Brookfield Residential Properties ULC

Q1 2024 Interim Report

First Quarter 2024 Overview and Outlook

Brookfield Residential continued to benefit from positive economic conditions in the U.S. and Canada which can be characterized by sustained land activity across several markets and growth in home sales. During the quarter we saw increased volumes of single family lot closings driven by continued strong demand for finished lots across the broader industry as well as the closing of several acre parcels sold in both the U.S. and Canada. Housing affordability continues to be challenged by sensitivity to higher interest rates in all markets where we operate. We continue to use incentives such as interest rate buy-downs (in the U.S.), albeit at a reduced level compared to the prior year to address these issues and maintain our sales pace. Prospective homeowners continue to respond positively to efforts to enhance affordability, indicated by higher home sales than the same period in the prior year.

For the three months ended March 31, 2024, income before income taxes was $67 million compared to $24 million in 2023. The increase was driven by a $27 million increase in land gross margin due to the sale of several multi-family and commercial acre sites.

Operating and financial highlights for the three months ended March 31, 2024 include:

- Net new home orders of 629, an increase of 15% from the same period in 2023 contributing to the total backlog of 1,218 units with a value of $741 million. Our cancellation rate continued to decline at 4% for the three months ended 2024 compared to 11% for the same period in 2023.
- 452 home closings for the period which generated a gross margin percentage of 21%, compared to 515 home closings with a gross margin of 19% for the same period in 2023.
- 353 single family lot closings for our wholly-owned entities, an increase of 30% over the prior year. In addition, we closed 37 multi-family, commercial and industrial acres in our Northern California, Arizona, and Alberta markets. Land gross margin percentage was 43% and driven by the 30% increase in single family lot sales and the acre parcels sold.
- Sold two land assets and entered into land option agreements with Brookfield Reinsurance ("BNRe") for total cash consideration of $21 million. Due to our option to repurchase the finished lots, these sales are considered a financing arrangement with the book value of the inventory remaining on our balance sheet and an associated financial liability setup for proceeds received.
- Net debt to capitalization ratio of 47% at the three months ended March 31, 2024, reflecting the impact of the typical seasonality for our borrowings on our credit facility (drawn at $413 million) as well as $120 million of dividends paid to Brookfield Corporation.

Based on our outlook at this point in the year, we offer the following limited guidance for 2024. For our U.S. operations, we expect to close approximately 1,370 homes and 1,465 lots, excluding our share of unconsolidated entities. For our Canadian markets, we expect to close approximately 1,095 homes and 530 lots. We also project a number of multi-family, commercial and industrial parcel sales in both countries, including a large opportunistic acre parcel sale in California that continues to be monitored for closing in late 2024. We are focused on maintaining the sales velocity achieved thus far in 2024 but will continue to closely monitor conditions as affordability and mortgage qualifications remain a challenge in the market and will utilize incentives where possible to maintain sales pace.

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 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 2024 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, obligations under our bond indentures, project specific financings and to otherwise 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, 2023.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT’S DISCUSSION AND ANALYSIS

This management’s discussion and analysis ("MD&A") relates to the period ended March 31, 2024 and has been prepared with an effective date of May 2, 2024. 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 Calgary, Edmonton and Greater Toronto Area markets. Our Pacific U.S. operations include Arizona, Greater Los Angeles Area, Portland, Sacramento, San Diego, San Francisco Bay-Area, Seattle-Tacoma and Hawaii (Honolulu Mixed-Use). Our Central and Eastern U.S. operations include Atlanta, Austin, Charleston, Dallas, Denver, Houston, Lakeland, Raleigh-Durham, Tampa and Washington D.C. Area.

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

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

Brookfield Residential Properties Portfolio

Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at March 31, 2024 were $5.2 billion.

As of March 31, 2024, we controlled 73,428 single family lots (serviced lots and future lot equivalents) and 62 multi-family, industrial and commercial serviced parcel acres. Controlled lots and acres include those we directly own and our share of those owned by unconsolidated entities. Our controlled lots and acres provide a strong foundation for our future lot and acre sales and homebuilding business, as well as visibility on our future cash flow. The number of building lots and acre parcels in each of our primary markets as of March 31, 2024 is as follows:

	Single Family Housing & Land Under and Held for Development[(1)]								Multi-Family, Industrial & Commercial Parcels Under Development	
	Housing & Land		Unconsolidated Entities		Total Lots		Status of Lots 3/31/2024		Total Acres	
	Owned	**Options**	**Owned**	**Options**	**3/31/2024**	**12/31/2023**	**Entitled**	**Unentitled**	**3/31/2024**	**12/31/2023**
Calgary	9,679	—	2,711	—	12,390	12,570	9,043	3,347	39	55
Edmonton	9,009	—	163	—	9,172	9,255	4,213	4,959	5	5
Ontario	9,567	—	1,923	—	11,490	11,490	4,565	6,925	6	6
Canada	28,255	—	4,797	—	33,052	33,315	17,821	15,231	50	66
Northern California	2,917	11,042	29	—	13,988	13,996	1,898	12,090	—	8
Southern California	2,165	—	511	—	2,676	2,758	1,421	1,255	—	—
Arizona	3,273	—	—	—	3,273	3,504	3,273	—	—	—
Other	—	—	1,060	—	1,060	1,066	1,060	—	1	1
Pacific U.S.	8,355	11,042	1,600	—	20,997	21,324	7,652	13,345	1	9
Denver	5,480	—	—	—	5,480	5,499	5,480	—	10	10
Texas	9,248	—	225	—	9,473	9,342	9,473	—	1	—
Washington DC	1,940	564	689	—	3,193	3,218	3,156	37	—	—
Carolinas	72	—	435	—	507	167	507	—	—	—
Other	—	—	726	—	726	971	726	—	—	—
Central and Eastern U.S.	16,740	564	2,075	—	19,379	19,197	19,342	37	11	10
Total	53,350	11,606	8,472	—	73,428	73,836	44,815	28,613	62	85
Entitled lots	36,077	564	8,174	—	44,815	45,115				
Unentitled lots	17,273	11,042	298	—	28,613	28,721				
Total March 31, 2024	53,350	11,606	8,472	—	73,428					
Total December 31, 2023	53,930	11,610	8,296	—		73,836				

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

RESULTS OF OPERATIONS

Key financial results and operating data for the three months ended March 31, 2024 compared to the three months ended March 31, 2023 were as follows:

(US$ millions, except percentages, unit activity, average selling price, and per share amounts)	Three Months Ended March 31 2024	Three Months Ended March 31 2023
Key Financial Results		
Housing revenue	$ 287	$ 331
Land revenue	87	33
Housing gross margin ($)	59	62
Housing gross margin (%)	21%	19%
Land gross margin ($)	37	10
Land gross margin (%)	43%	30%
Total gross margin ($)	96	72
Total gross margin (%)	26%	20%
Income before income taxes	67	24
Income tax expense	(6)	(4)
Consolidated net income	61	20
Net income attributable to Brookfield Residential	41	20
Basic earnings per share	$ 0.20	$ 0.10
Diluted earnings per share	$ 0.20	$ 0.10
Key Operating Data		
Home closings for Brookfield Residential (units)	452	515
Average home selling price for Brookfield Residential (per unit)	$ 636,000	$ 643,000
Net new home orders for Brookfield Residential (units)	629	545
Backlog for Brookfield Residential (units)	1,218	1,156
Backlog value for Brookfield Residential	$ 741	$ 756
Active housing communities for Brookfield Residential	79	75
Lot closings for Brookfield Residential (single family units)	353	272
Lot closings for unconsolidated entities (single family units)	123	87
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	37	—
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	1	—
Acre closings for unconsolidated entities (raw and partially finished)	1	—
Average lot selling price for Brookfield Residential (single family units)	$ 137,000	$ 113,000
Average lot selling price for unconsolidated entities (single family units)	$ 202,000	$ 232,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 1,054,000	$ —
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ 582,000	$ —
Average per acre selling price for unconsolidated entities (raw and partially finished)	$ 273,000	$ —
Active land communities for Brookfield Residential	19	16
Active land communities for unconsolidated entities	20	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 changed the composition of our reporting segments in the prior year to move 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 months ended March 31, 2024 and 2023.

	Three Months Ended March 31	
(US$ millions, except unit activity and average selling price)	**2024**	**2023**
Housing revenue		
Canada	$ 77	$ 79
Pacific U.S.	123	138
Central and Eastern U.S.	87	114
Total	$ 287	$ 331
Housing gross margin		
Canada	$ 12	$ 15
Pacific U.S.	33	25
Central and Eastern U.S.	14	22
Total	$ 59	$ 62
Home closings (units)		
Canada	173	190
Pacific U.S.	119	137
Central and Eastern U.S.	160	188
	452	515
Unconsolidated entities	—	1
Total	452	516
Average home selling price		
Canada	$ 448,000	$ 418,000
Pacific U.S.	1,034,000	1,005,000
Central and Eastern U.S.	543,000	607,000
	636,000	643,000
Unconsolidated entities	—	712,000
Average	$ 636,000	$ 643,000

	As at March 31	
	2024	**2023**
Active housing communities		
Canada	38	36
Pacific U.S.	10	11
Central and Eastern U.S.	31	28
Total	79	75

(US$ millions, except unit activity and average selling price)	Three Months Ended March 31 2024	2023
Land revenue		
Canada	$ 28	$ 31
Pacific U.S.	56	1
Central and Eastern U.S.	3	1
	87	33
Unconsolidated entities	25	20
Total	$ 112	$ 53
Land gross margin		
Canada	$ 14	$ 9
Pacific U.S.	21	1
Central and Eastern U.S.	2	—
	37	10
Unconsolidated entities	10	7
Total	$ 47	$ 17
Lot closings (single family units)		
Canada	104	272
Pacific U.S.	231	—
Central and Eastern U.S.	18	—
	353	272
Unconsolidated entities	123	87
Total	476	359
Acre closings (multi-family, industrial and commercial)		
Canada	13	—
Pacific U.S.	24	—
Central and Eastern U.S.	—	—
	37	—
Unconsolidated entities	1	—
Total	38	—
Acre closings (raw and partially finished)		
Canada	—	—
Pacific U.S.	—	—
Central and Eastern U.S.	—	—
	—	—
Unconsolidated entities	1	—
Total	1	—
Average lot selling price (single family units)		
Canada	$ 122,000	$ 113,000
Pacific U.S.	142,000	—
Central and Eastern U.S.	164,000	—
	137,000	113,000
Unconsolidated entities	202,000	232,000
Average	$ 154,000	$ 147,000
Average per acre selling price (multi-family, industrial and commercial)		
Canada	$ 1,198,000	$ —
Pacific U.S.	976,000	—
Central and Eastern U.S.	—	—
	1,054,000	—
Unconsolidated entities	582,000	—
Average	$ 1,047,000	$ —

(US$ millions, except unit activity and average selling price)	Three Months Ended March 31 2024	2023
Average per acre selling price (raw and partially finished)		
Canada	$ —	$ —
Pacific U.S.	—	—
Central and Eastern U.S.	—	—
	—	—
Unconsolidated entities	273,000	—
Average	$ 273,000	$ —

	As at March 31 2024	2023
Active land communities		
Canada	6	7
Pacific U.S.	7	1
Central and Eastern U.S.	6	8
	19	16
Unconsolidated entities	20	16
Total	39	32

(US$ millions)	As at March 31 2024	December 31 2023
Total assets		
Canada	$ 1,154	$ 1,167
Pacific U.S.	1,457	1,463
Central and Eastern U.S.	1,348	1,314
Corporate and other	1,270	1,222
Total	$ 5,229	$ 5,166

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

Three Months Ended March 31, 2024 Compared with Three Months Ended March 31, 2023

Net Income

Consolidated net income for the three months ended March 31, 2024 and 2023 is as follows:

(US$ millions, except per share amounts)	Three Months Ended March 31 2024	2023
Consolidated net income	$ 61	$ 20
Net income attributable to Brookfield Residential	$ 41	$ 20
Basic earnings per share	$ 0.20	$ 0.10
Diluted earnings per share	$ 0.20	$ 0.10

The increase of $41 million in consolidated net income for the three months ended March 31, 2024 compared to the same period in 2023 was primarily the result of an increase in overall gross margin of $24 million, primarily due to increased lot closings in our Arizona market as well as an increase in multi-family and commercial acre sales in our Arizona, Alberta, and Northern California markets. In addition, there was a $16 million increase in other income mainly due to income recognized on investment company assets. Other changes include a $3 million increase in earnings from unconsolidated entities and a $2 million decrease in interest expense partially offset by a $3 million increase in selling, general and administrative expenses.

Results of Operations – Housing

A breakdown of our results from housing operations for the three months ended March 31, 2024 and 2023 is as follows:

Consolidated

(US$ millions, except unit activity, percentages and average selling price)	**Three Months Ended March 31**	
	2024	**2023**
Home closings	452	515
Revenue	$ 287	$ 331
Gross margin	$ 59	$ 62
Gross margin (%)	21%	19%
Average home selling price	$ 636,000	$ 643,000

Housing revenue and gross margin were $287 million and $59 million, respectively, for the three months ended March 31, 2024, compared to $331 million and $62 million for the same period in 2023. The decrease in revenue and gross margin when compared to the prior year was primarily the result of 63 fewer home closings, lower average home selling prices in our Central and Eastern U.S. operating segment. Gross margin percentage increased 2% when compared to the same period in 2023 primarily due to geographic and product mix of homes closed, as well as price appreciation in several markets.

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

Canada

(US$ millions, except unit activity, percentages and average selling price)	**Three Months Ended March 31**	
	2024	**2023**
Home closings	173	190
Revenue	$ 77	$ 79
Gross margin	$ 12	$ 15
Gross margin (%)	16%	19%
Average home selling price	$ 448,000	$ 418,000
Average home selling price (C$)	$ 604,000	$ 566,000

Housing revenue in our Canadian segment for the three months ended March 31, 2024 decreased by $2 million when compared to the same period in 2023, primarily due to 17 fewer home closings, partially offset by 7% higher average home selling prices. The decrease in home closings was primarily the result of fewer closings in our Ontario market. The increase in average home selling prices is due to the geographic mix of homes closed, where our Alberta markets saw increased demand due to population growth and buyer confidence driven by higher energy prices. Gross margin decreased $3 million and gross margin percentage decreased by 3% for the three months ended March 31, 2024 when compared to the same period in 2023 primarily as the result of higher gross margin closings in our Ontario market in the prior year.

Pacific U.S.

(US$ millions, except unit activity, percentages and average selling price)	**Three Months Ended March 31**	
	2024	**2023**
Home closings	119	137
Revenue	$ 123	$ 138
Gross margin	$ 33	$ 25
Gross margin (%)	27%	18%
Average home selling price	$ 1,034,000	$ 1,005,000

Housing revenue in our Pacific U.S. segment for the three months ended March 31, 2024 decreased by $15 million when compared to the same period in 2023, primarily due to 18 fewer home closings driven primarily by our Northern California market. Gross margin and gross margin percentage increased due to product mix and price appreciation in our Northern and Southern California markets.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2024	2023
Home closings	160	188
Revenue	$ 87	$ 114
Gross margin	$ 14	$ 22
Gross margin (%)	16%	19%
Average home selling price	$ 543,000	$ 607,000

Housing revenue in our Central and Eastern U.S. segment for the three months ended March 31, 2024 decreased by $27 million when compared to the same period in 2023, due to 28 fewer home closings and an 11% decrease in average selling prices. The decrease in average home selling prices is primarily the result of product and geographic mix of homes closed within the operating segment. Gross margin and gross margin percentage decreased by $8 million primarily as a result of decreased closings and lower average selling prices due to product mix, primarily in our Texas market.

Home Sales – Incentives

We grant our homebuyers sales incentives from time-to-time in order to promote sales of our homes. The type and amount of incentives will vary on a community-by-community and home-by-home basis. Incentives are recognized as a reduction to sales revenue at the time title passes to the homebuyer and the sale is recognized. For the three months ended March 31, 2024, total incentives recognized as a percentage of gross revenues decreased by 1% when compared to the same period in 2023.

Our incentives on homes closed by operating segment for the three months ended March 31, 2024 and 2023 were as follows:

	Three Months Ended March 31			
	2024		2023	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 2	3%	$ 2	3%
Pacific U.S.	3	2%	3	2%
Central and Eastern U.S.	4	5%	7	5%
	$ 9	3%	$ 12	4%

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders for the three months ended March 31, 2024 totaled 629 units, an increase of 84 units or 15% when compared to the same period in 2023. Average monthly sales per community by reportable segment for the three months ended March 31, 2024 were: Canada – 3 units (2023 – 2 units); Pacific U.S. 3 units (2023 – 5 units); Central and Eastern U.S. 3 units (2023 – 2 units). We were selling from 79 active housing communities at March 31, 2024 compared to 75 communities at March 31, 2023.

The net new home orders for the three months ended March 31, 2024 and 2023 by our operating segments were as follows:

(Units)	Three Months Ended March 31 2024	2023
Canada	288	202
Pacific U.S.	93	153
Central and Eastern U.S.	248	190
Total	629	545

Home Sales – Cancellations

The overall cancellation rates for the three months ended March 31, 2024 and 2023 were 4% and 11%, respectively. The decrease in cancellation rate for the three months ended March 31, 2024 was due to improved market conditions which saw a lower number of cancellations in the U.S., most notably in our Central and Eastern U.S. segment. The cancellation rates for the three months ended March 31, 2024 and 2023 for our operating segments were as follows:

	Three Months Ended March 31			
	2024		2023	
(Units, except percentages)	Units	% of Gross Home Orders	Units	% of Gross Home Orders
Canada	5	2%	5	2%
Pacific U.S.	6	6%	12	7%
Central and Eastern U.S.	15	6%	47	20%
	26	4%	64	11%

Home Sales – Backlog

Our backlog, which represents the number of new homes under sales contracts, as at March 31, 2024 and 2023 by operating segment, was as follows:

	As at March 31			
	2024		2023	
(US$ millions, except unit activity)	Units	Value	Units	Value
Canada	781	$ 401	537	$ 255
Pacific U.S.	152	178	232	246
Central and Eastern U.S.	285	162	387	255
Total	1,218	$ 741	1,156	$ 756

We expect all of our backlog to close in 2024 and 2025, subject to future cancellations. The units in backlog as at March 31, 2024 increased by 62 units when compared to March 31, 2023. Total backlog value decreased by $15 million when compared to the same period in 2023 mainly due product and geographic mix of homes in backlog, with fewer homes in backlog from our Pacific U.S. segment which generally realizes higher average selling prices.

Results of Operations – Land

A breakdown of our results from land operations for the three months ended March 31, 2024 and 2023 is as follows:

Consolidated

	Three Months Ended March 31			
(US$ millions, except unit activity, percentages and average selling price)		2024		2023
Lot closings (single family units)		353		272
Acre closings (multi-family, industrial and commercial)		37		—
Revenue	$	87	$	33
Gross margin	$	37	$	10
Gross margin (%)		43%		30%
Average lot selling price (single family units)	$	137,000	$	113,000
Average per acre selling price (multi-family, industrial and commercial)	$	1,054,000	$	—

Land revenue totaled $87 million and land gross margin totaled $37 million for the three months ended March 31, 2024, compared to $33 million and $10 million for the same period in 2023. The increase in revenue when compared to the prior year is primarily attributable to increased single family lot and multi-family, industrial and commercial acre closings in the current period. The increase in gross margin and gross margin percentage was primarily due to 231 additional lot closings in our Arizona market as well as acre sales in our Northern California, Calgary and Arizona markets.

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

Canada

	Three Months Ended March 31			
(US$ millions, except unit activity, percentages and average selling price)		2024		2023
Lot closings (single family units)		104		272
Acre closings (multi-family, industrial and commercial)		13		—
Revenue	$	28	$	31
Gross margin	$	14	$	9
Gross margin (%)		50%		29%
Average lot selling price (single family units)	$	122,000	$	113,000
Average lot selling price (C$) (single family units)	$	164,000	$	153,000
Average per acre selling price (multi-family, industrial and commercial)	$	1,198,000	$	—
Average per acre selling price (C$) (multi-family, industrial and commercial)	$	1,615,000	$	—

Land revenue in our Canadian segment for the three months ended March 31, 2024 was $28 million, a decrease of $3 million when compared to the same period in 2023. The decrease was primarily caused by a decrease in single family lot closings in both of our Alberta markets, partially offset by 13 additional multi-family acre closings in our Calgary market. Gross margin increased $5 million and gross margin percentage increased 21% when compared to the same period during 2023 primarily as a result of multi-family parcels sold in our Calgary market.

Pacific U.S.

(US$ millions, except unit activity, percentages and average selling price)	**Three Months Ended March 31** **2024**	**2023**
Lot closings (single family units)	231	—
Acre closings (multi-family, industrial and commercial)	24	—
Revenue	$ 56	$ 1
Gross margin	$ 21	$ 1
Gross margin (%)	38%	100%
Average lot selling price (single family units)	$ 142,000	$ —
Average per acre selling price (multi-family, industrial and commercial)	$ 976,000	$ —

Land revenue in our Pacific U.S. segment increased by $55 million and gross margin increased by $20 million for the three months ended March 31, 2024 when compared to the same period in 2023. The increases are primarily due to 231 lot closings in Arizona as well as a commercial acre sale in Northern California which generated $10 million in gross margin, with no comparable transactions in the prior reporting period.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	**Three Months Ended March 31** **2024**	**2023**
Lot closings (single family units)	18	—
Revenue	$ 3	$ 1
Gross margin	$ 2	$ —
Gross margin (%)	67%	—%
Average lot selling price (single family units)	$ 164,000	$ —

Land revenue in our Central and Eastern U.S. segment for the three months ended March 31, 2024 was $3 million, an increase of $2 million when compared to the same period in 2023. The increase in land revenue and gross margin was primarily due to 18 additional single family lot closings in Texas whereas there were no comparable transactions in the prior year as only profit participation revenue was recognized.

Earnings from Unconsolidated Entities

Earnings from unconsolidated entities for the three months ended March 31, 2024 totaled $9 million, compared to $6 million for the same period in 2023.

Land

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

(US$ millions, except unit activity, percentages and average selling price)	**Three Months Ended March 31** **2024**	**2023**
Lot closings (single family units)	123	87
Acre closings (multi-family, industrial and commercial)	1	—
Acre closings (raw and partially finished)	1	—
Revenue	$ 25	$ 20
Gross margin	$ 10	$ 7
Gross margin (%)	40%	35%
Average lot selling price (single family units)	$ 202,000	$ 232,000
Average per acre selling price (multi-family, industrial and commercial)	$ 582,000	$ —
Average per acre selling price (raw and partially finished)	$ 273,000	$ —

Brookfield Residential's share of land revenue within unconsolidated entities increased by $5 million and gross margin increased by $3 million for the three months ended March 31, 2024 when compared to the same period in 2023. The increase was primarily due to 36 additional lot closings in the current period partially offset by a 12% decrease in average lot selling price due to mix of lots sold. Gross margin percentage increased due to increased primarily due to an increase in single family lot closings in Canada which had average gross margin of 44%.

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three months ended March 31, 2024 and 2023 are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2024**	**2023**
General and administrative expense	$ 41	$ 35
Sales and marketing expense	19	21
	$ 60	$ 56

General and administrative expense increased by $6 million for the three months ended March 31, 2024 primarily due to increased incentive payments of $3 million when compared to the prior year. Sales and marketing expense decreased due to lower home closings when compared to the same period in the prior year.

Other (Income) / Expense

The components of other (income) / expense for the three months ended March 31, 2024 and 2023 are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2024**	**2023**
Income from investment company assets	$ (19)	$ —
Preferred share dividend income	(6)	(6)
Investment income	(5)	(5)
Income from commercial properties	(5)	(4)
Other	(2)	(6)
Joint venture management fee income	(2)	(2)
	$ (39)	$ (23)

For the three months ended March 31, 2024, other income increased $16 million when compared to the same period in 2023. The increase in other income is primarily attributable to income from our investment company assets, mainly from our Brookfield Single Family Rental investment ("BSFR"), partially offset by reduced oil and gas drilling royalties.

Income Tax Expense / (Recovery)

For the three months ended March 31, 2024, income tax expense increased $2 million when compared to the same period in 2023. The components of current and deferred income tax expense are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2024**	**2023**
Current income tax expense	$ —	$ 1
Deferred income tax expense	6	3
	$ 6	$ 4

For the three months ended March 31, 2024, current income tax expense decreased $1 million when compared to the same period in 2023. The decrease in current income tax expense primarily relates to a decrease in taxable income from certain Canadian subsidiaries in the three months ended March 31, 2024 compared to the same period in 2023.

For the three months ended March 31, 2024, deferred income tax expense increased $3 million when compared to the same period in 2023. The increase in deferred income tax expense is primarily due to higher taxable income from our U.S. operations in the three months ended March 31, 2024 compared to the same period in 2023.

Foreign Exchange Translation

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

Assets and liabilities of subsidiaries or unconsolidated entities having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at March 31, 2024, the rate of exchange was C$1.3541 equivalent to US$1 (December 31, 2023 – C$1.3250 equivalent to US$1). Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the three months ended March 31, 2024, the average rate of exchange was C$1.3480 equivalent to US$1 (March 31, 2023 – C$1.3522 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 and comprehensive income 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 loss of $16 million for the three months ended March 31, 2024, compared to a net gain of $2 million during the same period in 2023.

QUARTERLY OPERATING AND FINANCIAL DATA

(US$ millions, except unit activity and per share amounts)	2024 Q1	2023 Q4	2023 Q3	2023 Q2	2023 Q1	2022 Q4	2022 Q3	2022 Q2
Quarterly Operating Data								
Home closings (units)	452	552	576	615	515	639	550	555
Lot closings (single family units)	353	1,194	407	386	272	1,058	211	220
Acre closings (multi-family, industrial and commercial)	37	30	9	7	—	26	4	9
Acre closings (raw and partially finished)	—	401	—	—	—	1	—	—
Net new home orders (units)	629	366	514	747	545	295	302	464
Backlog (units)	1,218	1,041	1,226	1,288	1,156	1,126	1,470	1,718
Backlog value	$ 741	$ 673	$ 833	$ 870	$ 756	$ 736	$ 992	$ 1,162
Quarterly Financial Data								
Revenue	$ 375	$ 663	$ 452	$ 442	$ 364	$ 591	$ 395	$ 367
Direct cost of sales	(279)	(525)	(349)	(356)	(292)	(446)	(302)	(290)
Gross margin	96	138	103	86	72	145	93	77
Selling, general and administrative expense	(60)	(73)	(61)	(64)	(56)	(77)	(75)	(63)
Interest expense	(11)	(12)	(15)	(16)	(14)	(22)	(19)	(15)
Earnings from unconsolidated entities	9	37	38	8	6	48	53	91
Gain on sale of commercial properties	—	—	—	—	—	186	—	—
Other income	39	33	33	17	20	23	27	40
Lease and depreciation expenses	(6)	(3)	(3)	(3)	(4)	(4)	(4)	(4)
Income before income taxes	67	120	95	28	24	299	75	126
Income tax expense	(6)	(13)	(17)	(14)	(4)	(36)	(4)	(6)
Net income	61	107	78	14	20	263	71	119
Net income attributable to non-controlling interest	20	9	11	(1)	—	165	39	77
Net income attributable to Brookfield Residential	$ 41	$ 98	$ 67	$ 15	$ 20	$ 98	$ 32	$ 42
Foreign currency translation	(17)	19	(17)	14	2	14	(50)	(21)
Comprehensive income / (loss)	$ 24	$ 117	$ 50	$ 29	$ 22	$ 112	$ (18)	$ 21
Earnings per common share attributable to Brookfield Residential								
Basic	$ 0.20	$ 0.48	$ 0.33	$ 0.07	$ 0.10	$ 0.63	$ 0.24	$ 0.33
Diluted	$ 0.20	$ 0.48	$ 0.33	$ 0.07	$ 0.10	$ 0.63	$ 0.24	$ 0.33

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

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's condensed consolidated balance sheets as at March 31, 2024 and December 31, 2023:

(US$ millions)	As at March 31 2024	As at December 31 2023
Cash and restricted cash	$ 41	$ 41
Receivables and other assets	793	765
Investment company assets	441	418
Land and housing inventory	2,784	2,755
Investments in unconsolidated entities	342	359
Held-to-maturity investment	300	300
Commercial properties	308	304
Operating and financing lease right-of-use asset	62	60
Deferred income tax assets	142	148
Goodwill	16	16
	$ 5,229	$ 5,166
Accounts payable and other liabilities	$ 457	$ 485
Bank indebtedness and other financings	630	367
Notes payable	1,620	1,623
Operating and financing lease liability	68	68
Total equity	2,454	2,623
	$ 5,229	$ 5,166

Assets

Our assets as at March 31, 2024 totaled $5.2 billion. Our land and housing inventory, investments in unconsolidated entities, and commercial properties have a combined book value of $3.4 billion, or approximately 66% of our total assets. The land and housing assets increased when compared to December 31, 2023 primarily due to acquisitions as well as continued land and housing development, 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 March 31, 2024 compared with December 31, 2023 is as follows:

	As at March 31, 2024		As at December 31, 2023	
(US$ millions, except units)	Units	Book Value	Units	Book Value
Land held for development (lot equivalents)	56,752	$ 1,218	57,803	$ 1,204
Land under development and finished lots (single family units)	6,309	897	5,972	889
Housing units, including models	1,895	627	1,765	601
	64,956	$ 2,742	65,540	$ 2,694
Multi-family, industrial and commercial parcels (acres)	60	$ 42	84	$ 61

Notes Payable

Notes payable consist of the following:

	As at	
(US$ millions)	**March 31 2024**	**December 31 2023**
6.250% unsecured senior notes due September 15, 2027 (a)	600	600
4.875% unsecured senior notes due February 15, 2030 (b)	500	500
5.000% unsecured senior notes due June 15, 2029 (c)	350	350
5.125% unsecured senior notes due June 15, 2029 (d)	185	188
	1,635	1,638
Transaction costs	(15)	(15)
	$ 1,620	$ 1,623

(a) The Company’s $600 million principal amount of 6.250% unsecured senior notes matures on September 15, 2027 with interest payable semi-annually. The notes may be redeemed at 102.08% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually and the notes can be redeemed at par on or after September 15, 2025 through maturity.

(b) 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.

(c) The Company's $350 million principal amount of 5.000% 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 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.

The Company and Brookfield Residential US LLC ("BRUS LLC") are co-issuers of all private placements of unsecured senior notes. All unsecured senior notes include covenants that, among other things, place limitations on incurring additional indebtedness and making restricted payments. Under the limitation on additional indebtedness, we are permitted to incur specified categories of indebtedness but are prohibited from incurring further indebtedness if we do not satisfy either a consolidated net indebtedness to tangible net worth ratio or a fixed charge coverage ratio, as applicable. The Company was in compliance with these debt incurrence covenants as at March 31, 2024.

Our actual fixed charge coverage and net indebtedness to tangible net worth ratio as at March 31, 2024 are reflected in the table below:

	Covenant	**Actual as at March 31 2024**
Minimum fixed charge coverage	2.0 to 1	2.90 to 1
Maximum net indebtedness to consolidated tangible net worth	3.0 to 1	0.94 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings represent our corporate unsecured revolving credit facility and construction and development loans and facilities that are used to fund the operations of our communities as land is developed and homes and commercial properties are constructed. We also use secured vendor take back ("VTB") mortgages to secure and acquire land for future development. Our bank indebtedness and other financings as at March 31, 2024 were $630 million, an increase of $262 million from December 31, 2023 which was primarily due to draws on our revolving credit facility. As at March 31, 2024 the weighted average interest rate on our bank indebtedness and other financings was 8.0% (December 31, 2023 – 8.3%).

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

Bank indebtedness and other financings consist of the following:

	As at	
(US$ millions)	**March 31 2024**	**December 31 2023**
Bank indebtedness (a)	$ 413	$ 138
Project-specific financings (b)	161	173
Secured VTB mortgages (c)	57	58
	631	369
Transaction costs (a)(b)	(1)	(2)
	$ 630	$ 367

(a) Bank indebtedness

As at March 31, 2024, there were $413 million of borrowings outstanding under the North American unsecured revolving credit facility and we had available capacity of $191 million (December 31, 2023 – $138 million of borrowings outstanding and $479 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 $2.1 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at March 31, 2024, the Company was in compliance with all of our covenants relating to this facility. The following table reflects consolidated tangible net worth and consolidated total debt to capitalization covenants:

(US$ millions, except percentages)	**Covenant**	**Actual as at March 31 2024**
Minimum tangible net worth	$ 2,050	$ 2,437
Maximum total debt to capitalization	65%	50%

(b) Project-specific financings

(i) On March 21, 2024, OliverMcMillan Kuhio LLC, a subsidiary of the Company, exercised its second extension option on its construction loan for the Lilia mixed-use project located in Honolulu, Hawaii. The construction loan was extended through March 2025. The loan allows OliverMcMillan Kuhio LLC to borrow up to $156 million. As at March 31, 2024, there were $144 million of borrowings outstanding under the construction loan. (December 31, 2023 – $144 million).

Interest is charged on the loan at a rate equal to SOFR plus 1.5%, with a rate cap of 8.5%.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $25 million and a minimum net worth of $250 million exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at March 31, 2024. The following table reflects the covenants:

(US$ millions)	**Covenant**	**Actual as at March 31 2024**
Minimum liquidity	$ 25	$ 215
Minimum net worth	$ 250	$ 1,592

(ii) As at March 31, 2024, the Company has two Canadian project-specific financings totaling $17 million (C$23 million) provided by various lenders (December 31, 2023 – $29 million (C$38.3 million)).

Project-specific financing totaling $15 million (C$20 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, 2023 – $25 million (C$34 million)). This borrowing includes a minimum debt to equity covenant for South Seton Limited Partnership of no greater than 1.50 to 1. The Company was in compliance with this covenant as at March 31, 2024.

The following table reflects the debt to equity ratio covenant:

	Covenant	Actual as at March 31 2024
Maximum debt to equity ratio	1.50 to 1	0.39 to 1

Project-specific financing totaling $2 million (C$3 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 30, 2024, and is secured and without covenants (December 31, 2023 – $4 million (C$5 million)).

(c) Secured VTB mortgages

The Company has 10 secured VTB mortgages (December 31, 2023 – 10 secured VTB mortgages) in the amount of $57 million (December 31, 2023 – $59 million).

10 secured VTB mortgages (December 31, 2023 – 10 secured VTB mortgages) in the amount of $57 million (December 31, 2023 – $59 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$78 million (December 31, 2023 – C$78 million). The interest rates on this debt range from fixed rates of 4.0% to 6.5% and variable rates of Canadian prime plus 1.0% to 2.0%, and the debt is secured by the related land. As at March 31, 2024, the borrowings are not subject to any financial covenants.

Net Debt to Capitalization Calculation

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

Our net debt to total capitalization ratio as at March 31, 2024 and December 31, 2023 was as follows:

	As at	
(US$ millions, except percentages)	March 31 2024	December 31 2023
Bank indebtedness and other financings	$ 630	$ 367
Notes payable	1,620	1,623
Total interest bearing debt	2,250	1,990
Less: cash and cash equivalents	(37)	(36)
	2,213	1,954
Total equity	2,454	2,623
Total capitalization	$ 4,667	$ 4,577
Net debt to total capitalization	47%	43%

Credit Ratings

Our access to financing depends on, among other things, suitable market conditions and the maintenance of suitable long-term credit ratings. Our credit ratings may be adversely affected by various factors, including but not limited to, increased debt levels, decreased earnings, declines in our customer demand, increased competition, a further deterioration in general economic and business conditions, and adverse publicity. Any downgrades in our credit rating may impede our access to capital markets or raise our borrowing rates. We are currently rated by two credit rating agencies, Moody's and Standard & Poor's ("S&P"). We are committed to maintaining these ratings and improving them further over time. Our credit ratings at March 31, 2024 were as follows:

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

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

Cash Flow

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

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

At March 31, 2024, we had cash and cash equivalents, including restricted cash, of $41 million, compared to $41 million at December 31, 2023.

The net cash flows for the three months ended March 31, 2024 and 2023 were as follows:

	Three Months Ended March 31	
(US$ millions)	**2024**	**2023**
Net cash used in operating activities	$ (32)	$ (33)
Net cash used in investing activities	(17)	(21)
Net cash provided by financing activities	50	98
Net change in cash and cash equivalents	$ 1	$ 44

Cash Flow (Used in) / Provided by Operating Activities

Cash flows used in operating activities during the three months ended March 31, 2024 totaled $32 million, compared to cash flows used in operating activities of $33 million for the same period in 2023. During the three months ended March 31, 2024, cash used in operating activities was primarily impacted by an increase in land and housing inventory due to land development and home construction, a decrease in accounts payable and other liabilities, an increase in receivables and other assets, and an increase in commercial properties. This was partially offset by distributions of earnings from unconsolidated entities. Acquisitions of land and housing inventory for the three months ended March 31, 2024 totaled $37 million, consisting of $21 million in Pacific U.S., $9 million in Canada, and $7 million in Central and Eastern U.S.

Cash Flow (Used in) / Provided by Investing Activities

During the three months ended March 31, 2024, cash flows used in investing activities totaled $17 million, compared to cash flows provided by investing activities of $21 million for the same period in 2023. During the three months ended March 31, 2024, cash used in investing activities was primarily impacted by net draws on loans receivable of $24 million and investments of $4 million in unconsolidated entities. This was partially offset by $10 million of distributions of capital from our unconsolidated entities.

Cash Flow (Used in) / Provided by Financing Activities

Cash flows provided by financing activities for the three months ended March 31, 2024 totaled $50 million, compared to cash flows provided by financing activities of $98 million for the same period in 2023. During the three months ended March 31, 2024, cash provided by financing activities was primarily from $275 million of net drawings on bank indebtedness and $2 million of drawings under project-specific financings. This was partially offset by $120 million of dividends paid to common shareholders, a $91 million tax equivalent distribution, $13 million of repayments under project-specific financings and $3 million of distributions to non-controlling interests.

Contractual Obligations and Other Commitments

See Note 12 to the condensed consolidated financial statements, "Commitments, Contingent Liabilities and Other" for detailed information.

Shareholders' Equity

At May 2, 2024, 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 May 2, 2024, 181,400 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the three months ended March 31, 2024.

Off-Balance Sheet Arrangements

In the ordinary course of business, and where market conditions permit, we enter into land and lot option contracts and invest in unconsolidated entities to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time until the options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of March 31, 2024, we had $7 million of primarily non-refundable option deposits and entitlement costs. The total remaining exercise price of these options was $23 million. Pursuant to the guidance in the United States Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810 *Consolidation*, none of these option contracts were consolidated as the Company did not hold the majority economic interest in these assets held under the options.

We also own 8,472 lots through our proportionate share of unconsolidated entities. As of March 31, 2024, our investment in unconsolidated entities totaled $342 million. We have provided varying levels of guarantees of debt in our unconsolidated entities. As of March 31, 2024, we had recourse guarantees of $68 million with respect to debt in our unconsolidated entities. Please refer to Note 4 to the consolidated financial statements, "Investments in Unconsolidated Entities", for additional information about our investments in unconsolidated entities.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of March 31, 2024, we had $71 million in letters of credit outstanding and $617 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds as at March 31, 2024 are $38 million and $230 million, respectively.

Transactions Between Related Parties

See Note 17 of the condensed consolidated financial statements, "Related Party Transactions", for detailed information.

Non-GAAP Financial Measures

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

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

		As at	
	Note	March 31 2024	December 31 2023
Assets			
Cash and cash equivalents		$ 36,644	$ 36,414
Restricted cash		4,223	4,284
Receivables and other assets		793,279	764,862
Investment company assets	2	441,253	417,990
Land and housing inventory	3	2,784,130	2,755,029
Investments in unconsolidated entities	4	342,217	359,424
Held-to-maturity investment		300,000	300,000
Commercial properties	5	307,913	304,089
Operating and financing lease right-of-use asset		60,388	59,447
Deferred income tax assets	6	142,165	147,772
Goodwill		16,479	16,479
Total assets		$ 5,228,691	$ 5,165,790
Liabilities and Equity			
Accounts payable and other liabilities		$ 456,889	$ 485,236
Bank indebtedness and other financings	7	629,587	367,245
Notes payable	8	1,620,101	1,623,346
Operating and financing lease liability		68,308	67,227
Total liabilities		2,774,885	2,543,054
Common shares	9	1,363,013	1,363,013
Additional paid-in-capital	5	34,225	34,225
Retained earnings		850,217	1,020,325
Non-controlling interest		359,295	341,691
Accumulated other comprehensive loss		(152,944)	(136,518)
Total equity		2,453,806	2,622,736
Total liabilities and equity		$ 5,228,691	$ 5,165,790
Commitments, contingent liabilities and other	12		
Guarantees	13		
Subsequent events	18		

See accompanying notes to the condensed consolidated financial statements

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

	Note	Three Months Ended March 31 2024	Three Months Ended March 31 2023
Revenue			
Housing		$ 287,447	$ 331,283
Land		87,327	32,637
Total revenue		374,774	363,920
Direct Cost of Sales			
Housing		(228,841)	(269,357)
Land		(50,411)	(22,951)
Total direct cost of sales		(279,252)	(292,308)
Gross margin		95,522	71,612
Selling, general and administrative expense		(59,536)	(56,074)
Interest expense		(11,445)	(13,782)
Earnings from unconsolidated entities	4	8,989	5,865
Other income	11	38,700	22,518
Lease expense		(3,038)	(3,476)
Depreciation		(2,359)	(2,441)
Income Before Income Taxes		66,833	24,222
Current income tax expense	6	(359)	(688)
Deferred income tax expense	6	(5,225)	(3,235)
Net Income		61,249	20,299
Other Comprehensive Income / (Loss)			
Unrealized foreign exchange gain / (loss) on:			
Translation of the net investment in Canadian subsidiaries		(20,476)	2,159
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries	14	4,050	(400)
Comprehensive Income		$ 44,823	$ 22,058
Net Income Attributable To:			
Consolidated		$ 61,249	$ 20,299
Non-controlling interest		20,420	(136)
Brookfield Residential		$ 40,829	$ 20,435
Comprehensive Income / (Loss) Attributable To:			
Consolidated		$ 44,823	$ 22,058
Non-controlling interest		20,420	(136)
Brookfield Residential		$ 24,403	$ 22,194
Common Shareholders Earnings Per Share			
Basic	10	$ 0.20	$ 0.10
Diluted	10	$ 0.20	$ 0.10
Weighted Average Common Shares Outstanding *(in thousands)*			
Basic	10	202,733	202,733
Diluted	10	202,792	202,874

See accompanying notes to the condensed consolidated financial statements

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

	Note	Three Months Ended March 31 2024	Three Months Ended March 31 2023
Common Shares	9		
Opening balance		$ 1,363,013	$ 1,363,013
Ending balance		1,363,013	1,363,013
Additional Paid-in-Capital			
Opening balance	5	34,225	—
Ending balance		34,225	—
Retained Earnings			
Opening balance		1,020,325	1,039,446
Common share dividends		(120,000)	—
Net income attributable to Brookfield Residential		40,829	20,435
Tax equivalent distributions	17	(90,937)	—
Ending balance		850,217	1,059,881
Accumulated Other Comprehensive Loss			
Opening balance		(136,518)	(153,103)
Other comprehensive income / (loss)		(16,426)	1,759
Ending balance		(152,944)	(151,344)
Total Brookfield Residential Equity		$ 2,094,511	$ 2,271,550
Non-Controlling Interest - Land & Housing			
Opening balance		$ 341,691	$ 276,035
Net income attributable to non-controlling interest		20,420	(136)
Distributions		(2,816)	—
Ending balance		$ 359,295	$ 275,899
Total Equity		$ 2,453,806	$ 2,547,449

See accompanying notes to the condensed consolidated financial statements

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

	Three Months Ended March 31	
Cash Flows (Used in) / Provided by Operating Activities	**2024**	**2023**
Net income	$ 61,249	$ 20,299
Adjustments to reconcile net income to net cash (used in) / provided by operating activities:		
Earnings from unconsolidated entities	(8,989)	(5,865)
Deferred income tax expense	5,225	3,235
Share-based compensation expense	172	(76)
Depreciation	2,359	2,441
Right-of-use asset depreciation	1,392	2,690
Amortization of non-cash interest	1,103	1,158
Dividend income on held-to-maturity investment	(5,984)	(5,918)
Distributions of earnings from unconsolidated entities	10,284	760
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(23,254)	(8,588)
Increase in land and housing inventory	(42,098)	(2,723)
Increase in commercial properties	(6,534)	(1,928)
Decrease in operating lease liabilities	(1,166)	(2,199)
Decrease in accounts payable and other liabilities	(25,658)	(36,729)
Net cash used in operating activities	(31,899)	(33,443)
Cash Flows (Used in) / Provided by Investing Activities		
Investments in unconsolidated entities	(3,953)	(5,539)
Distribution of capital from unconsolidated entities	10,472	22,965
Draws on loans receivable	(132,196)	(132,557)
Repayments on loans receivable	108,612	94,458
Net cash used in investing activities	(17,065)	(20,673)
Cash Flows (Used in) / Provided by Financing Activities		
Drawings under project-specific and other financings	1,974	11,262
Repayments under project-specific and other financings	(13,043)	(13,521)
Net drawings on bank indebtedness	275,208	100,423
Distributions to non-controlling interest	(2,816)	—
Tax equivalent distributions paid	(90,937)	—
Dividends paid to common shareholders	(120,000)	—
Payments made on the principal of financing leases	(190)	(143)
Net cash provided by financing activities	50,196	98,021
Effect of foreign exchange rates on cash and cash equivalents	(1,063)	31
Change in cash, cash equivalents and restricted cash	169	43,936
Cash, cash equivalents and restricted cash at beginning of period	40,698	40,957
Cash, cash equivalents and restricted cash at end of period	$ 40,867	$ 84,893
Supplemental Cash Flow Information		
Cash interest paid	$ 37,010	$ 36,771
Cash taxes paid	$ 6,726	$ 2,847

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") was incorporated in Ontario, Canada, 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”) and include the consolidated accounts of Brookfield Residential, its subsidiaries, investments in unconsolidated entities and variable interest entities in which the Company is the primary beneficiary. All intercompany accounts, transactions and balances have been eliminated upon consolidation.

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

(b) Future Accounting Pronouncements

ASU 2023-05, *Business Combinations - Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement*, was issued in August 2023, and is effective prospectively for all joint venture formations with a formation date on or after January 1, 2025. Principally, it requires a joint venture or a corporate joint venture to initially measure its assets and liabilities at fair value on the formation date. Adoption of the update is not expected to have a significant impact on the Company's financial position and results of operations.

ASU 2023-07, *Improvements to Reportable Segment Disclosures*, was issued in November 2023, and is effective for fiscal periods beginning after December 15, 2023 and interim periods within fiscal years beginning after December 15, 2024 with early adoption permitted. The amendments enhance reportable segment disclosure requirements, primarily through improved disclosures regarding significant segment expenses. Further, the amendments improve interim disclosure requirements, clarify instances in which an entity can disclose multiple segment measures of profit or loss, and provide new segment disclosure requirements for entities with a single reportable segment. Adoption of this update is not expected to have a significant impact on the Company's financial position and results of operations.

Note 2. Investment Company Assets

The components of investment company assets are summarized as follows:

	As at	
	March 31 2024	**December 31 2023**
Brookfield Single Family Rental Investment ("BSFR")(1)	$ 365,435	$ 349,576
Homebuilder Finance Investments(2)	75,818	68,414
	$ 441,253	$ 417,990

(1) See Note 14 "Fair Value Measurements" for further details. The Company has a 25.5% share of the Brookfield Single Family Rental fund as at March 31, 2024.
(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 LLC").

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

Note 3. Land and Housing Inventory

The following summarizes the components of land and housing inventory:

	As at	
	March 31 2024	December 31 2023
Land held for development	$ 1,218,446	$ 1,203,953
Land under development	938,958	950,034
Housing inventory	550,033	517,473
Model homes	76,693	83,569
	$ 2,784,130	$ 2,755,029

The Company has reviewed all of its projects for indicators of impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. As at March 31, 2024, based on the analysis performed, no indicators of impairment were identified.

Interest capitalized and expensed during the three months ended March 31, 2024 and 2023 was as follows:

	Three Months Ended March 31	
	2024	2023
Interest capitalized, beginning of period	$ 204,503	$ 194,006
Interest capitalized	20,445	17,277
Interest expensed to cost of sales	(13,501)	(13,769)
Interest capitalized, end of period	$ 211,447	$ 197,514

Land and housing inventory includes non-refundable deposits and other entitlement costs totaling $6.6 million (December 31, 2023 – $6.9 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 $23.2 million (December 31, 2023 – $34.4 million), including the non-refundable deposits and other entitlement costs identified above.

Note 4. Investments in Unconsolidated Entities

As part of its land and housing operations, the Company participates in joint ventures and partnerships to explore opportunities while minimizing risk. As of March 31, 2024, the Company is invested in 30 unconsolidated entities (December 31, 2023 – 30 unconsolidated entities) in which it has less than a controlling interest. Summarized financial information on a 100% basis for the combined unconsolidated entities is as follows:

	As at	
	March 31 2024	December 31 2023
Assets		
Land and housing inventory	1,448,355	$ 1,448,858
Investments in unconsolidated entities	11,313	28,936
Other assets	452,390	460,343
	$ 1,912,058	$ 1,938,137
Liabilities and Equity		
Bank indebtedness and other financings	462,114	$ 465,049
Accounts payable and other liabilities	182,847	188,755
Brookfield Residential's interest	342,217	359,424
Others' interest	924,880	924,909
	$ 1,912,058	$ 1,938,137

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

	Three Months Ended March 31	
	2024	**2023**
Revenue and Expenses		
Revenue	$ 129,738	$ 105,446
Direct cost of sales	(85,141)	(73,381)
Other income and expenses	(1,008)	4,048
Net income	$ 43,589	$ 36,113
Total equity earnings	$ 8,989	$ 5,865

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

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt on its unconsolidated entities. As at March 31, 2024, the Company had recourse guarantees of $68.0 million (December 31, 2023 – $67.0 million) with respect to debt of its unconsolidated entities.

Note 5. Commercial Properties

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

	As at	
	March 31 2024	**December 31 2023**
Finished properties	$ 304,762	$ 303,817
Work in progress	18,532	13,832
	323,294	317,649
Less: accumulated depreciation	(15,381)	(13,560)
	$ 307,913	$ 304,089

Interest capitalized to commercial properties and commercial properties held for sale and expensed during the three months ended March 31, 2024 and 2023 was as follows:

	Three Months Ended March 31	
	2024	**2023**
Interest capitalized, beginning of period	$ 9,673	$ 9,621
Interest capitalized	81	—
Interest expensed to depreciation	(43)	(37)
Interest capitalized, end of period	$ 9,711	$ 9,584

On June 9, 2023, the Company completed the partial interest sale of 46.6% of its investment in Kuhio, which holds an investment in our Lilia mixed-use development in Honolulu, Hawaii, for cash proceeds of $99.5 million. The equity interest was sold to Brookfield Reinsurance ("BNRe"), 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 partial sale of subsidiary	$ 99,533
Carrying value attributed to non-controlling interest	(53,419)
Income tax impact	(11,969)
Transaction costs	80
Additional paid-in-capital	$ 34,225

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

Note 6. Income Taxes

The Company recorded an aggregate income tax expense of $5.6 million for the three months ended March 31, 2024 (three months ended March 31, 2023 – $3.9 million), which is comprised of current income tax expense of $0.4 million (three months ended March 31, 2023 – $0.7 million) and deferred income tax expense of $5.2 million (three months ended March 31, 2023 – $3.2 million).

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the three months ended March 31, 2024 and 2023 is as follows:

	Three Months Ended March 31	
	2024	**2023**
Statutory rate	23.0%	23.0%
Non-temporary differences	—	0.7
Rate difference from statutory rate	(3.8)	0.8
Non-taxable preferred share dividends	(2.4)	(6.5)
Taxable income attributable to non-controlling interests	(8.3)	0.3
Other	(0.1)	(2.1)
Effective tax rate	8.4 %	16.2 %

The decrease in the effective tax rate when compared to the same period in 2023 was primarily due to the change in taxable income attributable to non-controlling interests and changes in the proportion of income earned in jurisdictions with different tax rates.

As at March 31, 2024, the Company recorded deferred tax assets of $146.1 million (December 31, 2023 - $150.4 million) which were partially offset by valuation allowances of $3.9 million (December 31, 2023 - $2.6 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 March 31, 2024, 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 7. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	March 31 2024	**December 31 2023**
Bank indebtedness (a)	$ 412,810	$ 137,600
Project-specific financings (b)	161,026	172,666
Secured VTB mortgages (c)	57,244	58,488
	631,080	368,754
Transaction costs (a)(b)	(1,493)	(1,509)
	$ 629,587	$ 367,245

(a) Bank indebtedness

As at March 31, 2024, there were $412.8 million of borrowings outstanding under the North American unsecured revolving credit facility, and available capacity of $190.7 million (December 31, 2023 – $137.6 million borrowings outstanding and $479.5 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.

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

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 $2.1 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at March 31, 2024, the Company was in compliance with all of its covenants relating to this facility.

(b) Project-specific financings

(i) On March 21, 2024, OliverMcMillan Kuhio LLC, a subsidiary of the Company, exercised its second extension option on its construction loan for the Lilia mixed-use project located in Honolulu, Hawaii. The construction loan was extended through March 2025. The loan allows OliverMcMillan Kuhio LLC to borrow up to $155.7 million. As at March 31, 2024, the Company has $143.9 million of borrowings outstanding under the construction loan (December 31, 2023 – $143.7 million).

Interest is charged on the loan at a rate equal to SOFR plus 1.5%, with a rate cap of 8.5%.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $25.0 million and a minimum net worth of $250.0 million exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at March 31, 2024.

(ii) As at March 31, 2024, the Company has two Canadian project-specific financings totaling $17.2 million (C$23.2 million) provided by various lenders (December 31, 2023 – $28.9 million (C$38.3 million)).

Project-specific financing totaling $15.0 million (C$20.2 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, 2023 – $25.3 million (C$33.5 million)). This borrowing includes a minimum debt to equity covenant for South Seton Limited Partnership of no greater than 1.50 to 1. The Company was in compliance with this covenant as at March 31, 2024.

Project-specific financing totaling $2.2 million (C$3.0 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 2024, and is secured without covenants (December 31, 2023 – $3.6 million (C$4.8 million)).

(c) Secured VTB mortgages

The Company has 10 secured VTB mortgages (December 31, 2023 – 10 secured VTB mortgages) in the amount of $57.2 million (December 31, 2023 – $58.5 million). Secured VTB mortgages are repayable as follows: 2024 – $25.1 million; 2025 – $5.5 million; and 2026 and thereafter – $26.6 million.

10 secured VTB mortgages (December 31, 2023 – 10 secured VTB mortgages) in the amount of $57.2 million (December 31, 2023 – $58.5 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Residential (Ontario) LP, wholly-owned subsidiaries of the Company. This debt is repayable in Canadian dollars of C$77.5 million (December 31, 2023 – C$77.5 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. As at March 31, 2024, the borrowings are not subject to any financial covenants.

Note 8. Notes Payable

	As at	
	March 31 2024	**December 31 2023**
6.250% unsecured senior notes due September 15, 2027 (a)	600,000	600,000
4.875% unsecured senior notes due February 15, 2030 (b)	500,000	500,000
5.000% unsecured senior notes due June 15, 2029 (c)	350,000	350,000
5.125% unsecured senior notes due June 15, 2029 (d)	184,625	188,675
	1,634,625	1,638,675
Transaction costs	(14,524)	(15,329)
	$ 1,620,101	$ 1,623,346

(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 102.083% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually and the notes can be redeemed at par on or after September 15, 2025 through maturity.

(b) 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 102.438% 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.

(c) The Company's $350 million principal amount of 5.000% 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 102.500% 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 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 102.563% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity.

The Company and BRUS LLC are co-issuers of all private placements of unsecured senior notes. All unsecured senior notes include covenants that, among others, place limitations on incurring additional indebtedness and restricted payments. Under the limitation on additional indebtedness, Brookfield Residential is permitted to incur specified categories of indebtedness, but is prohibited from incurring further indebtedness if it does not satisfy either a net indebtedness to tangible net worth ratio of 3.0 to 1, or a fixed charge coverage ratio of 2.0 to 1, as applicable. The Company was in compliance with these financial covenants as at March 31, 2024.

Note 9. Equity

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

There were no Common Shares issued during the three months ended March 31, 2024 or during the year ended December 31, 2023.

	For the Period Ended	
	March 31 2024	**December 31 2023**
Common Shares issued, beginning of period	202,732,644	202,732,644
Common Shares issued and outstanding, end of period	202,732,644	202,732,644

The Company had no Non-Voting Class B Common Shares issued and outstanding as at March 31, 2024 and December 31, 2023.

Note 10. Earnings Per Share

Basic and diluted earnings per share for the three months ended March 31, 2024 and 2023 were calculated as follows:

	Three Months Ended March 31	
	2024	**2023**
Numerator:		
Net income attributable to Brookfield Residential	$ 40,829	$ 20,435
Denominator (in ‘000s of shares):		
Basic weighted average shares outstanding	202,733	202,733
Diluted weighted average shares outstanding	202,792	202,874
Basic earnings per share	$ 0.20	$ 0.10
Diluted earnings per share	$ 0.20	$ 0.10

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

Note 11. Other Income

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

	Three Months Ended March 31	
	2024	**2023**
Income from investment company assets	$ (18,683)	$ 142
Preferred share dividend income	(5,984)	(5,918)
Investment income	(5,377)	(5,335)
Income from commercial properties	(4,819)	(4,308)
Other	(2,114)	(4,915)
Joint venture management fee income	(1,723)	(2,184)
	$ (38,700)	$ (22,518)

Note 12. Commitments, Contingent Liabilities and Other

As at March 31, 2024, $17.4 million of the amounts held in other assets related to deposits on land purchase obligations (December 31, 2023 – $4.6 million). The total amount committed on these obligations is $508.7 million (December 31, 2023 – $410.6 million).

Note 13. Guarantees

In the ordinary course of business, the Company has provided construction guarantees in the form of letters of credit and performance bonds. As at March 31, 2024, these guarantees amounted to $688.4 million (December 31, 2023 – $643.6 million) and have not been recognized in the condensed consolidated financial statements. However, the proportionate development costs that relate to lots that have been sold are accrued in accounts payable and other liabilities. Such guarantees are required by the municipalities in which the Company operates before construction permission is granted.

Note 14. Fair Value Measurements

Fair Value Hierarchy

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

As at March 31, 2024, 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 its fair value.

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

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

	Three Months Ended March 31, 2024
Balance, beginning of period	$ 349,576
Change in unrealized gain from investment	15,859
Balance, end of period	$ 365,435

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of March 31, 2024:

Financial Instrument	Fair value as of 3/31/2024	Valuation technique	Unobservable inputs	Range (where applicable)
Single Family Rental Investment	$ 365,435	Discounted cash flow	Discount rate Capitalization rate	7.8% 5.2%

Net Investment Hedge

For the three months ended March 31, 2024, an unrealized pre-tax gain of $4.1 million (March 31, 2023 – loss of $0.4 million, respectively), was recorded in other comprehensive income for hedges of net investments in foreign operations.

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

Note 15. 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, 2023.

Note 16. Segmented Information

In order to align our operating segments with our business model, in accordance with ASC 280, we changed the composition of our reportable segments in 2023 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 March 31, 2024				
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Total
Housing revenue	$ 77,477	$ 123,061	$ 86,909	$ —	$ 287,447
Land revenue	28,128	56,240	2,959	—	87,327
	105,605	179,301	89,868	—	374,774
Housing cost of sales	(65,081)	(90,233)	(73,527)	—	(228,841)
Land cost of sales	(14,621)	(35,081)	(709)	—	(50,411)
	(79,702)	(125,314)	(74,236)	—	(279,252)
Gross margin	25,903	53,987	15,632	—	95,522
Earnings from unconsolidated entities	3,707	3,571	1,461	250	8,989
(Expenses) / Income	(12,454)	(20,249)	(19,948)	14,973	(37,678)
Income before income taxes	$ 17,156	$ 37,309	$ (2,855)	$ 15,223	$ 66,833

	Three Months Ended March 31, 2023				
	Canada	Pacific U.S.	Central and Eastern U.S.	Corporate and Other	Total
Housing revenue	$ 79,467	$ 137,676	$ 114,140	$ —	$ 331,283
Land revenue	30,842	744	1,051	—	32,637
	110,309	138,420	115,191	—	363,920
Housing cost of sales	(64,802)	(112,900)	(91,655)	—	(269,357)
Land cost of sales	(22,314)	630	(1,267)	—	(22,951)
	(87,116)	(112,270)	(92,922)	—	(292,308)
Gross margin	23,193	26,150	22,269	—	71,612
Earnings from unconsolidated entities	291	5,221	353	—	5,865
(Expenses) / Income	(10,812)	(16,151)	(20,103)	(6,189)	(53,255)
Income before income taxes	$ 12,672	$ 15,220	$ 2,519	$ (6,189)	$ 24,222

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

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

	As at March 31, 2024				
	Canada	**Pacific U.S.**	**Central and Eastern U.S.**	**Corporate and Other**	**Total**
Land held for development	$ 355,022	$ 327,828	$ 535,596	$ —	$ 1,218,446
Land under development	180,625	465,969	292,364	—	938,958
Housing inventory	267,960	110,584	171,489	—	550,033
Model homes	21,000	32,957	22,736	—	76,693
Total land and housing inventory	824,607	937,338	1,022,185	—	2,784,130
Commercial properties	43,364	258,628	5,921	—	307,913
Investments in unconsolidated entities	127,155	140,904	73,858	300	342,217
Held-to-maturity investment	—	—	—	300,000	300,000
Operating and financing lease right-of-use asset	9,474	38,736	3,591	8,587	60,388
Goodwill	—	—	—	16,479	16,479
Other assets (1)	149,736	81,132	242,345	944,351	1,417,564
Total assets	$ 1,154,336	$ 1,456,738	$ 1,347,900	$ 1,269,717	$ 5,228,691

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

	As at December 31, 2023				
	Canada	**Pacific U.S.**	**Central and Eastern U.S.**	**Corporate and Other**	**Total**
Land held for development	$ 357,072	$ 301,106	$ 545,775	$ —	$ 1,203,953
Land under development	211,795	482,492	255,747	—	950,034
Housing inventory	233,029	114,183	170,261	—	517,473
Model homes	21,918	35,733	25,918	—	83,569
Total land and housing inventory	823,814	933,514	997,701	—	2,755,029
Commercial properties	39,351	259,335	5,403	—	304,089
Investments in unconsolidated entities	131,777	147,360	80,287	—	359,424
Held-to-maturity investment	—	—	—	300,000	300,000
Operating and financing lease right-of-use asset	9,575	37,273	3,924	8,675	59,447
Goodwill	—	—	—	16,479	16,479
Other assets (1)	162,819	85,229	226,238	897,036	1,371,322
Total assets	$ 1,167,336	$ 1,462,711	$ 1,313,553	$ 1,222,190	$ 5,165,790

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

Note 17. Related Party Transactions

Related parties include the directors, executive officers, director nominees or shareholders, and their respective immediate family members. There are agreements among our affiliates to which we are a party or subject to, including a name license. The Company's additional significant related party transactions as at and for the three months ended March 31, 2024 and 2023 were as follows:

- During the three months ended March 31, 2024, the Company incurred $19.1 million of development and construction fees (three months ended March 31, 2023 – $17.5 million), related to the management agreement with Brookfield Properties Development ("BPD"). 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.
- During the three months ended March 31, 2024, the Company incurred $5.2 million of management fees with Brookfield Residential Real Estate JV Management and Brookfield Property Group (Canada) ULC, subsidiaries of Brookfield Asset Management (three months ended March 31, 2023 – $5.9 million). These transactions were recorded at the exchange amount within selling, general and administrative expense.
- As at March 31, 2024, the Company had a loan with BPD with an outstanding balance of $123.0 million that was recorded within receivables and other assets (December 31, 2023 – $94.5 million). During the three months ended March 31, 2024, the Company recorded $2.4 million of interest income at the exchange amounts in the condensed consolidated statement of operations within other income (three ended March 31, 2023 – $2.2 million).
- As at March 31, 2024, the Company had a loan with BRUSLH II LLC with an outstanding balance of $56.6 million that was recorded within receivables and other assets (December 31, 2023 – $55.1 million). During the three months ended March 31, 2024, the Company recorded $1.4 million of interest income in the condensed consolidated statement of operations within other income (three months ended March 31, 2023 – $1.2 million).
- During the three months ended March 31, 2024, the Company earned $6.0 million of dividends from the preferred shares of Brookfield International Ltd. (three months ended March 31, 2023 – $5.9 million of dividends earned) that have been recorded in the condensed consolidated statements of operations within other income. As at March 31, 2024, a total of $113.6 million of accrued dividends is recorded within receivables and other assets (March 31, 2023 – $90.1 million). These transactions were recorded at the exchange amount.
- During the three months ended March 31, 2024, the Company declared and paid a dividend to its common shareholder, Brookfield Corporation, of $120 million. This transaction was recorded at the exchange amount.
- During the three months ended March 31, 2024, the Company made a tax equivalent distribution of $90.9 million to BUSI, a subsidiary of Brookfield Corporation. The distribution amount was determined based on the amount of the U.S. federal and applicable state income tax that BRUSH would be required to pay if it was a corporation for U.S. tax purposes.
- During the three months ended March 31, 2024, the Company sold two land assets and entered into land option agreements with BNRe for total cash consideration of $21.2 million. Due to our option to repurchase the finished lots, these sales are accounted for as a financing arrangement with the book value of the inventory remaining on our balance sheet and an associated liability recorded within accounts payable and other liabilities.

Note 18. Subsequent Events

The Company performed an evaluation of subsequent events through May 2, 2024, 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.