sale of common share investments.

Income Tax Expense / (Recovery)

For the three months ended March 31, 2021, income tax recovery decreased $4 million when compared to the same period in 2020. The components of current and deferred income tax expense / (recovery) are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2021**	**2020**
Current income tax expense	$ 1	$ —
Deferred income tax recovery	(1)	(4)
	$ —	$ (4)

For the three months ended March 31, 2021, current income tax expense increased $1 million when compared to the same period in 2020. The increase in current income tax expense primarily relates to the increase in taxable income from our U.S. operations in the three months ended March 31, 2021, compared to the same period in 2020.

For the three months ended March 31, 2021, deferred income tax recovery decreased $3 million when compared to the same period in 2020. The change in deferred income taxes primarily relates to an increase in unrealized foreign exchange gains on the Company's U.S. denominated notes and an increase in taxable income in our Canadian operations when compared to the same period in 2020.

Foreign Exchange Translation

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

Assets and liabilities of subsidiaries or unconsolidated entities having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at March 31, 2021, the rate of exchange was C$1.2561 equivalent to US$1 (December 31, 2020 – C$1.2734 equivalent to US$1). Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the three months ended March 31, 2021, the average rate of exchange was C$1.2660 equivalent to US$1 (March 31, 2020 – C$1.3423 equivalent to US$1). The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI"). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the condensed consolidated statements of operations as other (income) / expense, except for those related to monetary liabilities qualifying as hedges of the Company's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

The financial results of our Canadian operations are translated into U.S. dollars for financial reporting purposes. Foreign currency translation gains and losses are recorded as the exchange rate between the two currencies fluctuates. These gains and losses are included in OCI and accumulated OCI. The translation of our Canadian operations and hedging instrument resulted in a net gain of $10 million for the three months ended March 31, 2021, compared to a net loss of $60 million during the same period in 2020.

QUARTERLY OPERATING AND FINANCIAL DATA

	2021	2020				2019		
(US$ millions, except unit activity and per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Quarterly Operating Data								
Home closings (units)	698	845	850	634	544	882	674	763
Lot closings (single family units)	588	1,454	726	164	167	1,578	578	756
Acre closings (multi-family, industrial and commercial)	4	39	—	—	3	20	10	3
Acre closings (raw and partially finished)	—	—	—	—	—	18	134	—
Net new home orders (units)	985	817	1,144	622	921	671	768	867
Backlog (units)	2,194	1,907	1,935	1,638	1,650	1,273	1,484	1,390
Backlog value	$ 1,200	$ 1,013	$ 973	$ 771	$ 750	$ 603	$ 744	$ 730
Quarterly Financial Data								
Revenue	$ 444	$ 650	$ 453	$ 323	$ 312	$ 656	$ 461	$ 476
Direct cost of sales	(351)	(515)	(361)	(268)	(257)	(520)	(356)	(397)
Gross margin	93	135	92	55	55	136	105	79
Selling, general and administrative expense	(62)	(88)	(61)	(53)	(58)	(53)	(60)	(65)
Interest expense	(12)	(5)	(2)	—	(3)	(10)	(9)	(8)
Earnings / (Loss) from unconsolidated entities	48	5	—	4	(22)	34	9	11
Other income	17	9	19	19	4	15	12	9
Lease expense	(3)	(4)	(4)	(3)	(3)	(3)	(3)	(3)
Income / (Loss) before income taxes	81	52	44	22	(27)	119	54	23
Income tax (expense) / recovery	—	(2)	—	(5)	4	2	(5)	(6)
Net income / (loss)	81	50	44	17	(23)	121	49	17
Net income / (loss) attributable to non-controlling interest	20	47	30	5	(8)	41	1	1
Net income / (loss) attributable to Brookfield Residential	$ 61	$ 3	$ 14	$ 12	$ (15)	$ 80	$ 48	$ 16
Foreign currency translation	9	37	15	27	(60)	15	(8)	14
Comprehensive income / (loss)	$ 70	$ 40	$ 29	$ 39	$ (75)	$ 95	$ 40	$ 30
Earnings / (loss) per common share attributable to Brookfield Residential								
Basic	$ 0.47	$ 0.02	$ 0.11	$ 0.10	$ (0.12)	$ 0.61	$ 0.37	$ 0.12
Diluted	$ 0.46	$ 0.02	$ 0.11	$ 0.10	$ (0.12)	$ 0.61	$ 0.37	$ 0.12

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

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's condensed consolidated balance sheets as at March 31, 2021 and December 31, 2020:

	As at			
(US$ millions)		March 31 2021		December 31 2020
Cash and restricted cash	$	339	$	368
Receivables and other assets		856		768
Land and housing inventory		2,617		2,657
Investments in unconsolidated entities - land and housing		279		307
Investment in unconsolidated entities - affiliate		645		606
Held-to-maturity investment		300		300
Commercial properties		760		710
Operating and financing lease right-of-use asset		80		82
Deferred income tax assets		57		55
Goodwill		16		16
	$	5,949	$	5,869
Accounts payable and other liabilities	$	655	$	608
Bank indebtedness and other financings		729		410
Notes payable		1,625		1,621
Operating and financing lease liability		88		89
Total equity		2,852		3,141
	$	5,949	$	5,869

Assets

Our assets as at March 31, 2021 totaled $5.9 billion. Our land and housing inventory, investments in land and housing unconsolidated entities, and commercial properties are our most significant assets with a combined book value of $3.7 billion, or approximately 63% of our total assets. The land and housing assets decreased when compared to December 31, 2020 primarily due to sales activity and turnover of inventory, partially offset by continued land development and home construction activity, and the commercial properties increased primarily due to continued construction on the Nashville and Honolulu mixed-use development projects. 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 March 31, 2021 compared with December 31, 2020 is as follows:

	As at					
	March 31, 2021			December 31, 2020		
(US$ millions, except units)	Units	Book Value		Units	Book Value	
Land held for development (lot equivalents)	63,378	$	1,313	64,213	$	1,307
Land under development and finished lots (single family units)	5,198		600	5,731		720
Housing units, including models	2,239		656	1,816		575
	70,815	$	2,569	71,760	$	2,602
Multi-family, industrial and commercial parcels (acres)	112	$	48	115	$	55

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at March 31 2021	As at December 31 2020
6.125% unsecured senior notes due May 15, 2023 (a)	$ 199	$ 196
6.375% unsecured senior notes due May 15, 2025 (b)	350	350
6.250% unsecured senior notes due September 15, 2027 (c)	600	600
4.875% unsecured senior notes due February 15, 2030 (d)	500	500
	1,649	1,646
Transaction costs	(24)	(25)
	$ 1,625	$ 1,621

(a) The Company's C$250 million principal amount of 6.125% unsecured senior notes mature May 15, 2023 with interest payable semi-annually. On or after May 15, 2020 the notes may be redeemed at 101.53% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after May 15, 2021 through maturity.

(b) The Company's $350 million principal amount of 6.375% unsecured senior notes mature May 15, 2025 with interest payable semi-annually. On or after May 15, 2020 the notes may be redeemed at 103.19% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after May 15, 2023 through maturity.

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

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

The Company and Brookfield Residential US LLC ("BRUS LLC") are co-issuers of all private placements of unsecured senior notes. All unsecured senior notes include covenants that, among other things, place limitations on incurring additional indebtedness and making restricted payments. Under the limitation on additional indebtedness, we are permitted to incur specified categories of indebtedness but are prohibited from incurring further indebtedness if we do not satisfy either 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 debt incurrence covenants as at March 31, 2021.

Our actual fixed charge coverage, indebtedness to consolidated tangible net worth, and net indebtedness to tangible net worth ratio as at March 31, 2021 are reflected in the table below:

	Covenant	Actual as at March 31 2021
Minimum fixed charge coverage	2.0 to 1	2.88 to 1
Maximum indebtedness to consolidated tangible net worth	2.25 to 1	0.84 to 1
Maximum net indebtedness to consolidated tangible net worth	3.0 to 1	0.78 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 March 31, 2021 were $729 million, an increase of $319 million from December 31, 2020. The increase was the result of our bank indebtedness used primarily to fund land development, home construction and the dividend paid to common shareholders, and borrowings from our project-specific facilities increased to fund the construction at our Nashville and Honolulu mixed-use projects. As of March 31, 2021, the weighted average interest rate on our bank indebtedness and other financings was 4.3% (December 31, 2020 – 4.4%).

Future debt maturities are expected to either be refinanced or repaid from home closings, lot closings, or proceeds from mixed-use developments. Additionally, as at March 31, 2021, we had bank indebtedness capacity of $302 million that was available to complete land development and construction activities. The “Cash Flow” section below discusses future available capital resources should proceeds from our future home and/or lot closings not be sufficient to repay our debt obligations.

Bank indebtedness and other financings consist of the following:

	As at	
(US$ millions)	**March 31 2021**	**December 31 2020**
Project-specific financings (a)	$ 393	$ 356
Bank indebtedness (b)	286	—
Secured VTB mortgages (c)	57	62
	736	418
Transaction costs (a)(b)	(7)	(8)
	$ 729	$ 410

(a) Project-specific financings

(i) 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 March 31, 2021, there were $312 million of borrowings outstanding under the construction loan (December 31, 2020 - $284 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 March 31, 2021. The following table reflects the covenants:

(US$ millions)	**Covenant**	**Actual as at March 31 2021**
Minimum liquidity	$ 36	$ 584
Minimum net worth	$ 360	$ 1,203

(ii) On March 20, 2020, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, entered into a three-year secured construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The loan allows OliverMcMillan Kuhio LLC to borrow up to $156 million. As at March 31, 2021, there were $45 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 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 March 31, 2021. The following table reflects the covenants:

(US$ millions)	**Covenant**	**Actual as at March 31 2021**
Minimum liquidity	$ 75	$ 584
Minimum net worth	$ 250	$ 1,355

(iii) As at March 31, 2021, the Company has two Canadian project-specific financings totaling $37 million (C$47 million) provided by various lenders (December 31, 2020 - $47 million (C$60 million)).

Project-specific financing totaling $30 million (C$38 million) has an interest rate of Canadian Prime + 0.5%, is due on demand with 240 days notice, and is secured by certain land and housing inventory assets of the Company's Alberta operations and a general charge over the property of South Seton Limited Partnership, a consolidated subsidiary of the Company (December 31, 2020 - $39 million (C$50 million)). This borrowing includes a minimum debt to equity covenant for South Seton Limited Partnership of no greater than 1.50 to 1. The Company was in compliance with this covenant as at March 31, 2021.

The following table reflects the debt to equity ratio covenant:

	Covenant	Actual as at March 31 2021
Maximum debt to equity ratio	1.50:1 to 1	0.43 to 1

Project-specific financing totaling $7 million (C$9 million) is held by a joint venture in our Alberta operations, a consolidated subsidiary of the Company, has an interest rate of Canadian Prime + 0.5%, matures in November 2021, and is secured and without covenants (December 31, 2020 - $8 million (C$10 million)).

(b) Bank indebtedness

As at March 31, 2021, there were $286 million of borrowings outstanding under the North American unsecured revolving credit facility and we had available capacity of $302 million (December 31, 2020 - no borrowings outstanding and $598 million of available capacity, respectively). The Company is able to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

For U.S. dollar denominated borrowings, interest is charged on the facility at a rate equal to, at the borrower's option, either the adjusted LIBOR plus an applicable rate between 2.50% 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 $2.4 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at March 31, 2021, the Company was in compliance with all of our covenants relating to this facility. The following table reflects consolidated tangible net worth and consolidated total debt to capitalization covenants:

(US$ millions, except percentages)	Covenant	Actual as at March 31 2021
Minimum tangible net worth	$ 2,351	$ 2,836
Maximum total debt to capitalization	65%	44%

(c) Secured VTB mortgages

The Company has 11 secured VTB mortgages (December 31, 2020 – 12 secured VTB mortgages) in the amount of $57 million (December 31, 2020 – $62 million).

Nine secured VTB mortgages (December 31, 2020 – 10 secured VTB mortgages) in the amount of $42 million (December 31, 2020 – $47 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$53 million (December 31, 2020 – C$60 million). The interest rates on this debt range from fixed rates of 4.00% to 6.00% and variable rates of Canadian Prime plus 1.00% to 2.00%, and the debt is secured by the related land. As at March 31, 2021, 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:

(CAD$ millions)	Covenant	Actual as at March 31 2021
Minimum shareholder's equity	$ 200	$ 538

As at March 31, 2021, the remaining borrowings are not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2020 – two secured VTB mortgages) in the amount of $15 million (December 31, 2020 – $15 million) relate to raw land held for development by various U.S. subsidiaries of the Company. The interest rates on the debt range from fixed rates of 0% to 4% and the debt is secured by the related land. As at March 31, 2021, these borrowings are not subject to any financial covenants.

Net Debt to Capitalization Calculation

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

Our net debt to total capitalization ratio as at March 31, 2021 and December 31, 2020 was as follows:

	As at	
(US$ millions, except percentages)	**March 31 2021**	**December 31 2020**
Bank indebtedness and other financings	$ 729	$ 410
Notes payable	1,625	1,621
Total interest bearing debt	2,354	2,031
Less: cash	(326)	(350)
	2,028	1,681
Total equity	2,852	3,141
Total capitalization	$ 4,880	$ 4,822
Net debt to total capitalization	42%	35%

Credit Ratings

Our access to financing depends on, among other things, suitable market conditions and the maintenance of suitable long-term credit ratings. Our credit ratings may be adversely affected by various factors, including but not limited to, increased debt levels, decreased earnings, declines in our customer demand, increased competition, a further deterioration in general economic and business conditions and adverse publicity. Any downgrades in our credit rating may impede our access to capital markets or raise our borrowing rates. We are currently rated by two credit rating agencies, Moody's and Standard & Poor's ("S&P"). We are committed to maintaining these ratings and improving them further over time. Our credit ratings at March 31, 2021 were as follows:

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

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

Cash Flow

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

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

At March 31, 2021, we had cash and cash equivalents, including restricted cash, of $339 million, compared to $368 million at December 31, 2020.

The net cash flows for the three months ended March 31, 2021 and 2020 were as follows:

	Three Months Ended March 31	
(US$ millions)	**2021**	**2020**
Cash flows provided by / (used in) operating activities	$ 65	$ (166)
Cash flows used in investing activities	(33)	(37)
Cash flows (used in) / provided by financing activities	(62)	239
Effect of foreign exchange rates on cash	1	(4)
Net change in cash and cash equivalents	$ (29)	$ 32

Cash Flow Provided by / (Used in) Operating Activities

Cash flows provided by operating activities during the three months ended March 31, 2021 totaled $65 million, compared to cash flows used in operating activities of $166 million for the same period in 2020. During the three months ended March 31, 2021, cash provided by operating activities was primarily impacted by our net income, an increase in commercial properties primarily due to continued construction on the Nashville and Honolulu mixed-use development projects, a decrease in land and housing inventory due to sales activity and turnover of inventory, a decrease in receivables and other assets, an increase in accounts payable and other liabilities and a decrease in operating lease liabilities. Acquisitions of land and housing inventory for the three months ended March 31, 2021 totaled $27 million, consisting of $3 million in Canada, $20 million in California and $4 million in Central and Eastern U.S. During the three months ended March 31, 2020, 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 three months ended March 31, 2020 totaled $46 million, consisting of $29 million in Canada, $15 million in California and $2 million in Central and Eastern U.S. The increase in commercial properties of $53 million was largely due to construction at our Nashville and Honolulu mixed-use development projects.

Cash Flow Used in Investing Activities

During the three months ended March 31, 2021, cash flows used in investing activities totaled $33 million, compared to $37 million for the same period in 2020. During the three months ended March 31, 2021, cash used in investing activities was primarily impacted by an increase in our loan receivables of $44 million and investments of $5 million in land and housing unconsolidated entities. This was partially offset by $16 million distributions from our land and housing unconsolidated entities. During the three months ended March 31, 2020, we had an increase in our loan receivables of $29 million and had an investment of $12 million in land and housing unconsolidated entities primarily in our joint ventures in Southern California. This was partially offset by receiving $4 million distributions from our unconsolidated entities.

Cash Flow (Used in) / Provided by Financing Activities

Cash flows used in financing activities for the three months ended March 31, 2021 totaled $62 million, compared to cash flows provided by financing activities of $239 million for the same period in 2020. During the three months ended March 31, 2021, cash used in financing activities was primarily from a $350 million dividend paid to common shareholders, and distributions from non-controlling interest of $30 million. This was partially offset by drawings on bank indebtedness of $286 million, and $31 million net borrowings under project-specific and other financings. For the three months ended March 31, 2020, the cash provided by our financing activities was primarily from drawings on bank indebtedness of $196 million, $45 million net borrowing under project-specific and other financings, and net contributions to non-controlling interest of $16 million. 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. In addition, a total of $9 million in debt issuance costs were incurred with the issuance of the unsecured senior notes due in 2030 and $9 of premiums were paid to redeem the notes and extinguish the debt.

Contractual Obligations and Other Commitments

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

Shareholders' Equity

At May 5, 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 May 5, 2021, 6,351,600 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the three months ended March 31, 2021.

Off-Balance Sheet Arrangements

In the ordinary course of business, and where market conditions permit, we enter into land and lot option contracts and invest in unconsolidated entities to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time until the options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of March 31, 2021, we had $25 million of primarily non-refundable option deposits and entitlement costs. The total remaining exercise price of these options was $58 million. Pursuant to the guidance in the United States Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810 *Consolidation*, we have consolidated $8 million of these option contracts where we consider the Company holds the majority economic interest in the assets held under the options.

We also own 5,680 lots and control under option 1,001 lots through our proportionate share of land and housing unconsolidated entities. As of March 31, 2021, our investment in land and housing unconsolidated entities totaled $279 million. We have provided varying levels of guarantees of debt in our land and housing unconsolidated entities. As of March 31, 2021, we had recourse guarantees of $33 million with respect to debt in our land and housing unconsolidated entities. During the three months ended March 31, 2021, we did not make any loan re-margin repayments on the debt in our land and housing unconsolidated entities. Please refer to Note 4 to the condensed consolidated financial statements, “Investments in Unconsolidated Entities”, for additional information about our investments in unconsolidated entities.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of March 31, 2021, we had $86 million in letters of credit outstanding and $534 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds as at March 31, 2021 are $58 million and $155 million, respectively.

Transactions Between Related Parties

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

Non-GAAP Financial Measures

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

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

		As at	
	Note	March 31 2021	December 31 2020
Assets			
Cash and cash equivalents		$ 325,536	$ 350,306
Restricted cash	2	13,396	17,849
Receivables and other assets		856,641	767,592
Land and housing inventory	3	2,616,624	2,656,627
Investments in unconsolidated entities - land and housing	4	278,671	307,250
Investments in unconsolidated entities - affiliate	4	644,775	605,615
Held-to-maturity investment		300,000	300,000
Commercial properties	5	759,518	709,947
Operating and financing lease right-of-use asset		80,890	82,109
Deferred income tax assets	6	56,641	54,967
Goodwill		16,479	16,479
Total assets		$ 5,949,171	$ 5,868,741
Liabilities and Equity			
Accounts payable and other liabilities		$ 654,941	$ 608,040
Bank indebtedness and other financings	7	729,116	409,638
Notes payable	8	1,625,243	1,621,500
Operating and financing lease liability		87,701	88,559
Total liabilities		3,097,001	2,727,737
Common shares	9	626,594	626,594
Retained earnings	9	1,103,655	1,393,099
Non-controlling interest - land and housing		129,938	155,466
Non-controlling interest - affiliate		1,089,785	1,073,016
Accumulated other comprehensive loss		(97,802)	(107,171)
Total equity		2,852,170	3,141,004
Total liabilities and equity		$ 5,949,171	$ 5,868,741
Commitments, contingent liabilities and other	13		
Guarantees	14		
Subsequent events	19		

See accompanying notes to the condensed consolidated financial statements

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

		Three Months Ended March 31	
	Note	**2021**	**2020**
Revenue			
Housing		$ 371,524	$ 293,921
Land		72,841	17,740
Total revenue		444,365	311,661
Direct Cost of Sales			
Housing		(299,129)	(245,485)
Land		(52,626)	(11,599)
Total direct cost of sales		(351,755)	(257,084)
Gross margin		92,610	54,577
Selling, general and administrative expense		(61,253)	(57,789)
Interest expense		(11,716)	(2,131)
Earnings from unconsolidated entities - land & housing	4	8,928	2,087
Earnings / (Loss) from unconsolidated entities - affiliate	4	39,463	(24,480)
Other income	12	20,672	5,530
Lease expense		(3,528)	(3,232)
Depreciation		(3,903)	(1,062)
Income / (Loss) Before Income Taxes		81,273	(26,500)
Current income tax expense	6	(795)	(367)
Deferred income tax recovery	6	873	4,744
Net Income / (Loss)		81,351	(22,123)
Other Comprehensive Income / (Loss)			
Unrealized foreign exchange gain / (loss) on:			
Translation of the net investment in Canadian subsidiaries and unconsolidated entities - affiliate		12,069	(75,066)
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		(2,700)	14,675
Comprehensive Income / (Loss)		$ 90,720	$ (82,514)
Net Income / (Loss) Attributable To:			
Consolidated		$ 81,351	$ (22,123)
Non-controlling interest - land and housing		4,026	3,260
Non-controlling interest - affiliate		16,769	(10,073)
Brookfield Residential		$ 60,556	$ (15,310)
Comprehensive Income/ (Loss) Attributable To:			
Consolidated		$ 90,720	$ (82,514)
Non-controlling interest - land and housing		4,026	3,260
Non-controlling interest - affiliate		16,769	(10,073)
Brookfield Residential		$ 69,925	$ (75,701)
Common Shareholders Earnings / (Loss) Per Share			
Basic	11	$ 0.47	$ (0.12)
Diluted	11	$ 0.46	$ (0.12)
Weighted Average Common Shares Outstanding *(in thousands)*			
Basic	11	129,757	129,757
Diluted	11	130,619	129,786

See accompanying notes to the condensed consolidated financial statements

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

	Note	Three Months Ended March 31 2021	Three Months Ended March 31 2020
Common Shares	9		
Opening balance		$ 626,594	$ 626,594
Ending balance		626,594	626,594
Retained Earnings			
Opening balance		1,393,099	1,382,130
Common share dividends		(350,000)	—
Net income / (loss) attributable to Brookfield Residential		60,556	(15,310)
Other		—	6,368
Ending balance		1,103,655	1,373,188
Accumulated Other Comprehensive Loss			
Opening balance		(107,171)	(125,294)
Other comprehensive income / (loss)		9,369	(60,391)
Ending balance		(97,802)	(185,685)
Total Brookfield Residential Equity		$ 1,632,447	$ 1,814,097
Non-Controlling Interest - Land & Housing			
Opening balance		$ 155,466	$ 149,574
Net income attributable to non-controlling interest		4,026	3,260
Distributions		(29,614)	—
Contributions		60	16,270
Other		—	(7,688)
Ending balance		$ 129,938	$ 161,416
Non-Controlling Interest - Affiliate			
Opening balance		$ 1,073,016	$ 1,012,242
Net income / (loss) attributable to non-controlling interest		16,769	(10,073)
Other		—	1,320
Ending balance		$ 1,089,785	$ 1,003,489
Total Equity		$ 2,852,170	$ 2,979,002

See accompanying notes to the condensed consolidated financial statements

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

	Three Months Ended March 31	
Cash Flows Provided by / (Used in) Operating Activities	**2021**	**2020**
Net income / (Loss)	$ 81,351	$ (22,123)
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings from unconsolidated entities - land and housing	(8,928)	(2,087)
(Earnings) / Loss from unconsolidated entities - affiliate	(39,463)	24,480
Deferred income tax recovery	(873)	(4,744)
Share-based compensation expense	535	2,888
Depreciation	3,903	1,062
Right-of-use asset depreciation	1,379	2,321
Amortization of non-cash interest	1,997	1,899
Loss on extinguishment of debt	—	15,030
Dividend income on held-to-maturity investment	(5,918)	(5,984)
Distributions of earnings from unconsolidated entities	28,607	643
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(38,561)	(23,617)
Decrease / (Increase) in land and housing inventory	49,389	(44,430)
Increase in commercial properties	(51,946)	(53,149)
Decrease in operating lease liabilities	(993)	(836)
Increase / (Decrease) in accounts payable and other liabilities	44,959	(57,525)
Net cash provided by / (used in) operating activities	65,438	(166,172)
Cash Flows Used In Investing Activities		
Investments in unconsolidated entities	(4,983)	(11,679)
Distributions from unconsolidated entities	16,040	4,025
Increase in loan receivable	(43,638)	(29,355)
Net cash used in investing activities	(32,581)	(37,009)
Cash Flows (Used In) / Provided by Financing Activities		
Drawings under project-specific and other financings	47,654	61,901
Repayments under project-specific and other financings	(16,857)	(16,656)
Net drawings on bank indebtedness	286,338	195,500
Drawings under unsecured senior notes payable	—	500,000
Repayments under unsecured senior notes payable	—	(500,000)
Payments of debt issuance costs	—	(8,983)
Payments of debt extinguishment costs	—	(8,930)
Distributions to non-controlling interest	(29,614)	—
Contributions from non-controlling interest	60	16,270
Dividends paid to common shareholders	(350,000)	—
Payments made on the principal of financing leases	(50)	(64)
Net cash (used in) / provided by financing activities	(62,469)	239,038
Effect of foreign exchange rates on cash and cash equivalents	389	(3,694)
Change in cash, cash equivalents and restricted cash	(29,223)	32,163
Cash, cash equivalents and restricted cash at beginning of period	368,155	123,741
Cash, cash equivalents and restricted cash at end of period	$ 338,932	$ 155,904
Supplemental Cash Flow Information		
Cash interest paid	$ 33,554	$ 41,790
Cash taxes paid	$ 1,047	$ 2,483

See accompanying notes to the condensed consolidated financial statements

Note 1. Significant Accounting Policies

(a) Basis of Presentation

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

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company’s Annual Report for the year ended December 31, 2020.

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

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

(b) Use of Estimates

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

(c) Future Accounting Pronouncements

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

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

Note 2. Restricted Cash

At March 31, 2021, the Company has restricted cash consisting of $13.4 million of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductible payments (December 31, 2020 – $17.7 million, and $0.1 million relating to cash collateralization of development letters of credit).

Note 3. Land and Housing Inventory

The following summarizes the components of land and housing inventory:

	As at	
	March 31 2021	**December 31 2020**
Land held for development	$ 1,312,710	$ 1,307,436
Land under development	647,898	774,074
Housing inventory	568,420	476,629
Model homes	87,596	98,488
	$ 2,616,624	$ 2,656,627

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

The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. For the three months ended March 31, 2021 and 2020, no impairment indicators were identified.

Interest capitalized and expensed during the three months ended March 31, 2021 and 2020 was as follows:

	Three Months Ended March 31	
	2021	**2020**
Interest capitalized, beginning of period	$ 188,646	$ 207,804
Interest capitalized	17,784	20,806
Interest expensed to cost of sales	(15,876)	(9,820)
Interest capitalized, end of period	$ 190,554	$ 218,790

Land and housing inventory includes non-refundable deposits and other entitlement costs totaling $25.2 million (December 31, 2020 – $24.8 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 $58.3 million (December 31, 2020 – $75.7 million), including the non-refundable deposits and other entitlement costs identified above.

Note 4. Investments in Unconsolidated Entities

(a) Land and Housing

As of March 31, 2021, the Company is invested in 15 unconsolidated entities (December 31, 2020 – 15 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities include $17.0 million (December 31, 2020 – $16.1 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 1,001 lots (December 31, 2020 – 1,001 lots) under option. The Company's share of the total exercise price of these options is $38.2 million (December 31, 2020 – $38.9 million). Summarized financial information on a 100% basis for the combined land and housing unconsolidated entities follows:

	As at	
	March 31 2021	**December 31 2020**
Assets		
Land and housing inventory	$ 701,358	$ 710,268
Investments in unconsolidated entities	143,845	147,695
Other assets	109,913	130,702
	$ 955,116	$ 988,665
Liabilities and Equity		
Bank indebtedness and other financings	$ 124,973	$ 126,067
Accounts payable and other liabilities	144,233	117,868
Brookfield Residential's interest	278,671	307,250
Others' interest	407,239	437,480
	$ 955,116	$ 988,665

	Three Months Ended March 31	
	2021	**2020**
Revenue and Expenses		
Revenue	$ 65,139	$ 22,388
Direct cost of sales	(45,225)	(14,138)
Other income and expenses	1,061	(955)
Net income	$ 20,975	$ 7,295
Brookfield Residential's share of net income	$ 8,928	$ 2,087

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt on its unconsolidated entities. As at March 31, 2021, the Company had recourse guarantees of $33.0 million (December 31, 2020 – $32.5 million) with respect to debt of its land and housing unconsolidated entities.

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

(b) Affiliates

The Company recorded its investment in Brookfield US Inc. ("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 recognition and for changes in ownership. As at March 31, 2021, the Company had an ownership interest of 9.5% in BUSI (December 31, 2020 - 9.5%).

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

	For the Period Ended	
	March 31 2021	December 31 2020
Equity Investment in BUSI		
Balance, beginning of period	$ 605,615	$ 634,028
Earnings / (Loss) from unconsolidated entities	39,463	(29,544)
Other comprehensive (loss) / income	(303)	1,131
Balance, end of period	$ 644,775	$ 605,615

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

	As at	
	March 31 2021	December 31 2020
Assets		
Investments	$ 9,495,296	$ 7,087,439
Investments in unconsolidated entities	5,066,785	5,056,923
Other assets	3,937,955	4,201,913
	$ 18,500,036	$ 16,346,275
Liabilities and Equity		
Loans payable	$ 2,912,114	$ 3,310,113
Other liabilities	905,573	1,000,334
Non-controlling interest	7,881,086	5,658,270
Brookfield Residential's interest	644,775	605,615
Others' Interest	6,156,488	5,771,943
	$ 18,500,036	$ 16,346,275

	Three Months Ended March 31	
	2021	2020
Revenue and Expenses		
Income	$ 825,519	$ 343,777
Expenses	(410,119)	(656,314)
Net income / (loss)	415,400	(312,537)
Other comprehensive loss	(3,188)	(3,778)
Comprehensive income / (loss)	$ 412,212	$ (316,315)

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

Note 5. Commercial Properties

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

	As at	
	March 31 2021	December 31 2020
Work in progress	$ 127,447	$ 469,981
Finished properties	639,035	243,824
	766,482	713,805
Less: accumulated depreciation	(6,964)	(3,858)
	$ 759,518	$ 709,947

Interest capitalized and expensed during the three months ended March 31, 2021 and 2020 was as follows:

	Three Months Ended March 31	
	2021	2020
Interest capitalized, beginning of period	$ 52,537	$ 23,646
Interest capitalized	1,616	5,842
Interest expensed to depreciation	(229)	—
Interest capitalized, end of period	$ 53,924	$ 29,488

Note 6. Income Taxes

The Company recorded an aggregate income tax recovery of $0.1 million for the three months ended March 31, 2021 (three months ended March 31, 2020 - $4.4 million), which is comprised of current income tax expense of $0.8 million (three months ended March 31, 2020 - $0.3 million) and deferred income tax recovery of $0.9 million (three months ended March 31, 2020 - $4.7 million).

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the three months ended March 31, 2021 and 2020 is as follows:

	Three Months Ended March 31	
	2021	2020
Statutory rate	23.0%	25.0%
Non-temporary differences	0.4	(2.7)
Rate difference from statutory rate	(2.9)	19.5
Deferred tax asset valuation allowance impact	(30.3)	(23.0)
Portion of gains subject to different tax rates	18.1	—
Non-taxable preferred share dividends	(1.9)	6.0
Taxable income attributable to non-controlling interests	(7.4)	(7.0)
Other	0.9	(1.3)
Effective tax rate	(0.1%)	16.5%

The change in the 2021 effective tax rate when compared to the same period in 2020 was primarily due to a decrease in the statutory tax rate, changes in the proportion of income in jurisdictions with different tax rates, consolidation of income attributable to non-controlling interest for which the consolidated tax provision only includes our proportionate share and the release of valuation allowance relating to the outside basis difference in our investment in affiliate unconsolidated entities. This was partially offset by an increase in tax expense as a result of unrealized foreign exchange gains on the Company's U.S. denominated notes. During the three months ended March 31, 2021, the Company realized a capital gain of C$161.8 million on the sale of common share investments, which was fully offset by the utilization of capital losses for which no benefit was previously recognized.

As at March 31, 2021, the Company recorded deferred tax assets of $88.5 million (December 31, 2020 - $111.2 million) which were partly offset by valuation allowances of $31.9 million (December 31, 2020 - $56.3 million). In evaluating the need for a valuation allowance against the Company's deferred tax assets at March 31, 2021, the Company considered all available and objectively verifiable positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies and recent financial operations. The valuation allowance of $31.9 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.

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

Note 7. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	March 31 2021	**December 31 2020**
Project-specific financings (a)	$ 393,135	$ 355,815
Bank indebtedness (b)	286,340	—
Secured VTB mortgages (c)	56,749	61,861
	736,224	417,676
Transaction costs (a)(b)	(7,108)	(8,038)
	$ 729,116	$ 409,638

(a) *Project-specific financings*

(i) 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 March 31, 2021, the Company has $311.5 million of borrowings outstanding under the construction loan (December 31, 2020 - $284.4 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 March 31, 2021.

(ii) On March 20, 2020, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, entered into a three-year secured construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The loan allows OliverMcMillan Kuhio LLC to borrow up to $155.7 million. As at March 31, 2021, the company has $44.5 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 March 31, 2021.

(iii) As at March 31, 2021, the Company has two Canadian project-specific financings totaling $37.1 million (C$46.6 million) provided by various lenders (December 31, 2020 - $47.4 million (C$60.3 million)).

Project-specific financing totaling $30.2 million (C$38.0 million) has an interest rate of Canadian Prime + 0.50%, is due on demand with 240 days notice, and is secured by certain land and housing inventory assets of the Company's Alberta operations and a general charge over the property of South Seton Limited Partnership, a consolidated subsidiary of the Company (December 31, 2020 - $39.3 million (C$50.0 million)). This borrowing includes a minimum debt to equity covenant for South Seton Limited Partnership of no greater than 1.50 to 1. The Company was in compliance with this covenant as at March 31, 2021.

Project-specific financing totaling $6.9 million (C$8.6 million), held by a joint venture in our Alberta operations, a consolidated subsidiary of the Company, has an interest rate of Canadian Prime + 0.50%, matures in November 2021, and is secured without covenants (December 31, 2020 - $8.1 million (C$10.3 million)).

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

(b) Bank indebtedness

As at March 31, 2021, there were $286.3 million of borrowings outstanding under the North American unsecured revolving credit facility, and available capacity of $301.7 million (December 31, 2020 - no borrowings outstanding and $597.8 million of available capacity, respectively). The Company is able to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

For U.S. dollar denominated borrowings, interest is charged on the facility at a rate equal to, at the borrower's option, either the adjusted LIBOR plus an applicable rate between 2.5% and 3.0% per annum or an alternative base rate ("ABR") plus an applicable rate between 1.5% and 2.5% 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 2.5% and 3.0% per annum or the Canadian prime rate plus an applicable rate between 1.5% and 2.0% 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 $2.4 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at March 31, 2021, the Company was in compliance with all of its covenants relating to this facility.

(c) Secured VTB mortgages

The Company has 11 secured VTB mortgages (December 31, 2020 – 12 secured VTB mortgages) in the amount of $56.7 million (December 31, 2020 – $61.9 million). Secured VTB mortgages are repayable as follows: 2022 – $28.2 million; 2023 – $7.1 million; 2024 – $19.1 million; and 2025 – $2.3 million.

Nine secured VTB mortgages (December 31, 2020 – 10 secured VTB mortgages) in the amount of $42.0 million (December 31, 2020 – $47.1 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$52.8 million (December 31, 2020 – C$60.0 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 March 31, 2021.

Two secured VTB mortgages (December 31, 2020 – two secured VTB mortgages) in the amount of $14.7 million (December 31, 2020 – $14.7 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 March 31, 2021, these borrowings are not subject to any financial covenants.

Note 8. Notes Payable

	As at	
	March 31 2021	**December 31 2020**
6.125% unsecured senior notes due May 15, 2023 (a)	199,025	196,325
6.375% unsecured senior notes due May 15, 2025 (b)	350,000	350,000
6.250% unsecured senior notes due September 15, 2027 (c)	600,000	600,000
4.875% unsecured senior notes due February 15, 2030 (d)	500,000	500,000
	1,649,025	1,646,325
Transaction costs	(23,782)	(24,825)
	1,625,243	$ 1,621,500

(a) The Company's C$250 million principal amount of 6.125% unsecured senior notes mature May 15, 2023 with interest payable semi-annually. On or after May 15, 2020 the notes may be redeemed at 101.53% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after May 15, 2021 through maturity.

(b) The Company's $350 million principal amount of 6.375% unsecured senior notes mature May 15, 2025 with interest payable semi-annually. On or after May 15, 2020 the notes may be redeemed at 103.19% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after May 15, 2023 through maturity.

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

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

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

The Company and BRUS LLC are co-issuers of all private placements of unsecured senior notes. All unsecured senior notes include covenants that, among others, place limitations on incurring additional indebtedness and restricted payments. Under the limitation on additional indebtedness, Brookfield Residential is permitted to incur specified categories of indebtedness, but is prohibited from incurring further indebtedness if it does not satisfy either 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 March 31, 2021.

Note 9. Equity

Common Shares

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

There were no Common Shares issued during the three months ended March 31, 2021 and the year ended December 31, 2020.

	For the Period Ended	
	March 31 2021	**December 31 2020**
Common Shares issued, beginning of period	129,756,910	129,756,910
Common Shares issued	—	—
Common Shares issued and outstanding, end of period	129,756,910	129,756,910

The Company had no Non-Voting Class B Common Shares issued and outstanding as at March 31, 2021 and December 31, 2020.

Note 10. Share-Based Compensation

(a) Management Share Option Plan

During the three months ended March 31, 2021, there were no options granted to eligible employees (three months ended March 31, 2020 – no options granted).

The liability of $45.0 million (December 31, 2020 – $44.5 million) relating to stock options is included in accounts payable and other liabilities. The total stock based compensation cost recognized in selling, general and administrative expense resulting from the change in fair value of our share-based compensation liabilities for the three months ended March 31, 2021 was $0.5 million (March 31, 2020 – $2.9 million).

The following tables set out the number of Non-Voting Class B Common Shares that employees of the Company may acquire under options granted under the Company's Management Share Option Plan for the three months ended March 31, 2021 and 2020:

	March 31, 2021		March 31, 2020	
	Options	**Weighted Average Per Share Exercise Price**	**Options**	**Weighted Average Per Share Exercise Price**
Outstanding, beginning of period	10,409,076	$ 22.20	12,388,886	$ 22.21
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled	—	—	—	—
Outstanding, end of period	10,409,076	22.20	12,388,886	22.21
Options exercisable, end of period	8,864,876	$ 22.28	9,579,286	$ 22.38

A summary of the status of the Company's unvested options for the three months ended March 31, 2021 and 2020 are as follows:

	March 31, 2021		March 31, 2020	
	Options	Weighted Average Fair Value Per Option	Options	Weighted Average Fair Value Per Option
Unvested options outstanding, beginning of period	1,721,600	$ 6.77	4,199,380	$ 4.23
Granted	—	—	—	—
Vested	(177,400)	6.51	(1,389,780)	3.38
Cancelled	—	—	—	—
Unvested options outstanding, end of period	1,544,200	$ 6.80	2,809,600	$ 4.22

At March 31, 2021, there was $9.0 million (March 31, 2020 - $10.3 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average contract period of 2.1 years (March 31, 2020 - 2.7 years).

(b) Deferred Share Unit Plan ("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 March 31, 2021 and December 31, 2020:

	For the Period Ended	
	March 31 2021	December 31 2020
Outstanding, beginning of period	1,382,134	1,382,134
Granted and reinvested	—	—
Redeemed	(1,382,134)	—
Outstanding, end of period	—	1,382,134
Deferred share units vested	—	1,382,134

During the three months ended March 31, 2021, the outstanding vested deferred share units were converted to a different compensation plan with BAM. As a result of the conversion, the DSUP liability at March 31, 2021 was $nil (December 31, 2020 – $37.2 million) and a liability of $37.2 million has been recorded in accounts payable and other liabilities. As a result of the conversion, there was no income statement impact for the three months ended March 31, 2021 (March 31, 2020 - $nil).

Note 11. Earnings Per Share

Basic and diluted earnings per share for the three months ended March 31, 2021 and 2020 were calculated as follows:

	Three Months Ended March 31	
	2021	2020
Numerator:		
Net income / (loss) attributable to Brookfield Residential	$ 60,556	$ (15,310)
Denominator (in '000s of shares):		
Basic weighted average shares outstanding	129,757	129,757
Diluted weighted average shares outstanding	130,619	129,786
Basic earnings / (loss) per share	$ 0.47	$ (0.12)
Diluted earnings / (loss) per share	$ 0.46	$ (0.12)

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

Note 12. Other (Income) / Expense

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

	Three Months Ended March 31	
	2021	2020
Investment income	$ (10,296)	$ (7,379)
Preferred share dividend income	(5,918)	(5,984)
Other	(2,739)	(3,465)
Joint venture management fee income	(1,719)	(3,732)
Loss on extinguishment of debt	—	15,030
	$ (20,672)	$ (5,530)

Note 13. Commitments, Contingent Liabilities and Other

The following table reflects the changes in the Company's estimated warranty liability for the three months ended March 31, 2021 and 2020:

	Three Months Ended March 31	
	2021	2020
Balance, beginning of period	$ 16,718	$ 18,545
Payments and other adjustments made during the period	(1,467)	(6,248)
Warranties issued during the period	2,001	6,607
Adjustments due to change in estimates	(744)	(442)
Balance, end of period	$ 16,508	$ 18,462

As at March 31, 2021, $27.1 million of the amounts held in other assets related to deposits on land purchase obligations (December 31, 2020 – $21.8 million). The total amount committed on these obligations is $287.1 million (December 31, 2020 – $292.7 million).

Note 14. Guarantees

In the ordinary course of business, the Company has provided construction guarantees in the form of letters of credit and performance bonds. As at March 31, 2021, these guarantees amounted to $620.5 million (December 31, 2020 – $593.3 million) and have not been recognized in the condensed consolidated financial statements. However, the proportionate development costs that relate to lots that have been sold are accrued in accounts payable and other liabilities. Such guarantees are required by the municipalities in which the Company operates before construction permission is granted.

Note 15. Fair Value Measurements

Fair Value Hierarchy

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

As at March 31, 2021, 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.

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

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:

	Three Months Ended March 31, 2021
Balance, beginning of period	$ 48,773
Principal payments	(14,101)
Balance, end of period	$ 34,672

The following table summarizes the quantitative inputs and assumptions used to determine the loan receivable fair value as of March 31, 2021:

Financial Instrument	Fair value as of 3/31/2021	Valuation technique	Unobservable inputs	Rate
Receivable	$ 34,672	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:

	Three Months Ended March 31, 2021
Purchases / Land Development Spend	$ 36,253

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of March 31, 2021:

Financial Instrument	Fair value as of 3/31/2021	Valuation technique	Unobservable inputs	Range
Land and land improvements	$ 207,047	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:

	Three Months Ended March 31, 2021
Balance, beginning of period	$ 23,481
Purchase of investment	6,145
Change in unrealized gain from investment	1,566
Balance, end of period	$ 31,192

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

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of March 31, 2021:

Financial Instrument		Fair value as of 3/31/2021	Valuation technique	Unobservable inputs	Range (where applicable)
Single Family Rental Investment	$	31,192	Discounted cash flow	Discount rate Capitalization rate	8.2% 5.7%
			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 March 31, 2021.

Net Investment Hedge

For the three months ended March 31, 2021, unrealized pre-tax loss of $2.7 million (March 31, 2020 – gain of $14.7 million), was recorded in other comprehensive income for hedges of net investments in foreign operations.

Note 16. Managing Risks

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

(a) Market Risk

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

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

Interest Rate Risk

The Company is exposed to financial risk that arises from fluctuations in interest rates. Some of the interest-bearing assets and liabilities of the Company are at floating rates and, accordingly, their fair values approximate their carrying value. The Company would be negatively impacted on balance, if interest rates were to increase. Based on net debt levels as at March 31, 2021, a 1% change in interest rates would have a $7.0 million impact on the Company's cash flows.

The fair value of debt with fixed interest rates is determined by discounting contractual principal and interest payments at estimated current market interest rates determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at March 31, 2021, the fair value of all outstanding debt exceeded its book value by $36.5 million (December 31, 2020 – fair value of all outstanding debt exceeded its book value by $69.2 million).

Currency Exchange Rate Risk

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

The Company holds financial instruments to hedge the net investment in foreign operations whose functional and reporting currencies are other than the U.S. dollar. A 1% increase in the U.S. dollar would result in a C$2.0 million gain on these hedging instruments as at March 31, 2021 (December 31, 2020 – C$2.5 million gain). See Note 15 "Fair Value Measurements" for additional disclosure.

Other Price Risk

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

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

(b) Credit Risk

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

(c) Liquidity Risk

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

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

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

A summary of the Company's contractual obligations and purchase agreements as at March 31, 2021 is as follows:

	Payment Due by Period				
	Total	**Less than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**More than 5 Years**
Notes payable[1]	$ 1,649,025	$ —	$ 199,025	$ 350,000	$ 1,100,000
Interest on notes payable	670,882	157,940	201,973	157,219	153,750
Secured VTB mortgages[2][3]	56,749	28,186	26,280	2,283	—
Bank indebtedness[2][3]	286,340	—	286,340	—	—
Project-specific financings[2][3]	393,136	37,116	356,020	—	—
Accounts payable and other liabilities	654,941	654,941	—	—	—
Operating and financing lease obligations	397,865	7,478	18,462	16,023	355,902
Purchase agreements and other obligations[4]	298,406	212,493	68,092	13,396	4,425

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

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

Note 17. Segmented Information

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

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

	Three Months Ended March 31, 2020					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Housing revenue	$ 56,185	$ 138,613	$ 99,123	$ —	$ —	$ 293,921
Land revenue	14,526	(32)	3,246	—	—	17,740
	70,711	138,581	102,369	—	—	311,661
Housing cost of sales	46,840	113,625	85,020	—	—	245,485
Land cost of sales	9,310	(720)	3,009	—	—	11,599
	(56,150)	(112,905)	(88,029)	—	—	(257,084)
Gross margin	14,561	25,676	14,340	—	—	54,577
Earnings from unconsolidated entities - land and housing	551	524	1,012	—	—	2,087
Loss from unconsolidated entities - affiliate	—	—	—	—	(24,480)	(24,480)
Expenses	(9,880)	(17,769)	(19,461)	(11,574)	—	(58,684)
Income / (loss) before income taxes	$ 5,232	$ 8,431	$ (4,109)	$ (11,574)	$ (24,480)	$ (26,500)

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

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

	As at March 31, 2021					
	Canada	**California**	**Central and Eastern U.S.**	**Corporate and Other**	**Equity Investment in BUSI**	**Total**
Land held for development	$ 439,425	$ 266,334	$ 606,952	$ —	$ —	$1,312,711
Land under development	166,831	143,554	334,566	2,946	—	647,897
Housing inventory	167,990	214,964	185,465	—	—	568,419
Model homes	20,883	40,255	26,459	—	—	87,597
Total land and housing inventory	795,129	665,107	1,153,442	2,946	—	2,616,624
Commercial properties	50,379	127,378	581,761	—	—	759,518
Investments in unconsolidated entities - land and housing	61,885	166,174	50,612	—	—	278,671
Investments in unconsolidated entities - affiliate	—	—	—	—	644,775	644,775
Held-to-maturity investment	—	—	—	300,000	—	300,000
Operating and financing lease right-of-use asset	12,639	38,205	20,422	9,624	—	80,890
Goodwill	—	—	—	16,479	—	16,479
Other assets (1)	162,448	64,726	172,007	853,033	—	1,252,214
Total assets	$1,082,480	$1,061,590	$1,978,244	$1,182,082	$ 644,775	$5,949,171

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

	As at December 31, 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, Brookfield Single Family Rental investment and deferred income tax assets.

Note 18. Related Party Transactions

The Company's significant related party transactions as at and for the three months ended March 31, 2021 and 2020 were as follows:

- During the three months ended March 31, 2021, the Company incurred $23.4 million of management fees (three months ended March 31, 2020 – $23.2 million) related to the management agreement with our service providers, Brookfield Properties Development. The management fee is determined by applicable rates on construction and development spending as well as assets under management, as defined in the management agreement. These transactions were recorded at the exchange amount within selling, general and administrative expense and commercial properties.
- During the three months ended March 31, 2021, the Company increased the financing capacity on the loan with Brookfield Properties Development from $50.0 million to $100.0 million. As at March 31, 2021, the loan had an outstanding balance of $87.6 million that was recorded within receivables and other assets (December 31, 2020 – $36.3 million). During the three months ended March 31, 2021, the Company recorded $0.5 million of interest income at the exchange amounts in the condensed consolidated statement of operations (three months ended March 31, 2020 – $0.2 million).
- During the three months ended March 31, 2021, the Company earned $5.9 million of dividends from the preferred shares of Brookfield International Ltd. (three months ended March 31, 2020 – $6.0 million of dividends earned) that have been recorded in the condensed consolidated statements of operations within other income. As at March 31, 2021, a total of $42.1 million of accrued dividends is recorded within receivables and other assets (March 31, 2020 – $18.1 million). These transactions were recorded at the exchange amount.
- During the three months ended March 31, 2021, the Company declared and paid a dividend to the common shareholders, which include various subsidiaries of BAM, of $350.0 million. The transaction was recorded at the exchange amount.
- During the three months ended March 31, 2021, the Company purchased from and immediately resold, to various subsidiaries of BAM, common shares of a publicly traded timber company resulting in a gain of $3.2 million.

Note 19. Subsequent Events

The Company performed an evaluation of subsequent events through May 5, 2021, which is the date that these consolidated financial statements were approved, and has determined the following subsequent events:

On May 5, 2021, the Company announced the agreement to purchase the management company of Newland Communities, an established U.S. real estate land development company, and their 5% general partner equity interest of 15 land communities. The transaction is expected to close in June 2021 subject to customary closing conditions. The strategic acquisition provides the Company with an expanded geographic footprint and regional operational skill sets to increase its position in the development of master-planned communities across the United States.

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.