



## **Brookfield Residential Properties Inc. Q3 2011 Conference Call Transcript**

**Date:** Wednesday, November 2, 2011

**Time:** 11:00 AM ET

**Speakers:** **Alan Norris**  
President & Chief Executive Officer

**Craig Laurie**  
Executive Vice-President & Chief Financial Officer

**ALAN NORRIS:**

Good morning everyone, its Alan Norris here. Thanks very much for joining us today for Brookfield Residential's Third Quarter Conference Call. On the call with me today are Craig Laurie, our Chief Financial Officer and Linda Northwood, Director Investor Relations.

I will provide some comments on the current market conditions and strategy going forward. Craig will then provide financial highlights of our operations and the financial results. I would also like to remind you at this time in responding to questions and in talking about our new initiatives and our financial and operating performance we may make forward-looking statements. These statements are subject to known and unknown risks and future results may differ materially. For further information for investors I would encourage you to review our supplemental information package which is available on our website.

I thought I would share some thoughts on our performance in the markets and also positioning us for future opportunities. These comments are also reflected in my letter to shareholders which was posted on our website this morning. Our Canadian operations performed well in the third quarter which positions us, through sales backlog and other lot sales contracts to do even better in the fourth quarter. Our U.S. operations continue to face the same challenges as the rest of our competitors in the market place.

Our pretax income of \$81 million for the nine months ended September 30, 2011 compared to the \$130 million for the same period in 2010 reflects similar performance to last year from our Canadian operations, lower performance from our U.S. operations and the introduction of our transactional debt interest resulting from the merger.

Volatility and uncertainty in the global market place provides a backdrop for a consumer who is understandably nervous, particularly in the U.S. In Alberta however, 86,000 new jobs were created in the last nine months, many related to capital projects slated for Northern Alberta. This job creation, given the size of the province far outpaces almost any other area around the world. Given the normal time lag between job creation and home ownership this augers very well for our future in Alberta. The overriding risk to this positive news in Canada is the threat of a double dip recession in the U.S. There is many different views on the likelihood of this occurring, if it does not occur we are well positioned, especially in Canada to take advantage of the jobs that will continue to be created in the energy

industry and the resultant home sales. If a double dip were to occur, we also believe we're well equipped to take advantage of distressed opportunities, predominantly in the U.S. that will inevitably present themselves over the next 12 to 18 months.

Speaking of such opportunities, in order to maintain as much optionality as possible and enhance our liquidity in case these opportunities do develop, the company has reached an agreement subject to Board approvals to amend the terms of its \$265 million transaction debt such that the originally scheduled principal payments of \$50 million each over the next three years, will now be due along with the final payment of \$115 million on December 31, 2015. Further, the company has reached an agreement with Brookfield Asset Management to consolidate its two existing U.S. lines of credit of \$225 million into one, \$300 million line at an interest rate of LIBOR plus 4.5%. We believe that these opportunities provide us with a great deal of flexibility to take advantage of opportunities over the next several years in anticipation of a U.S. housing recovery.

Unlike other publically traded land and housing companies in the U.S. our common shares are trading at a substantial discount to our book value. A disconnect in the market place that we believe overlooks a number of key competitive advantages. 50% of our assets are in strong Canadian markets which are extremely profitable. Our strategy to control land in markets in the U.S. and Canada have barriers to entry or have a history of housing demand and then add value through the entitlement and development process. This also places the company in a strong position when U.S. markets rebound. We have a strong balance sheet and financial flexibility and are well positioned for growth. As we look ahead it is incumbent on management to actively communicate with shareholders and potential shareholders these and other differentiating factors. And now I would like to turn the call over to Craig who will discuss our financial performance for the quarter ended September 30, 2011.

**CRAIG LAURIE:**

Thank you Alan. Good morning everyone. Overall, the financial results reflected continued strength in the Canadian markets while challenges remained in the U.S. markets. For the three months ended September 30, 2011 revenue totaled \$228 million compared to \$240 million for the same period of 2010 as a result of fewer home closings partially offset by an increase in lot sales.

For the nine months ended September 30, 2011 revenue totaled \$644 million compared to \$655 million for the same period in 2010. Land revenues for the nine months ended September 30, 2011

increased 45% with an increase in average lot selling prices and the non-recurring land margins from the change in business practice for lot sales in Alberta.

However, home closings and housing revenues for the nine months ended September 30, 2011 declined by approximately 30% in comparison to the same period last year. The decline in home closing was largely a result of the reduced backlog entering 2011 in both countries. However, net new orders for the nine months ended September 30, 2011 were 13% higher compared to the same period in 2010, and for the quarter increased 60%, which will translate in the closings in the fourth quarter and a strong backlog base in Canada entering 2012.

Included in net income, on an after-tax basis, is approximately \$43 million and for three months approximately \$12 million reflecting the change in business practice on lot sales in Alberta which was offset by a decrease in revenue from home closings.

Brookfield Residential's net income for the three months ended September 30, 2011 totaled \$19 million or \$0.19 per share compared to a net income of \$35 million or \$0.29 per share for the three months ended September 30, 2010. The decrease is primarily a result of the increase in interest expense of \$11 million with the addition of the notes that were issued to Brookfield Office Properties in connection with the merger.

Net loss for the nine months ended September 30, 2011 was \$19 million or \$0.19 per share compared to net income of \$91 million or \$0.75 per share for the nine months ended September 30, 2010, primarily reflecting increased interest expense of \$25 million and the income tax evaluation allowance of \$71 million.

Turning to our unit activity, the company currently sells from 22 active land communities and 34 active housing communities. From these communities the company closed 2,339 lots and 767 homes for the nine months ended September 30, 2011 compared to 1,931 lots and 1,095 homes during the same period of 2010. The company's average selling price of lots delivered for the nine months ended September 30, 2011 was 153,000 compared to 128,000 during the period last year with the increase largely as a result of product mix. The company's average selling price of homes delivered during the first nine months of 2011 was relatively consistent at 371,000 compared to 373,00 during the same period last year.

Net new home orders for the nine months ended September 30, 2011 were 1,226 units. An increase from 1,084 units for the nine months ended September 30, 2010. These strong orders particularly in Canada resulted in a backlog of 813 units with a value of approximately \$320 million or approximately \$394,000 per unit.

Moving to our balance sheet as of September 30, 2011 our primary asset – our housing and land inventory – totaled \$2.3 billion or approximately 89% of our total assets, similar to prior quarters and December 31, 2010. Our land and housing assets include homes completed and under construction and lots ready for construction, model homes and land under development.

Cash flow used in operating and investing activities totaled \$13 million for the nine months ended September 30, 2011. Included in this number was approximately \$87 million of acquisitions split approximately \$48 million in Canada and \$39 million in the U.S.

Thank you for joining us in our Third Quarter Conference Call. I will now turn the call back to the Operator who will moderate questions.

**OPERATOR:**

The first question comes from Sean O'Malley of Wedge Capital Management. Please go ahead.

**SEAN O'MALLEY:**

Hi, good morning. Thanks for taking my call. A couple of questions. First off, I noticed in the Central Eastern U.S. segment there were very few closings in the quarter but there was a big increase in the backlog. Does this reflect some movement of homes that were to be closed in Q2 or in the most recent quarter into the next quarter or are they increased sales and orders from the additional community or is there something else going on here?

**ALAN NORRIS:**

I would say the bulk of that Sean, is probably a lot of our Eastern U.S. activity. We've had some good sales activity through Q3.

**CRAIG LAURIE:**

Yes, so that would be Washington D.C. and it doesn't really reflect things shifting it just reflects the increased activity in Q3 in Washington.

**SEAN O'MALLEY:**

Okay and it looks like there was an additional active community added there, was that correct?

**CRAIG LAURIE:**

Yes, I believe that is correct.

**SEAN O'MALLEY:**

And then with respect to the financing, it looks like as of the quarter end you had \$192 million drawn on the line of credit, leaving you with \$33 million of availability prior the amendment, is that correct?

**CRAIG LAURIE:**

The Brookfield Asset Management line, it should have been \$208 million drawn.

**SEAN O'MALLEY:**

Okay, so the amendment brings your availability up to around \$100 million is that right?

**ALAN NORRIS:**

In the U.S, that's correct.

**SEAN O'MALLEY:**

Okay. And you mentioned that some of the shifting around was as it relates to the financing, is to prepare for potential opportunities. Do you see specific opportunities that you're pursuing right now or are you just getting yourself ready for what you see as a potentially fertile market for opportunities?

**ALAN NORRIS:**

Well, as Craig's outlined in his report, Sean, we have taken advantage of some opportunities in the U.S. and in Canada for that matter but the distressed opportunities are mostly in the U.S. So far the bulk of them tend to be shorter term as I've touched on in previous calls. We don't anticipate much of a difference in the market place next year versus 2011 at this point. But we do see some pent-up

demand being created over time, but we think that there could be some opportunities present themselves because a lot of companies did go on the premise that 2011 or 2012 was when the recovery was going to take hold. And a lot of whether it be debt renewals or-- etcetera, were scheduled for this time and next year. So there could be some element of pressure on some companies, maybe some of the privates where they maybe were looking to sell off some of their assets. So we're hopeful we can find some of the longer term opportunities next year. And we just wanted to be ready and able to deal with it.

**SEAN O'MALLEY:**

Okay, great. And then my last question is, I'm trying to get little bit better understanding on how your financial statements work here. It looks like in the quarter on the balance sheet that your debt fell by about \$72 million. Yet looking at the quarterly cash flow, it looks like you have proceeds from debt of about \$8 million. Is there something unusual about how debt works its way through the cash flow statement that I'm not understanding here?

**CRAIG LAURIE:**

Sure, Sean, this is Craig. So just over half of our business is in Canada and so really that change you're talking about was the conversion of the Canadian dollar to the U.S. dollar. And so the notes payable is the place where you would see the biggest difference. At June 30th the notes payable were \$498 million and at September 30th it went to \$457 million. There was no actual cash moved, that was all FX. The Canadian dollar, I think for most of last year has been above parity with the U.S. dollar, but for some reason within about the last week of September 30th it dropped below parity.

**SEAN O'MALLEY:**

Got it, its okay, I see it now on the comprehensive income. Okay, great, that's all I had. Thanks guys.

**ALAN NORRIS:**

Thank you.

**OPERATOR:**

The next question comes from Alex Avery with CIBC. Please go ahead.

**ALEX AVERY:**

Just on the deferral of those \$50 million payments. I guess they'll just continue to accrue interest at about 6.5% and you would use the proceeds I guess in the absence of any other acquisitions just to pay down your bank loans, is that a reasonable assumption?

**ALAN NORRIS:**

Yes, I mean we're looking at it on both sides of the border -- that's the Canadian side, Alex. And then as we touched on in the previous question, with the U.S. line of credits as well, we really just want to bolster ourself just in case anything does present itself that we want to take advantage of. There's no question, it doesn't change the aggregate of the total debt amount but it just gives us some more powder to address opportunities on both sides of the border if we want to take advantage.

**ALEX AVERY:**

Okay. And then in your introductory comments you noted that the job creation in Alberta has been very substantial and that bodes well for the future in Alberta. Can you just give us a little bit more colour there as to whether I guess the housing industry has been keeping pace with job creation or if you expect some acceleration.

**ALAN NORRIS:**

Yes, the starts are reasonably consistent from year-to-year. There's not sort of jumping through the roof by any stretch but prices are holding reasonably well. It is competitive in the housing realm in different pockets whether it be on the starter side or the move up side. But what we feel is it augers very well, just with that job creation it tends to have a lag effect before rental rates and rental occupancy - vacancy is very tight. So I think it augers well for the future with respect to those jobs being created and not all of them - I mean there's a fair bit in Calgary a fair number in Edmonton but also a lot up in Northern Alberta as well. So generally speaking it's just good for the province.

**ALEX AVERY:**

Okay, that's great. Thanks.

**OPERATOR:**

The next question comes from Frank Mayer of Vision Capital. Please go ahead.



**FRANK MAYER:**

Good morning. I was wondering if you could give us some colour on the income tax expense of \$101 million which seems to have camouflaged what otherwise would have been a very strong year in an earnings sense.

**ALAN NORRIS:**

I'll let Craig touch on this Frank, its Alan here. There was a deferred tax rate off in Q1 which I'll let Craig expand upon, from a U.S. perspective.

**CRAIG LAURIE:**

Yes, as Alan mentioned we took a valuation allowance in the first quarter against our U.S. deferred tax asset of \$71 million. So if you were to back that out it would obviously be positive \$50 million, roughly positive \$50 million for the nine months.

**FRANK MAYER:**

Why was that allowance required?

**CRAIG LAURIE:**

You're making me go back now to first quarter Frank, I have to remember. So in terms of the first quarter we had a U.S. deferred tax asset of about \$70 million. And when the two companies were merged together you have to look at, retroactively, whether or not you had positive net income as a merged company. And so over the period of time that you're required to look at, which is about three years, we wouldn't have reflected and as a result we were required to take a valuation allowance against that asset.

**FRANK MAYER:**

Does that mean that those losses have now fallen off the table?

**ALAN NORRIS:**

No, Frank, nothing has changed from the NOLs in the U.S., at all. They still exist and they're still fully available to us over the 15-year life span. It was more of -- to be blunt, it's more of a technical thing with respect to how the accounting rules are with respect to look back and look forward. And based

on the merger we fell offside with respect to those technical issues. But the losses are still fully available to shelter future taxable income in the United States.

**FRANK MAYER:**

Now, as I understand it, and I haven't studied this very carefully. But as I understand it, operating losses in the United States cannot be offset against operating income in Canada, is that correct?

**CRAIG LAURIE:**

Correct.

**FRANK MAYER:**

And you have not found a way to manage that in a constructive way for the shareholders?

**CRAIG LAURIE:**

Frank, this is Craig. As Alan mentioned, you can't offset because they're two different jurisdictions. You wouldn't necessarily want to migrate the losses into Canada because of the differential on the tax rate. The margin rate in the U.S. would be somewhere around 38%, the marginal rate in Canada is obviously below 30%.

**FRANK MAYER:**

That's correct. Last but not least Alan, if I may dwell on your remarks under the headline "Opportunities" in your letter to shareholders. You state you "do not believe that we are being appropriately judged in the market place for the trading value of our shares." Does this imply that you are going to reveal more information so that the shareholder can more appropriately judge the value of your shares?

**ALAN NORRIS:**

Yes, I think it's incumbent on us - we don't compare ourselves with some of the national homebuilders in the States and we don't really have many obvious peers in the market place because of the North American nature and the somewhat land component. So I think it's incumbent on us to try and come up with as good a form of disclosure so that we can share information with yourselves and others out there as to the metrics of our business so that there can be better information out there to understand our business. You know the business well because of the length of time you've looked at our industry

but I think we have to share more information so there is a better knowledge because the Alberta business is different than Toronto and is much different than the U.S. so that is something that we will continue to do.

**FRANK MAYER:**

And is this initiative something we can expect to see anything substantive in the future and if so, when in the future?

**ALAN NORRIS:**

Yes, - this year with the merger and everything else, the deferred tax write off, the numbers are - and the change in business practice in Alberta did give rise to some -- to be quite honest, the financial statements are somewhat confusing as a new startup company on the merger. So I mean obviously on a go forward basis there is going to be much greater clarity on a 2012 going forward. So I think it will be a lot easier to understand on a go-forward basis. And we would be trying to match that up as best we can with the appropriate amount of information so people can grasp the business and the fundamental metrics.

**FRANK MAYER:**

All right, I've noticed that your parent company has been buying back shares. They've increased their stake if I'm not mistaken, to 72.5%. Why wouldn't -- if you state, as you've indicated in your letter that the shares are undervalued why wouldn't the company, instead of using its resources to buy real estate assets in either Canada or the United States actually buy back the shares itself?

**ALAN NORRIS:**

That's always an option. Obviously we're looking at opportunities from the real estate side and we're looking at the returns we think we can make. And you would always be measuring one against the other, Frank.

**FRANK MAYER:**

Can you buy real estate at as great a discount as you can buy your shares, at a discount to what they're truly worth?

**ALAN NORRIS:**

That's part of the whole decision making process.

**FRANK MAYER:**

Okay. Thanks a lot.

**OPERATOR:**

The next question comes from Mike Mitchell of Locust Wood. Please go ahead.

**MIKE MITCHELL:**

Hello, how are you?

**ALAN NORRIS:**

Good, thank you.

**MIKE MITCHELL:**

Guys, great job on the orders. So will a large percentage of those orders close in Q4 or would you expect them to also go into Q1? And then also, could you tell us, what would that mean to your cash flow statement? Will we see the working capital release some cash flow in Q4 and in Q1?

**CRAIG LAURIE:**

This is Craig. So on page 10 of the supplemental we show the split of the backlog. If you were to go down through the split, much of the backlog in the U.S. will flow through in 2011. In Canada I would say it's roughly split, half and half where half will flow through in 2011 and half will be in 2012.

In terms of the cash flow, as I mentioned in my remarks, you don't see it on the cash flow statement because the cash flow from operations and investing shows a negative \$13 million between the two. But included in that is over \$87 million of acquisitions. In Q4, we still anticipate future acquisitions in the fourth quarter, both in Canada and the U.S. the number of approximately \$80 million between the two countries. And so I think the number will be still negative in the fourth quarter but actually before acquisitions it's a materially positive number.

**MIKE MITCHELL:**

I'm sorry, just to clarify it will be an additional \$80 million of acquisitions in Q4?

**CRAIG LAURIE:**

Roughly, we're targeting about \$80 million, it's about split between the two countries, \$40 million in the U.S. and then about \$40 million in Canada.

**MIKE MITCHELL:**

So then for the year you're looking at about \$160 million.

**CRAIG LAURIE:**

Of acquisitions.

**ALAN NORRIS:**

That's correct. Some of them have some vendor take backs Mike, as well, just some vendor take back so it's not all cash necessarily.

**MIKE MITCHELL:**

Okay, great, thank you very much.

**ALAN NORRIS:**

Okay. Thank you.

**OPERATOR:**

The next question comes from Albert Sebastian of Prospect Advisors. Please go ahead.

**ALBERT SEBASTIAN:**

Good morning, gentlemen.

**ALAN NORRIS:**

Good morning.

**ALBERT SEBASTIAN:**

Just on this -- on page 12 of the supplemental information, can you give a little bit more granularity in terms of when we look at the entitled lots - of the entitled lots, what is developed entitled lots and maybe what's underdeveloped in the entitled lot category?

**ALAN NORRIS:** Yes, typically, the only time we would actually service and finish some service lots - would roughly be nine to 12 to 15 months of future supply. So if you take a look at, say, a Calgary marketplace, we might sell somewhere between 1,200 to 1,500 lots a year. So the most that we would ever finish at any one point in time would be somewhere between 1,000 and 1,200.

And that would be in different stages of finishing. And so, in Edmonton, if we do 500 to 600 lots a year, it will be somewhere around 400 to 600 lots that would be finished or at some stage of finishing.

The rest of them remain, albeit they're entitled, they're still in a raw state.

**ALBERT SEBASTIAN:**

Okay. So when we look at the 50,587 lots.

**ALAN NORRIS:**

Yes.

**ALBERT SEBASTIAN:**

That are entitled, is it about 10,000 that are actually developed in saleable lots?

**ALAN NORRIS:**

Off the top, I would say much less than that.

**ALBERT SEBASTIAN:**

Much less than that?

**ALAN NORRIS:**

Right. We can clarify that in future supplementals for sure. And we should put that adjacent to that. But it's much less. I mean, in Toronto, the most it would be would be 200 or 300 out of all of that. And northern California, not very many. So, I mean, I run down the list and Alberta's probably the biggest component and the rest of them would be entitled, but not necessarily in a finished state.

**ALBERT SEBASTIAN:**

Okay. Yes. I think that would be some good granularity if you could sort of break the entitled down by what's developed, under development and then maybe just paper lots?

**ALAN NORRIS:**

Yes. I mean, you can see with respect to financial amount on the balance sheet, but what we should do is translate that back into units for you.

**ALBERT SEBASTIAN:**

That's fine. Okay. Thank you.

**ALAN NORRIS:**

Okay.

**OPERATOR:**

The next question comes from Keith Dalrymple of Dalrymple Finance. Please go ahead.

**KEITH DALRYMPLE:**

Hi. Thank you. I have a couple of quick questions here. One, can you give me a total liquidity number, cash plus available credit?

**CRAIG LAURIE:**

Sure. It's Craig. At September 30th, we don't typically run with cash on the balance sheet. In the U.S., we obviously have the Brookfield Asset Management line. And so if we had cash, we tend to pay that down. As we talked about, it's now increased. So we are \$208 million drawn now available - total available is \$300 million, and that leaves us I guess with \$92 million.

In Canada, we have availability on our bank line. We have a bank line there, a borrowing base with availability of about, let's see, \$60 million. So I guess in total, that's just over \$150 million of immediately available liquidity.

And then as Mike was talking about, we obviously produced a material amount of free cash flow. Before acquisitions, I do believe, for the year, to be over \$100 million that we then reinvest in acquisitions.

**KEITH DALRYMPLE:**

Okay. Excellent. And the changes with the Brookfield entities, in terms of the restructuring of the debt and the amended credit line, would that have a significant impact on the interest charges?

**ALAN NORRIS:**

Probably balances over. But go ahead.

**CRAIG LAURIE:**

So the existing Brookfield Asset Management lines, there was two lines. One was a LIBOR plus 350, which is an operating line. One was an acquisition line that was put in place a couple of years ago, and it was used for acquisitions, it was a higher rate at 14%. The new combined rate is LIBOR plus 450. So this is a pretty material improvement there.

In terms of the deferral of the \$50 million, there is the current rate with 6.5%. The rate on those payments will now go up to 7.5%, but you get, obviously, the present value of retaining that capital and being able to invest it for the future.

**KEITH DALRYMPLE:**

Okay.

**ALAN NORRIS:**

We think we're a net beneficiary with respect to all of it and with the enhanced liquidity for future opportunities.



**CRAIG LAURIE:**

Yes.

**KEITH DALRYMPLE:**

Sure. Understood. Okay. And then I understand how you've been talking about capital, how it's used for acquisitions. And that can be a little bit difficult to discern just from reading the financial statements.

If we combine that with the debt that you have due next year, how should we start to thinking about total cash generation? I recall, if I remember correctly, you had about \$550 million in total project-related debt due next year. Is that correct? And what are our anticipations around that?

**CRAIG LAURIE:**

You really have to dig through that number. Included in the \$550 million, it would have been \$50 million of the Brookfield Office Properties that's now been deferred.

Of the remaining \$500 million, a lot of that is in the process of being extended right now. So, for instance, the borrowing base, which is close to \$500 million in Canada, is on a rotating basis every year. And so it always shows up as maturing, but it continues to rotate forward.

In terms of the project-specific debt in the U.S., it's a similar thing, where it's usually a term of one to two years, but it continues to move forward with the projects.

**ALAN NORRIS:**

As Craig said, I mean, it's been a standard feature for the company - in the Canadian operations for decades, with respect to how we finance - the borrowing base just rolls forward and you do regular checks and balances on the asset valuation. On the borrowing base calculation that net debt rolls forwards. It's never been an issue.

**KEITH DALRYMPLE:**

Okay. Great. Thanks.

**ALAN NORRIS:**

You're welcome.

**OPERATOR:**

The next question comes from David Zelman of Zelman Associates. Please go ahead.

**DAVID ZELMAN:**

Hi, gentlemen.

**ALAN NORRIS:**

Hi there.

**DAVID ZELMAN:**

I was hoping to focus a little bit on orders and your current business activity. Could you talk about how your absorptions have been tracking, as well as expectation for community count next year?

**CRAIG LAURIE:**

It's Craig. I mean, in terms of the U.S., I don't have a specific related absorption number from the average on each project or anything like that. I think the U.S. continues to move forward, albeit challenged in terms of Canada.

**ALAN NORRIS:**

Yes. I mean, we've got great activity in our Ontario operations through Q3. And in the Alberta operations, all in all, I think we're very much on track for similar volumes in Canada, from past years.

The U.S. continues to be the challenge, without question. The absorptions are down, generally speaking, across our four housing operations in the U.S. and it continues to be a challenge with respect to that. So, we're taking steps to try and deal with it - just make sure we're structurally as efficient as we possibly can, given the lower volumes. So - we'll get the actual account by community.

**DAVID ZELMAN:**

That would be very helpful. And as well, given the near-term focus of all investors these days, is there anything that could be said about how October, I mean, have you seen any sort of rate of improvement, relative to some of the slowness we saw throughout the summer?

**CRAIG LAURIE:**

I think Canada has continued to move forward at a relatively steady pace per year.

In terms of the U.S., as you said, I think, particularly in D.C., I'd say we've seen a little bit of a pickup. Same with southern California, we've seen a little bit of a pickup, certainly, from the summer time.

**ALAN NORRIS:**

And again, I think we're going to see a fairly strong - we believe, a fairly - a good quarter in Canada in Q4, as I outlined in my letter to shareholders, as well.

The U.S. is the challenge at this point, but it's something that everybody's facing and we just have to sort of button it down and make sure that it's in a position so that we can take advantage when we do start to see some light at the end of the tunnel.

**DAVID ZELMAN:**

Well, you guys are doing a very nice job in your conservative guidance. It's much appreciated. I think if there's a surprise to be had, it may be your U.S. operations might do a little bit better than the commentary you're talking about. But that remains to be seen.

**ALAN NORRIS:**

Yes.

**DAVID ZELMAN:**

Keep up the good work. I appreciate your time.

**ALAN NORRIS:**

Thanks very much. We'd love to be in that position when we're next talking to you. Absolutely.

**OPERATOR:**

The next question comes from Robert Niewijk, Katana Capital. Please go ahead.

**ROBERT NIEWIJK:**

Good morning. This is a really lazy question on my part, but at least it's an easy one. Why is the share count down?

**CRAIG LAURIE:**

It's in the previous quarter? I'm sure we didn't buy back any share.  
I think you're looking at it on the diluted point of view?

**ROBERT NIEWIJK:**

No, it's basic as well.

**CRAIG LAURIE:**

Okay. All right. Sorry. Yes, so this roughly 2 million difference was we set up an escrowed share plan for the executives of 2 million shares and that's the difference. And so, they get excluded from the count.

**ROBERT NIEWIJK:**

Okay. Thank you.

**OPERATOR:**

The next question is a follow-up question from Frank Mayer. Please go ahead.

**FRANK MAYER:**

Given the relatively negative comments that you've been making about the American side of your operations, is there the risk of or the chance of a further write-down of your assets in any part of your operation there?

**ALAN NORRIS:**

It's Alan here, Frank. We're going through detailed analysis, we do every quarter, on valuations. I mean, many of the assets, if we follow the course of action that we're following on most of our assets,

we don't think there's any issue at all. If we decide to change course, which we have no intention at this point, on some of the assets, in other words, sell them into a marketplace just now, as opposed to waiting and holding and developing through our recovery, I think all in all we're in decent shape. But there are occasions when something presents itself and we may decide to sell something and redeploy cash. It depends on an asset-by-asset basis, but we're comfortable at this point.

**FRANK MAYER:**

Thank you.

**OPERATOR:**

There are no more questions at this time. I will now turn the call back over to Alan Norris for concluding remarks.

**ALAN NORRIS:**

Thank you very much, Operator. Thank you very much to everybody for calling in and we hope to -- we hope to hear from you at our next one, at the year-end, in February. So thank you very much, indeed.

**OPERATOR:**

Ladies and gentlemen, this concludes today's conference call. You may disconnect your lines.

Thank you for participating and have a pleasant day.