Brookfield
Residential

Brookfield Residential Properties Inc.

2021 Annual Report

2021 Overview

Brookfield Residential had a successful 2021 where the results reflect the continued strong demand for residential homes and land across North America. The residential real estate market in both the U.S. and Canada remained healthy during the fourth quarter, albeit, housing demand has declined when compared to the first half of 2021. The recent decline in housing demand is primarily due to price shock and affordability concerns from potential homebuyers following the price appreciation we have recently seen. We continue to have lower active housing selling communities as we were sold out of many offerings after months of strong sales pace. Additionally, our operational strategy initiated earlier this year limited sales on homes while selling homes once building costs were confirmed.

Our land development business was active in 2021. In the second quarter, Brookfield Residential closed on the acquisition of Newland's management company and their 5% general partner equity interest in 15 communities. This strategic transaction strengthens our position as one of the largest U.S. master-planned community developers as we have widened our geographic footprint and regional operational skill sets. As a result, several of our master-planned communities were featured in the top 50 U.S. selling master-planned communities including Ontario Ranch (Southern California), Eastmark (Mesa, Arizona), Nexton (Charleston, South Carolina), Bexley (Tampa, Florida), Tehaleh (Seattle-Tacoma, Washington) and Elyson (Houston, Texas).

For the year ended December 31, 2021, income before income taxes was $395 million compared to $91 million in 2020. Included in the results were earnings of $129 million from our affiliate unconsolidated entities (compared to a loss of $30 million in 2020). Adjusting for this, our adjusted income before income taxes relating to our residential and mixed-use operations was $266 million compared to $121 million in 2020.

Additional operating and financial highlights for the year ended December 31, 2021 include:

- Continued execution on our strong backlog entering the year with 3,121 home closings at a housing gross margin of 18% where average home selling prices increased 9% to $546,000.
- Net new home orders of 2,764 resulting in total backlog units of 1,542 units with a value of $979 million (including our unconsolidated entities).
- Land activity remained strong with 2,412 lot closings and 201 acre closings (primarily from our acre parcel closings in northwest Calgary in the fourth quarter) with land gross margins at 39%. In addition, from our unconsolidated entities, we closed 1,257 lots and 220 acres in 2021 which included the closing of a 390-acre industrial parcel sale at our Eastmark master-planned community in the third quarter.
- Net debt to total capitalization ratio of 40%, which reflects a cash balance of $116 million and being undrawn on our unsecured revolving credit facility at the end of the year.
- Successfully issued $350 million unsecured senior notes with an interest rate of 5% due in 2029 and C$250 million unsecured senior notes with an interest rate of 5.125% due in 2029. In August, we also amended and extended the maturity of our unsecured revolving credit facility to August 2025 on substantially the same terms and conditions. These transactions continued to enhance the laddering of our debt maturities, while providing meaningful interest savings compared to our previously issued unsecured notes.
- With the Fifth + Broadway mixed-use project in Nashville officially opened earlier this year, we refinanced in the second quarter with new project-specific financing that maintains the total borrowings while lowering the cost of borrowing. In addition, in the fourth quarter of 2021, we closed a mezzanine loan agreement for total proceeds of $117 million at an interest rate of 6% with Brookfield Reinsurance Partners where proceeds were used for general corporate purposes.
- During the year, Brookfield Residential paid dividends of $470 million to Brookfield Asset Management while maintaining adequate liquidity to support the increased activity in the current operating environment.

As we look ahead to 2022, Brookfield Residential remains in a good position for the foreseeable future while the homebuilding and land development sector continues to experience some near-term setbacks relating to cost increases, product shortages and delays. We continue to track key market indicators such as potentially higher interest and mortgage rates, supply chain implications and overall affordability in the markets that we operate in. We remain bullish on the housing and residential land development sector in both the near and medium-term and foresee that demand is supported by continued positive underlying fundamentals and demographic shifts in place driving household formation together with a historical supply shortage.

BROOKFIELD RESIDENTIAL PROPERTIES INC.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- the current business environment and outlook, including statements regarding: the duration and impact of the coronavirus pandemic ("COVID-19") on our financial position and homebuilding operations; the duration, impact and effectiveness of government measures including orders, stimulus, aid, assistance and other government programs in response to COVID-19; economic and market conditions in the U.S. and Canadian housing markets and our ability to respond to such conditions; the effect of seasonality on the homebuilding business; the impact of changes to Canadian mortgage rules affecting the ability of prospective homebuyers to qualify for mortgage financing; the potential offset of the Canadian shared equity program on the impact of stress test mortgage rules in Canada; home prices and affordability in the communities, home closings resulting therefrom, and the timing thereof; international trade factors, including changes in trade policy, such as trade sanctions and increased tariffs; the impact of actual, proposed or potential interest rate changes in the U.S. and Canada and resulting consumer confidence; the effect of inflation; 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 pipeline approvals and the impact thereof on demand in our markets including future investment, particularly in Alberta; consumer confidence and the resulting impact on the housing market; change in consumer behavior and preferences; our relationship with operational jurisdictions and key stakeholders; our ability to meet our obligations under our North American unsecured credit facility; our costs to complete related to our letters of credit and performance bonds; expected project completion times; our ability to realize our deferred tax assets; our ability to grow and market our mixed-use development operations, identifying other mixed-use opportunities, and our ability to execute on our plans for a mixed-use operational platform and expected redevelopment opportunities resulting therefrom; home price growth rates and affordability levels generally; recovery in the housing market and the pace thereof; reduction in our debt levels and the timing thereof; our expected unit and lot sales and the timing thereof; expectations for 2022 and beyond;
- possible or assumed future results, including our outlook and any updates thereto, how we intend to use and the availability of additional cash flow, the operative cycle of our business and expected timing of income and expected performance and features of our projects, the continued strategic expansion of our business operations, our assumptions regarding normalized sales, our projections regarding revenue and housing inventory, the impact of acquisitions on our operations in certain markets;
- the expected closing of transactions;
- the expected exercise of options contracts and lease options;
- the effect on our business of business acquisitions;
- business goals, strategy and growth plans;
- trends in home prices in our various markets and generally;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the homebuilding industry;
- the ability to generate sufficient cash flow from our assets to repay maturing bank indebtedness and project-specific financings and take advantage of new opportunities;
- the ability to meet our covenants and re-pay interest payments on our unsecured senior notes and the requirement to make payments under our construction guarantees;
- the ability to create value in our land development business and meet our development plans;
- the visibility of our future cash flow;
- social and environmental conditions, policies and risks;
- governmental policies and risks;
- cyber-security and privacy related risks;

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

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

Various factors, in addition to those discussed elsewhere in this annual report, that could affect the future results of Brookfield Residential and could cause actual results, performance, or achievements to differ materially from those expressed in the forward-looking statements and information include, but are not limited to, those factors included under the sections entitled “Cautionary Statements Regarding Forward-Looking Statements” and “Business Environment and Risks” of this Annual Report for the fiscal year ended December 31, 2021.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") relates to the year ended December 31, 2021 and has been prepared with an effective date of March 1, 2022. It should be read in conjunction with the consolidated financial statements and the related notes thereto included elsewhere in this annual report. All dollar amounts discussed herein are in U.S. dollars, unless otherwise stated. Amounts in Canadian dollars are identified as "C$." The consolidated financial statements referenced herein have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

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

OVERVIEW

Brookfield Residential Properties Inc. (unless the context requires otherwise, references in this annual report to "we," "our," "us," the "Company" and "Brookfield Residential", refer to Brookfield Residential Properties Inc. and the subsidiaries through which it conducts all of its homebuilding and land development operations) is a wholly-owned subsidiary of Brookfield Asset Management Inc. ("BAM") and has been in operation for over 60 years. We are the flagship North American residential property company of BAM, a leading global alternative asset manager with approximately $690 billion of assets under management.

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

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

By targeting these markets that have strong underlying economic fundamentals we believe over the longer term they offer robust, diversified housing demand, barriers to entry 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 one - a blueprint that guides the land development process from start to finish, resulting in a community with attributes that make it unique - attributes that make our communities the best places to call home. It is what drives us to commit the resources needed to make a positive, lasting social impact in all of the communities in which we build.

Principal Business Activities

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

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

Land Acquisition

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

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

Entitlement Process & Land Development

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

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

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

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

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

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

Home Construction and Consumer Deliverables

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

Brookfield Residential Properties Portfolio

Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at December 31, 2021 were $6.3 billion.

As of December 31, 2021, we controlled 77,452 single family lots (serviced lots and future lot equivalents) and 118 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 December 31, 2021 is as follows:

	Single Family Housing & Land Under and Held for Development[1]								Multi-Family, Industrial & Commercial Parcels Under Development	
	Housing & Land		Unconsolidated Entities		Total Lots		Status of Lots 12/31/2021		Total Acres	
	Owned	**Options**	**Owned**	**Options**	**12/31/2021**	**12/31/2020**	**Entitled**	**Unentitled**	**12/31/2021**	**12/31/2020**
Calgary	14,610	—	2,362	—	16,972	18,306	8,658	8,314	55	56
Edmonton	9,928	—	—	—	9,928	10,479	4,718	5,210	12	15
Ontario	7,468	—	2,136	—	9,604	8,147	5,112	4,492	1	1
Canada	32,006	—	4,498	—	36,504	36,932	18,488	18,016	68	72
Northern California	2,579	7,255	182	—	10,016	10,095	2,648	7,368	—	—
Southern California	5,198	—	410	418	6,026	6,901	3,892	2,134	—	—
Hawaii	—	—	—	—	—	3	—	—	—	—
Other[2]	—	—	452	—	452	—	452	—	1	—
California	7,777	7,255	1,044	418	16,494	16,999	6,992	9,502	1	—
Denver	6,558	—	—	—	6,558	6,927	6,558	—	10	10
Austin	10,488	—	—	—	10,488	11,092	10,488	—	37	37
Phoenix	1,833	—	676	—	2,509	3,431	2,375	134	—	55
Washington, D.C. Area	3,429	871	11	—	4,311	3,486	4,274	37	—	—
Other[3]	—	—	588	—	588	—	588	—	2	—
Central and Eastern U.S.	22,308	871	1,275	—	24,454	24,936	24,283	171	49	102
Total	62,091	8,126	6,817	418	77,452	78,867	49,763	27,689	118	174
Entitled lots	41,864	2,078	5,821	—	49,763	51,070				
Unentitled lots	20,227	6,048	996	418	27,689	27,797				
Total December 31, 2021	62,091	8,126	6,817	418	77,452					
Total December 31, 2020	63,556	8,203	6,107	1,001		78,867				

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

[2] *Other includes lots acquired on June 1, 2021, which are located in the following markets: Oregon and Washington State. See Note 5 of the consolidated financial statements "Business Combinations" for further details.*

[3] *Other includes lots acquired on June 1, 2021, which are located in the following markets: North Carolina, Florida, Georgia and Texas. See Note 5 of the consolidated financial statements "Business Combinations" for further details.*

RESULTS OF OPERATIONS

Key financial results and operating data for the year ended December 31, 2021 compared to the year ended December 31, 2020 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Year Ended December 31 2021	2020
Key Financial Results		
Housing revenue	$ 1,704	$ 1,446
Land revenue	339	293
Total revenue	2,043	1,739
Housing gross margin ($)	314	262
Housing gross margin (%)	18%	18%
Land gross margin ($)	132	74
Land gross margin (%)	39%	25%
Total gross margin ($)	446	336
Total gross margin (%)	22%	19%
Income before income taxes	395	91
Income tax expense	(14)	(3)
Net income	381	88
Net income attributable to Brookfield Residential	187	14
Basic earnings per share	$ 1.44	$ 0.11
Diluted earnings per share	$ 1.43	$ 0.11
Key Operating Data		
Home closings for Brookfield Residential (units)	3,121	2,873
Home closings for unconsolidated entities (units)	7	—
Average home selling price for Brookfield Residential (per unit)	$ 546,000	$ 503,000
Average home selling price for unconsolidated entities (per unit)	$ 683,000	$ —
Net new home orders for Brookfield Residential (units)	2,713	3,506
Net new home orders for unconsolidated entities (units)	51	—
Backlog for Brookfield Residential (units)	1,499	1,907
Backlog for unconsolidated entities (units)	43	—
Backlog value for Brookfield Residential	$ 942	$ 1,013
Backlog value for unconsolidated entities	$ 37	$ —
Active housing communities for Brookfield Residential	69	80
Active housing communities for unconsolidated entities	1	—
Lot closings for Brookfield Residential (single family units)	2,412	2,511
Lot closings for unconsolidated entities (single family units)	1,257	718
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	89	42
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	220	14
Acre closings for Brookfield Residential (raw and partially finished)	201	—
Acre closings for unconsolidated entities (raw and partially finished parcels)	1	—
Average lot selling price for Brookfield Residential (single family units)	$ 110,000	$ 108,000
Average lot selling price for unconsolidated entities (single family units)	$ 140,000	$ 108,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 504,000	$ 496,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ 410,000	$ 443,000
Average per acre selling price for Brookfield Residential (raw and partially finished)	$ 148,000	$ —
Average per acre selling price for unconsolidated entities (raw and partially finished)	$ 272,000	$ —
Active land communities for Brookfield Residential	16	22
Active land communities for unconsolidated entities	17	7

Segmented Information

We operate in three operating segments within North America related to our land and housing operations: Canada, California, and Central and Eastern U.S. Each of the Company's segments specializes in land entitlement and development and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of risk factors. The following table summarizes information relating to revenues, gross margin and assets by operating segment for the years ended December 31, 2021 and 2020.

	Year Ended December 31	
(US$ millions, except unit activity and average selling price)	**2021**	**2020**
Housing revenue		
Canada	$ 448	$ 359
California	668	580
Central and Eastern U.S.	588	507
Total	$ 1,704	$ 1,446
Land revenue		
Canada	$ 175	$ 89
California	34	105
Central and Eastern U.S.	130	99
Total	$ 339	$ 293
Housing gross margin		
Canada	$ 76	$ 62
California	138	115
Central and Eastern U.S.	100	85
Total	$ 314	$ 262
Land gross margin		
Canada	$ 70	$ 29
California	15	18
Central and Eastern U.S.	47	27
Total	$ 132	$ 74
Home closings (units)		
Canada	962	944
California	996	829
Central and Eastern U.S.	1,163	1,100
	3,121	2,873
Unconsolidated entities	7	—
Total	3,128	2,873
Average home selling price		
Canada	$ 465,000	$ 379,000
California	670,000	700,000
Central and Eastern U.S.	506,000	461,000
	546,000	503,000
Unconsolidated Entities	683,000	—
Average	$ 546,000	$ 503,000

	As at December 31	
	2021	**2020**
Active housing communities		
Canada	38	34
California	8	17
Central and Eastern U.S.	23	29
	69	80
Unconsolidated entities	1	—
Total	70	80

	Year Ended December 31	
	2021	**2020**
Lot closings (single family units)		
Canada	950	614
California	221	689
Central and Eastern U.S.	1,241	1,208
	2,412	2,511
Unconsolidated entities	1,257	718
Total	3,669	3,229
Acre closings (multi-family, industrial and commercial)		
Canada	24	20
California	—	—
Central and Eastern U.S.	65	22
	89	42
Unconsolidated entities	220	14
Total	309	56
Acre closings (raw and partially finished)		
Canada	201	—
California	—	—
Central and Eastern U.S.	—	—
	201	—
Unconsolidated entities	1	—
Total	202	—
Average lot selling price (single family units)		
Canada	$ 132,000	$ 115,000
California	152,000	152,000
Central and Eastern U.S.	85,000	79,000
	110,000	108,000
Unconsolidated entities	140,000	108,000
Average	$ 120,000	$ 108,000
Average per acre selling price (multi-family, industrial and commercial)		
Canada	$ 837,000	$ 863,000
California	—	—
Central and Eastern U.S.	379,000	171,000
	504,000	496,000
Unconsolidated entities	410,000	443,000
Average	$ 436,000	$ 479,000

	Year Ended December 31	
	2021	2020
Average per acre selling price (raw and partially finished)		
Canada	$ 148,000	$ —
California	—	—
Central and Eastern U.S.	—	—
	148,000	—
Unconsolidated entities	272,000	—
Average	$ 148,000	$ —

	As at December 31	
	2021	2020
Active land communities		
Canada	7	9
California	1	2
Central and Eastern U.S.	8	11
	16	22
Unconsolidated entities	17	7
Total	33	29

	As at December 31	
(US$ millions)	2021	2020
Total assets		
Canada	$ 1,078	$ 1,065
California	1,237	1,087
Central and Eastern U.S.	2,051	1,992
Corporate and other	1,162	1,119
Equity Investment in Affiliate	770	606
Total	$ 6,298	$ 5,869

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

Year Ended December 31, 2021 Compared with Year Ended December 31, 2020

Net Income

Consolidated net income for the years ended December 31, 2021 and 2020 is as follows:

	Year Ended December 31	
(US$ millions, except per share amounts)	2021	2020
Consolidated net income	$ 381	$ 88
Net income attributable to Brookfield Residential	$ 187	$ 14
Basic earnings per share	$ 1.44	$ 0.11
Diluted earnings per share	$ 1.43	$ 0.11

The increase of $293 million in consolidated net income for the year ended December 31, 2021 compared to the same period in 2020 was primarily the result of an increase in affiliate unconsolidated entity earnings of $159 million, an increase in housing and land gross margins of $110 million from increased activity and home price appreciation, an increase in earnings from land and housing unconsolidated entities of $83 million, and an increase in other income of $39 million. This was partially offset by an increase in selling, general and administrative expenses of $39 million primarily due to an increase in share-based compensation costs and higher management fees paid to Brookfield Properties Development ("BPD"), a $35 million increase in interest expense and a $15 million increase in depreciation both as a result of the Nashville mixed-use project becoming operational with less interest being capitalized and depreciation commencing in the fourth quarter of 2020.

Results of Operations – Housing

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

Consolidated

	Year Ended December 31	
(US$ millions, except unit activity, percentages and average selling price)	**2021**	**2020**
Home closings	3,121	2,873
Revenue	$ 1,704	$ 1,446
Gross margin	$ 314	$ 262
Gross margin (%)	18%	18%
Average home selling price	$ 546,000	$ 503,000

Housing revenue and gross margin were $1,704 million and $314 million, respectively, for the year ended December 31, 2021, compared to $1,446 million and $262 million for the same period in 2020. The increase in revenue and gross margin were the result of 248 additional home closings from all of our operating segments, and a 9% increase in average home selling prices. Gross margin percentage was flat at 18% when compared to the same period in 2020.

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

Canada

	Year Ended December 31	
(US$ millions, except unit activity, percentages and average selling price)	**2021**	**2020**
Home closings	962	944
Revenue	$ 448	$ 359
Gross margin	$ 76	$ 62
Gross margin (%)	17%	17%
Average home selling price	$ 465,000	$ 379,000
Average home selling price (C$)	$ 584,000	$ 505,000

Housing revenue in our Canadian segment for the year ended December 31, 2021 increased by $89 million when compared to the same period in 2020, primarily due to 23% higher average home selling prices and 18 additional home closings. The increase in average home selling prices was seen across all our markets in the segment and was primarily driven by continued strong demand and limited housing supply. Gross margin increased $14 million for the year ended December 31, 2021 when compared to the same period in 2020 as a result of increased home closings and higher average home selling prices, and gross margin percentage remained consistent at 17%.

California

	Year Ended December 31	
(US$ millions, except unit activity, percentages and average selling price)	**2021**	**2020**
Home closings	996	829
Revenue	$ 668	$ 580
Gross margin	$ 138	$ 115
Gross margin (%)	21%	20%
Average home selling price	$ 670,000	$ 700,000

Housing revenue in our California segment for the year ended December 31, 2021 increased by $88 million when compared to the same period in 2020, primarily due to 167 additional home closings, partially offset by 4% lower average selling prices. The decrease in average home selling prices reflects changes in product mix in our Southern California market, with higher number of entry level homes closed partially offset by price appreciation during the year. Gross margin increased $23 million as a result of additional home closings, and gross margin percentage remained relatively consistent when compared to the same period in 2020.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	Year Ended December 31	
	2021	**2020**
Home closings	1,163	1,100
Revenue	$ 588	$ 507
Gross margin	$ 100	$ 85
Gross margin (%)	17%	17%
Average home selling price	$ 506,000	$ 461,000

Housing revenue in our Central and Eastern U.S. segment for the year ended December 31, 2021 increased by $81 million when compared to the same period in 2020, resulting from 10% higher average home selling prices and 63 additional home closings. The increase in average home selling price is primarily the result of selling more homes in our Washington, D.C. market at a higher average selling price when compared to the prior year where more homes were sold in our Austin market at a lower average selling price. Gross margin increased $15 million as a result of additional home closings at higher average selling prices, and gross margin percentage remained consistent at 17% when compared to the same period in 2020.

Home Sales – Incentives

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

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

	Year Ended December 31			
	2021		**2020**	
(US$ millions, except percentages)	**Incentives Recognized**	**% of Gross Revenues**	**Incentives Recognized**	**% of Gross Revenues**
Canada	$ 20	4%	$ 18	5%
California	9	1%	13	2%
Central and Eastern U.S.	26	4%	27	5%
	$ 55	3%	$ 58	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 year ended December 31, 2021 totaled 2,764 units, a decrease of 742 units or 21%, when compared to the same period in 2020. For the year ended December 31, 2021, the decrease in net new home orders was the result of fewer active selling communities, primarily in our California and Central and Eastern U.S. operating segments, as well as affordability concerns from potential buyers as a result of home price appreciation. Average monthly sales per community by reportable segment for the year ended December 31, 2021 were: Canada – 2 units (2020 – 2 units); California – 5 units (2020 – 5 units); Central and Eastern U.S. – 3 units (2020 – 4 units), and unconsolidated entities – 6 units (2020 – nil units). We were selling from 70 active housing communities at December 31, 2021 compared to 80 at December 31, 2020.

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

	Year Ended December 31	
(Units)	**2021**	**2020**
Canada	1,027	963
California	643	1,241
Central and Eastern U.S.	1,043	1,302
	2,713	3,506
Unconsolidated entities	51	—
Total	2,764	3,506

Home Sales – Cancellations

The overall cancellation rates for the years ended December 31, 2021 and 2020 were 5% and 13%, respectively. The decrease in the cancellation rate for the year ended December 31, 2021 was due to improved market conditions which saw a lower number of cancellations in all markets, most notably in our Canadian markets.

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

	Year Ended December 31			
	2021		**2020**	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	4	—%	240	20%
California	32	5%	96	7%
Central and Eastern U.S.	99	9%	179	12%
	135	5%	515	13%

Home Sales – Backlog

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

	As at December 31			
	2021		**2020**	
(US$ millions, except unit activity)	**Units**	**Value**	**Units**	**Value**
Canada	640	$ 349	575	$ 281
California	279	249	632	389
Central and Eastern U.S.	580	344	700	343
	1,499	942	1,907	1,013
Unconsolidated entities	43	37	—	—
Total	1,542	$ 979	1,907	$ 1,013

We expect substantially all of our backlog to close in 2022, subject to future cancellations. The units in our backlog as at December 31, 2021 decreased when compared to the same period in 2020 as a result of continuing to sell out of communities resulting in lower net new home orders, with our active selling communities now at 70 compared to 80 at December 31, 2020. Total backlog value excluding unconsolidated entities decreased by $71 million when compared to the same period in 2020 mainly due to 408 fewer units in backlog, in addition to the product mix of the homes sold under contract.

Results of Operations – Land

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

Consolidated

	Year Ended December 31	
(US$ millions, except unit activity, percentages and average selling price)	**2021**	**2020**
Lot closings (single family units)	2,412	2,511
Acre closings (multi-family, industrial and commercial)	89	42
Acre closings (raw and partially finished)	201	—
Revenue	$ 339	$ 293
Gross margin	$ 132	$ 74
Gross margin (%)	39%	25%
Average lot selling price (single family units)	$ 110,000	$ 108,000
Average per acre selling price (multi-family, industrial and commercial)	$ 504,000	$ 496,000
Average per acre selling price (raw and partially finished)	$ 148,000	$ —

Land revenue totaled $339 million and land gross margin totaled $132 million for the year ended December 31, 2021, an increase of $46 million and $58 million, respectively, when compared to the same period in 2020. The increase in land revenue was primarily due to 47 additional multi-family, industrial and commercial acre closings in our Central and Eastern U.S. segment and 201 additional raw and partially finished acre closings in our Canadian segment, partially offset by 99 fewer single family lot closings. The decrease in single family lot closings was due to fewer closings primarily in our California segment. Gross margin increased primarily due to additional acre closings and gross margin percentage increased 14% compared to the same period in 2020, primarily due to the product and geographic mix of land sold.

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

Canada

	Year Ended December 31	
(US$ millions, except unit activity, percentages and average selling price)	**2021**	**2020**
Lot closings (single family units)	950	614
Acre closings (multi-family, industrial and commercial)	24	20
Acre closings (raw and partially finished)	201	—
Revenue	$ 176	$ 89
Gross margin	$ 70	$ 29
Gross margin (%)	40%	33%
Average lot selling price (single family units)	$ 132,000	$ 115,000
Average lot selling price (C$) (single family units)	$ 166,000	$ 153,000
Average per acre selling price (multi-family, industrial and commercial)	$ 837,000	$ 863,000
Average per acre selling price (C$) (multi-family, industrial and commercial)	$ 1,042,000	$ 1,129,000
Average per acre selling price (raw and partially finished)	$ 148,000	$ —
Average per acre selling price (C$) (raw and partially finished)	$ 186,000	$ —

Land revenue in our Canadian segment for the year ended December 31, 2021 was $176 million, an increase of $87 million when compared to the same period in 2020. The increase was primarily the result of 336 additional single family lot closings in our Calgary and Edmonton markets, and 15% higher single family lot selling prices due to the mix of land sold during the period. Also contributing to the increase were 201 additional raw and partially finished acre closings in Calgary and 4 additional multi-family, industrial and commercial acre closings when compared to the same period in 2020. Gross margin increased $41 million compared to the same period during 2020 mainly as a result of additional lot and acre closings, and gross margin percentage increased 7% due to the mix of land sold.

California

(US$ millions, except unit activity, percentages and average selling price)	Year Ended December 31 2021	Year Ended December 31 2020
Lot closings (single family units)	221	689
Revenue	$ 34	$ 105
Gross margin	$ 15	$ 18
Gross margin (%)	44%	17%
Average lot selling price (single family units)	$ 152,000	$ 152,000

Land revenue in our California segment for the year ended December 31, 2021 was $34 million, a decrease of $71 million when compared to the same period in 2020. The decrease was primarily the result of 468 fewer single family lot closings in our Southern California market. Gross margin decreased $3 million and gross margin percentage increased 27% compared to the same period in 2020 due to the recognition of city development reimbursements, profit participation revenue and deferred profit recognized in our Southern California market with no corresponding lot closings in 2021.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	Year Ended December 31 2021	Year Ended December 31 2020
Lot closings (single family units)	1,241	1,208
Acre closings (multi-family, industrial and commercial)	65	22
Revenue	$ 130	$ 99
Gross margin	$ 47	$ 27
Gross margin (%)	36%	27%
Average lot selling price (single family units)	$ 85,000	$ 79,000
Average per acre selling price (multi-family, industrial and commercial)	$ 379,000	$ 171,000

Land revenue in our Central and Eastern U.S. segment for the year ended December 31, 2021 was $130 million, an increase of $31 million when compared to the same period in 2020. The increase was primarily the result of 33 additional single family lot closings, mainly in our Austin and Washington markets, as well as 8% higher average single family lot selling prices mainly resulting from the geographic and community mix of land sold. There were also 43 additional acre closings at a 122% average selling price increase. Gross margin increased when compared to the same period in 2020, and gross margin percentage increased by 9% due to the geographic mix of land sold within the operating segment.

Earnings from Unconsolidated Entities - Land and Housing

Earnings from land and housing unconsolidated entities for the year ended December 31, 2021 totaled $100 million, compared to $16 million for the same period in 2020.

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)	Year Ended December 31 2021	Year Ended December 31 2020
Lot closings (single family units)	1,257	718
Acre closings (multi-family, industrial and commercial)	220	14
Acre closings (raw and partially finished)	1	—
Revenue	$ 266	$ 84
Gross margin	$ 79	$ 25
Gross margin (%)	30%	30%
Average lot selling price (single family units)	$ 140,000	$ 108,000
Average per acre selling price (multi-family, industrial and commercial)	$ 410,000	$ 443,000
Average per acre selling price (raw and partially finished)	$ 272,000	$ —

Land revenue within unconsolidated entities increased $182 million and gross margin increased $54 million for the year ended December 31, 2021 when compared to the same period in 2020. The increase was primarily the result of 539 additional single family lot closings, mainly coming from bulk lot closings in our Phoenix joint ventures and increased closings in our Southern California joint ventures. The increase in multi-family, industrial and commercial acre closings was primarily the result of a 390-acre industrial parcel sale in the third quarter of 2021 at our Eastmark master-planned community of which Brookfield Residential's share was 195 acre closings with no comparable closings in the prior year.

Housing

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

	Year Ended December 31	
(US$ millions, except unit activity, percentages and average selling price)	**2021**	**2020**
Home closings	7	—
Revenue	$ 5	$ —
Gross margin	$ 2	$ —
Gross margin (%)	40 %	— %
Average home selling price	$ 683,000	$ —

For the year ended December 31, 2021, there were 7 closings in housing operations from unconsolidated entities in in a housing joint venture in our Ontario market, compared to no closings during the same period in 2020.

Earnings / (Loss) from Unconsolidated Entities - Affiliate

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

	Year Ended December 31	
(US$ millions)	**2021**	**2020**
Earnings / (Loss) from unconsolidated entities - affiliate	$ 129	$ (30)

For the year ended December 31, 2021, earnings from affiliate unconsolidated entities was $129 million compared to a loss of $30 million in the prior period. The increase was primarily the result of increased distributions from equity investments and higher fee and investment income due to growth in the investment portfolio and from the disposition of certain investments.

Selling, General and Administrative Expense

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

	Year Ended December 31	
(US$ millions)	**2021**	**2020**
General and administrative expense	$ 147	$ 126
Sales and marketing expense	105	105
Share-based compensation	47	30
	$ 299	$ 261

General and administrative expense increased $21 million for the year ended December 31, 2021 primarily due to higher management fees paid to BPD as a result of increased development and construction activity when compared to the same period in 2020. Sales and marketing expense for the year ended December 31, 2021 remained consistent at $105 million when compared to the same period in 2020. Share-based compensation expense increased by $17 million for the year ended December 31, 2021 resulting from the change in fair value of our share-based compensation liability when compared to the same period in 2020.

Other (Income) / Expense

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

	Year Ended December 31	
(US$ millions)	**2021**	**2020**
Investment income	$ (29)	$ (31)
Other	(25)	(9)
Preferred share dividend income	(24)	(24)
Change in unrealized gain from investment	(13)	4
Income from commercial properties	(13)	—
Joint venture management fee income	(9)	(13)
Loss on extinguishment of debt	16	15
	$ (97)	$ (58)

For the year ended December 31, 2021, other income increased $39 million when compared to the same period in 2020. The increase in other income is attributable to a $17 million change in unrealized gain from investment related to our Brookfield Single Family Rental Investment ("BSFR"), refer to Note 21 "Fair Value Measurements" for further details, an increase in income from commercial properties of $13 million when compared to the same period in 2020, and one-time non-recurring items such as development recovery receivables in our California segment and the sale of small utility companies in our Central and Eastern U.S. segment for a total of $10 million (recorded in other income). This was partially offset by a decrease in investment income of $2 million, a $4 million decrease in joint venture management fee income and a $1 million increase in debt extinguishment costs when compared to the same period in 2020.

Income Tax Expense / (Recovery)

Income tax expense for the year ended December 31, 2021 was $14 million, compared to $3 million for the year ended December 31, 2020. The components of current and deferred income tax expense / (recovery) are summarized as follows:

	Year Ended December 31	
(US$ millions)	**2021**	**2020**
Current income tax expense	$ 7	$ 7
Deferred income tax expense / (recovery)	7	(4)
	$ 14	$ 3

For the year ended December 31, 2021, current income tax expense remained consistent at $7 million when compared to the same period in 2020. Current income tax expense for the current year primarily relates to an increase in net income before tax from our U.S. operations when compared to the same period in 2020. Current income tax expense for the prior year primarily relates to the impact of the release of certain final U.S. tax regulations in the second quarter of 2020 with no comparable adjustment in 2021.

For the year ended December 31, 2021, deferred income tax expense increased $11 million when compared to the same period in 2020. The increase in deferred income tax expense primarily relates to an increase in taxable income from our Canadian operations when compared to 2020, the impact of our unrealized foreign exchange gain on certain U.S. denominated unsecured senior notes and an increase in non-deductible stock-based compensation expense.

Foreign Exchange Translation

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

Assets and liabilities of subsidiaries or unconsolidated entities having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at December 31, 2021, the rate of exchange was C$1.2637 equivalent to US$1 (December 31, 2020 – C$1.2734 equivalent to US$1). Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the year ended December 31, 2021, the average rate of exchange was C$1.2533 equivalent to US$1 (December 31, 2020 – C$1.3397 equivalent to US$1). The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI"). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the consolidated statements of operations as other (income) / expense, except for those related to monetary liabilities qualifying as hedges of the Company's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

The financial results of our Canadian operations are translated into U.S. dollars for financial reporting purposes. Foreign currency translation gains and losses are recorded as the exchange rate between the two currencies fluctuates. These gains and losses are included in OCI and accumulated OCI. The translation of our Canadian operations and hedging instrument resulted in a net gain of $3 million for the year ended December 31, 2021, compared to a net gain of $17 million during the same period in 2020.

QUARTERLY OPERATING AND FINANCIAL DATA

(US$ millions, except unit activity and per share amounts)	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1
Quarterly Operating Data								
Home closings (units)	885	750	788	698	845	850	634	544
Lot closings (single family units)	1,253	190	381	588	1,454	726	164	167
Acre closings (multi-family, industrial and commercial)	69	3	13	4	39	—	—	3
Acre closings (raw and partially finished)	102	—	99	—	—	—	—	—
Net new home orders (units)	714	493	521	985	817	1,144	622	921
Backlog (units)	1,499	1,670	1,927	2,194	1,907	1,935	1,638	1,650
Backlog value	$ 942	$ 1,000	$ 1,098	$ 1,200	$ 1,013	$ 973	$ 771	$ 750
Quarterly Financial Data								
Revenue	$ 679	$ 446	$ 475	$ 444	$ 650	$ 453	$ 323	$ 312
Direct cost of sales	(508)	(355)	(383)	(351)	(515)	(361)	(268)	(257)
Gross margin	171	91	92	93	135	92	55	55
Selling, general and administrative expense	(114)	(61)	(63)	(62)	(88)	(61)	(53)	(58)
Interest expense	(9)	(11)	(13)	(12)	(5)	(2)	—	(3)
Earnings / (Loss) from unconsolidated entities	49	95	37	48	5	—	4	(22)
Other income	22	29	9	17	9	19	19	4
Lease expense	(4)	(4)	(3)	(3)	(4)	(4)	(3)	(3)
Income / (Loss) before income taxes	115	139	59	81	52	44	22	(27)
Income tax (expense) / recovery	(12)	(2)	—	—	(2)	—	(5)	4
Net income / (loss)	103	137	59	81	50	44	17	(23)
Net income / (loss) attributable to non-controlling interest	69	77	27	20	47	30	5	(8)
Net income / (loss) attributable to Brookfield Residential	$ 34	$ 60	$ 32	$ 61	$ 3	$ 14	$ 12	$ (15)
Foreign currency translation	1	(16)	9	9	37	15	27	(60)
Comprehensive income / (loss) attributable to Brookfield Residential	$ 35	$ 44	$ 41	$ 70	$ 40	$ 29	$ 39	$ (75)
Earnings / (Loss) per common share attributable to Brookfield Residential								
Basic	$ 0.26	$ 0.47	$ 0.25	$ 0.47	$ 0.02	$ 0.11	$ 0.10	$ (0.12)
Diluted	$ 0.26	$ 0.46	$ 0.25	$ 0.46	$ 0.02	$ 0.11	$ 0.10	$ (0.12)

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

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

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

(US$ millions)	As at December 31 2021	As at December 31 2020
Cash and restricted cash	$ 121	$ 368
Receivables and other assets	1,157	768
Land and housing inventory	2,574	2,657
Investments in unconsolidated entities - land and housing	357	307
Investment in unconsolidated entities - affiliate	770	606
Held-to-maturity investment	300	300
Commercial properties	873	710
Operating and financing lease right-of-use asset	82	82
Deferred income tax assets	48	55
Goodwill	16	16
	$ 6,298	$ 5,869
Accounts payable and other liabilities	$ 738	$ 608
Bank indebtedness and other financings	652	410
Notes payable	1,626	1,621
Operating and financing lease liability	90	89
Total equity	3,192	3,141
	$ 6,298	$ 5,869

Assets

Our assets as at December 31, 2021 totaled $6.3 billion. Our land and housing inventory, investments in land and housing unconsolidated entities, and commercial properties are our most significant assets with a combined book value of $3.8 billion, or approximately 60% of our total assets. The land and housing assets decreased when compared to December 31, 2020 primarily due to sales activity and turnover of inventory, partially offset by continued land development and home construction activity. Commercial properties increased primarily due to continued construction at the Lilia Waikiki mixed-use project and tenant improvement construction at the Nashville Fifth + Broadway mixed-use project, partially offset by depreciation on the Nashville mixed-use project. 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 owned, excluding unconsolidated entities, and their stage of development as at December 31, 2021 compared with December 31, 2020 is as follows:

	As at			
	December 31, 2021		December 31, 2020	
(US$ millions, except units)	Units	Book Value	Units	Book Value
Land held for development (lot equivalents)	62,258	$ 1,238	64,213	$ 1,307
Land under development and finished lots (single family units)	6,029	667	5,731	720
Housing units, including models	1,930	587	1,816	575
	70,217	$ 2,492	71,760	$ 2,602
Multi-family, industrial and commercial parcels (acres)	111	$ 82	115	$ 55

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at December 31 2021	As at December 31 2020
6.125% unsecured senior notes redeemed June 10, 2021 (a)	$ —	$ 196
6.375% unsecured senior notes redeemed June 10, 2021 (a)	—	350
6.250% unsecured senior notes due September 15, 2027 (b)	600	600
5.125% unsecured senior notes due June 15, 2029 (c)	198	—
5.000% unsecured senior notes due June 15, 2029 (d)	350	—
4.875% unsecured senior notes due February 15, 2030 (e)	500	500
	1,648	1,646
Transaction costs (f)	(22)	(25)
	$ 1,626	$ 1,621

(a) The Company's C$250 million principal amount of 6.125% unsecured senior notes and $350 million principal amount of 6.375% unsecured senior notes were redeemed in full at redemption prices equal to 100.0% and 102.13% of their aggregate principal amounts, respectively, plus accrued and unpaid interest, using cash on hand and the net proceeds from the issuance of the unsecured senior notes due in 2029.

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

(c) On May 25, 2021, the Company and Brookfield Residential US LLC ("BRUS LLC") co-issued a private placement of C$250 million of unsecured senior notes. The notes have an eight-year term, are due on June 15, 2029, and bear interest at a fixed rate of 5.125% with interest payable semi-annually. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries. On or after 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 net proceeds of the offering were used to redeem the C$250 million aggregate principal amount of the unsecured senior notes due in 2023.

(d) On May 25, 2021, the Company and BRUS LLC co-issued a private placement of $350 million of unsecured senior notes. The notes have an eight-year term, are due June 15, 2029, and bear interest at a fixed rate of 5.0% with interest payable semi-annually. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries. On or after June 15, 2024, the notes may be redeemed at 102.5% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or after June 15, 2026 through maturity. The net proceeds of the offering were used to redeem the $350 million aggregate principal amount of the unsecured senior notes due in 2025.

(e) 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.

(f) During the year ended December 31, 2021, the Company capitalized $7 million of transaction costs associated with the issuances of the unsecured senior notes due in 2029. As a result of the redemption of the unsecured senior notes due in 2023 and 2025, the Company recorded a loss on extinguishment of debt, which included a write-off of net unamortized deferred financing fees of $7 million.

The Company and 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 December 31, 2021.

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

	Covenant	Actual as at December 31 2021
Minimum fixed charge coverage	2.0 to 1	2.70 to 1
Maximum net indebtedness to consolidated tangible net worth	3.0 to 1	0.71 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 December 31, 2021 were $652 million, an increase of $242 million from December 31, 2020. The increase was primarily due to increased drawings on our project-specific financings in our Nashville and Lilia mixed-use projects. As of December 31, 2021, the weighted average interest rate on our bank indebtedness and other financings was 3.6% (December 31, 2020 – 4.4%).

Future debt maturities are expected to either be refinanced or repaid from home closings, lot closings, or proceeds from mixed-use developments. Additionally, as at December 31, 2021, we had bank indebtedness capacity of $592 million that was available to complete land development and construction activities. The “Cash Flow” section below discusses future available capital resources should proceeds from our future home and/or lot closings not be sufficient to repay our debt obligations.

Bank indebtedness and other financings consist of the following:

	As at	
(US$ millions)	December 31 2021	December 31 2020
Project-specific financings (a)	$ 603	$ 356
Secured VTB mortgages (b)	58	62
Bank indebtedness (c)	—	—
	661	418
Transaction costs (a)(b)	(9)	(8)
	$ 652	$ 410

(a) Project-specific financings

(i) On December 29, 2021, OliverMcMillan/Brookfield Residential Nashville LLC, a wholly-owned subsidiary of the Company, finalized the mezzanine loan agreement for the Fifth + Broadway mixed use project in Nashville for $117 million, of which $97 million is from BAM Reinsurance Investments LP, a related party of the Company. Proceeds from the 364 day loan was used for general corporate purposes.

Interest is charged on the loan at a fixed rate of 6.0% per annum.

The loan contains restrictive covenants and requires BRUS LLC to maintain a minimum liquidity of $10 million and a minimum net worth of $100 million, exclusive of BRUS LLC's equity in the project. The loan is secured by a first priority equity pledge of 100% of BRUS LLC's interest in OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company and direct ownership of the Fifth + Broadway Project. The following table reflects the covenants:

(US$ millions)	Covenant	Actual as at December 31 2021
Minimum liquidity	$ 10	$ 689
Minimum net worth	$ 100	$ 1,422

(ii) On June 17, 2021, OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company, finalized the amendment of the secured construction loan for the Fifth + Broadway mixed-used project in Nashville. The loan was extended through July 2024 (December 31, 2020 – matured December 2023), allowing OliverMcMillan Spectrum Emery LLC to borrow up to $360 million (December 31, 2020 – $360 million). As at December 31, 2021, the Company has $358 million of borrowings outstanding under the construction loan (December 31, 2020 – $284 million).

Interest was amended to be charged on the loan at a rate equal to LIBOR plus 3.15%, subject to a LIBOR rate floor of 0.25%, with the ability to convert the interest charged to a prime rate loan (December 31, 2020 – LIBOR plus 3.35%, subject to a LIBOR rate floor of 1.80%).

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $10 million and a minimum net worth of $100 million, exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at December 31, 2021.

(US$ millions)	**Covenant**	**Actual as at December 31 2021**
Minimum liquidity	$ 10	$ 689
Minimum net worth	$ 100	$ 1,459

(iii) On March 20, 2020, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, entered into a three-year secured construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The loan allows OliverMcMillan Kuhio LLC to borrow up to $156 million. As at December 31, 2021, there were $87 million of borrowings outstanding under the construction loan (December 31, 2020 – $24 million).

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

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $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 December 31, 2021. The following table reflects the covenants:

(US$ millions)	**Covenant**	**Actual as at December 31 2021**
Minimum liquidity	$ 25	$ 689
Minimum net worth	$ 250	$ 1,453

(iv) As at December 31, 2021, the Company has two Canadian project-specific financings totaling $40 million (C$51 million) provided by various lenders (December 31, 2020 – $47 million (C$62 million)).

Project-specific financing totaling $28 million (C$36 million) has an interest rate of Canadian prime + 0.5%, is due on demand with 240 days' notice, and is secured by certain land and housing inventory assets of the Company's Alberta operations and a general charge over the property of South Seton Limited Partnership, a consolidated subsidiary of the Company (December 31, 2020 – $39 million (C$50 million)). This borrowing includes a minimum debt to equity covenant for South Seton Limited Partnership of no greater than 1.50 to 1. The Company was in compliance with this covenant as at December 31, 2021.

The following table reflects the debt to equity ratio covenant:

	Covenant	**Actual as at December 31 2021**
Maximum debt to equity ratio	1.50 to 1	1.00 to 1

On September 20, 2021, the Company finalized the amendment and extension of the project-specific financing that was extended through November 2022 on substantially the same terms and conditions. Project-specific financing totaling $12 million (C$15 million) is held by a joint venture in our Alberta operations, a consolidated subsidiary of the Company, has an interest rate of Canadian prime + 0.5%, matures in November 2022, and is secured without covenants (December 31, 2020 – $8 million (C$10 million)).

(b) Secured VTB mortgages

The Company has 10 secured VTB mortgages (December 31, 2020 – 12 secured VTB mortgages) in the amount of $58 million (December 31, 2020 – $62 million).

Seven secured VTB mortgages (December 31, 2020 – 10 secured VTB mortgages) in the amount of $42 million (December 31, 2020 – $47 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Residential (Ontario) LP. This debt is repayable in Canadian dollars of C$52 million (December 31, 2020 – C$60 million). The interest rates on this debt range from fixed rates of 4.0% to 6.0% and variable rates of Canadian prime plus 1.0% to 2.0%, and the debt is secured by the related land. As at December 31, 2021, the borrowings are not subject to any financial covenants.

Three secured VTB mortgages (December 31, 2020 – two secured VTB mortgages) in the amount of $17 million (December 31, 2020 – $15 million) relate to raw land held for development by various U.S. subsidiaries of the Company. The interest rates on the debt range from fixed rates of 0.5% to 4.0% and the debt is secured by the related land. As at December 31, 2021, these borrowings are not subject to any financial covenants.

(c) Bank indebtedness

On August 19, 2021, the Company and BRUS LLC finalized the amendment of the North American unsecured revolving credit facility to replace BRUS LLC as a co-borrower with Brookfield Residential US Holdings LLC ("BRUSH"). The unsecured revolving credit facility was also extended through August 2025 on substantially the same terms and conditions, allowing the Company to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

As at December 31, 2021, there were no borrowings outstanding under the North American unsecured revolving credit facility and available capacity of $592 million (December 31, 2020 – no borrowings outstanding and $598 million of available capacity, respectively).

For U.S. dollar denominated borrowings, interest is charged on the facility at a rate equal to, at the borrower's option, either the adjusted LIBOR plus an applicable rate between 2.0% 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 $2.3 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at December 31, 2021, the Company was in compliance with all of our covenants relating to this facility. The following table reflects consolidated tangible net worth and consolidated total debt to capitalization covenants:

(US$ millions, except percentages)	**Covenant**	**Actual as at December 31 2021**
Minimum tangible net worth	$ 2,284	$ 3,176
Maximum total debt to capitalization	65%	43%

Net Debt to Capitalization Calculation

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

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

	As at	
(US$ millions, except percentages)	**December 31 2021**	**December 31 2020**
Bank indebtedness and other financings	$ 652	$ 410
Notes payable	1,626	1,621
Total interest bearing debt	2,278	2,031
Less: cash and cash equivalents	(116)	(350)
	2,162	1,681
Total equity	3,192	3,141
Total capitalization	$ 5,354	$ 4,822
Net debt to total capitalization	40%	35%

Credit Ratings

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

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

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

Cash Flow

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

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

At December 31, 2021, we had cash and cash equivalents, including restricted cash, of $121 million, compared to $368 million at December 31, 2020.

The net cash flows for the years ended December 31, 2021 and 2020 were as follows:

	Year Ended December 31	
(US$ millions)	**2021**	**2020**
Cash flows (used in) / provided by operating activities	$ (144)	$ 94
Cash flows provided by investing activities	71	28
Cash flows (used in) / provided by financing activities	(171)	117
Effect of foreign exchange rates on cash	(3)	5
Net change in cash and cash equivalents	$ (247)	$ 244

Cash Flow (Used in) / Provided by Operating Activities

Cash flows used in operating activities during the year ended December 31, 2021 totaled $144 million, compared to cash flows provided by operating activities of $94 million for the same period in 2020. During the year ended December 31, 2021, cash used in operating activities was primarily impacted by our net income, a decrease in land and housing inventory due to sales activity and turnover of inventory. Acquisitions of land and housing inventory for the year ended December 31, 2021 totaled $340 million, consisting of $88 million in Canada, $178 million in California and $74 million in Central and Eastern U.S, offset by an increase in commercial properties primarily due to continued construction on the Honolulu and Nashville mixed-use development projects and an increase in receivables and other assets. During the year ended December 31, 2020, cash provided by operating activities was primarily impacted by our net income, an increase in commercial properties primarily due to continued construction on the Nashville and Honolulu mixed-use development projects, a decrease in land and housing inventory due to sales activity and turnover of inventory, an increase in receivables and other assets, a decrease in accounts payable and other liabilities and a decrease in operating lease liabilities. Acquisitions of land and housing inventory for the year ended December 31, 2020 totaled $189 million, consisting of $72 million in Canada, $68 million in California and $49 million in Central and Eastern U.S.

Cash Flow Provided by Investing Activities

During the year ended December 31, 2021, cash flow provided by investing activities totaled $71 million, compared to $28 million for the same period in 2020. During the year ended December 31, 2021, cash provided by investing activities was primarily impacted by $160 million distributions from our land and housing unconsolidated entities offset by an increase in our loan receivables of $32 million, acquisitions of $15 million, and investments of $42 million in land and housing unconsolidated entities. During the year ended December 31, 2020, cash flows provided by investing activities were primarily impacted by $53 million distributions from our land and housing unconsolidated entities. This was partially offset by an increase in our loan receivables of $7 million and investments of $18 million in land and housing unconsolidated entities, primarily in our joint ventures in Southern California.

Cash Flow (Used in) / Provided by Financing Activities

Cash flows used in financing activities for the year ended December 31, 2021 totaled $171 million, compared to cash flows provided by financing activities of $117 million for the same period in 2020. During the year ended December 31, 2021, cash used in financing activities was primarily due to a $470 million dividend paid to common shareholders, distributions to non-controlling interest of $68 million, tax equivalent distribution of $21 million, $9 million of costs related to the extinguishment of the unsecured senior notes due in 2023 and 2025, and $8 million of costs related to the issuance of the unsecured senior notes due in 2029. This was partially offset by $215 million net borrowings under project-specific and other financings primarily due to the new $117 million mezzanine loan for the Nashville mixed use project and contributions from non-controlling interest of $190 million. For the year ended December 31,

2020, the cash provided by our financing activities was primarily from $147 million net borrowings under project-specific debt and other financings and contributions from non-controlling interest of $48 million, partially offset by distributions to non-controlling interest of $47 million, tax equivalent distribution of $11 million, $9 million of costs related to the extinguishment of the unsecured senior notes due in 2022, $9 million of costs related to the issuance of the unsecured senior notes due in 2030, and $2 million of costs related to the amendment and extension of the Company's unsecured revolving credit facility.

Contractual Obligations and Other Commitments

See Note 19 to the consolidated financial statements, "Commitments, Contingent Liabilities and Other" for detailed information.

Shareholders' Equity

At March 1, 2022, 129,756,910 Common Shares in the capital of the Company were issued and outstanding. In addition, Brookfield Residential has a stock option plan under which key officers and employees are granted options to purchase Non-Voting Class B Common Shares or settle the options in cash at the option of the holder. Each option granted can be exercised for one Non-Voting Class B Common Share or settled in cash for the fair value of one Common Share at the date of exercise. At March 1, 2022, 2,380,114 options were outstanding under the stock option plan. There was no change in the Company's Common Shares outstanding for the year ended December 31, 2021.

Off-Balance Sheet Arrangements

In the ordinary course of business, and where market conditions permit, we enter into land and lot option contracts and invest in unconsolidated entities to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time until the options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of December 31, 2021, we had $16 million of primarily non-refundable option deposits and entitlement costs. The total remaining exercise price of these options was $51 million. Pursuant to the guidance in the United States Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810 *Consolidation*, we have consolidated $15 million of these option contracts where we consider the Company holds the majority economic interest in the assets held under the options.

We also own 6,817 lots and control under option 418 lots through our proportionate share of land and housing unconsolidated entities. As of December 31, 2021, our investment in land and housing unconsolidated entities totaled $357 million. We have provided varying levels of guarantees of debt in our land and housing unconsolidated entities. As of December 31, 2021, we had recourse guarantees of $50 million with respect to debt in our land and housing unconsolidated entities. During the year ended December 31, 2021, we did not make any loan re-margin repayments on the debt in our land and housing unconsolidated entities. Please refer to Note 6 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 December 31, 2021, we had $83 million in letters of credit outstanding and $576 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds as at December 31, 2021 are $55 million and $197 million, respectively.

Transactions Between Related Parties

See Note 24 of the 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.

BUSINESS ENVIRONMENT AND RISKS

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

Impact of COVID-19

Following the outbreak of COVID-19 in March 2020, which resulted in widespread economic shutdown, markets have continued to recover and we have seen an increase in demand for single-family homes. We remain cautiously optimistic heading into 2022 but are aware of the challenges that lie ahead. Although vaccines and boosters have been approved and deployed broadly into the general population in both Canada and the United States, we continue to see resurgences in infections due to the emergence of new variants of concern. The demand for single-family homes combined with shortages in building materials and labour and supply chain disruptions have resulted in extended construction times. As such, it is not possible to reliably estimate the length and severity of COVID-19-related impacts on the financial results and operations of the Company. We have already taken and will continue to take actions to mitigate the effects of COVID-19, keeping in mind the interests of our employees and other stakeholders. Actions to date include (but are not limited to) the implementation of worksite and office safety protocols, cost control measures and contingency plans from both an operational and financial perspective. We also continue to assess and mitigate against the risk of temporary or longer term labour shortages or disruptions, including the impact on our ongoing development projects. Our response to the COVID-19 pandemic is guided by the World Health Organization, public health authorities and guidance issued by federal, provincial, state and municipal governments. We continue to closely monitor business operations and may take further actions in response to directives of government and public health authorities or that are in the best interests of employees or other stakeholders, as necessary. These changes and any additional changes in operations in response to COVID-19 could materially adversely impact operations and the financial performance of the Company.

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

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

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

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

Risks related to the business and industry of the Company

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

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

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

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

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

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

Our Canadian markets continue to be materially impacted by COVID-19. While interest rates remain low, changes to the mortgage rules will continue to impact homebuyers as they adjust to what they can now afford as a result of the stress test combined with government policies relating to the Ontario real estate market and the Alberta energy sector surrounding pipeline approvals. Our Alberta operations will continue to be challenged due to the economic conditions stemming from amongst other things, the volatility in the price of and the long-term demand for crude oil, natural gas and other refined products as well as market access constraints. Any economic downturn, increase in unemployment, increase in interest rates, decrease in immigration or other changes in the general In addition, inflation has increased in recent periods, a continuance or increase of which could result in an increase to our costs and could adversely the affect the ability of certain home buyers to invest in housing if inflation is not offset by a corresponding increase in wages.

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

Although the U.S. housing market has shown strong signs of recovery, many of the factors contributing to the downturn prior to the COVID-19 pandemic remain, and improved conditions do not extend consistently to every market in which we operate. We expect these uneven conditions to continue. Additionally if the current U.S. housing market does not continue to improve or improvement takes place over an extended period of time, or if similar conditions affect the Canadian homebuilding industry, our business, results of operations and financial condition may be materially adversely affected.

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

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

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

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

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

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

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

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

Virtually all of the purchasers of our homes finance their acquisitions through mortgage financing. While the Federal Reserve Bank of the United States and Bank of Canada have held interest rates near zero, inflationary pressures may force central banks to respond through interest rate hikes. An increase in interest and mortgage rates, which may occur in both the United States and Canada in the near future, or a reduction in the availability of mortgage financing could depress new home sales because the increased effective monthly costs of mortgage financing would discourage potential homebuyers. Tax law changes can have a similar impact. See "Tax law changes could make home ownership more expensive or less attractive, which could have an adverse impact on demand for and sales prices of new homes." Even if potential purchasers do not need financing, these conditions could make it harder for them to resell their homes in the future, which would discourage potential homebuyers. These conditions could also increase cancellation rates on home purchase contracts, which would reduce our ability to realize our backlog. As a result, increased interest and mortgage rates and reduced mortgage availability could materially adversely affect our ability to sell new homes and the price at which we can sell them, which would have a material adverse effect on our business, results of operations and financial condition.

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

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

Canadian mortgage rules subject home buyers with down payments of 20% or more to stricter qualifying criteria that determine whether a homebuyer will be able to afford their principal and interest payments. The criteria uses the higher of the Bank of Canada's 5-year benchmark rate (currently 5.25%) or the potential home buyer's mortgage interest plus 2%. The rules, which came into effect on January 1, 2018, apply to new mortgage loan agreements and have decreased the borrowing and purchasing power of home buyers. The rules, have affected the purchasing power of new homebuyers and their ability to secure mortgage financing, negatively impacting the sale of new homes and the price at which we can sell them. The Canadian government has also introduced a new shared equity mortgage program to assist first-time homebuyers. However, we anticipate the benefits to prospective homebuyers from this program to be marginal.

Prior to the 2008 financial crisis, in the United States, a variety of mortgage products were available. As a result, more homebuyers were able to qualify for mortgage financing. Since then, however, there has been a significant decrease in the type of mortgage products available and a general increase in the qualification requirements for mortgages. Fewer loan products and tighter loan qualifications make it more difficult for some homebuyers to finance the purchase of new homes. This, coupled with higher mortgage interest rates for some mortgage products, has discouraged people from buying new homes. Beginning in January 2014, the U.S. Consumer Financial Protection Bureau began to enforce new rules regarding the origination of mortgages, including criteria for "qualified mortgages". In December 2017, U.S. regulations regarding "risk retention" for securitizations, including securitizations of residential mortgages, went into effect. Other new regulations are forthcoming as required to be implemented pursuant to the U.S. Dodd-Frank Act of 2010. These new regulations could increase the difficulty of obtaining mortgage financing and result in higher mortgage interest rates, further discouraging new home purchases.

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

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

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

If the U.S. federal government or a state government further changes its income tax laws to eliminate or substantially modify these income tax deductions, the after-tax cost of owning a new home would increase for many potential purchasers of our homes. Increases in property tax rates by local governmental authorities, as experienced in

response to reduced federal, state and provincial funding, can adversely affect the ability of potential purchasers of our homes to obtain financing or their desire to purchase new homes. In addition, increases in sales and other taxes could discourage potential homebuyers from purchasing one of our homes.

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

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

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

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

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

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

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

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

The residential land development and homebuilding industry is highly competitive. Residential land developers and homebuilders compete not only for homebuyers, but also for desirable properties, building materials, labor and capital. We compete with other local, regional and national homebuilders, often within larger communities designed, planned and developed by those homebuilders. Any improvement in the cost structure or service of these competitors will increase the competition we face. We also compete with the resale of existing homes including foreclosed homes, sales by housing speculators and investors and rental housing. These competitive conditions could result in difficulty in acquiring suitable land at acceptable prices, increased selling incentives, lower sales volumes and prices, lower profit margins, impairments in the value of our inventory and other assets or increased construction costs and delays in construction, any of which could adversely affect our business, results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, new development projects may be subject to various assessments for schools, parks and other open spaces, new or improved streets and highways, adequate water and sewage facilities and other local services, and may be required to include low and moderate income housing. The costs of these services can be substantial, and if developers are required to fund some or all of the costs, our expenses would increase. These assessments may also raise the price that homebuyers must pay for our homes, which could reduce our sales. In addition, expanded energy

efficiency regulation may be implemented in Canada or the United States, which, even if phased in over time, could significantly increase our costs of building homes and the prices of our homes, which could increase our expenses and reduce our sales. Furthermore, municipalities may restrict or place moratoriums on the availability of utilities such as water and sewage facilities.

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

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

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

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

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

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

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

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

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

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

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

Minimum wage laws in the provinces and states where we operate will result in increased labor costs for skilled laborers on our projects. If our ability to mitigate the financial impact of these increases through cost saving measures does not adequately counterbalance the increase in labor costs, our operating results on the sales of our properties may be adversely affected.

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

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

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

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

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

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

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

Land developers and homebuilders are subject to risks related to:

- the availability and cost of materials and supplies (and particularly increases in the price of lumber, wall board and cement, which are significant components of home construction costs);
- the availability of adequate utility infrastructure and services;
- material fluctuations in utility and resource costs; and
- unforeseen environmental and engineering problems.

Any of these issues could cause delays and increase our costs, which could have an adverse effect on our business and results of operations. In particular, the cost of petroleum products fluctuates and may increase as a result of natural disasters, geopolitical events or accidents. This could result in higher prices for any product utilizing petrochemicals, increased building material delivery costs and higher land development costs. For example, in 2020 and 2021 there was extreme volatility in the price of lumber as a result of curtailed production from lumber mill closures due to COVID-19, forest fires in California and the Pacific Northwest followed by a surge in demand for single family homes in the latter half. This resulted in increased costs to our homes and products. Canadian lumber imported into the US was also subject to steep tariffs which were subsequently reduced in November 2020 but were later increased in November 2021. The U.S. Department of Commerce has signaled that a reduction in tariffs for most Canadian softwood producers is forthcoming

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

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

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

- difficulties in assimilating the operations and personnel of acquired companies or businesses;

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

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

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

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

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

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

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

We will sometimes become responsible for the losses or other obligations of general contractors we hire if there are unforeseen events like their bankruptcy, or an uninsured or under-insured loss claimed against them. The costs of insuring against construction defects and product liability claims are high, and the amount of coverage offered by insurance companies may be limited. There can be no assurance that this coverage will not be further restricted and become more costly. If we are not able to obtain adequate insurance against these claims in the future, our business and results of operations will be adversely affected.

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

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

These investments involve risks and are highly illiquid. We currently operate through a number of unconsolidated homebuilding and land development joint ventures with independent third parties in which we do not have a controlling interest. At December 31, 2021, we had invested an aggregate of $357 million in these joint ventures. In addition, as part of our strategy, we intend to continue to evaluate additional joint venture opportunities.

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

In addition, we lack a controlling interest in some of these joint ventures and, therefore, are usually unable to require that our joint ventures sell assets or return invested capital, make additional capital contributions, or take any other action without the vote of at least one of our venture partners. Therefore, in some instances, absent partner

agreement, we may be limited in our buy and sell decisions of assets and in such event will be unable to liquidate our joint venture investments to generate cash.

Our joint ventures typically obtain secured acquisition, development and construction financing. Historically, we and our joint ventures partners provided varying levels of guarantees of debt or other obligations of our unconsolidated joint ventures. These guarantees include construction completion guarantees, repayment guarantees and environmental indemnities. We accrue for guarantees we determine are probable and reasonably estimated, but we do not record a liability for the contingent aspects of any guarantees that we determine are reasonably possible but not probable. As of December 31, 2021, we had $50 million outstanding in recourse guarantees related to our joint ventures.

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

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

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

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

In our land development and homebuilding activities, we are exposed to potentially significant litigation, arbitration proceedings and other claims, including breach of contract, contractual disputes and disputes relating to defective title, property misdescription or construction defects. Class action lawsuits can be costly to defend, and if we were to lose any certified class action suit, it could result in substantial liability for us. With respect to certain general liability exposures, including construction defect and product liability claims, due to the complex nature of these exposures, we are required to exercise significant judgment in interpretation of underlying current and future trends, assessment of claims and the related liability and reserve estimation. Furthermore, it is difficult to determine the extent to which the assertion of construction defect claims will expand geographically. As a result, our insurance policies may not be available or adequate to cover any liability for damages.

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

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

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

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

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

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

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

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

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

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

Data privacy laws are becoming increasingly demanding and more complex.

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

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

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

Other environmental, social and governance (ESG) mandates could also result in expanded diligence, additional reporting, disclosure and oversight that could increase our overall compliance costs and add additional scrutiny to our operations. A failure to incorporate ESG considerations into our operations or address ESG deficiencies could result in non-compliance with laws, rules, regulation, policies and negative public perception.

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

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

Risks Related to financing and liquidity

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

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

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

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

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

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

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

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

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

We have businesses with earnings in both the United States and Canada. Our financial results are reported in U.S. dollars. Changes in the U.S. dollar/Canadian dollar exchange rate will affect the value of the reported earnings and the value of those assets and liabilities denominated in foreign currencies. For example, an increase in the value of the U.S. dollar compared to the Canadian dollar would reduce our Canadian dollar-denominated revenue when reported in U.S. dollars, as occurred several times in 2021, and vice versa. Our results of operations and financial condition may be adversely affected by such exchange rate fluctuations.

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

We have a significant amount of debt. As of December 31, 2021, the total principal amount of our debt outstanding was $2 billion and we had no non-recourse guarantees of obligations of unconsolidated joint ventures. We also had $592 million in undrawn commitments under our Canadian and U.S. credit facilities as of that date.

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

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

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

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

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

A significant amount of our existing borrowings consists of secured and unsecured credit facilities, some of which bear interest at variable rates. Our secured credit facilities bear interest at Canadian prime 1.0% and 1.8% per annum. Our unsecured credit facility bears interest at either: (i) the adjusted LIBOR plus an applicable rate between 2.0% and 2.8% per annum or an alternative base rate plus an applicable rate between 1.0% and 1.8% per annum for U.S. denominated borrowings; or (ii) the Canadian dollar offered rate 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. This amount of variable interest rate debt exposes us to interest rate risk. As of December 31, 2021, a 1% change up or down in interest rates would have a $5 million impact on our annual cash flows. If interest rates increase under the terms of these credit facilities or mortgages, our debt service obligations will increase even if the amount of our borrowings remain the same, which could have a material adverse effect on our net income and our ability to make timely interest payments on our debt.

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

In March 2021, the ICE Benchmark Administration (the Financial Conduct Authority-regulated and authorized administrator of LIBOR) announced that it would cease the publication of the one-week and two-month U.S. dollar LIBOR after December 31, 2021, and the publication of all remaining U.S. dollar LIBOR tenors after June 30, 2023.

The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee (the "ARRC"), a steering committee comprised of large U.S. financial institutions, has proposed a new index calculated by short term repurchase agreements, backed by U.S. Treasury securities, called the Secured Overnight Financing Rate ("SOFR") as an alternative to LIBOR for use in contracts that are currently indexed to U.S. dollar LIBOR and has proposed a paced market transition plan to SOFR. On July 29, 2021, the ARRC formally recommended SOFR as its preferred alternative replacement rate for U.S. dollar LIBOR.

As at December 31, 2021, we have approximately $592 million of unused capacity on LIBOR-based debt, with no borrowings outstanding. This debt generally includes fallback features that allow for the use of an alternative rate if LIBOR is no longer available. The use of an alternative rate could result in increased costs, including increased interest expenses, and increased borrowing and hedging costs in the future.

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

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

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

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

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

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

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

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

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

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

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

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

Risks Relating to Our Structure

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

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

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

Potential conflict of interest situations for the Manager and our executive officers may include the following:

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

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

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

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

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

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

BAM beneficially owns, or controls or directs, directly or indirectly, 100% of our outstanding Common Shares. Our relationship with BAM and its affiliates includes certain related party transactions. See Note 24 to the consolidated financial statements for additional information on related party transactions. Additionally, we have the right to use the names "Brookfield" and "Brookfield Residential" pursuant to a license agreement between Brookfield Office Properties and Brookfield Global Asset Management Limited, a subsidiary of BAM. These and other arrangements with affiliates may not be on terms at least as favorable to us as those that could be negotiated with third parties, despite procedural protections to simulate arm's length negotiations, such as the prior approval of related party transactions by our independent directors. Conversely, the terms of our agreements with affiliates could be more favorable to us than would be available from a third party. In such event, should we be required to replace these arrangements, we might not be able to obtain terms at least as favorable as those with affiliates.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and, where appropriate, reflect estimates based on management’s judgment. The consolidated financial statements include the accounts of Brookfield Residential and all of its subsidiaries (collectively, the “Company”). The financial information of the Company included in the Company’s Annual Report is consistent with that in the consolidated financial statements.

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

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

/s/ Adrian Foley

Adrian Foley
President and Chief Executive Officer

/s/ Thomas Lui

Thomas Lui
Executive Vice President and Chief Financial Officer

Calgary, Alberta
March 1, 2022

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Brookfield Residential Properties Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2021 and 2020 and the consolidated statements of operations, consolidated statements of equity, and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020 and its financial operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
March 1, 2022

CONSOLIDATED FINANCIAL STATEMENTS

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

	Note	As at December 31 2021	As at December 31 2020
Assets			
Cash and cash equivalents		$ 116,469	$ 350,306
Restricted cash	2	4,832	17,849
Receivables and other assets	3	1,157,213	767,592
Land and housing inventory	4	2,573,635	2,656,627
Investments in unconsolidated entities - land and housing	6	356,642	307,250
Investments in unconsolidated entities - affiliate	6	769,660	605,615
Held-to-maturity investment	7	300,000	300,000
Commercial properties	8	873,145	709,947
Operating and financing lease right-of-use asset	9	82,249	82,109
Deferred income tax assets	10	47,678	54,967
Goodwill		16,479	16,479
Total assets		$ 6,298,002	$ 5,868,741
Liabilities and Equity			
Accounts payable and other liabilities	11	$ 737,669	$ 608,040
Bank indebtedness and other financings	12	652,065	409,638
Notes payable	13	1,626,017	1,621,500
Operating and financing lease liability	9	89,943	88,559
Total liabilities		3,105,694	2,727,737
Common shares	15	626,594	626,594
Retained earnings	15	1,125,670	1,393,099
Non-controlling interest - land and housing	14	299,751	155,466
Non-controlling interest - affiliate	14	1,244,218	1,073,016
Accumulated other comprehensive loss		(103,925)	(107,171)
Total equity		3,192,308	3,141,004
Total liabilities and equity		$ 6,298,002	$ 5,868,741
Commitments, contingent liabilities and other	19		
Guarantees	20		
Subsequent events	25		

See accompanying notes to the consolidated financial statements

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

	Note	Year Ended December 31 2021	2020
Revenue			
Housing		$ 1,703,585	$ 1,445,507
Land		339,773	292,764
Total revenue		2,043,358	1,738,271
Direct Cost of Sales			
Housing		(1,389,239)	(1,183,874)
Land		(208,074)	(218,796)
Total direct cost of sales		(1,597,313)	(1,402,670)
Gross margin		446,045	335,601
Selling, general and administrative expense		(299,175)	(260,450)
Interest expense		(44,804)	(9,975)
Earnings from unconsolidated entities - land & housing	6	99,910	16,469
Earnings / (loss) from unconsolidated entities - affiliate	6	129,346	(29,544)
Other income	18	97,323	57,955
Lease expense	9	(14,012)	(13,748)
Depreciation		(20,129)	(4,984)
Income Before Income Taxes		394,504	91,324
Current income tax expense	10	(6,917)	(6,709)
Deferred income tax (expense) / recovery	10	(7,266)	3,582
Net Income		380,321	88,197
Other Comprehensive Income			
Unrealized foreign exchange gain / (loss) on:			
Translation of the net investment in Canadian subsidiaries and unconsolidated entities - affiliate		4,746	21,973
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		(1,500)	(3,850)
Comprehensive Income		$ 383,567	$ 106,320
Net Income Attributable To:			
Consolidated		$ 380,321	$ 88,197
Non-controlling interest - land and housing	14	22,265	14,697
Non-controlling interest - affiliate	14	171,202	59,454
Brookfield Residential		$ 186,854	$ 14,046
Comprehensive Income Attributable To:			
Consolidated		$ 383,567	$ 106,320
Non-controlling interest - land and housing	14	22,265	14,697
Non-controlling interest - affiliate	14	171,202	59,454
Brookfield Residential		$ 190,100	$ 32,169
Common Shareholders Earnings Per Share			
Basic	17	$ 1.44	$ 0.11
Diluted	17	$ 1.43	$ 0.11
Weighted Average Common Shares Outstanding *(in thousands)*			
Basic	17	129,757	129,757
Diluted	17	130,692	131,266

See accompanying notes to the consolidated financial statements

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

	Note	Year Ended December 31 2021	Year Ended December 31 2020
Common Shares	15		
Opening balance		$ 626,594	$ 626,594
Ending balance		626,594	626,594
Retained Earnings			
Opening balance		1,393,099	1,382,130
Common share dividends		(470,000)	—
Net income attributable to Brookfield Residential		186,854	14,046
Tax equivalent distributions		(20,008)	(11,343)
Dilution of investment in unconsolidated entities - affiliate	6	35,309	—
Other		416	8,266
Ending balance		1,125,670	1,393,099
Accumulated Other Comprehensive Loss			
Opening balance		(107,171)	(125,294)
Other comprehensive income		3,246	18,123
Ending balance		(103,925)	(107,171)
Total Brookfield Residential Equity		$ 1,648,339	$ 1,912,522
Non-Controlling Interest - Land & Housing	14		
Opening balance		$ 155,466	$ 149,574
Net income attributable to non-controlling interest		22,265	14,697
Distributions		(67,966)	(47,352)
Contributions		189,986	48,133
Other		—	(9,586)
Ending balance		$ 299,751	$ 155,466
Non-Controlling Interest - Affiliate	14		
Opening balance		$ 1,073,016	$ 1,012,242
Net income attributable to non-controlling interest		171,202	59,454
Other		—	1,320
Ending balance		$ 1,244,218	$ 1,073,016
Total Equity		$ 3,192,308	$ 3,141,004

See accompanying notes to the consolidated financial statements

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

	Year Ended December 31	
Cash Flows (Used In) / Provided by Operating Activities	**2021**	**2020**
Net income	$ 380,321	$ 88,197
Adjustments to reconcile net income to net cash used in operating activities:		
Earnings from unconsolidated entities - land and housing	(99,910)	(16,469)
(Earnings) / loss from unconsolidated entities - affiliate	(129,346)	29,544
Deferred income tax expense / (recovery)	7,266	(3,582)
Share-based compensation expense	47,256	29,660
Depreciation	20,129	4,984
Right-of-use asset depreciation	5,806	6,555
Amortization of non-cash interest	7,227	5,767
Loss on extinguishment of debt	15,751	15,030
Dividend income on held-to-maturity investment	(24,000)	(24,066)
Distributions of earnings from unconsolidated entities	11,749	10,416
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(336,685)	(38,008)
Decrease in land and housing inventory	79,246	208,089
Increase in commercial properties	(176,574)	(216,525)
Decrease in operating lease liabilities	(4,414)	(3,569)
Increase / (decrease) in accounts payable and other liabilities	52,124	(1,593)
Net cash (used in) / provided by operating activities	(144,054)	94,430
Cash Flows Provided by Investing Activities		
Investments in unconsolidated entities	(41,581)	(18,172)
Distributions from unconsolidated entities	159,674	53,132
Acquisition	(14,500)	—
Increase in loan receivable	(32,455)	(7,452)
Net cash provided by investing activities	71,138	27,508
Cash Flows (Used In) / Provided by Financing Activities		
Drawings under project-specific and other financings	332,522	202,049
Repayments under project-specific and other financings	(116,989)	(53,663)
Drawings under unsecured senior notes payable	551,650	500,000
Repayments under unsecured senior notes payable	(551,650)	(500,000)
Payments of debt issuance costs	(8,348)	(11,449)
Payments of debt extinguishment costs	(8,984)	(8,930)
Distributions to non-controlling interest	(67,966)	(47,352)
Contributions from non-controlling interest	189,986	48,133
Tax equivalent distributions paid to common shareholders	(20,800)	(11,343)
Dividends paid to common shareholders	(470,000)	—
Payments made on the principal of financing leases	(146)	(203)
Net cash (used in) / provided by financing activities	(170,725)	117,242
Effect of foreign exchange rates on cash and cash equivalents	(3,213)	5,234
Change in cash, cash equivalents and restricted cash	(246,854)	244,414
Cash, cash equivalents and restricted cash at beginning of year	368,155	123,741
Cash, cash equivalents and restricted cash at end of year	$ 121,301	$ 368,155
Supplemental Cash Flow Information		
Cash interest paid	$ 108,528	$ 108,989
Cash taxes paid	$ 6,715	$ 3,108

See accompanying notes to the consolidated financial statements

Note 1. Significant Accounting Policies

(a) Basis of Presentation

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

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

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

(b) Revenue Recognition

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

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

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

The following are descriptions of principal activities, from which the Company generates its revenue. See Note 23 "Segmented Information" for detailed information about the Company's reportable segments.

(i) *Land Sales:* The land operations of the Company principally generate revenue from developing land for its own communities and selling lots to other homebuilders and third parties. The Company’s duration of land contracts vary; however, the typical length of a contract is less than one year. Revenues from land sales are recognized at a point in time when the Company's performance obligations are achieved and collectability of the receivable is probable. Performance obligations are satisfied when title has transferred and all material conditions of the sales contract have been met. Generally, all elements of the transaction price are allocated to one performance obligation. Certain components of the transaction price that are considered constrained at the time the performance obligation is satisfied are recognized when it is determined that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Certain contracts may have a significant financing component in the form of a vendor take back ("VTB") mortgage receivable. These amounts are recognized as receivables, see Note 3 "Receivables and Other Assets" for more detailed information. Certain contracts may have a component of variable consideration, in the form of profit participation. When a contract includes profit participation, the Company will receive consideration from the builder who purchased the land, as a percentage of the ultimate sale of the home. Profit participation is generally determined to be constrained at the time the revenue contract is recognized. The Company will reassess and recognize profit participation as appropriate at the end of each reporting period.

(ii) *Housing Sales:* The homebuilding operations of the Company principally generate revenue from designing, constructing, and marketing single family and multi-family homes in its own and its developers’ communities. The typical contract duration for housing contracts is less than one year. Revenues from the sale of homes are recognized at a point in time when the Company's performance obligations are achieved and collectability of the receivable is probable. Performance obligations are satisfied when the home is complete, consideration has been received, and title has transferred. All elements of the transaction price are allocated to the Company's one performance obligation.

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

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

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

(c) Land and Housing Inventory

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

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

Recoverability is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. To arrive at the estimated fair value of land and housing inventory, the Company estimates the future undiscounted cash flow for the life of each project. Specifically, on a land project, the Company estimates the timing of future land sales and the estimated revenue per lot, as well as estimated margins with respect to future land sales. On a housing project, the Company evaluates the margins on homes that have been closed, margins on sales contracts which are in backlog and estimated margins with regard to future home sales over the life of the project. For the land and housing inventory, the Company continuously evaluates projects where inventory is turning over more slowly than expected or whose average sales price and margins are declining and are expected to continue to decline. These projections take into account the specific business plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area. Such projections generally assume current home selling prices, cost estimates and sales rates for short-term projects are consistent with recent sales activity. For longer-term projects, planned sales rates for 2022 generally assume recent sales activity and normalized sales rates beyond 2022. Management identifies potentially impaired land and housing projects based on these quantitative factors as well as qualitative factors obtained from the local market areas. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired and is then written down to fair value using a discounted cash flow methodology which incorporates market participant assumptions.

Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rates, the timing and amount of the estimated future cash flows and discount rates, it is reasonably possible that actual results could differ from the estimates used in the impairment analysis. Assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions.

Because the projected cash flows used to evaluate the fair value of inventory are significantly impacted by changes in market conditions including reduced sales prices, a change in sales prices or changes in absorption estimates based on current market conditions and management's assumptions relative to future results could lead to additional impairments in certain communities during any given period.

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

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

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

(d) Commercial Properties

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

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

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

(e) Leases

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

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

The Company’s leases typically contain terms and conditions for options to extend or terminate the lease. Leases with termination or extension options which the Company is reasonably certain to exercise have been included as

part of the ROU asset and liability. Termination or extension options which the Company is reasonably certain not to exercise have been excluded in the determination of the ROU asset and liability.

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

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

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

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

(f) Loans and notes receivable

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

(g) Assets Held for Sale

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

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

(h) Unconsolidated Entities

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

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

(i) Use of Significant Estimates and Judgements

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

(j) Cash and Cash Equivalents

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

(k) Restricted Cash

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

(l) Income Taxes

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

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

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

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

(m) Share-Based Compensation

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

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

See Note 16 "Share-Based Compensation" for further discussion.

(n) Foreign Currency Translation

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

Assets and liabilities of subsidiaries or unconsolidated entities having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI").

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the consolidated statements of operations as other income / (expense), except for those related to monetary liabilities qualifying as hedges of the Company's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

(o) Earnings Per Share

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

(p) Advertising Costs

The Company expenses advertising costs as incurred in selling, general and administrative expenses, except for those related to marketing of our master planned communities. Refer to Note 3 "Receivables and Other Assets" for further details.

(q) Warranty Costs

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

(r) Variable Interest Entities

The Company accounts for its variable interest entities ("VIE") in accordance with ASC Topic 810 *Consolidation*. The decision to consolidate a VIE begins with establishing that a VIE exists. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investor lacks one of three characteristics associated with owning a controlling financial interest. Those characteristics are (i) the power to direct the activities of an entity that most significantly impact the entity's economic performance; (ii) the obligation to absorb the expected losses of the entity; and (iii) the right to receive the expected residual returns of the entity. The entity that has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE is considered to have a controlling financial interest in a VIE and is required to consolidate such entity. The Company has determined that it has a controlling financial interest in certain investments and land option contracts, which it considers VIEs that have been consolidated in these financial statements. See Note 4 "Land and Housing Inventory", Note 6 (a) "Investments in Unconsolidated Entities - Land and Housing", Note 6 (b) "Investments in Unconsolidated Entities - Affiliates" and Note 14 "Non-Controlling Interest" for further discussion on the consolidation of land option contracts and consolidated and unconsolidated entities.

(s) Derivative Financial Instruments and Risk Management Activities

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

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

(t) Held-to-Maturity Investment

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

(u) Investment Company Subsidiaries

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

The investment company assets are carried at fair value, which may be determined using a combination of observed transaction prices, industry wide accepted valuation techniques, or other valuation methodologies based on inputs that may be directly or indirectly market observable. See Note 3 "Receivables and Other Assets" and Note 21 "Fair Value Measurements".

(v) Goodwill

We record goodwill associated with acquisitions of businesses when the purchase price of the business exceeds the fair value of the net tangible and identifiable assets acquired. In accordance with ASC Topic 350, *Intangibles-Goodwill and Other* ("ASC 350"), we evaluate goodwill for potential impairment on at least an annual basis. We assess qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. We estimate fair value through various valuation methods, including the use of discounted expected future cash flows of each reporting unit.

(w) Fair Value Measurements

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

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

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

(x) Common Control Transactions

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

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

(y) Non-controlling Interest

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

Non-controlling interest represents ownership interests attributable directly or indirectly to third parties in certain consolidated subsidiaries, limited partnerships and VIEs. The portion of equity not owned by the Company in such entities is reflected as non-controlling interest within the equity section of the consolidated balance sheets. See Note 14 "Non-Controlling Interest".

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

(z) Future Accounting Pronouncements

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

Note 2. Restricted Cash

At December 31, 2021, the Company has restricted cash primarily consisting of $4.7 million of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductible payments (December 31, 2020 – $17.7 million of funds reserved for guarantees on completion of certain improvements and guarantees on future insurance loss deductibles).

Note 3. Receivables and Other Assets

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

	As at	
	December 31 2021	December 31 2020
Receivables (a)	$ 543,071	$ 392,431
Investment company assets (b)	488,980	255,376
Other assets (c)	125,162	119,785
	$ 1,157,213	$ 767,592

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

	As at	
	December 31 2021	December 31 2020
Development recovery receivables (i)	$ 176,272	$ 101,924
Loan receivables (ii)	127,294	86,568
Real estate receivables (iii)	94,927	87,970
Preferred shares dividends receivable (iv)	60,164	36,164
Sundry receivables (v)	52,971	58,827
Proceeds and escrow receivables (vi)	17,517	12,035
Refundable deposits	13,926	8,943
	$ 543,071	$ 392,431

(i) The Company has entered into development and cost sharing arrangements for the recovery of development expenditures with certain metropolitan districts and developers whereby the Company has undertaken to put in place the infrastructure for certain communities. These receivables will be collected over the development life of the community and bear interest rates ranging from Canadian prime or U.S. prime plus 1.0% or a fixed rate of 0.0% to 8.5% (December 31, 2020 – Canadian prime or U.S. prime plus 0.5% to 1.0% to a fixed rate of 0.0% to 8.5%).

(ii) During the year ended December 31, 2021, the Company amended a previously existing agreement with a consolidated subsidiary in order to provide financing of up to $75.0 million to include Brookfield Residential Land Holdings II, a related party of the Company. The loan bears interest at LIBOR + 2.50%. As at December 31, 2021, the loan had an outstanding balance of $56.5 million.

During the year ended December 31, 2021, the Company increased the financing capacity on the loan with our service provider, BPD, a wholly-owned subsidiary of BAM, from $50.0 million to $100.0 million. The loan bears interest at Canadian prime plus 0.75% or U.S. prime plus 0.75%, as applicable. As at December 31, 2021, the loan had an outstanding balance of $68.9 million. During the years ended December 31, 2021, the Company recorded $2.4 million of interest income at the exchange amounts in the consolidated statement of operations within other income (year ended December 31, 2020 – $1.6 million). Subsequent to December 31, 2021, the loan capacity was increased from $100.0 million to $125.0 million.

(iii) Real estate receivables include VTB mortgage receivables. The VTB collection terms range from three months to five years and bear interest at Canadian prime plus 3.0% to 6.0% or a fixed interest rate of 0.0% to 6.0% (December 31, 2020 – Canadian prime plus 2.0% to 3.0% or a fixed interest rate of 0.0% to 6.0%).

(iv) Preferred share dividends receivable are comprised of $60.2 million of preferred share dividends receivable from the BIL preferred shares (December 31, 2020 – $36.2 million). These transactions were recorded at the exchange amount. See Note 7 "Held-to-Maturity Investment" for details. During the year ended December 31, 2021, the Company earned $24.0 million of dividends from the preferred shares of Brookfield International Ltd. (year ended December 31, 2020 – $24.1 million of dividends earned) that have been recorded in the consolidated statements of operations within other income.

(v) Sundry receivables are comprised of lot interest receivables, homeowners association receivables, and other miscellaneous amounts.

(vi) Proceeds and escrow receivables relate to receivables held in trust due to timing of homes and lots closed at the period end date. The collections of these receivables typically occur shortly after the period end once the funds are released by the trust or escrow company.

As at December 31, 2021, allowances for doubtful accounts were $nil (December 31, 2020 – $nil).

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

	As at	
	December 31 2021	December 31 2020
Single Family Rental Investment	$ 297,738	$ 23,481
Homebuilder Finance Investment	191,242	231,895
	$ 488,980	$ 255,376

See Note 21 "Fair Value Measurements" for further details. The Company has a 47.8% share of the Homebuilder Finance program and a 25.5% share of the Brookfield Single Family Rental fund as at December 31, 2021.

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

	As at	
	December 31 2021	December 31 2020
Non-refundable earnest funds and investigation fees (i)	$ 46,883	$ 49,816
Other	34,012	21,180
Capitalized sales and marketing costs (ii)	19,458	25,663
Capital assets (iii)	13,881	14,974
Prepaid expenses	10,928	8,152
	$ 125,162	$ 119,785

(i) Non-refundable earnest funds and investigation fees relate to non-refundable deposits and due-diligence costs on potential acquisitions and options that are incurred prior to taking title of a property.

(ii) Capitalized sales and marketing costs are recorded at cost less accumulated amortization. Capitalized sales and marketing costs are amortized over unit closings and are included in selling, general and administrative

expense on the consolidated statement of operations. Included in capitalized sales and marketing is accumulated amortization of $31.1 million (December 31, 2020 – $32.8 million).

(iii) Capital assets are recorded at cost less accumulated depreciation. The Company provides for depreciation using the straight-line method. Leasehold improvements are depreciated over the term of the lease and equipment is depreciated over three to five years. Included in capital assets is accumulated depreciation of $23.7 million (December 31, 2020 – $24.4 million).

Note 4. Land and Housing Inventory

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

The following summarizes the components of land and housing inventory:

	As at	
	December 31 2021	December 31 2020
Land held for development	$ 1,238,452	$ 1,307,436
Land under development	748,390	774,074
Housing inventory	506,691	476,629
Model homes	80,102	98,488
	$ 2,573,635	$ 2,656,627

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

The locations of the projects reviewed are as follows:

	Number of Projects
Canada	42
California	38
Central and Eastern U.S.	31
	111
Unconsolidated entities	16
Total	127

The Company capitalizes interest which is later expensed as housing units and lots are sold. Interest capitalized and expensed during the years ended December 31, 2021 and 2020 was as follows:

	Year Ended December 31	
	2021	2020
Interest capitalized, beginning of year	$ 188,646	$ 173,353
Interest capitalized	68,303	82,716
Interest expensed to cost of sales	(76,550)	(67,423)
Interest capitalized, end of year	$ 180,399	$ 188,646

In the ordinary course of business, the Company has entered into a number of option contracts to acquire land or lots in the future in accordance with specific terms and conditions. As such, the Company has advanced deposits to secure these rights. The Company is required by ASC Topic 810 *Consolidation* to qualitatively assess whether it is the primary beneficiary of these options based on whether it has the power to control the significant activities of the VIE and an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The Company has evaluated its option contracts in accordance with this guidance and determined that, for those entities considered to be VIEs, it is the primary beneficiary of options with an aggregate exercise price of $14.8 million (December 31, 2020 – $8.1 million), which are required to be consolidated. In accordance with ASC Topic 810, the future exercise price for these options have been recorded in land and housing inventory, with a corresponding increase in accounts payable and other liabilities for the assumed third-party investment in the VIE. Where the land sellers are not required to provide the Company with financial information related to the VIE, certain assumptions by the Company are required in its assessment as to whether or not it is the primary beneficiary.

Land and housing inventory includes non-refundable deposits and other entitlement costs totaling $15.7 million (December 31, 2020 – $24.8 million) in connection with options that are not required to be consolidated in accordance with ASC Topic 810. The total remaining exercise price of these options is $50.7 million (December 31, 2020 – $75.7 million), including the non-refundable deposits and other entitlement costs identified above.

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

Years of Expiry	**Number of Lots**	**Total Exercise Price**
2022	36	$ 2,285
2023	1,243	2,219
2024	75	1,828
2025	100	2,540
2026	5,698	21,127
Thereafter	974	20,702
	8,126	$ 50,701

The Company holds agreements for a further 3,051 acres (December 31, 2020 – 3,267 acres) of longer-term land, with non-refundable deposits and other entitlement costs of $2.5 million (December 31, 2020 – $2.2 million), which is included in land and housing inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of $63.3 million (December 31, 2020 – $72.3 million). The Company has evaluated these options in accordance with ASC Topic 810, and has concluded that they are not the primary beneficiary. As such, they are not required to be consolidated.

Note 5. Business Combinations

On June 1, 2021, the Company acquired the management company of Newland, an established U.S. real estate land development company, and their 5% general partner equity interest in 15 land communities, for total consideration of $44.4 million. The strategic acquisition provides the Company with an expanded geographic footprint and regional operational skill sets to increase its position in the development of master-planned communities across the United States.

As a part of the transaction, all property management agreements held by Newland as well as all related assets and liabilities were immediately assigned to BPD, a related party of the Company, for no consideration. Additionally, substantially all employees related to the property management agreements were directly hired by BPD.

The acquisition was accounted for as a business combination under the provisions of ASC Topic 805 *Business Combinations* which, among other things, requires assets acquired and liabilities assumed to be measured at their acquisition date fair values.

The following table summarizes the measurement of the assets acquired and liabilities assumed:

		Fair Value at Acquisition Date
Assets		
Investments in unconsolidated entities	$	44,402
Cash and cash equivalents		1,418
Total assets acquired	$	45,820
Liabilities		
Accounts payable and other liabilities	$	1,418
Total liabilities acquired	$	1,418
Net assets acquired	$	44,402
Total consideration (a)	$	44,402
Goodwill	$	—

(a) The Company paid $14.5 million of the total consideration in cash and had consideration payable outstanding of $29.9 million as at December 31, 2021.

The following table presents the revenue and net income of Newland that are included in the consolidated statements of operations from the acquisition date of June 1, 2021 through December 31, 2021:

		June 1 to December 31, 2021
Revenue	$	—
Net income	$	3,058

Note 6. Investments in Unconsolidated Entities

(a) Land and Housing

As part of its land and housing operations, the Company participates in joint ventures and partnerships to explore opportunities while minimizing risk. As of December 31, 2021, the Company is invested in 25 unconsolidated entities (December 31, 2020 – 15 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities include $16.2 million (December 31, 2020 – $16.1 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 418 lots (December 31, 2020 – 1,001 lots) under option. The Company's share of the total exercise price of these options is $20.9 million (December 31, 2020 – $38.9 million). Summarized financial information on a 100% basis for the combined land and housing unconsolidated entities follows:

	As at	
	December 31 2021	December 31 2020
Assets		
Land and housing inventory	$ 1,524,897	$ 710,268
Investments in unconsolidated entities	128,960	147,695
Other assets	319,201	130,702
	$ 1,973,058	$ 988,665
Liabilities and Equity		
Bank indebtedness and other financings	$ 349,690	$ 126,067
Accounts payable and other liabilities	185,507	117,868
Brookfield Residential's interest	356,642	307,250
Others' interest	1,081,219	437,480
	$ 1,973,058	$ 988,665

	Year Ended December 31	
	2021	2020
Revenue and Expenses		
Revenue	$ 744,484	$ 185,065
Direct cost of sales	(435,727)	(136,637)
Other income and expenses	(13,119)	7,947
Net income	$ 295,638	$ 56,375
Total equity earnings	$ 99,910	$ 16,469

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

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

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt on its unconsolidated entities. As at December 31, 2021, the Company had recourse guarantees of $50.1 million (December 31, 2020 – $32.5 million) with respect to debt of its land and housing unconsolidated entities.

(b) Affiliates

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

On June 30, 2021, BUSI completed a recapitalization transaction whereby Brookfield US Holdings Inc. subscribed for 455,967 additional Class A common shares in exchange for $700.0 million of BUSI preferred shares. As a result of the transactions, BRPI's economic interest in BUSI was diluted from 9.5% to 9.1%, and a dilution gain of $35.3 million was recorded through retained earnings.

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

	For the Year Ended	
	December 31 2021	December 31 2020
Equity Investment in BUSI		
Balance, beginning of period	$ 605,615	$ 634,028
Dilution gain	35,309	—
Earnings / (Loss) from unconsolidated entities	129,346	(29,544)
Other comprehensive (loss) / income	(610)	1,131
Balance, end of period	$ 769,660	$ 605,615

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

	As at	
	December 31 2021	December 31 2020
Assets		
Investments	$ 13,494,394	$ 7,087,439
Investments in unconsolidated entities	5,167,070	5,056,923
Other assets	3,915,395	4,201,913
	$ 22,576,859	$ 16,346,275
Liabilities and Equity		
Loans payable	$ 2,197,035	$ 3,310,113
Other liabilities	1,087,495	1,000,334
Non-controlling interest	10,792,508	5,658,270
Brookfield Residential's interest	769,660	605,615
Others' Interest	7,730,161	5,771,943
	$ 22,576,859	$ 16,346,275

	Year Ended December 31	
	2021	2020
Revenue and Expenses		
Income	$ 2,651,533	$ 1,158,546
Expenses	(1,335,412)	(1,391,347)
Net income / (loss)	1,316,121	(232,801)
Other comprehensive (loss) / income	(6,644)	7,748
Comprehensive income / (loss)	$ 1,309,477	$ (225,053)

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

Note 7. Held-to-Maturity Investment

	As at	
	December 31 2021	December 31 2020
Brookfield International Ltd. Series I Class A Preference Shares ("BIL preferred shares")	$ 300,000	$ 300,000
	$ 300,000	$ 300,000

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

During the year ended December 31, 2021, the Company earned $24.0 million of preferred share dividends (year ended December 31, 2020 – $24.1 million of dividends earned). As at December 31, 2021 a total of $60.2 million of accrued dividends is recorded in the consolidated balance sheets within receivables and other assets. See Note 3 "Receivables and Other Assets" for details.

Note 8. Commercial Properties

Commercial properties include any properties that are currently leased out by Brookfield Residential and produce leasing revenue for the Company, are being developed to produce leasing revenue at a future date, or are being developed for eventual sale. Completed commercial properties are stated at cost, less accumulated depreciation. Commercial properties under development are stated at cost. See Note 18 "Other (Income) / Expense" for the income from commercial properties. The Company's components of commercial properties consist of the following:

	As at	
	December 31 2021	December 31 2020
Work in progress	$ 239,919	$ 469,981
Finished properties	652,992	243,824
	892,911	713,805
Less: accumulated depreciation	(19,766)	(3,858)
	$ 873,145	$ 709,947

Interest capitalized and expensed during the years ended December 31, 2021 and 2020 was as follows:

	Year Ended December 31	
	2021	2020
Interest capitalized, beginning of period	$ 52,537	$ 23,646
Interest capitalized	4,700	28,891
Interest expensed to depreciation	(917)	—
Interest capitalized, end of period	$ 56,320	$ 52,537

Note 9. Leases

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

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

Included in lease expense are expenses for operating leases, financing lease interest and financing lease amortization.

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

Years of Expiry	Operating Leases	Financing Leases
2022	$ 8,855	$ 151
2023	9,347	162
2024	8,827	85
2025	8,943	54
2026	8,474	19
Thereafter	351,780	8
Total lease payments	396,226	479
Less imputed interest	(306,728)	(34)
Total	$ 89,498	$ 445

Note 10. Income Taxes

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

	Year Ended December 31	
	2021	2020
Statutory rate	23.0%	24.0%
Non-temporary differences	3.1	6.7
Rate difference from statutory rate	0.3	(14.5)
Deferred tax asset valuation allowance impact	(12.6)	7.9
Portion of gains subject to different tax rates	4.6	0.4
Return to provision	0.2	7.1
Change in statutory tax rate	—	1.9
Non-taxable preferred share dividends	(1.6)	(7.0)
Taxable income attributable to non-controlling interests	(13.9)	(23.4)
Other	0.5	0.3
Effective tax rate	3.6%	3.4%

The increase in the 2021 effective tax rate when compared to the same period in 2020 was primarily due to an increase in unrealized foreign exchange gains on certain of the Company's U.S. denominated notes, an increase in non-deductible stock-based compensation and realized capital gains of C$199.0 million on the sale of common share investments. This was partially offset by an increase in the consolidation of income attributable to non-controlling interest for which the consolidated tax provision only includes our proportionate share, the release of valuation allowance relating to the outside basis difference in our investment in affiliate unconsolidated entities and the recognition of capital losses for which no benefit was previously recognized.

The provision for income taxes by jurisdiction for the years ended December 31, 2021 and 2020 is set forth below:

	Year Ended December 31	
	2021	**2020**
Current		
Canada	$ (119)	$ (89)
U.S.	(6,262)	(5,768)
International	(536)	(852)
Current income tax expense	(6,917)	(6,709)
Deferred		
Canada	(7,023)	4,456
U.S.	(243)	(874)
Deferred income tax (expense) / recovery	(7,266)	3,582
Total income tax expense	$ (14,183)	$ (3,127)

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

	As at	
	December 31 2021	**December 31 2020**
Net deferred tax assets / (liabilities)		
Differences relating to land and housing inventory	$ (4,284)	$ (6,415)
Compensation deductible for tax purposes when paid	7,489	7,924
Operating loss carryforwards	48,009	52,271
Capital loss carryforwards	—	17,968
Impact of foreign exchange	(3,456)	(545)
Investment in unconsolidated entities - affiliate	(966)	38,282
Other	886	1,732
Net deferred tax assets before valuation allowance	47,678	111,217
Cumulative valuation allowance	—	(56,250)
Net deferred tax assets	$ 47,678	$ 54,967

The Company has Canadian and U.S. federal non-capital loss carryforwards of approximately $207.8 million (C$262.6 million) and $0.5 million, respectively, as at December 31, 2021 (December 31, 2020 - $229.3 million (C$291.9 million) and $nil, respectively). Federal non-capital loss carryforwards attributable to Canada and the U.S. may be carried forward up to 20 years to offset future taxable income and expire between 2033 and 2041. At December 31, 2021, the Company has Canadian capital loss carryforwards of $nil (December 31, 2020 - $156.2 million (C$199.0 million)) which do not expire.

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

Prior to 2021, the Company established a valuation allowance against its deferred tax assets relating to realized capital losses and to its investment in affiliate unconsolidated entities. During the year ended December 31, 2021, the Company determined that the valuation allowance was no longer required. Accordingly, the Company fully reversed $56.3 million of its valuation allowance against its deferred tax assets which is reflected in the deferred income tax

expense in the consolidated statement of operations. At December 31, 2021, the Company concluded it is more-likely-than-not that all of its U.S. and Canadian deferred tax assets will be realized in the future.

Undistributed earnings of the Company's non-Canadian corporate affiliates as of December 31, 2021 were considered to be permanently reinvested. A determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable.

Note 11. Accounts Payable and Other Liabilities

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

	As at	
	December 31 2021	December 31 2020
Accounts payable (a)	$ 494,728	$ 418,494
Other liabilities (b)	242,941	189,546
	$ 737,669	$ 608,040

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

	As at	
	December 31 2021	December 31 2020
Trade payables and other accruals	$ 181,755	$ 153,802
Customer deposits	142,530	126,721
Development costs payable (i)	108,310	68,413
Real estate payables	29,053	33,362
Interest on notes payable	21,307	24,370
Accrued and deferred compensation	12,298	12,567
Current income taxes receivable	(525)	(741)
	$ 494,728	$ 418,494

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

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

	As at	
	December 31 2021	December 31 2020
Deferred revenue	$ 79,249	$ 30,923
Purchase price consideration payable	47,627	17,584
Other	47,540	34,488
Share-based compensation (Note 16)	34,916	81,719
Warranty costs (Note 19)	18,789	16,718
Consolidated land option contracts (i)	14,820	8,114
	$ 242,941	$ 189,546

(i) Consolidated land option contracts are the total future purchase price of land options contracts required to be consolidated under ASC Topic 810 Consolidation, with a corresponding amount recorded in land and housing inventory. See Note 4 “Land and Housing Inventory”.

Note 12. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	December 31 2021	December 31 2020
Project-specific financings (a)	$ 602,406	$ 355,815
Secured VTB mortgages (b)	58,330	61,861
Bank indebtedness (c)	—	—
	660,736	417,676
Transaction costs (a)(c)	(8,671)	(8,038)
	$ 652,065	$ 409,638

(a) Project-specific financings

(i) On December 29, 2021, OliverMcMillan/Brookfield Residential Nashville LLC, a wholly-owned subsidiary of the Company, finalized the mezzanine loan agreement for the Fifth + Broadway mixed use project in Nashville for $116.9 million, of which $96.9 million is from BAM Reinsurance Investments LP, a related party of the Company. Proceeds from the 364 day loan was used for general corporate purposes.

Interest is charged on the loan at a fixed rate of 6.0% per annum.

The loan contains restrictive covenants and requires BRUS LLC to maintain a minimum liquidity of $10.0 million and a minimum net worth of $100.0 million, exclusive of BRUS LLC's equity in the project. The loan is secured by a first priority equity pledge of 100% of BRUS LLC's interest in OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company and direct ownership of the Fifth + Broadway Project. The Company was in compliance with these covenants as at December 31, 2021.

(ii) On June 17, 2021, OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company, finalized the amendment of the secured construction loan for the Fifth + Broadway mixed-used project in Nashville. The loan was extended through July 2024, allowing OliverMcMillan Spectrum Emery LLC to borrow up to $360.0 million (December 31, 2020 – $360.0 million). As at December 31, 2021, the Company has $358.4 million of borrowings outstanding under the construction loan (December 31, 2020 – $284.4 million).

Interest is charged on the loan at a rate equal to LIBOR plus 3.15%, subject to a LIBOR rate floor of 0.25%, with the ability to convert the interest charged to a prime rate loan (December 31, 2020 – LIBOR plus 3.35%, subject to a LIBOR rate floor of 1.80%).

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $10.0 million and a minimum net worth of $100.0 million, exclusive of BRUS LLC's equity in the project. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at December 31, 2021.

(iii) On March 20, 2020, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, entered into a three-year secured construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The loan allows OliverMcMillan Kuhio LLC to borrow up to $155.7 million. As at December 31, 2021, the company has $86.7 million of borrowings outstanding under the construction loan (December 31, 2020 – $24.1 million).

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

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $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 December 31, 2021.

(iv) As at December 31, 2021, the Company has two Canadian project-specific financings totaling $40.4 million (C$51.0 million) provided by various lenders (December 31, 2020 – $47.4 million (C$60.3 million)).

Project-specific financing totaling $28.2 million (C$35.6 million) has an interest rate of Canadian prime + 0.50%, is due on demand with 240 days' notice, and is secured by certain land and housing inventory assets of the Company's Alberta operations and a general charge over the property of South Seton Limited Partnership, a consolidated subsidiary of the Company (December 31, 2020 – $39.3 million (C$50.0

million)). This borrowing includes a minimum debt to equity covenant for South Seton Limited Partnership of no greater than 1.50 to 1. The Company was in compliance with this covenant as at December 31, 2021.

On September 20, 2021, the Company finalized the amendment and extension of the project-specific financing, that was extended through November 2022 on substantially the same terms and conditions. Project-specific financing totaling $12.2 million (C$15.4 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 2022, and is secured without covenants (December 31, 2020 – $8.1 million (C$10.3 million).

(b) Secured VTB mortgages

The Company has 10 secured VTB mortgages (December 31, 2020 – 12 secured VTB mortgages) in the amount of $58.3 million (December 31, 2020 – $61.9 million). Secured VTB mortgages are repayable as follows: 2022 – $37.0 million; 2023 – $19.1 million; and 2024 – $2.2 million.

Seven secured VTB mortgages (December 31, 2020 – 10 secured VTB mortgages) in the amount of $41.5 million (December 31, 2020 – $47.1 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Residential (Ontario) LP, wholly-owned subsidiaries of the Company. This debt is repayable in Canadian dollars of C$52.4 million (December 31, 2020 – C$60.0 million). The interest rates on the debt range from fixed rates of 4.0% to 6.0% and variable rates of Canadian prime plus 1.0% to 2.0% and the debt is secured by the related land. As at December 31, 2021, these borrowings are not subject to any financial covenants.

Three secured VTB mortgages (December 31, 2020 – two secured VTB mortgages) in the amount of $16.8 million (December 31, 2020 – $14.7 million) relate to raw land held for development by various U.S. subsidiaries of the Company. The interest rate on the debt ranges from fixed rates of 0.48% to 5.0% and the debt is secured by related land. As at December 31, 2021, these borrowings are not subject to any financial covenants.

(c) Bank indebtedness

On August 19, 2021, the Company and BRUS LLC finalized the amendment and extension of the North American unsecured revolving credit facility to replace BRUS LLC as a co-borrower with BRUSH. The unsecured revolving credit facility was also extended through August 2025 on substantially the same terms and conditions, allowing the Company to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

As at December 31, 2021, there were no borrowings outstanding under the North American unsecured revolving credit facility, and available capacity of $592.0 million (December 31, 2020 – no borrowings outstanding and $597.8 million of available capacity, respectively). The Company is able to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

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

The facility contains certain restrictive covenants including limitations on liens, dividends and other distributions, investments in subsidiaries and joint ventures that are not party to the loan. The facility requires the Company to maintain a minimum consolidated tangible net worth of $2.3 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at December 31, 2021, the Company was in compliance with all of its covenants relating to this facility.

Note 13. Notes Payable

	As at	
	December 31 2021	**December 31 2020**
6.125% unsecured senior notes redeemed June 10, 2021 (a)	$ —	$ 196,325
6.375% unsecured senior notes redeemed June 10, 2021 (a)	—	350,000
6.250% unsecured senior notes due September 15, 2027 (b)	600,000	600,000
5.125% unsecured senior notes due June 15, 2029 (c)	197,825	—
5.000% unsecured senior notes due June 15, 2029 (d)	350,000	—
4.875% unsecured senior notes due February 15, 2030 (e)	500,000	500,000
	1,647,825	1,646,325
Transaction costs (f)	(21,808)	(24,825)
	$ 1,626,017	$ 1,621,500

(a) The Company's C$250 million principal amount of 6.125% unsecured senior notes and $350 million principal amount of 6.375% unsecured senior notes were redeemed in full at redemption prices equal to 100.0% and 102.13% of their aggregate principal amounts, respectively, plus accrued and unpaid interest, using cash on hand and the net proceeds from the issuance of the unsecured senior notes due in 2029.

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

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

(c) On May 25, 2021, the Company and BRUS LLC co-issued a private placement of C$250 million of unsecured senior notes. The notes have an eight-year term, are due on June 15, 2029, and bear interest at a fixed rate of 5.125% with interest payable semi-annually. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries. On or after 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 net proceeds of the offering were used to redeem the C$250 million aggregate principal amount of the unsecured senior notes due in 2023.

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

	Notes Redemption Price
2024	102.56%
2025	101.28%
2026 and thereafter	100.00%

(d) On May 25, 2021, the Company and BRUS LLC co-issued a private placement of $350 million of unsecured senior notes. The notes have an eight-year term, are due June 15, 2029, and bear interest at a fixed rate of 5.0% with interest payable semi-annually. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries. On or after June 15, 2024, the notes may be redeemed at 102.5% of their principal amount plus any accrued and unpaid interest. In accordance with the indenture, the redemption price decreases annually thereafter and the notes can be redeemed at par on or

after June 15, 2026 through maturity. The net proceeds of the offering were used to redeem the $350 million aggregate principal amount of the unsecured senior notes due in 2025.

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

	Notes Redemption Price
2024	102.50%
2025	101.25%
2026 and thereafter	100.00%

(e) 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.

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

(f) The transaction costs are costs related to the issuance of the Company's notes payable and are amortized using the effective interest rate method over the life of the related debt instrument. During the year ended December 31, 2021, the Company capitalized $6.8 million of transaction costs associated with the issuance of the unsecured senior notes due in 2029. As a result of the redemption of the unsecured senior notes due in 2023 and 2025, the Company recorded a loss on extinguishment of debt, which included a write-off of net unamortized deferred financing fees of $6.8 million.

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 coverage ratio of 2.0 to 1, as applicable. The Company was in compliance with these financial covenants as at December 31, 2021.

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

Note 14. Non-Controlling Interest

In accordance with ASC Topic 810, non-controlling interest has been classified as a component of total equity and the net income on the consolidated statements of operations has been adjusted to include the net income attributable to non-controlling interest, which for the year ended December 31, 2021 was net income of $193.5 million (December 31, 2020 – net income of $74.2 million).

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

	As at December 31, 2021
Affiliate (a)	$ 1,244,218
Land and housing (b)	299,751

(a) The non-controlling interest held by the Company's affiliate, BUSI, of $1,244.2 million represents a total of 81.1% not held by the Company as at December 31, 2021. This represents the 89.6% direct interest held by BUSI adjusted for the Company’s 9.1% indirect interest in BRUSH held through its equity investment in BUSI.

On September 25, 2019, the Company completed a reorganization (the "Reorganization Transaction") in order to facilitate operational and administrative synergies by combining all of BAM's direct U.S. investments into one corporate group and further expand the Company's business by including land banking assets owned by BAM's subsidiary BUSI. Through the Reorganization Transaction, the Company’s wholly-owned subsidiary, Brookfield Residential GP LLC ("BRGP") became the sole managing member and 10.4% equity owner of BRUSH. BAM’s subsidiary, BUSI owns 89.0% with the remaining 0.6% of BRUSH owned by a wholly-owned subsidiary of BUSI. BUSI is controlled by BAM and Brookfield Residential holds a direct non-controlling minority interest (9.1%) in BUSI.

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

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

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

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

As at December 31, 2021, the assets and liabilities of BRUSH totaled $3.9 billion and $2.3 billion, respectively (December 31, 2020 – $3.6 billion and $2.2 billion, respectively).

(b) The non-controlling interest of land and housing of $299.8 million (December 31, 2020 – $155.5 million) includes a 47.8% share of the Company's Homebuilder Finance program and a 74.5% share of the Brookfield Single Family Rental fund not held by the Company as at December 31, 2021.

Note 15. Equity

Common Shares

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

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

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

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

Note 16. Share-Based Compensation

(a) Management Share Option Plan

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

The fair value of the Company’s stock option awards is estimated using the Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of the Company’s stock option awards is expensed

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

During the year ended December 31, 2021, there were no options granted to eligible employees (year ended December 31, 2020 – no options granted).

	December 31 2021	December 31 2020
Dividend yield	—%	—%
Volatility rate	39.47%	40.08%
Risk-free interest rate	0.10%	0.12%
Expected option life (years)	0.3	1.2
Liquidity discount	25%	25%

The liability of $34.9 million (December 31, 2020 – $44.5 million) relating to stock options is included in accounts payable and other liabilities. The total stock based compensation cost recognized in selling, general and administrative expense resulting from the change in fair value of our share-based compensation liabilities for the year ended December 31, 2021 was $47.3 million (December 31, 2020 – $21.7 million).

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

	December 31, 2021		December 31, 2020	
	Options	Weighted Average Per Share Exercise Price	Options	Weighted Average Per Share Exercise Price
Outstanding, beginning of period	10,409,076	$ 22.20	12,388,886	$ 22.21
Granted	—	—	—	—
Exercised	(6,898,962)	22.48	(1,979,810)	22.25
Cancelled	—	—	—	—
Outstanding, end of period	3,510,114	21.64	10,409,076	22.20
Options exercisable, end of period	2,515,914	$ 21.42	8,687,476	$ 22.27

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

	December 31, 2021		December 31, 2020	
	Options	Weighted Average Fair Value Per Option	Options	Weighted Average Fair Value Per Option
Unvested options outstanding, beginning of period	1,721,600	$ 6.77	4,199,380	$ 4.23
Granted	—	—	—	—
Vested	(727,400)	11.98	(2,477,780)	5.18
Cancelled	—	—	—	—
Unvested options outstanding, end of period	994,200	$ 11.16	1,721,600	$ 6.77

At December 31, 2021, there was $8.9 million (December 31, 2020 – $10.3 million) of unrecognized expenses related to unvested options, which are expected to be recognized over the remaining weighted average contract period of 1.5 years (December 31, 2020 – 2.3 years).

(b) Deferred Share Unit Plan ("DSUP")

Brookfield Residential had a DSUP under which certain of its executive officers and directors could, at their option, receive all or a portion of their annual bonus awards or retainers in the form of deferred share units. The Company could also make additional grants of units to its executives and directors pursuant to the DSUP.

During the year ended December 31, 2021, the outstanding vested deferred share units were converted to a different compensation plan with BAM. As a result of the conversion, the DSUP liability at December 31, 2021 was $nil (December 31, 2020 – $37.2 million) and a liability of $37.2 million has been recorded in accounts payable and other liabilities for the year ended December 31, 2021. As a result of the conversion, there was no income statement impact for the year ended December 31, 2021 (year ended December 31, 2020 – expense of $8.0 million which was included in selling, general and administrative expense).

The following table sets out changes in the number of deferred share units that executives, directors and senior operating management employees may redeem under Brookfield Residential's DSUP at December 31, 2021 and December 31, 2020:

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

Note 17. Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2021 and 2020 were calculated as follows:

	Year Ended December 31	
	2021	2020
Numerator:		
Net income attributable to Brookfield Residential	$ 186,854	$ 14,046
Denominator (in '000s of shares):		
Basic weighted average shares outstanding	129,757	129,757
Diluted weighted average shares outstanding	130,692	129,786
Basic earnings per share	$ 1.44	$ 0.11
Diluted earnings per share	$ 1.43	$ 0.11

Note 18. Other (Income) / Expense

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

	Year Ended December 31	
	2021	2020
Investment income	$ (28,736)	$ (30,813)
Other	(25,047)	(9,524)
Preferred share dividend income (i)	(24,000)	(24,066)
Change in unrealized gain from investment (ii)	(13,549)	4,436
Income from commercial properties	(13,234)	—
Joint venture management fee income	(8,507)	(13,018)
Loss on extinguishment of debt	15,750	15,030
	$ (97,323)	$ (57,955)

(i) See Note 7 "Held-to-Maturity Investment" for further details.

(ii) See Note 21 "Fair Value Measurements" for further details.

Note 19. Commitments, Contingent Liabilities and Other

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

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

	Year Ended December 31	
	2021	**2020**
Balance, beginning of period	$ 16,718	$ 18,546
Payments and other adjustments made during the period	(4,316)	(7,880)
Warranties issued during the period	8,433	10,677
Adjustments due to change in estimates	(2,047)	(4,625)
Balance, end of period	$ 18,788	$ 16,718

As at December 31, 2021, $18.2 million of the amounts held in other assets related to deposits on land purchase obligations (December 31, 2020 – $21.8 million). The total amount committed on these obligations is $267.0 million (December 31, 2020 – $292.7 million).

Note 20. Guarantees

In the ordinary course of business, the Company has provided construction guarantees in the form of letters of credit and performance bonds. As at December 31, 2021, these guarantees amounted to $658.7 million (December 31, 2020 – $593.3 million) and have not been recognized in the consolidated financial statements. However, the proportionate development costs that relate to lots that have been sold are accrued in accounts payable and other liabilities. Such guarantees are required by the municipalities in which the Company operates before construction permission is granted.

Note 21. 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 December 31, 2021, all of the Company's financial assets and liabilities are recorded at their carrying value as it approximates fair value due to their short term nature, with the exception of one of the Company's loan receivable balances, Homebuilder Finance assets, and Brookfield Single Family Rental investment, which are recorded at their fair values.

Homebuilder Finance Investment

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

	Year Ended December 31, 2021
Purchases / Land development spend	$ 140,366

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

Financial Instrument		Fair value as of 12/31/2021	Valuation technique	Unobservable inputs	Range (where applicable)
Homebuilder Finance Investment	$	191,242	Discounted cash flow	Rate of return	12.2% - 25.2%

Brookfield Single Family Rental Investment

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:

		Year Ended December 31, 2021
Balance, beginning of period	$	23,481
Purchase of investment		260,708
Change in unrealized gain from investment		13,549
Balance, end of period	$	297,738

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

Financial Instrument		Fair value as of 12/31/2021	Valuation technique	Unobservable inputs	Range (where applicable)
Single Family Rental Investment	$	297,738	Discounted cash flow	Discount rate Capitalization rate	7.9% 5.4%

Net Investment Hedge

For the year ended December 31, 2021, unrealized pre-tax loss of $1.5 million (December 31, 2020 – loss of $3.9 million), was recorded in other comprehensive income for hedges of net investments in foreign operations.

Note 22. Managing Risks

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

(a) Market Risk

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

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

Interest Rate Risk

The Company is exposed to financial risk that arises from fluctuations in interest rates. Some of the interest-bearing assets and liabilities of the Company are at floating rates and, accordingly, their fair values approximate their carrying value. The Company would be negatively impacted on balance, if interest rates were to increase. Based on net debt levels as at December 31, 2021, a 1% change in interest rates would have a $4.9 million impact on the Company's cash flows.

The fair value of debt with fixed interest rates is determined by discounting contractual principal and interest payments at estimated current market interest rates determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at December 31, 2021, the book value

of all outstanding debt exceeded its fair value by $40.6 million (December 31, 2020 – fair value of all outstanding debt exceeded its book value by $69.2 million).

Currency Exchange Rate Risk

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

The Company holds financial instruments to hedge the net investment in foreign operations whose functional and reporting currencies are other than the U.S. dollar. A 1% increase in the U.S. dollar would result in a C$2.0 million gain on these hedging instruments as at December 31, 2021 (December 31, 2020 – C$2.5 million gain). See Note 21 “Fair Value Measurements” for additional disclosure.

Other Price Risk

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

(b) Credit Risk

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

(c) Liquidity Risk

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

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

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

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

	Payment Due by Period				
	Total	**Less than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**More than 5 Years**
Notes payable[(1)]	$ 1,647,825	$ —	$ —	$ —	$ 1,647,825
Interest on notes payable	639,477	89,514	179,027	179,027	191,909
Secured VTB mortgages[(2)(3)]	58,330	37,028	21,302	—	—
Project-specific financings[(2)(3)]	602,406	157,294	445,112	—	—
Accounts payable and other liabilities[(4)]	737,669	737,669	—	—	—
Operating and financing lease obligations[(5)]	396,705	9,006	18,421	17,490	351,788
Purchase agreements and other obligations[(6)]	276,028	176,597	94,669	2,961	1,801

(1) Amounts are included on the consolidated balance sheets and exclude transaction costs. See Note 13 for additional information regarding notes payable.
(2) Amounts are included on the consolidated balance sheets. See Note 12 for additional information regarding bank indebtedness and other financings and related matters.
(3) Amounts do not include interest due to the floating nature of the interest on the debt. See Note 12 for additional information regarding floating rate debt.
(4) Amounts are included on the consolidated balance sheets. See Note 11 for additional information regarding accounts payable and other liabilities
(5) Amounts are related to non-cancellable operating and financing leases involving office space, land, design centers and model homes. See Note 9 for additional information regarding lease agreements
(6) See Note 19 for additional information regarding purchase agreements and other obligations.

Note 23. Segmented Information

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

	Year Ended December 31, 2021					
	Canada	**California**	**Central and Eastern U.S.**	**Corporate and Other**	**Equity Investment in BUSI**	**Total**
Housing revenue	$ 447,594	$ 667,564	$ 588,427	$ —	$ —	$1,703,585
Land revenue	175,754	33,670	130,349		—	339,773
	623,348	701,234	718,776	—	—	2,043,358
Housing cost of sales	(370,947)	(529,754)	(488,538)	—	—	(1,389,239)
Land cost of sales	(105,967)	(18,850)	(83,257)	—	—	(208,074)
	(476,914)	(548,604)	(571,795)	—	—	(1,597,313)
Gross margin	146,434	152,630	146,981	—	—	446,045
Earnings from unconsolidated entities - land and housing	5,959	18,894	75,057	—	—	99,910
Earnings from unconsolidated entities - affiliate	—	—	—	—	129,346	129,346
Expenses	(64,446)	(69,511)	(95,286)	(51,554)	—	(280,797)
Income / (Loss) before income taxes	$ 87,947	$ 102,013	$ 126,752	$ (51,554)	$ 129,346	$ 394,504

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

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

	As at December 31, 2021					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Land held for development	$ 393,787	$ 275,455	$ 569,209	$ —	$ —	$1,238,451
Land under development	202,672	241,842	301,076	2,801	—	748,391
Housing inventory	130,889	150,145	225,657	—	—	506,691
Model homes	20,894	34,868	24,340	—	—	80,102
Total land and housing inventory	748,242	702,310	1,120,282	2,801	—	2,573,635
Commercial properties	49,199	239,704	584,242	—	—	873,145
Investments in unconsolidated entities - land and housing	118,529	180,506	57,607	—	—	356,642
Investments in unconsolidated entities - affiliate	—	—	—	—	769,660	769,660
Held-to-maturity investment	—	—	—	300,000	—	300,000
Operating and financing lease right-of-use asset	11,511	41,600	19,764	9,374	—	82,249
Goodwill	—	—	—	16,479	—	16,479
Other assets [1]	150,411	72,433	268,882	834,466	—	1,326,192
Total assets	$1,077,892	$1,236,553	$2,050,777	$1,163,120	$ 769,660	$6,298,002

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

	As at December 31, 2020					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Land held for development	$ 445,892	$ 263,162	$ 598,382	$ —	$ —	$1,307,436
Land under development	210,605	198,366	362,092	3,011	—	774,074
Housing inventory	116,959	196,366	163,304	—	—	476,629
Model homes	20,177	52,020	26,291	—	—	98,488
Total land and housing inventory	793,633	709,914	1,150,069	3,011	—	2,656,627
Commercial properties	49,991	97,458	562,498	—	—	709,947
Investments in unconsolidated entities - land and housing	57,532	171,549	78,169	—	—	307,250
Investments in unconsolidated entities - affiliate	—	—	—	—	605,615	605,615
Held-to-maturity investment	—	—	—	300,000	—	300,000
Operating and financing lease right-of-use asset	12,821	38,732	20,850	9,706	—	82,109
Goodwill	—	—	—	16,479	—	16,479
Other assets [1]	151,023	69,629	180,225	789,837	—	1,190,714
Total assets	$1,065,000	$1,087,282	$1,991,811	$1,119,033	$ 605,615	$5,868,741

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

Note 24. 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 years ended December 31, 2021 and 2020 were as follows:

- During the year ended December 31, 2021, the Company incurred $106.0 million of management fees (year ended December 31, 2020 – $88.4 million), related to the management agreement with BPD. The management fee is determined by applicable rates on construction and development spending as well as assets under management, as defined in the management agreement. These transactions were recorded at the exchange amount within selling, general and administrative expense and commercial properties.
- During the year ended December 31, 2021, the Company declared and paid dividends to the common shareholders, which include various subsidiaries of BAM, of $470.0 million. The transactions were recorded at the exchange amount.
- During the year ended December 31, 2021, the Company purchased from and immediately resold, to various subsidiaries of BAM, common shares of a publicly traded timber company resulting in a gain of $3.2 million.
- During the year ended December 31, 2021, the Company made a tax equivalent distribution of $20.0 million (December 31, 2020 – $11.3 million) to BUSI, a subsidiary of BAM. 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.

Note 25. Subsequent Events

The Company performed an evaluation of subsequent events through March 1, 2022, which is the date that these consolidated financial statements were approved, and has determined that there were no subsequent events that require disclosure.

CORPORATE INFORMATION

CORPORATE PROFILE

Brookfield Residential Properties Inc. is a leading land developer and homebuilder in North America. We entitle and develop land to create master-planned communities, build and sell lots to third-party builders, and conduct our own homebuilding operations. We also participate in select, strategic real estate opportunities, including infill projects, mixed-use developments, and joint ventures. We are the flagship North American residential property company of Brookfield Asset Management Inc., a leading global alternative asset manager with approximately $690 billion of assets under management. Further information is available at BrookfieldResidential.com or Brookfield.com or contact:

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BONDHOLDER INQUIRIES

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