Brookfield Residential

Brookfield Residential Properties ULC

Q2 2023 Interim Report

Second Quarter 2023 Overview and Outlook

Brookfield Residential continued to see a positive sales pace across all our markets, driving higher home closings as we execute and build on our backlog, while also seeing increased demand for land from other homebuilders. In the U.S., sales momentum was sustained where rate buy down incentives have addressed housing affordability and we continue to benefit from constrained existing housing inventory when compared to historical levels of supply. The Canadian market continues to experience strong immigration and the Alberta market specifically is supported by stable energy prices. Home sales in Canada increased meaningfully as a result of increased sales in Calgary and strong demand for new community openings in Ontario, where we had limited offerings in 2022.

For the three months ended June 30, 2023, income before income taxes was $28 million compared to $126 million in 2022. Included in the prior year results was $58 million of equity earnings relating to opportunistic land parcel sales at our Southern California and Arizona joint venture communities and $18 million of earnings from our affiliate unconsolidated entities with no comparable transactions in the current year. Adjusting for this, income before income taxes was $50 million in 2022, compared to $28 million in the current period.

Operating and financial highlights for the three months ended June 30, 2023 include:

- Home closings of 615, a 11% increase when compared to 2022 with gross margin of 18%. Average home selling prices increased 4% primarily due to the mix of homes sold offset by moderately elevated incentives.
- Net new home orders of 747 compared to 464 in 2022, an increase of 61%. This contributed to the total backlog of 1,288 units with a value of $870 million
- Closed 386 single family lots with land gross margins of 28%
- Transferred 47% interest in our premier Lilia mixed-use project for $100 million to Brookfield Reinsurance, an affiliate of Brookfield Corporation. The Lilia development is comprised of 454 residential units and approximately 44,000 square feet of retail space and was recently recognized as the PCBC 2023 Grand Award Gold Nugget winner for best Multi-family housing community. Due to the nature of the affiliate transaction, it is accounted for as an equity transaction where the gain on transfer of ownership is deferred.
- Brookfield Residential declared and paid total dividends of $220 million.
- Net debt to capitalization ratio of 48% at June 30, 2023, reflecting the impact of the dividends paid as well as typical seasonality for our borrowings on our credit facility

Based on our results to date, we reaffirm the following limited guidance for 2023, previously provided in the first quarter of the year. For our U.S. operations, we expect to close approximately 1,345 homes and 1,825 lots, excluding our share of unconsolidated entities. For our Canadian markets, we expect to close approximately 805 homes and 500 lots. We also project a number of multi-family, commercial and industrial parcel sales in both countries. We continue to maintain a cautious optimism given the relatively strong fundamentals we have seen during the first six months of the year, while continuing to closely monitor market conditions.

BROOKFIELD RESIDENTIAL PROPERTIES ULC

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- the current business environment and outlook; economic and market conditions in the U.S. and Canadian housing markets and our ability to respond to such conditions; the impact of actual or potential interest rate changes in the U.S. and Canada and the resulting impact on consumer confidence and the housing market; the effect of inflation; changes in consumer behavior and preferences; current trends in home prices in our various markets and affordability levels generally; the impact of mortgage and financing rules on borrowers; the effect of seasonality on the homebuilding business; home prices and affordability in our communities, home closings resulting therefrom, and the timing thereof; international trade factors, including changes in trade policy, such as trade sanctions and increased tariffs; volatility in the global price of commodities, including the price of oil and lumber; unexpected cost increases that could impact our margins; disruptions in the global supply chain adversely impacting product availability and causing delays; the economic and regulatory uncertainty surrounding the energy industry and the impact thereof on demand in our markets including future investment, particularly in Alberta; our relationship with operational jurisdictions and key stakeholders; our ability to meet our obligations under our North American unsecured credit facility; our costs to complete related to our letters of credit and performance bonds; expected project completion times; our ability to realize our deferred tax assets; recovery in the housing market and the pace thereof; reduction in our debt levels and the timing thereof; our expected unit and lot sales and the timing thereof; the impact of COVID-19 generally; expectations for 2023 and beyond;
- possible or assumed future results, including our outlook and any updates thereto, how we intend to use and the availability of additional cash flow, the operative cycle of our business and expected timing of income and expected performance and features of our projects, the continued strategic expansion of our business operations, our assumptions regarding normalized sales, our projections regarding revenue and housing inventory, the impact of acquisitions on our operations in certain markets;
- factors affecting our competitive position within the homebuilding industry;
- the ability to create value in our land development business and meet our development plans;
- expected inventory backlog and closings and the timing thereof;
- the expected closing of transactions generally;
- the expected exercise of options contracts and lease options;
- the effect on our business of business acquisitions;
- business goals, strategy and growth plans;
- the effect of challenging conditions on us;
- the ability to generate sufficient cash flow from our assets to repay maturing bank indebtedness and project specific financings and take advantage of new opportunities;
- the ability to meet our covenants and re-pay interest payments on our unsecured senior notes and the requirement to make payments under our construction guarantees;
- the sufficiency of our access to and the sources of our capital resources;
- the impact of foreign exchange rates on our financial performance and market opportunities;
- the impact of credit rating agencies' rating on our business;
- the timing of the effect of interest rate changes on our cash flows;
- the effect of debt and leverage on our business and financial condition;
- the visibility of our future cash flow;
- social and environmental conditions, policies and risks;
- governmental policies and risks;
- cyber-security and privacy related risks;
- health and safety risks;
- the effect on our business of existing lawsuits; and
- damage to our reputation from negative publicity.

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

Various factors, in addition to those discussed elsewhere in this interim report, that could affect the future results of Brookfield Residential and could cause actual results, performance, or achievements to differ materially from those expressed in the forward-looking statements and information include, but are not limited to, those factors included under the sections entitled "Cautionary Statements Regarding Forward-Looking Statements" and "Business Environment and Risks" of the Annual Report for the fiscal year ended December 31, 2022.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") relates to the period ended June 30, 2023 and has been prepared with an effective date of July 25, 2023. It should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this interim report. All dollar amounts discussed herein are in U.S. dollars, unless otherwise stated. Amounts in Canadian dollars are identified as "C$." The condensed consolidated financial statements referenced herein have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

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

OVERVIEW

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

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

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

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

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

Brookfield Residential Properties Portfolio

Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at June 30, 2023 were $5.3 billion.

As of June 30, 2023, we controlled 82,602 single family lots (serviced lots and future lot equivalents) and 109 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 June 30, 2023 is as follows:

	Single Family Housing & Land Under and Held for Development[1]								Multi-Family, Industrial & Commercial Parcels Under Development	
	Housing & Land		Unconsolidated Entities		Total Lots		Status of Lots 6/30/2023		Total Acres	
	Owned	Options	Owned	Options	6/30/2023	12/31/2022	Entitled	Unentitled	6/30/2023	12/31/2022
Calgary	12,956	—	2,345	—	15,301	16,077	10,824	4,477	72	46
Edmonton	9,270	—	146	—	9,416	9,757	4,206	5,210	10	3
Ontario	9,336	—	1,944	—	11,280	9,554	4,632	6,648	6	6
Canada	31,562	—	4,435	—	35,997	35,388	19,662	16,335	88	55
Northern California	3,638	6,048	86	—	9,772	9,800	2,524	7,248	—	—
Southern California	5,621	—	574	—	6,195	6,178	4,025	2,170	1	2
Arizona	8,428	—	150	—	8,578	8,020	8,578	—	—	—
Other	—	—	1,083	—	1,083	1,096	1,083	—	1	—
Pacific U.S.	17,687	6,048	1,893	—	25,628	25,094	16,210	9,418	2	2
Denver	6,346	—	—	—	6,346	6,402	6,346	—	10	10
Texas	9,567	—	—	—	9,567	9,763	9,567	—	—	—
Washington DC	3,269	625	96	—	3,990	4,101	3,953	37	—	—
Other	—	—	1,074	—	1,074	503	1,074	—	9	2
Central and Eastern U.S.	19,182	625	1,170	—	20,977	20,769	20,940	37	19	12
Total	68,431	6,673	7,498	—	82,602	81,251	56,812	25,790	109	69
Entitled lots	49,050	625	7,137	—	56,812	56,204				
Unentitled lots	19,381	6,048	361	—	25,790	25,047				
Total June 30, 2023	68,431	6,673	7,498	—	82,602					
Total December 31, 2022	66,584	7,478	7,189	—		81,251				

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

RESULTS OF OPERATIONS

Key financial results and operating data for the three and six months ended June 30, 2023 compared to the three and six months ended June 30, 2022 were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except percentages, unit activity, average selling price and per share amounts)	2023	2022	2023	2022
Key Financial Results				
Housing revenue	$ 374	$ 324	$ 705	$ 583
Land revenue	68	43	100	242
Housing gross margin ($)	67	61	129	108
Housing gross margin (%)	18%	19%	18%	19%
Land gross margin ($)	19	16	29	97
Land gross margin (%)	28%	37%	29%	40%
Total gross margin ($)	86	77	158	204
Total gross margin (%)	19%	21%	20%	25%
Income before income taxes	28	126	52	245
Income tax expense	(14)	(6)	(18)	(16)
Net income	14	119	34	229
Net income attributable to Brookfield Residential	15	42	35	79
Basic earnings per share	$ 0.07	$ 0.33	$ 0.17	$ 0.61
Diluted earnings per share	$ 0.07	$ 0.33	$ 0.17	$ 0.60
Key Operating Data				
Home closings for Brookfield Residential (units)	615	555	1,130	982
Average home selling price for Brookfield Residential (per unit)	$608,000	$584,000	$624,000	$593,000
Net new home orders for Brookfield Residential (units)	747	464	1,292	1,201
Backlog for Brookfield Residential (units)	1,288	1,718	1,288	1,718
Backlog value for Brookfield Residential	$ 870	$ 1,162	$ 870	$ 1,162
Active housing communities for Brookfield Residential	78	69	78	69
Lot closings for Brookfield Residential (single family units)	386	220	658	616
Lot closings for unconsolidated entities (single family units)	111	99	199	203
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	7	9	7	18
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	1	136	2	138
Acre closings for Brookfield Residential (raw and partially finished)	—	—	—	101
Acre closings for unconsolidated entities (raw and partially finished)	18	—	18	1
Average lot selling price for Brookfield Residential (single family units)	$153,000	$157,000	$139,000	$363,000
Average lot selling price for unconsolidated entities (single family units)	$217,000	$217,000	$223,000	$195,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$1,321,000	$899,000	$1,321,000	$935,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$299,000	$788,000	$329,000	$786,000
Average per acre selling price for Brookfield Residential (raw and partially finished)	$ —	$ —	$ —	$ 9,000
Average per acre selling price for unconsolidated entities (raw and partially finished)	$454,000	$ —	$453,000	$131,000
Active land communities for Brookfield Residential	16	17	16	17
Active land communities for unconsolidated entities	18	16	18	16

Segmented Information

We operate in three operating segments within North America related to our land and housing operations: Canada, Pacific U.S. and Central and Eastern U.S. Each of the Company’s segments specializes in land entitlement and development and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of risk factors. In order to align our operating segments with our business model, we have changed the composition of our reportable segments our Arizona operations from the Central and Eastern U.S. segment to Pacific U.S. for segmented reporting. Comparative figures have been reclassified to conform to the current period segment composition. The following table summarizes information relating to revenues, gross margin and assets by operating segment for the three and six months ended June 30, 2023 and 2022.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	2023	2022	2023	2022
Housing revenue				
Canada	$ 100	$ 87	$ 179	$ 153
Pacific U.S.	87	93	225	189
Central and Eastern U.S.	187	144	301	241
	374	324	705	583
Unconsolidated entities	—	12	1	13
Total	$ 374	$ 336	$ 706	$ 596
Housing gross margin				
Canada	$ 16	$ 15	$ 31	$ 26
Pacific U.S.	17	17	42	34
Central and Eastern U.S.	34	29	56	47
	67	61	129	107
Unconsolidated entities	—	4	—	4
Total	$ 67	$ 65	$ 129	$ 111
Home closings (units)				
Canada	226	184	416	321
Pacific U.S.	82	117	219	234
Central and Eastern U.S.	307	254	495	427
	615	555	1,130	982
Unconsolidated entities	—	19	1	20
Total	615	574	1,131	1,002
Average home selling price				
Canada	$ 442,000	$ 471,000	$ 431,000	$ 477,000
Pacific U.S.	1,064,000	796,000	1,027,000	808,000
Central and Eastern U.S.	609,000	568,000	608,000	563,000
	608,000	584,000	624,000	593,000
Unconsolidated entities	—	642,000	712,000	647,000
Average	$ 608,000	$ 586,000	$ 624,000	$ 594,000

	As at June 30	
	2023	2022
Active housing communities		
Canada	40	35
Pacific U.S.	14	12
Central and Eastern U.S.	24	22
Total	78	69

(US$ millions, except unit activity and average selling price)	Three Months Ended June 30 2023	Three Months Ended June 30 2022	Six Months Ended June 30 2023	Six Months Ended June 30 2022
Land revenue				
Canada	$ 32	$ 28	$ 63	$ 67
Pacific U.S.	34	9	34	162
Central and Eastern U.S.	2	6	3	13
Total	68	43	100	242
Unconsolidated entities	32	129	53	148
Total	$ 100	$ 172	$ 153	$ 390
Land gross margin				
Canada	$ 12	$ 11	$ 20	$ 23
Pacific U.S.	7	3	9	69
Central and Eastern U.S.	—	2	—	5
Total	19	16	29	97
Unconsolidated entities	8	67	14	73
Total	$ 27	$ 83	$ 43	$ 170
Lot closings (single family units)				
Canada	170	129	442	314
Pacific U.S.	215	32	215	195
Central and Eastern U.S.	1	59	1	107
	386	220	658	616
Unconsolidated entities	111	99	199	203
Total	497	319	857	819
Acre closings (multi-family, industrial and commercial)				
Canada	7	9	7	18
Pacific U.S.	—	—	—	—
Central and Eastern U.S.	—	—	—	—
	7	9	7	18
Unconsolidated entities	1	136	2	138
Total	8	145	9	156
Acre closings (raw and partially finished)				
Canada	—	—	—	101
Pacific U.S.	—	—	—	—
Central and Eastern U.S.	—	—	—	—
	—	—	—	101
Unconsolidated entities	18	—	18	1
Total	18	—	18	102
Average lot selling price (single family units)				
Canada	$ 138,000	$ 152,000	$ 123,000	$ 158,000
Pacific U.S.	158,000	275,000	161,000	833,000
Central and Eastern U.S.	255,000	103,000	255,000	110,000
	153,000	157,000	139,000	363,000
Unconsolidated entities	217,000	217,000	223,000	195,000
Average	$ 167,000	$ 175,000	$ 159,000	$ 321,000
Average per acre selling price (multi-family, industrial and commercial)				
Canada	$1,321,000	$ 899,000	$1,321,000	$ 935,000
Pacific U.S.	—	—	—	—
Central and Eastern U.S.	—	—	—	—
	1,321,000	899,000	1,321,000	935,000
Unconsolidated entities	299,000	788,000	329,000	786,000
Average	$1,134,000	$ 796,000	$1,133,000	$ 808,000

(US$ millions, except unit activity and average selling price)	Three Months Ended June 30 2023	Three Months Ended June 30 2022	Six Months Ended June 30 2023	Six Months Ended June 30 2022
Average per acre selling price (raw and partially finished)				
Canada	$ —	$ —	$ —	$ 9,000
Pacific U.S.	—	—	—	—
Central and Eastern U.S.	—	—	—	—
	—	—	—	9,000
Unconsolidated entities	454,000	—	453,000	131,000
Average	$ 454,000	$ —	$ 453,000	$ 10,000

	As at June 30 2023	As at June 30 2022
Active land communities		
Canada	7	7
Pacific U.S.	3	3
Central and Eastern U.S.	6	7
	16	17
Unconsolidated entities	18	16
Total	34	33

(US$ millions)	As at June 30 2023	As at December 31 2022
Total assets		
Canada	$ 1,112	$ 1,089
Pacific U.S.	1,515	1,407
Central and Eastern U.S.	1,440	1,458
Corporate and other	1,221	1,189
Total	$ 5,289	$ 5,143

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

Three and Six Months Ended June 30, 2023 Compared with Three and Six Months Ended June 30, 2022

Net Income

Consolidated net income for the three and six months ended June 30, 2023 and 2022 is as follows:

(US$ millions, except per share amounts)	Three Months Ended June 30 2023	Three Months Ended June 30 2022	Six Months Ended June 30 2023	Six Months Ended June 30 2022
Consolidated net income	$ 14	$ 119	$ 34	$ 229
Net income attributable to Brookfield Residential	$ 15	$ 42	$ 35	$ 79
Basic earnings per share	$ 0.07	$ 0.33	$ 0.17	$ 0.61
Diluted earnings per share	$ 0.07	$ 0.33	$ 0.17	$ 0.60

The decrease of $105 million in consolidated net income for the three months ended June 30, 2023 compared to the same period in 2022 was the result of a decrease in earnings from land and housing unconsolidated entities of $65 million, primarily due to opportunistic large land parcel sales at our Southern California and Arizona joint ventures last year with no comparable transactions in 2023, a decrease in other income for $26 million, a decrease in earnings from our affiliate unconsolidated entity of $18 million as the Company no longer holds an interest in this investment, an increase in income tax expense of $8 million, an increase in interest expense of $2 million, and an increase in selling, general and administrative expense of $1 million. This was partially offset by an increase in gross margin of $9 million primarily due to increase in home and lot closings and a decrease in depreciation expense of $5 million.

The decrease of $195 million in consolidated net income for the six months ended June 30, 2023 compared to the same period in 2022 was the result of a decrease in earnings from land and housing unconsolidated entities of $69 million, a decrease in gross margin of $47 million, primarily due to large land transactions in Southern California last year with no comparable transactions in 2023, a decrease in other income of $42 million, a decrease in earnings from our affiliate unconsolidated entity of $41 million, an increase in interest expense of $4 million and an increase in income tax expense of $2 million. This was partially offset by a decrease in depreciation expense of $7 million, a decrease in selling, general and administrative expense of $1 million and a decrease in lease expense of $1 million.

Results of Operations – Housing

A breakdown of our results from housing operations for the three and six months ended June 30, 2023 and 2022 is as follows:

Consolidated

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2023**	**2022**	**2023**	**2022**
Home closings	615	555	1,130	982
Revenue	$ 374	$ 324	$ 705	$ 583
Gross margin	$ 67	$ 61	$ 129	$ 107
Gross margin (%)	18%	19%	18%	18%
Average home selling price	$608,000	$584,000	$624,000	$593,000

Housing revenue and gross margin were $374 million and $67 million, respectively, for the three months ended June 30, 2023, compared to $324 million and $61 million for the same period in 2022. The increase in revenue was primarily the result of 60 additional home closings and a 4% increase in average home selling prices. Gross margin increased $6 million as a result of the additional home closings, the product and geographic mix of homes closed and higher average home selling prices for the three months ended June 30, 2023 when compared to the same period in 2022.

Housing revenue and gross margin were $705 million and $129 million, respectively, for the six months ended June 30, 2023, compared to $583 million and $107 million for the same period in 2022. The increase in revenue and gross margin were primarily the result of 148 additional home closings, specifically in our Canada and Central and Eastern U.S. operating segments. Gross margin increased $22 million when compared to the same period in 2022 primarily due to additional homes closed and higher average home selling prices.

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

Canada

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2023**	**2022**	**2023**	**2022**
Home closings	226	184	416	321
Revenue	$ 100	$ 87	$ 179	$ 153
Gross margin	$ 16	$ 15	$ 31	$ 26
Gross margin (%)	16%	17%	17%	17%
Average home selling price	$442,000	$471,000	$431,000	$477,000
Average home selling price (C$)	$594,000	$601,000	$581,000	$607,000

Housing revenue in our Canadian segment for the three months ended June 30, 2023 increased by $13 million when compared to the same period in 2022, primarily due to 42 additional home closings, partially offset by 6% lower average home selling prices. The increase in home closings was primarily the result of additional closings in our Calgary market. The decrease in average home selling prices was primarily due to the geographic mix of homes closed, with a lower proportion of closings coming from our Ontario market, which typically have higher average home selling prices. Gross margin and gross margin percentage for the three months ended June 30, 2023 remained consistent when compared to the same period in 2022.

Housing revenue in our Canadian segment for the six months ended June 30, 2023 increased by $26 million when compared to the same period in 2022, primarily due to 95 additional home closings, partially offset by 10% lower average home selling prices. The increase in home closings was primarily the result of additional closings in our Calgary and Edmonton markets. The decrease in average home selling prices is due to the geographic mix of homes closed, with a lower proportion of closings coming from our Ontario market. Gross margin increased $5 million and gross margin percentage remained consistent for the six months ended June 30, 2023 when compared to the same period in 2022 primarily as the result of increased home closings in our Calgary and Edmonton markets.

Pacific U.S.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2023**	**2022**	**2023**	**2022**
Home closings	82	117	219	234
Revenue	$ 87	$ 93	$ 225	$ 189
Gross margin	$ 17	$ 17	$ 42	$ 34
Gross margin (%)	20%	18%	19%	18%
Average home selling price	$1,064,000	$796,000	$1,027,000	$808,000

Housing revenue in our Pacific U.S. segment for the three months ended June 30, 2023 decreased by $6 million when compared to the same period in 2022, primarily due to 35 fewer home closings. This was partially offset by 34% higher average selling prices, primarily as a result of the product mix where more home closings with average selling prices over $1 million in our California markets. Gross margin remained consistent and gross margin percentage increased by 2% primarily as a result of increased average home selling prices due to the product and geographic mix of homes closed when compared to the same period in 2022.

Housing revenue in our Pacific U.S. segment for the six months ended June 30, 2023 increased by $36 million when compared to the same period in 2022, primarily due to 27% higher average selling prices, primarily in our California markets, offset by 15 fewer home closings. Gross margin increased by $8 million as a result of increased average home selling prices, and gross margin percentage increased by 1% when compared to the same period in 2022.

Central and Eastern U.S.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2023**	**2022**	**2023**	**2022**
Home closings	307	254	495	427
Revenue	$ 187	$ 144	$ 301	$ 241
Gross margin	$ 34	$ 29	$ 56	$ 47
Gross margin (%)	18%	20%	19%	20%
Average home selling price	$609,000	$568,000	$608,000	$563,000

Housing revenue in our Central and Eastern U.S. segment for the three months ended June 30, 2023 increased by $43 million when compared to the same period in 2022, resulting from 53 additional home closings, primarily in our Texas market and 7% higher average home selling prices. The increase in average home selling prices is primarily the result of the geographic and product mix of the homes closed. Gross margin increased by $5 million as a result of higher average home selling prices and additional home closings. Gross margin percentage decreased 2% primarily as a result of higher incentives on homes closed when compared to the same period in 2022.

Housing revenue in our Central and Eastern U.S. segment for the six months ended June 30, 2023 increased by $60 million when compared to the same period in 2022, resulting from 68 additional home closings, primarily in our Texas market and 8% higher average home selling prices. The increase in average home selling prices is primarily the result of price appreciation and geographic mix of homes closed within the operating segment. Gross margin increased $9 million and gross margin percentage decreased 1% primarily as a result of the product and geographic mix of homes closed when compared to the same period in 2022.

Home Sales – Incentives

We grant our homebuyers sales incentives from time-to-time in order to promote sales of our homes. The type and amount of incentives will vary on a community-by-community and home-by-home basis. Incentives are recognized as a reduction to sales revenue at the time title passes to the homebuyer and the sale is recognized. For the three and six months ended June 30, 2023, total incentives recognized as a percentage of gross revenues increased by 2% as a result of increased incentives provided, including rate buy downs to address affordability, across our Pacific U.S. and Central and Eastern U.S. operating segments, primarily due to market conditions at the time the homes were sold when compared to prior year closings.

Our incentives on homes closed by operating segment for the three and six months ended June 30, 2023 and 2022 were as follows:

	Three Months Ended June 30			
	2023		2022	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 2	2%	$ 3	3%
Pacific U.S.	3	3%	1	1%
Central and Eastern U.S.	9	5%	4	3%
	$ 14	4%	$ 8	2%

	Six Months Ended June 30			
	2023		2022	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 5	3%	$ 5	3%
Pacific U.S.	6	3%	2	1%
Central and Eastern U.S.	16	5%	7	3%
	$ 27	4%	$ 14	2%

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders for the three and six months ended June 30, 2023 totaled 747 units and 1,292 units, an increase of 283 units or 61%, and an increase of 90 units or 7%, respectively when compared to the same periods in 2022. Average monthly sales per community by reportable segment for the three and six months ended June 30, 2023 were: Canada – 3 and 2 units (2022 – 1 and 2 units); Pacific U.S. 4 and 5 units (2022 – 5 and 5 units); Central and Eastern U.S. 3 and 3 units (2022 – 3 and 4 units). We were selling from 78 active housing communities at June 30, 2023 compared to 69 communities at June 30, 2022.

The net new home orders for the three and six months ended June 30, 2023 and 2022 by our land and housing operating segments were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(Units)	2023	2022	2023	2022
Canada	352	100	554	355
Pacific U.S.	187	166	340	324
Central and Eastern U.S.	208	198	398	522
	747	464	1,292	1,201
Unconsolidated entities	—	—	—	1
Total	747	464	1,292	1,202

Home Sales – Cancellations

The overall cancellation rates for the three and six months ended June 30, 2023 were 6% and 8%, respectively, compared to 10% and 7% during the same periods in 2022. The cancellation rates for the three and six months ended June 30, 2023 and 2022 for our land and housing operating segments were as follows:

	Three Months Ended June 30			
	2023		2022	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	4	1 %	2	2 %
Pacific U.S.	12	6%	17	9%
Central and Eastern U.S.	29	12%	30	13%
	45	6%	49	10%

	Six Months Ended June 30			
	2023		2022	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	9	2%	3	1%
Pacific U.S.	24	7%	32	9%
Central and Eastern U.S.	76	16%	56	10%
	109	8%	91	7%

Home Sales – Backlog

Our backlog, which represents the number of new homes under sales contracts, as at June 30, 2023 and 2022 by operating segment, was as follows:

	As at June 30			
	2023		2022	
(US$ millions, except unit activity)	**Units**	**Value**	**Units**	**Value**
Canada	663	$ 335	674	$ 367
Pacific U.S.	337	354	369	371
Central and Eastern U.S.	288	181	675	425
	1,288	870	1,718	1,163
Unconsolidated entities	—	—	24	21
Total	1,288	$ 870	1,742	$ 1,184

We expect substantially all of our backlog to close in 2023 and 2024, subject to future cancellations. The units in backlog as at June 30, 2023 decreased when compared to June 30, 2022. Total backlog value decreased by $314 million when compared to the same period in 2022 mainly due to lower units in backlog overall. Our active selling communities are now at 78 compared to 69 at June 30, 2022.

Results of Operations – Land

A breakdown of our results from land operations for the three and six months ended June 30, 2023 and 2022 is as follows:

Consolidated

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2023**	**2022**	**2023**	**2022**
Lot closings (single family units)	386	220	658	616
Acre closings (multi-family, industrial and commercial)	7	9	7	18
Acre closings (raw and partially finished)	—	—	—	101
Revenue	$ 68	$ 43	$ 100	$ 242
Gross margin	$ 19	$ 16	$ 29	$ 97
Gross margin (%)	28%	37%	29%	40%
Average lot selling price (single family units)	$153,000	$157,000	$139,000	$363,000
Average per acre selling price (multi-family, industrial and commercial)	$1,321,000	$899,000	$1,321,000	$935,000
Average per acre selling price (raw and partially finished)	$ —	$ —	$ —	$ 9,000

Land revenue totaled $68 million and land gross margin totaled $19 million for the three months ended June 30, 2023. The increases in revenue and gross margin were primarily due to 166 additional lot closings, partially offset by a 3% decrease in average lot selling prices when compared to the same period in 2022. Gross margin percentage decreased by 9% primarily due to the geographic mix of lots sold, offset by the total increase in lot closings of 166 single family units, primarily from our Pacific U.S. segment.

Land revenue totaled $100 million and land gross margin totaled $29 million for the six months ended June 30, 2023. The decreases in revenue, gross margin and gross margin percentage were primarily due to two bulk lot sale transactions in our coastal Southern California communities within the Pacific U.S. segment in the first six months of the prior year with no comparatives in the current period.

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

Canada

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2023**	**2022**	**2023**	**2022**
Lot closings (single family units)	170	129	442	314
Acre closings (multi-family, industrial and commercial)	7	9	7	18
Acre closings (raw and partially finished)	—	—	—	101
Revenue	$ 32	$ 28	$ 63	$ 67
Gross margin	$ 12	$ 11	$ 20	$ 23
Gross margin (%)	38%	39%	32%	34%
Average lot selling price (single family units)	$138,000	$152,000	$123,000	$158,000
Average lot selling price (C$) (single family units)	$185,000	$194,000	$166,000	$200,000
Average per acre selling price (multi-family, industrial and commercial)	$1,321,000	$899,000	$1,321,000	$935,000
Average per acre selling price (C$) (multi-family, industrial and commercial)	$1,773,000	$1,147,000	$1,773,000	$1,174,000
Average per acre selling price (raw and partially finished)	$ —	$ —	$ —	$ 9,000
Average per acre selling price (C$) (raw and partially finished)	$ —	$ —	$ —	$ 12,000

Land revenue in our Canadian segment for the three months ended June 30, 2023 was $32 million, an increase of $4 million when compared to the same period in 2022. The increase was primarily the result of 41 additional average single family lot closings, partially offset by a 9% decrease in average single family lot selling prices due to the community mix of land sold within the operating segment. Gross margin remained relatively consistent when compared to the same period during 2022, and gross margin percentage decreased 1% mainly due to the mix of land sold.

Land revenue in our Canadian segment for the six months ended June 30, 2023 was $63 million, a decrease of $4 million when compared to the same period in 2022. The decrease was primarily the result of 11 fewer multi-family, industrial and commercial acre closings, partially offset by a 41% increase in average acre selling prices due to the mix of land sold within the operating segment. Gross margin decreased $3 million compared to the same period during 2022 primarily as a result of fewer acre closings, and gross margin percentage decreased 2% mainly due to the mix of land sold.

Pacific U.S.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2023**	**2022**	**2023**	**2022**
Lot closings (single family units)	215	32	215	195
Revenue	$ 34	$ 9	$ 34	$ 162
Gross margin	$ 8	$ 3	$ 9	$ 69
Gross margin (%)	24%	33%	26%	43%
Average lot selling price (single family units)	$158,000	$275,000	$161,000	$833,000

Land revenue in our Pacific U.S. segment increased by $25 million and gross margin increased by $5 million for the three months ended June 30, 2023 when compared to the same period in 2022. The increase in revenue was due to 183 additional lot closings for the period, offset by a 42% decrease in average lot selling prices.

Land revenue in our Pacific U.S. segment decreased by $128 million and gross margin decreased by $60 million for the six months ended June 30, 2023 when compared to the same period in 2022. The decreases were primarily due to the mix of lots sold as the first six months of the prior year included two bulk lot sale transactions in our coastal Southern California communities for 158 lot closings at an average $1 million lot selling price which generated gross margins of $64 million and a 42% gross margin with no comparative sales for the current period.

Central and Eastern U.S.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2023**	**2022**	**2023**	**2022**
Lot closings (single family units)	1	59	1	107
Revenue	$ 2	$ 6	$ 3	$ 13
Gross margin	$ —	$ 2	$ —	$ 5
Gross margin (%)	—%	33%	—%	38%
Average lot selling price (single family units)	$255,000	$103,000	$255,000	$110,000

Land revenue in our Central and Eastern U.S. segment for the three months ended June 30, 2023 was $2 million, representing a decrease of $4 million compared to the same period in 2022. The decrease was due to limited sales activity in the current period when compared to the same period in 2022, revenue recognized in the period includes profit participation from previously closed land transactions.

Land revenue in our Central and Eastern U.S. segment for the six months ended June 30, 2023 was $3 million, representing a decrease of $10 million when compared to the same period in 2022. The decrease was due to limited sales activity in the current period when compared to the same period in 2022, revenue recognized in the period includes profit participation from previously closed land transactions.

Earnings from Unconsolidated Entities - Land and Housing

Earnings from land and housing unconsolidated entities for the three and six months ended June 30, 2023 totaled $8 million and $14 million, compared to $73 million and $83 million for the same periods in 2022.

Land

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

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2023**	**2022**	**2023**	**2022**
Lot closings (single family units)	111	99	199	203
Acre closings (multi-family, industrial and commercial)	1	136	2	138
Acre closings (raw and partially finished)	18	—	18	1
Revenue	$ 33	$ 129	$ 53	$ 148
Gross margin	$ 8	$ 67	$ 14	$ 73
Gross margin (%)	24%	52%	26%	49%
Average lot selling price (single family units)	$217,000	$217,000	$223,000	$195,000
Average per acre selling price (multi-family, industrial and commercial)	$299,000	$788,000	$329,000	$786,000
Average per acre selling price (raw and partially finished)	$454,000	$ —	$453,000	$131,000

Brookfield's share of land revenue within unconsolidated entities decreased $96 million and gross margin decreased $59 million for the three months ended June 30, 2023 when compared to the same period in 2022. The decrease was primarily due to two opportunistic land sales in our Southern California and Arizona joint ventures in the prior year with no comparative sales in the current period.

Brookfield's share of land revenue within unconsolidated entities decreased by $95 million and gross margin decreased by $59 million for the six months ended June 30, 2023 when compared to the same period in 2022. The decrease was primarily due to two opportunistic land sales in our Southern California and Arizona joint ventures in the prior year with no comparative sales in the current period.

Earnings from Unconsolidated Entities - Affiliate

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

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2023**	**2022**	**2023**	**2022**
Earnings from unconsolidated entities - affiliate	$ —	$ 18	$ —	$ 41

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

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three and six months ended June 30, 2023 and 2022 are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2023**	**2022**	**2023**	**2022**
General and administrative expense	$ 41	$ 41	$ 77	$ 74
Sales and marketing expense	23	20	43	40
Share-based compensation	—	2	—	7
	$ 64	$ 63	$ 120	$ 121

Selling, general and administrative expense was $64 million and $120 million for the three and six months ended June 30, 2023, an increase of $1 million and a decrease of $2 million, respectively when compared to the same periods in 2022. General and administrative expense remained consistent for the three months ended June 30, 2023.

For the six months ended June 30, 2023, general and administrative expense increased $3 million primarily due to higher management fees as a result of an increase in development and construction activity and a change in the rate charged for asset management services when compared to the same periods in 2022. Sales and marketing expense for the three and six months ended June 30, 2023 increased by $3 million when compared to the same periods in 2022, primarily due to additional home closing costs resulting from more home closings. Share-based compensation decreased by $2 million and $7 million, respectively, resulting from the change in fair value of our share-based compensation liabilities for the three and six months ended June 30, 2023 compared to the same periods in 2022.

Other (Income) / Expense

The components of other (income) / expense for the three and six months ended June 30, 2023 and 2022 are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2023**	**2022**	**2023**	**2022**
Preferred share dividend income	$ (6)	$ (6)	$ (12)	$ (12)
Investment income	(6)	(6)	(11)	(11)
Income from commercial properties	(3)	(10)	(8)	(19)
Other	(3)	(6)	(7)	(10)
Joint venture management fee income	(2)	(3)	(4)	(5)
Income from investment company assets	(1)	(16)	(1)	(27)
	$ (21)	$ (47)	$ (43)	$ (84)

For the three months ended June 30, 2023, other income decreased $26 million when compared to the same period in 2022. The decrease in other (income) / expense is primarily attributable to a $16 million decrease in income from our investment company assets, primarily in our Brookfield Single Family Rental investment, and a decrease in income from commercial properties of $7 million due to sale of our Fifth + Broadway mixed-use property in the prior year, resulting in less leasing income. Refer to Note 15 "Fair Value Measurements" for further details on our investment in Brookfield Single Family Rental investment.

For the six months ended June 30, 2023, other income decreased $41 million when compared to the same period in 2022. The decrease in other (income) / expense is primarily attributable to a $26 million decrease in income from our investment company assets, primarily in our Brookfield Single Family Rental investment, and a decrease in income from commercial properties of $11 million due to the sale of Fifth + Broadway in the prior year, resulting in less leasing income. Refer to Note 15 "Fair Value Measurements" for further details on our investment in Brookfield Single Family Rental investment.

Income Tax Expense / (Recovery)

Income tax expense for the three and six months ended June 30, 2023 increased $8 million and $2 million, respectively when compared to the same period in 2022. The components of current and deferred income tax expense are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2023**	**2022**	**2023**	**2022**
Current income tax expense	$ —	$ 3	$ 1	$ 6
Deferred income tax expense	14	3	17	10
	$ 14	6	$ 18	$ 16

For the three and six months ended June 30, 2023, current income tax expense decreased $3 million and $5 million, respectively, when compared to the same period in 2022. The decrease in current income tax expense is primarily due to a step-up in tax basis on the Company's U.S. land and housing assets as a result of the Reorganization Transactions that occurred in December 2022.

For the three and six months ended June 30, 2023, deferred income tax expense increased $11 million and $7 million, respectively, when compared to the same period in 2022. This is primarily due to an increase in deferred tax expense relating to the 46.6% equity interest sale of Lilia, an increase in our share of taxable income from our U.S. operations in the six months ended June 30, 2023 compared to the same period in 2022, partially offset by a decrease in tax expense relating to a decrease in earnings from unconsolidated entities – affiliates.

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 June 30, 2023, the rate of exchange was C$1.3245 equivalent to US$1 (December 31, 2022 – C$1.3546 equivalent to US$1). Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the three months ended June 30, 2023, the average rate of exchange was C$1.3427 equivalent to US$1 (June 30, 2022 – C$1.2765 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 $14 million and $16 million, respectively for the three and six months ended June 30, 2023, compared to a net loss of $21 million and $14 million, respectively during the same periods in 2022.

QUARTERLY OPERATING AND FINANCIAL DATA

(US$ millions, except unit activity and per share amounts)	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3
Quarterly Operating Data								
Home closings (units)	615	515	639	550	555	427	885	750
Lot closings (single family units)	386	272	1,058	211	220	396	1,253	190
Acre closings (multi-family, industrial and commercial)	7	—	26	4	9	9	69	3
Acre closings (raw and partially finished)	—	—	1	—	—	101	102	—
Net new home orders (units)	747	545	295	302	464	737	714	493
Backlog (units)	1,288	1,156	1,126	1,470	1,718	1,809	1,499	1,670
Backlog value	$ 870	$ 756	$ 736	$ 992	$ 1,162	$ 1,141	$ 942	$ 1,000
Quarterly Financial Data								
Revenue	$ 442	$ 364	$ 591	$ 395	$ 367	$ 457	$ 679	$ 446
Direct cost of sales	(356)	(292)	(446)	(302)	(290)	(330)	(508)	(355)
Gross margin	86	72	145	93	77	127	171	91
Selling, general and administrative expense	(64)	(56)	(77)	(75)	(63)	(58)	(114)	(61)
Interest expense	(16)	(14)	(22)	(19)	(15)	(12)	(9)	(11)
Earnings from unconsolidated entities	8	6	48	53	91	33	49	95
Gain on sale of commercial properties	—	—	186	—	—	—	—	—
Other income	17	20	23	27	40	33	22	29
Lease expense	(3)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Income before income taxes	28	24	299	75	126	119	115	139
Income tax expense	(14)	(4)	(36)	(4)	(6)	(10)	(12)	(2)
Net income	14	20	263	71	119	109	103	137
Net income attributable to non-controlling interest	(1)	—	165	39	77	73	69	77
Net income attributable to Brookfield Residential	$ 15	$ 20	$ 98	$ 32	$ 42	$ 36	$ 34	$ 60
Foreign currency translation	14	2	14	(50)	(21)	7	1	(16)
Comprehensive income / (loss)	$ 29	$ 22	$ 112	$ (18)	$ 21	$ 43	$ 35	$ 44
Earnings per common share attributable to Brookfield Residential								
Basic	$ 0.07	$ 0.10	$ 0.63	$ 0.24	$ 0.33	$ 0.28	$ 0.26	$ 0.47
Diluted	$ 0.07	$ 0.10	$ 0.63	$ 0.24	$ 0.33	$ 0.28	$ 0.26	$ 0.46

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 June 30, 2023 and December 31, 2022:

	As at			
(US$ millions)		June 30 2023		December 31 2022
Cash and restricted cash	$	50	$	41
Receivables and other assets		785		749
Investment company assets		387		390
Land and housing inventory		2,906		2,776
Investments in unconsolidated entities - land and housing		326		334
Held-to-maturity investment		300		300
Commercial properties		292		291
Operating and financing lease right-of-use asset		78		79
Deferred income tax assets		149		167
Goodwill		16		16
	$	5,289	$	5,143
Accounts payable and other liabilities	$	465	$	508
Bank indebtedness and other financings		661		405
Notes payable		1,622		1,616
Operating and financing lease liability		88		89
Total equity		2,453		2,525
	$	5,289	$	5,143

Assets

Our assets as at June 30, 2023 totaled $5.3 billion. Our land and housing inventory, investments in land and housing unconsolidated entities, and commercial properties have a combined book value of $3.5 billion, or approximately 67% of our total assets. The land and housing assets increased when compared to December 31, 2022 primarily due to continued land and housing development, partially offset by sales activity and turnover of inventory. Our land and housing assets include land under development and land held for development, finished lots ready for construction, homes completed and under construction and model homes.

A summary of our residential land and housing portfolio lots owned, excluding unconsolidated entities, and their stage of development as at June 30, 2023 compared with December 31, 2022 is as follows:

	As at					
	June 30, 2023			December 31, 2022		
(US$ millions, except units)	Units	Book Value		Units	Book Value	
Land held for development (lot equivalents)	65,105	$	1,231	63,819	$	1,295
Land under development and finished lots (single family units)	8,013		890	8,152		652
Housing units, including models	1,986		727	2,091		775
	75,104	$	2,848	74,062	$	2,722
Multi-family, industrial and commercial parcels (acres)	96	$	58	61	$	54

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at June 30 2023	As at December 31 2022
6.250% unsecured senior notes due September 15, 2027 (a)	600	600
5.125% unsecured senior notes due June 15, 2029 (b)	189	185
5.000% unsecured senior notes due June 15, 2029 (c)	350	350
4.875% unsecured senior notes due February 15, 2030 (d)	500	500
	1,639	1,635
Transaction costs	(17)	(19)
	$ 1,622	$ 1,616

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

(b) The Company's C$250 million principal amount of 5.125% unsecured senior notes matures on June 15, 2029, with interest payable semi-annually. On or after June 15, 2024, the notes may be redeemed at 102.56% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity.

(c) The Company's $350 million principal amount of 5.0% unsecured senior notes matures on June 15, 2029, with interest payable semi-annually. On or after June 15, 2024, the notes may be redeemed at 102.5% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity.

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

The Company and Brookfield Residential US LLC ("BRUS LLC") are co-issuers of all private placements of unsecured senior notes. All unsecured senior notes include covenants that, among other things, place limitations on incurring additional indebtedness and making restricted payments. Under the limitation on additional indebtedness, we are permitted to incur specified categories of indebtedness but are prohibited from incurring further indebtedness if we do not satisfy either a consolidated net indebtedness to tangible net worth ratio or a fixed charge coverage ratio, as applicable. The Company was in compliance with these debt incurrence covenants as at June 30, 2023.

Our actual fixed charge coverage and net indebtedness to tangible net worth ratio as at June 30, 2023 are reflected in the table below:

	Covenant	Actual as at June 30 2023
Minimum fixed charge coverage	2.0 to 1	5.31 to 1
Maximum net indebtedness to consolidated tangible net worth	3.0 to 1	0.95 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings represent our corporate unsecured revolving credit facility and construction and development loans and facilities that are used to fund the operations of our communities as land is developed and homes and commercial properties are constructed. We also use secured vendor take back ("VTB") mortgages to secure and acquire land for future development. Our bank indebtedness and other financings as at June 30, 2023 were $661 million, an increase of $256 million from December 31, 2022. The increase was primarily due to increased drawings on our revolving credit facility to fund the $120 million regular dividend to Brookfield Corporation in Q2 2023 as well as the normal seasonality of construction and development expenditures. As at June 30, 2023 the weighted average interest rate on our bank indebtedness and other financings was 7.9% (December 31, 2022 – 6.7%).

Future debt maturities are expected to either be refinanced or repaid from home closings, lot closings, or proceeds from the sale of mixed-use developments. The “Cash Flow” section below discusses future available capital resources should proceeds from our future home and/or lot closings not be sufficient to repay our debt obligations.

Bank indebtedness and other financings consist of the following:

	As at	
(US$ millions)	**June 30 2023**	**December 31 2022**
Bank indebtedness (a)	$ 419	$ 166
Project-specific financings (b)	176	179
Secured VTB mortgages (c)	68	62
	663	407
Transaction costs (a)(b)	(2)	(2)
	$ 661	$ 405

(a) Bank indebtedness

As at June 30, 2023, there were $419 million of borrowings outstanding under the North American unsecured revolving credit facility and we had available capacity of $186 million (December 31, 2022 – $166 million of borrowings outstanding and $449 million of available capacity, respectively). The Company is able to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

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

The facility contains certain restrictive covenants including limitations on liens, dividends and other distributions, investments in subsidiaries and joint ventures that are not party to the loan. The facility requires the Company to maintain a minimum consolidated tangible net worth of $2.0 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at June 30, 2023, the Company was in compliance with all of our covenants relating to this facility. The following table reflects consolidated tangible net worth and consolidated total debt to capitalization covenants:

(US$ millions, except percentages)	**Covenant**	**Actual as at June 30 2023**
Minimum tangible net worth	$ 1,953	$ 2,436
Maximum total debt to capitalization	65%	50%

(b) Project-specific financings

(i) On March 16, 2023, OliverMcMillan Kuhio LLC, a subsidiary of the Company, exercised its first extension option in its construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The construction loan was extended through March 2025. In addition, the use of LIBOR has been replaced with SOFR effective April 1, 2023. The loan allows OliverMcMillan Kuhio LLC to borrow up to $156 million. As at June 30, 2023, there were $141 million of borrowings outstanding under the construction loan. (December 31, 2022 – $136 million).

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

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $25 million and a minimum net worth of $250 million exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at June 30, 2023. The following table reflects the covenants:

(US$ millions)	**Covenant**	**Actual as at June 30 2023**
Minimum liquidity	$ 25	$ 214
Minimum net worth	$ 250	$ 1,633

(ii) As at June 30, 2023, the Company has two Canadian project-specific financings totaling $35 million (C$46 million) provided by various lenders (December 31, 2022 – $43 million (C$58 million)).

Project-specific financing totaling $27 million (C$36 million) has an interest rate of Canadian prime + 0.5%, is due on demand with 240 days' notice, and is secured by certain land and housing inventory assets of the Company's Alberta operations and a general charge over the property of South Seton Limited Partnership, a consolidated subsidiary of the Company (December 31, 2022 – $32 million (C$43 million)). This borrowing includes a 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 June 30, 2023.

The following table reflects the debt to equity ratio covenant:

	Covenant	Actual as at June 30 2023
Maximum debt to equity ratio	1.50:1 to 1	0.59 to 1

Project-specific financing totaling $8 million (C$11 million) is held by a joint venture in our Alberta operations, a consolidated subsidiary of the Company, has an interest rate of Canadian prime + 0.5%, matures in November 2023, and is secured and without covenants (December 31, 2022 – $11 million (C$15 million)).

(c) Secured VTB mortgages

The Company has 11 secured VTB mortgages (December 31, 2022 – eight secured VTB mortgages) in the amount of $68 million (December 31, 2022 – $62 million).

Nine secured VTB mortgages (December 31, 2022 – six secured VTB mortgages) in the amount of $61 million (December 31, 2022 – $48 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Residential (Ontario) LP. This debt is repayable in Canadian dollars of C$81 million (December 31, 2022 – C$65 million). The interest rates on this debt range from fixed rates of 4.0% to 6.5% and variable rates of Canadian prime plus 1.0% to 2.0%, and the debt is secured by the related land. As at June 30, 2023, the borrowings are not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2022 – two secured VTB mortgages) in the amount of $7 million (December 31, 2022 – $15 million) relate to raw land held for development by various U.S. subsidiaries of the Company. The interest rates on the debt range from fixed rates of 0.5% to 4.0% and the debt is secured by the related land. As at June 30, 2023, these borrowings are not subject to any financial covenants.

Net Debt to Capitalization Calculation

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

Our net debt to total capitalization ratio as at June 30, 2023 and December 31, 2022 was as follows:

	As at	
(US$ millions, except percentages)	**June 30 2023**	**December 31 2022**
Bank indebtedness and other financings	$ 661	$ 405
Notes payable	1,622	1,616
Total interest bearing debt	2,283	2,021
Less: cash and cash equivalents	(46)	(35)
	2,237	1,986
Total equity	2,453	2,525
Total capitalization	$ 4,690	$ 4,511
Net debt to total capitalization	48%	44%

Credit Ratings

Our access to financing depends on, among other things, suitable market conditions and the maintenance of suitable long-term credit ratings. Our credit ratings may be adversely affected by various factors, including but not limited to, increased debt levels, decreased earnings, declines in our customer demand, increased competition, a further deterioration in general economic and business conditions and adverse publicity. Any downgrades in our credit rating may impede our access to capital markets or raise our borrowing rates. We are currently rated by two credit rating agencies, Moody's and Standard & Poor's ("S&P"). We are committed to maintaining these ratings and improving them further over time. Our credit ratings at June 30, 2023 were as follows:

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

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

Cash Flow

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

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

At June 30, 2023, we had cash and cash equivalents, including restricted cash, of $50 million, compared to $41 million at December 31, 2022.

The net cash flows for the six months ended June 30, 2023 and 2022 were as follows:

	Six Months Ended June 30	
(US$ millions)	**2023**	**2022**
Cash flows (used in) / provided by operating activities	$ (128)	$ (157)
Cash flows (used in) / provided by investing activities	7	108
Cash flows (used in) / provided by financing activities	130	(3)
Effect of foreign exchange rates on cash	—	(1)
Net change in cash and cash equivalents	$ 9	$ (53)

Cash Flow (Used in) / Provided by Operating Activities

Cash flows used in operating activities during the six months ended June 30, 2023 totaled $128 million, compared to cash flows used in operating activities of $157 million for the same period in 2022. During the six months ended June 30, 2023, cash used in operating activities was primarily impacted by our net income and an increase in land and housing inventory due to land development and home construction, an increase in receivables and other assets, a decrease in operating lease liabilities, and a decrease in accounts payable and other liabilities. Acquisitions of land and housing inventory for the six months ended June 30, 2023 totaled $155 million, consisting of $34 million in Canada, $111 million in Pacific U.S. and $10 million in Central and Eastern U.S. During the six months ended June 30, 2022, cash used in operating activities was primarily impacted by our net income, an increase in land and housing inventory due to land development and home construction, partially offset by sales activity and turnover of inventory, an increase 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 six months ended June 30, 2022 totaled $110 million, consisting of $27 million in Canada, $68 million in Pacific U.S. and $14 million in Central and Eastern U.S.

Cash Flow (Used in) / Provided by Investing Activities

During the six months ended June 30, 2023, cash flows provided by investing activities totaled $7 million, compared to cash flows provided by investing activities of $108 million for the same period in 2022. During the six months ended June 30, 2023, cash provided by investing activities was primarily impacted by $50 million of distributions from our land and housing unconsolidated entities. This was partially offset by investments of $25 million in land and housing unconsolidated entities and an increase in loan receivables of $18 million. During the six months ended June 30, 2022, cash provided by investing activities was primarily impacted by investments of $49 million in land and housing unconsolidated entities and a decrease in our loan receivables of $21 million. This was partially offset by $6 million of proceeds related to a sale of an investment in an unconsolidated entity and $129 million of distributions from our land and housing unconsolidated entities.

Cash Flow (Used in) / Provided by Financing Activities

Cash flows provided by financing activities for the six months ended June 30, 2023 totaled $130 million, compared to cash flows used in financing activities of $3 million for the same period in 2022. During the six months ended June 30, 2023, cash provided by financing activities was primarily from $100 million of proceeds on sale of investment as well as drawings on bank indebtedness of $254 million and $36 million net borrowings under project-specific and other financings. This was partially offset by $220 million of dividends paid to common shareholders and $37 million of repayments under project-specific and other financings. For the six months ended June 30, 2022, cash used in financing activities was primarily from drawings on bank indebtedness pf $345 million and $85 million net borrowings under project-specific and other financing. This was partially offset by a $375 million dividend paid to common shareholders.

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 July 25, 2023, 202,732,644 Common Shares in the capital of the Company were issued and outstanding. In addition, Brookfield Residential has a stock option plan under which key officers and employees are granted options to purchase Non-Voting Class B Common Shares or settle the options in cash at the option of the holder. Each option granted can be exercised for one Non-Voting Class B Common Share or settled in cash for the fair value of one Common Share at the date of exercise. At July 25, 2023, 815,600 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the six months ended June 30, 2023.

Off-Balance Sheet Arrangements

In the ordinary course of business, and where market conditions permit, we enter into land and lot option contracts and invest in unconsolidated entities to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time until the options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of June 30, 2023, we had $4 million of primarily non-refundable option deposits and entitlement costs. The total remaining exercise price of these options was $25 million. Pursuant to the guidance in the United States Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810 *Consolidation*, we have consolidated $8 million of these option contracts where we consider the Company to hold the majority economic interest in the assets held under the options.

We also own 7,498 lots and control under option 138 lot equivalents through our proportionate share of land and housing unconsolidated entities. As of June 30, 2023, our investment in land and housing unconsolidated entities totaled $326 million. We have provided varying levels of guarantees of debt in our land and housing unconsolidated entities. As of June 30, 2023, we had recourse guarantees of $52 million with respect to debt in our land and housing unconsolidated entities. Please refer to Note 5 to the condensed consolidated financial statements, “Investments in Unconsolidated Entities”, for additional information about our investments in unconsolidated entities.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of June 30, 2023, we had $70 million in letters of credit outstanding and $606 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds as at June 30, 2023 are $26 million and $219 million, respectively.

Transactions Between Related Parties

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

Non-GAAP Financial Measures

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

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Note	As at June 30 2023	As at December 31 2022
Assets			
Cash and cash equivalents		$ 45,650	$ 35,486
Restricted cash	2	4,370	5,471
Receivables and other assets		785,161	748,475
Investment company assets	3	386,824	390,278
Land and housing inventory	4	2,905,606	2,775,915
Investments in unconsolidated entities - land and housing	5	325,983	333,833
Held-to-maturity investment		300,000	300,000
Commercial properties	6	291,587	290,687
Operating and financing lease right-of-use asset		77,578	79,812
Deferred income tax assets	7	149,311	166,645
Goodwill		16,479	16,479
Total assets		$ 5,288,549	$ 5,143,081
Liabilities and Equity			
Accounts payable and other liabilities		$ 465,063	$ 507,850
Bank indebtedness and other financings	8	661,437	404,811
Notes payable	9	1,621,873	1,616,165
Operating and financing lease liability		87,328	88,864
Total liabilities		2,835,701	2,617,690
Common shares	10	1,363,013	1,363,013
Additional paid-in-capital	6	46,194	—
Retained earnings	10	854,534	1,039,446
Non-controlling interest		326,364	276,035
Accumulated other comprehensive loss		(137,257)	(153,103)
Total equity		2,452,848	2,525,391
Total liabilities and equity		$ 5,288,549	$ 5,143,081
Commitments, contingent liabilities and other	13		
Guarantees	14		
Subsequent events	19		

See accompanying notes to the condensed consolidated financial statements

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

		Three Months Ended June 30		Six Months Ended June 30	
	Note	**2023**	**2022**	**2023**	**2022**
Revenue					
Housing		$ 374,131	$ 324,051	$ 705,413	$ 582,657
Land		67,832	42,995	100,469	241,668
Total revenue		441,963	367,046	805,882	824,325
Direct Cost of Sales					
Housing		(307,350)	(262,996)	(576,707)	(474,931)
Land		(48,661)	(26,678)	(71,611)	(145,071)
Total direct cost of sales		(356,011)	(289,674)	(648,318)	(620,002)
Gross margin		85,952	77,372	157,564	204,323
Selling, general and administrative expense		(63,713)	(62,710)	(119,787)	(121,160)
Interest expense		(16,373)	(14,779)	(30,155)	(26,600)
Earnings from unconsolidated entities - land & housing	5	7,902	72,838	13,767	82,666
Earnings from unconsolidated entities - affiliate	5	—	18,196	—	41,222
Other income	12	20,334	46,084	42,852	84,684
Lease expense		(3,489)	(3,861)	(6,965)	(8,003)
Depreciation		(2,512)	(7,050)	(4,953)	(12,341)
Income Before Income Taxes		28,101	126,090	52,323	244,791
Current income tax expense	7	(169)	(3,008)	(856)	(5,586)
Deferred income tax expense	7	(14,043)	(3,808)	(17,278)	(10,400)
Net Income		13,889	119,274	34,189	228,805
Other Comprehensive Income / (Loss)					
Unrealized foreign exchange gain / (loss) on:					
Translation of the net investment in Canadian subsidiaries and unconsolidated entities - affiliate		17,889	(26,773)	20,047	(17,868)
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		(3,800)	5,675	(4,200)	3,625
Comprehensive Income		$ 27,978	$ 98,176	$ 50,036	$ 214,562
Net Income Attributable To:					
Consolidated		$ 13,889	$ 119,274	$ 34,189	$ 228,805
Non-controlling interest - land and housing		(832)	13,467	(968)	23,149
Non-controlling interest - affiliate		—	63,387	—	127,018
Brookfield Residential		$ 14,721	$ 42,420	$ 35,157	$ 78,638
Comprehensive Income / (Loss) Attributable To:					
Consolidated		$ 27,978	$ 98,176	$ 50,036	$ 214,562
Non-controlling interest - land and housing		(832)	13,467	(968)	23,149
Non-controlling interest - affiliate		—	63,387	—	127,018
Brookfield Residential		$ 28,810	$ 21,322	$ 51,004	$ 64,395
Common Shareholders Earnings Per Share					
Basic	11	$ 0.07	$ 0.33	$ 0.17	$ 0.61
Diluted	11	$ 0.07	$ 0.33	$ 0.17	$ 0.60
Weighted Average Common Shares Outstanding *(in thousands)*					
Basic	11	202,733	129,757	202,733	129,757
Diluted	11	202,874	130,232	202,874	130,232

See accompanying notes to the condensed consolidated financial statements

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

		Six Months Ended June 30	
	Note	2023	2022
Common Shares	10		
Opening balance		$ 1,363,013	$ 626,594
Ending balance		1,363,013	626,594
Additional Paid-in-Capital			
Opening balance		—	—
Sale of partial interest in subsidiary	6	46,194	—
Ending balance		46,194	—
Retained Earnings			
Opening balance		1,039,446	1,125,670
Common share dividends		(220,000)	(375,000)
Net income attributable to Brookfield Residential		35,157	78,638
Other		(69)	—
Ending balance		854,534	829,308
Accumulated Other Comprehensive Loss			
Opening balance		(153,101)	(103,925)
Other comprehensive income / (loss)		15,844	(14,244)
Ending balance		(137,257)	(118,169)
Total Brookfield Residential Equity		$ 2,126,484	$ 1,337,733
Non-Controlling Interest - Land & Housing			
Opening balance		$ 276,035	$ 299,751
Additions		53,418	—
Disposals		(1,489)	—
Net income attributable to non-controlling interest		(968)	23,149
Distributions		(632)	(7,411)
Ending balance		$ 326,364	$ 315,489
Non-Controlling Interest - Affiliate			
Opening balance		$ —	$ 1,244,218
Net income attributable to non-controlling interest		—	127,018
Ending balance		$ —	$ 1,371,236
Total Equity		$ 2,452,848	$ 3,024,458

See accompanying notes to the condensed consolidated financial statements

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

	Six Months Ended June 30	
Cash Flows (Used in) / Provided by Operating Activities	**2023**	**2022**
Net income	$ 34,189	$ 228,805
Adjustments to reconcile net income to net cash (used in) / provided by operating activities:		
Earnings from unconsolidated entities - land and housing	(13,767)	(82,666)
Earnings from unconsolidated entities - affiliate	—	(41,222)
Deferred income tax expense	17,278	10,400
Share-based compensation expense	207	6,003
Depreciation	4,953	12,340
Right-of-use asset depreciation	3,142	3,525
Amortization of non-cash interest	2,274	4,231
Dividend income on held-to-maturity investment	(11,902)	(11,902)
Distributions of earnings from unconsolidated entities	1,756	2,314
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(3,972)	(76,398)
Increase in land and housing inventory	(96,088)	(174,791)
Increase in commercial properties	(3,980)	(39,690)
Decrease in operating lease liabilities	(2,153)	(2,507)
Increase / (decrease) in accounts payable and other liabilities	(59,933)	4,803
Net cash (used in) / provided by operating activities	(127,996)	(156,755)
Cash Flows (Used in) / Provided by Investing Activities		
Investments in unconsolidated entities	(25,332)	(48,504)
Distributions from unconsolidated entities	50,163	128,914
Sale of investment in unconsolidated entity	—	6,014
(Increase) / decrease in loan receivable	(17,468)	21,351
Net cash (used in) / provided by investing activities	7,363	107,775
Cash Flows (Used in) / Provided by Financing Activities		
Drawings under project-specific and other financings	36,455	85,028
Repayments under project-specific and other financings	(37,325)	(50,081)
Net drawings on bank indebtedness	253,862	345,000
Proceeds on sale of partial interest in subsidiary	99,612	—
Distributions to non-controlling interest	(632)	(7,411)
Dispositions of non-controlling interest	(1,489)	—
Dividends paid to common shareholders	(220,000)	(375,000)
Payments made on the principal of financing leases	(288)	(179)
Net cash (used in) / provided by financing activities	130,195	(2,643)
Effect of foreign exchange rates on cash and cash equivalents	(499)	(720)
Change in cash, cash equivalents and restricted cash	9,063	(52,343)
Cash, cash equivalents and restricted cash at beginning of period	40,957	121,301
Cash, cash equivalents and restricted cash at end of period	$ 50,020	$ 68,958
Supplemental Cash Flow Information		
Cash interest paid	$ 62,482	$ 59,408
Cash taxes paid	$ 20,974	$ 9,880

See accompanying notes to the condensed consolidated financial statements

Note 1. Significant Accounting Policies

(a) Basis of Presentation

Brookfield Residential Properties ULC (the “Company” or “Brookfield Residential”) is an Alberta unlimited liability corporation and is a wholly-owned subsidiary of Brookfield Corporation. The Company has been developing land and building homes for over 60 years.

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company's Annual Report for the year ended December 31, 2022.

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

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

(b) Use of Estimates

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

(c) Recently Adopted Accounting Pronouncements

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

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

Note 2. Restricted Cash

At June 30, 2023, the Company has restricted cash primarily consisting of $4.4 million of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductible payments (December 31, 2022 – $5.5 million of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductible payments).

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

Note 3. Investment Company Assets

The components of investment company assets are summarized as follows:

	As at	
	June 30 2023	December 31 2022
Brookfield Single Family Rental Investment(1)	$ 325,886	$ 329,968
Homebuilder Finance Investments(2)	60,938	60,310
	$ 386,824	$ 390,278

(1) See Note 15 "Fair Value Measurements" for further details. The Company has a 25.5% share of the Brookfield Single Family Rental fund as at March 31, 2023.
(2) The Homebuilder Finance Investments include a 49% interest in Brookfield Residential US Land Holdings LLC ("BRUSLH LLC") and a 22.2% interest in Brookfield Residential US Land Holdings II LLC ("BRUSLH II"). Both of these investments are accounted for as equity method investments.

Note 4. Land and Housing Inventory

The following summarizes the components of land and housing inventory:

	As at	
	June 30 2023	December 31 2022
Land held for development	$ 1,230,942	$ 1,294,985
Land under development	948,088	706,538
Housing inventory	642,557	688,840
Model homes	84,019	85,552
	$ 2,905,606	$ 2,775,915

The Company has reviewed all of its projects for indicators of impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. As at June 30, 2023 based on the analysis performed, no indicators of impairment were identified.

Interest capitalized and expensed during the three and six months ended June 30, 2023 and 2022 was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2023	2022	2023	2022
Interest capitalized, beginning of period	$ 198,451	$ 184,824	$ 194,006	$ 180,399
Interest capitalized	15,986	17,731	34,199	32,247
Interest expensed to cost of sales	(13,088)	(11,921)	(26,856)	(22,012)
Interest capitalized, end of period	$ 201,349	$ 190,634	$ 201,349	$ 190,634

Land and housing inventory includes non-refundable deposits and other entitlement costs totaling $4.4 million (December 31, 2022 – $17.2 million) in connection with options that are not required to be consolidated in accordance with the guidance incorporated in ASC Topic 810. The total remaining exercise price of these options is $24.9 million (December 31, 2022 – $27.6 million), including the non-refundable deposits and other entitlement costs identified above.

Note 5. Investments in Unconsolidated Entities

(a) Land and Housing

As part of its land and housing operations, the Company participates in joint ventures and partnerships to explore opportunities while minimizing risk. As of June 30, 2023, the Company is invested in 33 unconsolidated entities (December 31, 2022 – 32 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities include $2.3 million (December 31, 2022 – $4.5 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 138 lot equivalents (December 31, 2022 – 299 lots) under option. The Company's share of the total exercise price of these options is $4.2 million (December 31, 2022 – $9.6 million).

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

Summarized financial information on a 100% basis for the combined land and housing unconsolidated entities follows:

	As at	
	June 30 2023	**December 31 2022**
Assets		
Land and housing inventory	1,385,133	$ 1,377,406
Investments in unconsolidated entities	93,182	111,800
Other assets	358,572	344,983
	$ 1,836,887	$ 1,834,189
Liabilities and Equity		
Bank indebtedness and other financings	362,588	$ 450,359
Accounts payable and other liabilities	190,751	97,968
Brookfield Residential's interest	325,983	333,833
Others' interest	957,565	952,029
	$ 1,836,887	$ 1,834,189

	Three Months Ended June 30		Six Months Ended June 30	
	2023	**2022**	**2023**	**2022**
Revenue and Expenses				
Revenue	$ 131,925	$ 370,876	$ 237,371	$ 511,584
Direct cost of sales	(85,709)	(174,967)	(159,090)	(277,613)
Other income and expenses	(2,208)	17,663	1,840	10,084
Net income	$ 44,008	$ 213,572	$ 80,121	$ 244,055
Total equity earnings	$ 7,902	$ 72,838	$ 13,767	$ 82,666

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt on its unconsolidated entities. As at June 30, 2023, the Company had recourse guarantees of $52.0 million (December 31, 2022 – $45.5 million) with respect to debt of its land and housing unconsolidated entities.

(b) Affiliates

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

	Three Months Ended June 30		Six Months Ended June 30	
	2023	**2022**	**2023**	**2022**
Revenue and Expenses				
Income	$ —	$ 651,921	$ —	$1,216,201
Expenses	—	(394,964)	—	(713,098)
Net income	$ —	$ 256,957	$ —	$ 503,103
Other comprehensive loss	—	(5,571)	—	(8,181)
Comprehensive income	$ —	$ 251,386	$ —	$ 494,922

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

Note 6. Commercial Properties

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

	As at	
	June 30 2023	December 31 2022
Finished properties	$ 301,461	$ 296,877
Less: accumulated depreciation	(9,874)	(6,190)
	$ 291,587	$ 290,687

Interest capitalized to commercial properties and commercial properties held for sale and expensed during the three and six months ended June 30, 2023 and 2022 was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2023	2022	2023	2022
Interest capitalized, beginning of period	$ 9,584	$ 57,968	$ 9,621	$ 56,320
Interest capitalized	61	323	67	2,200
Interest expensed to depreciation	(43)	(265)	(86)	(494)
Interest capitalized, end of period	$ 9,602	$ 58,026	$ 9,602	$ 58,026

On June 9, 2023, the Company completed the partial interest sale of 46.6% of its investment in Lilia, a mixed-use development in Honolulu, Hawaii, for cash proceeds of $99.5 million. The equity interest was sold to Brookfield Reinsurance, an affiliate of Brookfield Corporation, the parent entity of the Company. The transaction was accounted for under ASC 810 and had the following impact on the condensed consolidated financial statements:

Consideration from sale of subsidiary	$ 99,533
Carrying value attributed to non-controlling interest	(53,419)
Transaction costs	80
Additional paid-in-capital	$ (46,194)

Note 7. Income Taxes

The Company recorded an aggregate income tax expense of $18.1 million for the six months ended June 30, 2023 (six months ended June 30, 2022 – $16.0 million), which is comprised of current income tax expense of $1.0 million (six months ended June 30, 2022 – $5.6 million) and deferred income tax expense of $17.3 million (six months ended June 30, 2022 – $10.4 million).

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the six months ended June 30, 2023 and 2022 is as follows:

	Six Months Ended June 30	
	2023	2022
Statutory rate	23.0%	23.0%
Non-temporary differences	20.6	1.1
Rate difference from statutory rate	0.9	1.9
Non-taxable preferred share dividends	(6.0)	(1.3)
Taxable income attributable to non-controlling interests	0.6	(17.5)
Other	(4.4)	(0.7)
Effective tax rate	34.7 %	6.5 %

The increase in the effective tax rate when compared to the same period in 2022 was primarily due to the sale of the Company's 46.6% equity interest in Lilia and the impact of the Reorganization Transaction in 2022 which resulted in the consolidated tax provision including 100% of the U.S. operations tax expense for the six months period ended June 30, 2023. For the six months ended June 30, 2022, the Company only recorded income tax expense on 10% of the results from its U.S. operations.

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

As at June 30, 2023, the Company recorded deferred tax assets of $151.9 million (December 31, 2022 - $170.8 million) which were partly offset by valuation allowances of $2.6 million (December 31, 2022 - $4.2 million). The valuation allowance relates to the realized capital losses in Canada that have not met the more-likely-than-not realization threshold. In evaluating the need for a valuation allowance against the Company's deferred tax assets at June 30, 2023, the Company considered all available and objectively verifiable positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies and recent financial operations. The Company concluded it is more likely-than-not that all of its remaining U.S. and Canadian deferred tax assets will be realized in the future.

Note 8. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	June 30 2023	**December 31 2022**
Bank indebtedness (a)	$ 419,448	$ 165,585
Project-specific financings (b)	176,400	179,241
Secured VTB mortgages (c)	67,622	62,356
	663,470	407,182
Transaction costs (a)(b)	(2,033)	(2,371)
	$ 661,437	$ 404,811

(a) Bank indebtedness

As at June 30, 2023, there were $419.4 million of borrowings outstanding under the North American unsecured revolving credit facility, and available capacity of $185.6 million (December 31, 2022 – $165.6 million borrowings outstanding and $448.7 million of available capacity, respectively). The Company is able to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

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

The facility contains certain restrictive covenants including limitations on liens, dividends and other distributions, investments in subsidiaries and joint ventures that are not party to the loan. The facility requires the Company to maintain a minimum consolidated tangible net worth of $2.0 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at June 30, 2023, the Company was in compliance with all of its covenants relating to this facility.

(b) Project-specific financings

(i) On March 16, 2023, OliverMcMillan Kuhio LLC, a subsidiary of the Company, exercised its first extension option in its construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The construction loan was extended through March 2025. In addition, the use of LIBOR has been replaced with SOFR effective April 1, 2023. No other terms were changed. The loan allows OliverMcMillan Kuhio LLC to borrow up to $155.7 million. As at June 30, 2023, the Company has $141.3 million of borrowings outstanding under the construction loan (December 31, 2022 – $136.3 million).

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

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $25.0 million and a minimum net worth of $250.0 million exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at June 30, 2023.

(ii) As at June 30, 2023, the Company has two Canadian project-specific financings totaling $35.1 million (C$46.5 million) provided by various lenders (December 31, 2022 – $43.0 million (C$58.2 million)).

Project-specific financing totaling $27.0 million (C$35.8 million) has an interest rate of Canadian prime + 0.50%, is due on demand with 240 days' notice, and is secured by certain land and housing inventory assets of the Company's Alberta operations and a general charge over the property of South Seton Limited Partnership, a consolidated subsidiary of the Company (December 31, 2022 – $31.7 million (C$42.8 million)). This borrowing includes a minimum debt to equity covenant for South Seton Limited Partnership of no greater than 1.50 to 1. The Company was in compliance with this covenant as at June 30, 2023.

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

Project-specific financing totaling $8.1 million (C$10.7 million), held by a joint venture in our Alberta operations, a consolidated subsidiary of the Company, has an interest rate of Canadian prime + 0.50%, matures in November 2023, and is secured without covenants (December 31, 2022 – $11.3 million (C$15.4 million)).

(c) Secured VTB mortgages

The Company has 11 secured VTB mortgages (December 31, 2022 – eight secured VTB mortgages) in the amount of $67.6 million (December 31, 2022 – $62.4 million). Secured VTB mortgages are repayable as follows: 2023 – $31.5 million; 2024 – $12.9 million; and 2025 and thereafter – $23.2 million.

Nine secured VTB mortgages (December 31, 2022 – six secured VTB mortgages) in the amount of $61.2 million (December 31, 2022 – $47.7 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Residential (Ontario) LP, wholly-owned subsidiaries of the Company. This debt is repayable in Canadian dollars of C$81.0 million (December 31, 2022 – C$64.5 million). The interest rates on the debt range from fixed rates of 4.0% to 6.5% and variable rates of Canadian prime plus 1.0% to 2.0% and the debt is secured by the related land. The Company was in compliance with this covenant as at June 30, 2023.

Two secured VTB mortgages (December 31, 2022 – two secured VTB mortgages) in the amount of $6.4 million (December 31, 2022 – $14.7 million) relate to raw land held for development by various U.S. subsidiaries of the Company. The interest rate on the debt ranges from fixed rates of 0.48% to 4.0% and the debt is secured by related land. As at June 30, 2023, these borrowings are not subject to any financial covenants.

Note 9. Notes Payable

	As at	
	June 30 2023	**December 31 2022**
6.250% unsecured senior notes due September 15, 2027 (a)	600,000	600,000
5.125% unsecured senior notes due June 15, 2029 (b)	188,750	184,550
5.000% unsecured senior notes due June 15, 2029 (c)	350,000	350,000
4.875% unsecured senior notes due February 15, 2030 (d)	500,000	500,000
	1,638,750	1,634,550
Transaction costs	(16,877)	(18,385)
	1,621,873	$ 1,616,165

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

(b) The Company's C$250 million principal amount of 5.125% unsecured senior notes matures on June 15, 2029, with interest payable semi-annually. On or after June 15, 2024, the notes may be redeemed at 102.56% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity.

(c) The Company's $350 million principal amount of 5.0% unsecured senior notes matures on June 15, 2029, with interest payable semi-annually. On or after June 15, 2024, the notes may be redeemed at 102.50% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity.

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

The Company and BRUS LLC are co-issuers of all private placements of unsecured senior notes. All unsecured senior notes include covenants that, among others, place limitations on incurring additional indebtedness and restricted payments. Under the limitation on additional indebtedness, Brookfield Residential is permitted to incur specified categories of indebtedness, but is prohibited from incurring further indebtedness if it does not satisfy either a net indebtedness to tangible net worth ratio of 3.0 to 1, or a fixed charge coverage ratio of 2.0 to 1, as applicable. The Company was in compliance with these financial covenants as at June 30, 2023.

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

Note 10. Equity

Common Shares

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

There were no Common Shares issued during the six months ended June 30, 2023. During the year ended December 31, 2022, 72,975,734 Common Shares were issued.

	For the Period Ended	
	June 30 2023	**December 31 2022**
Common Shares issued, beginning of period	202,732,644	129,756,910
Common Shares issued	—	72,975,734
Common Shares issued and outstanding, end of period	202,732,644	202,732,644

The Company had no Non-Voting Class B Common Shares issued and outstanding as at June 30, 2023 and December 31, 2022.

Note 11. Earnings Per Share

Basic and diluted earnings per share for the three and six months ended June 30, 2023 and 2022 were calculated as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2023	**2022**	**2023**	**2022**
Numerator:				
Net income attributable to Brookfield Residential	$ 14,721	$ 42,420	$ 35,157	$ 78,638
Denominator (in '000s of shares):				
Basic weighted average shares outstanding	202,733	129,757	202,733	129,757
Diluted weighted average shares outstanding	202,874	130,232	202,874	130,232
Basic earnings per share	$ 0.07	$ 0.33	$ 0.17	$ 0.61
Diluted earnings per share	$ 0.07	$ 0.33	$ 0.17	$ 0.60

Note 12. Other (Income) / Expense

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

	Three Months Ended June 30		Six Months Ended June 30	
	2023	**2022**	**2023**	**2022**
Investment income	$ (5,991)	$ (5,627)	$ (11,327)	$ (11,117)
Preferred share dividend income	(5,984)	(5,984)	(11,901)	(11,901)
Other	(2,880)	(5,723)	(7,097)	(10,473)
Income from commercial properties	(2,603)	(10,369)	(7,608)	(18,902)
Joint venture management fee income	(2,160)	(2,748)	(4,344)	(5,152)
Income from investment company assets	(716)	(15,633)	(575)	(27,139)
	$ (20,334)	$ (46,084)	$ (42,852)	$ (84,684)

Note 13. Commitments, Contingent Liabilities and Other

As at June 30, 2023, $5.6 million of the amounts held in other assets related to deposits on land purchase obligations (December 31, 2022 – $6.3 million). The total amount committed on these obligations is $194.0 million (December 31, 2022 – $285.8 million).

Note 14. Guarantees

In the ordinary course of business, the Company has provided construction guarantees in the form of letters of credit and performance bonds. As at June 30, 2023, these guarantees amounted to $676.8 million (December 31, 2022 – $645.5 million) and have not been recognized in the condensed consolidated financial statements. However, the proportionate development costs that relate to lots that have been sold are accrued in accounts payable and other liabilities. Such guarantees are required by the municipalities in which the Company operates before construction permission is granted.

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

Note 15. Fair Value Measurements

Fair Value Hierarchy

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

As at June 30, 2023, all of the Company's financial assets and liabilities are recorded at their carrying value as it approximates fair value due to their short term nature, with the exception of the Brookfield Single Family Rental investment, which is recorded at it's fair value.

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

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

	Six Months Ended June 30, 2023
Balance, beginning of period	$ 329,968
Change in unrealized gain from investment	(4,082)
Balance, end of period	$ 325,886

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of June 30, 2023:

Financial Instrument	Fair value as of 6/30/2023	Valuation technique	Unobservable inputs	Range (where applicable)
Single Family Rental Investment	$ 325,886	Discounted cash flow	Discount rate Capitalization rate	7.8% 5.5%

Net Investment Hedge

For the three and six months ended June 30, 2023, an unrealized pre-tax loss of $3.8 million and $4.2 million, respectively (June 30, 2022 – gain of $5.7 million and $3.6 million, respectively), 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. There have been no material changes to the Company's financial risk exposure or risk management activities since December 31, 2022.

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

Note 17. Segmented Information

In order to align our operating segments with our business model, in accordance with ASC 280, we have changed the composition of our reportable segments with our Arizona operations moving from the Central and Eastern U.S segment to the Pacific U.S. for segmented reporting. Comparative figures for the segmented reporting of the statement of operations and balance sheets have been restated to conform to the current period segment composition.

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

	Three Months Ended June 30, 2023				
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Total
Housing revenue	$ 99,999	$ 87,211	$ 186,921	$ —	$ 374,131
Land revenue	32,200	33,905	1,727	—	67,832
	132,199	121,116	188,648	—	441,963
Housing cost of sales	(83,943)	(70,173)	(153,234)	—	(307,350)
Land cost of sales	(20,279)	(26,351)	(2,031)	—	(48,661)
	(104,222)	(96,524)	(155,265)	—	(356,011)
Gross margin	27,977	24,592	33,383	—	85,952
Earnings from unconsolidated entities - land and housing	2,318	3,456	2,128	—	7,902
Expenses	(12,998)	(20,173)	(25,383)	(7,199)	(65,753)
Income before income taxes	$ 17,297	$ 7,875	$ 10,128	$ (7,199)	$ 28,101

	Three Months Ended June 30, 2022					
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Housing revenue	$ 86,702	$ 93,169	$ 144,180	$ —	$ —	$ 324,051
Land revenue	28,085	8,807	6,103	—	—	42,995
	114,787	101,976	150,283	—	—	367,046
Housing cost of sales	(72,220)	(76,002)	(114,774)	—	—	(262,996)
Land cost of sales	(17,046)	(5,708)	(3,924)	—	—	(26,678)
	(89,266)	(81,710)	(118,698)	—	—	(289,674)
Gross margin	25,521	20,266	31,585	—	—	77,372
Earnings from unconsolidated entities - land and housing	3,694	66,302	2,842	—	—	72,838
Earnings from unconsolidated entities - affiliate	—	—	—	—	18,196	18,196
(Expenses) / Income	(10,250)	(21,960)	(18,939)	8,832	—	(42,316)
Income before income taxes	$ 18,965	$ 64,608	$ 15,488	$ 8,832	$ 18,196	$ 126,089

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

	Six Months Ended June 30, 2023				
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Total
Housing revenue	$ 179,465	$ 224,887	$ 301,061	$ —	$ 705,413
Land revenue	63,042	34,649	2,778	—	100,469
	242,507	259,536	303,839	—	805,882
Housing cost of sales	(148,745)	(183,073)	(244,889)	—	(576,707)
Land cost of sales	(42,592)	(25,721)	(3,298)	—	(71,611)
	(191,337)	(208,794)	(248,187)	—	(648,318)
Gross margin	51,170	50,742	55,652	—	157,564
Earnings from unconsolidated entities - land and housing	2,606	8,984	2,177	—	13,767
Earnings from unconsolidated entities - affiliate	—	—	—	—	—
(Expenses) / Income	(23,810)	(36,326)	(45,487)	(13,385)	(119,008)
Income before income taxes	$ 29,966	$ 23,400	$ 12,342	$ (13,385)	$ 52,323

	Six Months Ended June 30, 2022					
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Housing revenue	$ 153,192	$ 188,985	$ 240,480	$ —	$ —	$ 582,657
Land revenue	67,386	162,346	11,936	—	—	241,668
	220,578	351,331	252,416	—	—	824,325
Housing cost of sales	(127,199)	(154,190)	(193,542)	—	—	(474,931)
Land cost of sales	(44,424)	(93,434)	(7,213)	—	—	(145,071)
	(171,623)	(247,624)	(200,755)	—	—	(620,002)
Gross margin	48,955	103,707	51,661	—	—	204,323
Earnings from unconsolidated entities - land and housing	4,222	72,626	5,818	—	—	82,666
Earnings from unconsolidated entities - affiliate	—	—	—	—	41,222	41,222
(Expenses) / Income	(22,110)	(38,891)	(33,519)	11,100	—	(83,420)
Income before income taxes	$ 31,067	$ 137,442	$ 23,960	$ 11,100	$ 41,222	$ 244,791

(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 June 30, 2023				
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 366,616	$ 321,287	$ 543,039	$ —	$ 1,230,941
Land under development	211,869	447,445	288,774	—	948,088
Housing inventory	200,263	215,480	226,814	—	642,557
Model homes	20,416	39,229	24,375	—	84,020
Total land and housing inventory	799,164	1,023,441	1,083,002	—	2,905,606
Commercial properties	25,816	261,336	4,435	—	291,587
Investments in unconsolidated entities - land and housing	111,355	135,841	78,787	—	325,983
Held-to-maturity investment	—	—	—	300,000	300,000
Operating and financing lease right-of-use asset	10,033	38,305	20,384	8,856	77,578
Goodwill	—	—	—	16,479	16,479
Other assets (1)	165,980	56,300	253,088	895,948	1,371,316
Total assets	$ 1,112,348	$ 1,515,223	$ 1,439,696	$ 1,221,283	$ 5,288,549

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

	As at December 31, 2022				
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 369,006	$ 395,940	$ 530,039	$ —	$ 1,294,985
Land under development	226,668	211,181	268,689	—	706,538
Housing inventory	172,501	210,571	305,768	—	688,840
Model homes	20,430	43,157	21,965	—	85,552
Total land and housing inventory	788,605	860,849	1,126,461	—	2,775,915
Commercial properties	25,521	260,709	4,457	—	290,687
Investments in unconsolidated entities - land and housing	107,877	163,694	61,527	735	333,833
Held-to-maturity investment	—	—	—	300,000	300,000
Operating and financing lease right-of-use asset	10,247	39,416	21,119	9,030	79,812
Goodwill	—	—	—	16,479	16,479
Other assets (1)	156,956	81,964	244,479	862,956	1,346,355
Total assets	$ 1,089,206	$ 1,406,632	$ 1,458,043	$ 1,189,200	$ 5,143,081

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

Note 18. Related Party Transactions

Related parties include the directors, executive officers, director nominees or shareholders, and their respective immediate family members. There are agreements among our affiliates to which we are a party or subject to, including a name license. The Company's additional significant related party transactions as at and for the three months ended June 30, 2023 and 2022 were as follows:

- During the six months ended June 30, 2023, the Company amended a previously existing management agreement with our service providers, Brookfield Properties Development ("BPD"), wholly owned subsidiaries of Brookfield Corporation, to adjust to the revised services provided by BPD, including the shift of the asset management fee to a separate Brookfield entity. During the three and six months ended June 30, 2023, the Company incurred $21.1 million and $38.6 million development and construction fees, respectively (three and six months ended June 30, 2022 – $34.5 million and $54.9 million, respectively). The fees are determined by applicable rates on construction and development spending. These transactions were recorded at the exchange amount within selling, general and administrative expense and commercial properties.
- During the six months ended June 30, 2023, the Company entered into asset management agreements with our service providers, Brookfield Residential Real Estate JV Management and Brookfield Property Group (Canada) ULC, subsidiaries of Brookfield Asset Management Ltd. The asset management fees under these agreements are determined by applicable rates of invested equity, as defined in the agreements. During the three and six months ended June 30, 2023, the Company incurred $6.0 million and $11.9 million of management fees, respectively (three and six months ended June 30, 2022 – $nil). These transactions were recorded at the exchange amount within selling, general and administrative expense.
- As at June 30, 2023, the Company had a loan with BPD with an outstanding balance of $125.0 million that was recorded within receivables and other assets (December 31, 2022 – $100.8 million). During the three and six months ended June 30, 2023, the Company recorded $2.4 million and $4.6 million, respectively, of interest income at the exchange amounts in the condensed consolidated statement of operations within other income (three and six months ended June 30, 2022 – $1.1 million and $1.7 million, respectively).
- As at June 30, 2023, the Company had a loan with Homebuilder Finance Investments with an outstanding balance of $58.1 million that was recorded within receivables and other assets (December 31, 2022 – $65.8 million). During the three and six months ended June 30, 2023, the Company recorded $1.6 million and $2.8 million, respectively, of interest income in the condensed consolidated statement of operations within other income (three and six months ended June 30, 2022 – $0.6 million and $1.0 million, respectively).
- During the three and six months ended June 30, 2023, the Company earned $6.0 million and $11.9 million, respectively, of dividends from the preferred shares of Brookfield International Ltd. (three and six months ended June 30, 2022 – $6.0 million and $11.9 million of dividends earned, respectively) that have been recorded in the condensed consolidated statements of operations within other income. As at June 30, 2023, a total of $96.1 million of accrued dividends is recorded within receivables and other assets (June 30, 2022 – $72.1 million). These transactions were recorded at the exchange amount.
- During the three and six months ended June 30, 2023, the Company declared and paid a dividend to its common shareholder, Brookfield Corporation, of $220.0 million. During the six months ended June 30, 2022, the Company declared and paid a dividend to the common shareholders, which include various subsidiaries of Brookfield Asset Management, of $375.0 million. These transactions were recorded at the exchange amount.

Note 19. Subsequent Events

The Company performed an evaluation of subsequent events through July 25, 2023, which is the date that these condensed financial statements were approved, and has determined that there were no subsequent events that require disclosure.

CORPORATE INFORMATION

CORPORATE PROFILE

Brookfield Residential Properties ULC is a leading land developer and homebuilder in North America. We entitle and develop land to create master-planned communities, build and sell lots to third-party builders, and conduct our own homebuilding operations. We also participate in select, strategic real estate opportunities, including infill projects, mixed-use developments, and joint ventures. We are the flagship North American residential property company of Brookfield Corporation, (NYSE: BN; TSX: BN), a global alternative asset manager. Further information is available at BrookfieldResidential.com or Brookfield.com or contact:

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BONDHOLDER INQUIRIES

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