Brookfield
Residential

2014 | Q2

BRP: NYSE / TSX

June 30, 2014

Letter to Shareholders

We achieved very good results in the second quarter of 2014 as we continued to bring new communities to market while capitalizing on stronger lot and home prices.

For the three months ended June 30, 2014, our net income increased to $42 million, or $0.36 per diluted share, from $24 million or $0.21 per diluted share during the comparative period in 2013. The improvement in net income was due to improved housing and land gross margins as our overall margin for the second quarter increased to 31% compared to 26% during the same period in 2013. Our net income for the six months ended June 30, 2014 was $67 million, or $0.57 per diluted share, an increase of $38 million, or $0.33 per diluted share when compared to the same period in 2013. This is attributable to increased lot and home closings, combined with improved margins from operations and the sale of our commercial properties. Our backlog continues to be strong with a 5% increase in backlog units and 23% increase in backlog value when compared to the second quarter of 2013.

During the quarter, we repurchased for cancellation approximately 540,000 of our Common Shares at an average price of $20.11 under our normal course issuer bid. We funded the purchases through our available cash and believe that these purchases are a prudent investment at times when the market price of our Common Shares may not fully reflect the underlying value of our business and our future business prospects.

Market Overview

Our Canadian markets continue to perform at a steady pace as we operate in markets where barriers to entry are high and economic fundamentals continue to be strong. In particular, the current constrained supply of entitled lots in Calgary coupled with strong demand has resulted in price escalation. To ensure appropriate continuity, we continue to show a disciplined release of lots until further entitlements of lots and new projects are approved.

We believe that the underlying fundamentals in our U.S. markets continue to strengthen despite a moderation in the rate of house price increases, as the double digit growth experienced in many U.S. markets in 2012 and 2013 was not sustainable. Going forward, we expect to see a more healthy and balanced growth rate in home prices that should support absorptions and affordability in the longer term.

We believe the biggest challenge in the U.S. right now is the hesitancy of the first time buyer to enter the housing market – several reasons for this – student debt, slower household formations, lack of down payment together with a certain fear factor on the part of the younger buyer that real estate 'doesn't always go up', which was the belief 5 to 10 years ago. The average age of new homebuyers has increased significantly as a result. We are not concerned in the long run about this issue, because as the cost of rent increases in most markets, home ownership will again become more appealing, especially as the first time buyer's job situation improves.

Regional Highlights

Over the last several years, we have continued our focus on bringing lots from a raw state through the approval and entitlement process, which has set us up well for 2014 and beyond. As a result of our efforts, we have increased our number of active housing communities to 56, from 47 at the end of 2013.

Highlights from the second quarter include:

- In Canada, we continued to see steady demand in our communities. In the second quarter, we opened and sold out the first phase of *The Arbors* community in Aurora, Ontario and opened the *Willow Glen* community in Tottenham, Ontario with over 70 sales in the quarter.

- In California, we experienced continued success from our efforts over the past 18 months. In Southern California, the *Five Knolls* community commenced grading and we are in the process of marketing and selling lots to other homebuilders. We were recognized at the Pacific Coast Builders Conference ("PCBC") for our home and residential projects in *Playa Vista* in Los Angeles, *Palo Verde at the Foothills* in Carlsbad, and *La Cresta at Woodbury* in Irvine with the prestigious Golden Nugget Awards.

- In the Central & Eastern U.S. markets, we continued to increase our footprint in Austin and Denver. In Austin, we are developing lots in *Addison* and are in the process of selling lots to other homebuilders. In Denver, we began our homebuilding operation in 2013 and our first community, *Midtown*, has been well received and earned industry recognition at the PCBC's Golden Nugget Awards for our home designs as well as acknowledgement for our sustainable residential community design. We also opened our second Denver housing community of *Brighton Crossing*.

Our View Going Forward

Our outlook for 2014 and 2015 remains positive. Based on current market conditions, we anticipate that income before income taxes for 2014 should be measurably higher than in 2013.

Given the complexity and timing variability of lot sales in particular, many of our lot and acre closings are projected for the end of 2014 and are subject to the normal timing risk of approvals and the development and closing process. As a result, if they do not close in 2014, we would anticipate the closings will occur early in 2015.

Our land position with approximately 109,000 lots controlled provides us with a large and readily developable land portfolio in North America. We are well positioned to gradually increase our homebuilding and land sales activity in the future as the overall market continues to improve.

We welcome you to join us on November 19th for our first investor day at Playa Vista in Los Angeles, California. Details on upcoming events can be found on our website at www.brookfieldrp.com.

Alan Norris

President & Chief Executive Officer

August 6, 2014

BROOKFIELD RESIDENTIAL PROPERTIES PORTFOLIO

Our business is focused on land development and single family and multi-family homebuilding in the markets in which we operate. Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at June 30, 2014 were $3.3 billion.

As of June 30, 2014, we controlled 108,919 single family lots (serviced lots and future lot equivalents) and 254 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 we control in each of our primary markets as of June 30, 2014 follows:

	Single Family Housing & Land Under and Held for Development[1]								Multi-Family, Industrial & Commercial Parcels Under Development	
	Land & Housing		Unconsolidated Entities		Total Lots		Status of Lots 30-Jun-14		Total Acres	
	Owned	Options	Owned	Options	30-Jun-14	31-Dec-13	Entitled	Unentitled	30-Jun-14	31-Dec-13
Calgary	25,544	—	2,359	—	27,903	28,228	4,674	23,229	62	70
Edmonton	16,078	—	—	—	16,078	16,720	9,066	7,012	58	53
Ontario	10,497	—	—	—	10,497	10,403	1,927	8,570	3	7
Canada	52,119	—	2,359	—	54,478	55,351	15,667	38,811	123	130
Northern California	3,969	4,950	—	—	8,919	8,887	2,769	6,150	—	—
Southern California	9,378	—	1,617	1,527	12,522	12,573	6,821	5,701	—	—
Other	194	—	42	—	236	239	236	—	—	—
California	13,541	4,950	1,659	1,527	21,677	21,699	9,826	11,851	—	—
Denver	9,784	—	—	—	9,784	9,904	9,784	—	10	10
Austin	13,287	—	—	—	13,287	13,458	5,776	7,511	—	—
Phoenix	690	—	4,556	—	5,246	6,007	4,960	286	103	105
Washington, D.C. Area	2,474	1,066	907	—	4,447	4,398	4,410	37	18	18
Central and Eastern U.S.	26,235	1,066	5,463	—	32,764	33,767	24,930	7,834	131	133
Total	91,895	6,016	9,481	1,527	108,919	110,817	50,423	58,496	254	263
Entitled lots	43,516	1,066	5,841	—	50,423					
Unentitled lots	48,379	4,950	3,640	1,527	58,496					
Total June 30, 2014	91,895	6,016	9,481	1,527	108,919					
Total December 31, 2013	93,024	6,016	9,928	1,849		110,817				

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

BROOKFIELD RESIDENTIAL PROPERTIES INC.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This interim report, including the letter to shareholders, contains "forward-looking statements" within the meaning of applicable Canadian securities laws and United States federal securities laws. The words "may," "believe," "will," "anticipate," "expect," "planned," "estimate," "project," "future," and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. Such statements reflect management's current beliefs and are based on information currently available to management. The forward-looking statements in this interim report include, among others, statements with respect to:

- the current business environment and outlook, including statements regarding economic and market conditions in the U.S. and Canadian housing markets, recovery in the U.S. housing market and the pace thereof, continued stability in the Canadian housing market, home price growth rates and affordability levels, job market improvement, our guidance for 2014, improvements in margins from our U.S. operations, the impact of demand in the Alberta housing market and supply constraints in the Ontario market on our future results;
- the performance of our share price and the rationale and impact of our normal course issuer bid;
- possible or assumed future results;
- ability to create shareholder value;
- business goals, strategy and growth plans, including the acquisition of land for future projects;
- strategies for shareholder value creation;
- the stability of home prices;
- effect of challenging conditions on us;
- factors affecting our competitive position within the homebuilding industry;
- ability to generate sufficient cash flow from our assets to repay maturing bank indebtedness and project specific financings;
- the visibility of our future cash flow;
- social and environmental policies and risks;
- expected backlog and closings and the timing thereof;
- sufficiency of our access to capital resources;
- the impact of foreign exchange on our financial performance;
- the timing of the effect of interest rate changes on our cash flows; and
- the effect on our business of existing lawsuits.

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

Various factors, in addition to those discussed elsewhere in this interim report, that could affect the future results of Brookfield Residential and could cause actual results to differ materially from those expressed in the forward-looking statements and information include, but are not limited to, those factors included under the sections entitled "Cautionary Statements Regarding Forward-Looking Statements" and "Business Environment and Risks" of the Management's Discussion and Analysis of Financial Condition and Results of Operations for the fiscal year ended December 31, 2013, filed with the securities regulators in Canada on www.sedar.com and with the Securities and Exchange Commission on Form 40-F.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis relates to the second quarter ended June 30, 2014, which reflects the three and six month periods ended June 30, 2014 and has been prepared with an effective date of August 6, 2014. It should be read in conjunction with the quarterly condensed consolidated financial statements and the related notes thereto included elsewhere in this interim report. All dollar amounts discussed herein are in U.S. dollars, unless otherwise stated. Amounts in Canadian dollars are identified as "C$." The financial statements referenced herein have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Additional information, including the Company's annual information form, can be found on our website at www.brookfieldrp.com, on SEDAR at www.sedar.com or on EDGAR at www.sec.gov.

OVERVIEW

Brookfield Residential Properties Inc. (unless the context requires otherwise, references in this 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 land development and homebuilding operations) is a publicly traded North American land development and homebuilding company listed on the New York Stock Exchange ("NYSE") and the Toronto Stock Exchange ("TSX") under the symbol "BRP".

The Company became a public company on March 31, 2011, by combining the former business of Brookfield Homes Corporation ("Brookfield Homes") and the residential land and housing division ("BPO Residential") of Brookfield Office Properties Inc. ("Brookfield Office Properties") into a single residential land and housing company, which was achieved through a merger and series of related transactions completed on March 31, 2011. Through these predecessor entities, Brookfield Residential has been developing land and building homes for over 50 years.

Brookfield Residential Properties is a leading North American land developer and homebuilder with operations in Canada and the United States. We entitle and develop land to create master-planned communities and build and sell lots to third-party builders, as well as to our own homebuilding division. We also participate in select strategic real estate opportunities, including infill projects, mixed-use developments, infrastructure projects and joint ventures.

We currently focus on the following operating segments: Canada, California and Central and Eastern United States. Our Canadian operations are primarily in the Alberta and Ontario markets. Our California operations include Northern California (San Francisco Bay Area and Sacramento) and Southern California (Los Angeles / Southland and San Diego / Riverside). Our Central and Eastern United States operations include Washington, D.C. Area, Colorado, Texas and Arizona. We target these markets as we believe over the longer term they offer strong housing demand, barriers to entry and close proximity to areas where we expect strong employment growth.

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. We may also design, construct and market single family and multi-family homes in our own and others' communities. In each of our markets, 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. These operations include sourcing and evaluating land acquisitions, site planning, obtaining entitlements, developing the land, product design, constructing, marketing and selling homes and homebuyer customer service. These business units may also develop or sell land for the construction of commercial shopping centres in our communities.

Brookfield Residential has developed a reputation for delivering first-class master-planned communities, infill projects and mixed-use developments. Master-planned communities are new home communities that typically feature community centres, parks, recreational areas, schools, commercial areas and other amenities. In an infill development, Brookfield Residential develops land and constructs homes in previously urbanized areas.

Land Acquisition and Development

The residential land development and homebuilding industry involves converting raw or undeveloped land into residential housing. 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.

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 afford us a true “master-planned” development opportunity that, following entitlement and assuming market conditions allow, creates a multi-year stream of cash flow. Master-planned communities are new home communities that typically feature community centres, parks, recreational areas, schools, commercial areas and other amenities. 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. One of our master-planned communities, McKenzie Towne in Calgary, Alberta, is the pioneer of new urbanism in Canada. It garnered international recognition after being named one of the top 26 master-planned communities in the world by the Urban Land Institute.

Mixed-use development is also a 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. This 365-acre mixed-use development is one of the largest opportunities of its kind in North America. It sits in the centre of the fastest growing sector in Calgary accommodating a future trade area of over 100,000 people.

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 does 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.

Home Construction

We construct homes on lots that have been developed by us or that we purchase from others. Having a homebuilding operation allows us the opportunity to extract value from the land and provides us with market knowledge through our direct contact with the homebuyers. 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. In these markets, we generally build homes on 15% to 20% of our own land, with the remaining lots sold to third-party builders.

Outlook

We are a North American land developer and homebuilder and operate primarily in select U.S. markets and the Alberta and Ontario markets in Canada. We believe that underlying fundamentals in our U.S. markets continue to strengthen despite a moderation in the rate of housing price increases, as the double digit growth experienced in many U.S. markets in 2012 and 2013 was not sustainable. Going forward, we expect to see a more healthy and balanced growth rate in house prices that we believe will support absorptions and affordability in the longer term. We remain confident that the future in the U.S. remains positive.

We expect our Canadian operations will continue to benefit from our strong market share within the energy-focused Alberta market and the supply-constrained Ontario market will continue to be a solid contributor to our results. We operate in areas where barriers to entry are high and economic fundamentals continue to be strong. We do encounter some variability in our results from the Canadian operations through the translation process and the movement in the relative currency rates over the comparative periods.

RESULTS OF OPERATIONS

Key financial results and operating data for the three and six months ended June 30, 2014 compared to the three and six months ended June 30, 2013 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2014	**2013**	**2014**	**2013**
Key Financial Results				
Land revenue	$ 81	$ 105	$ 125	$ 157
Housing revenue	240	193	404	312
Gross margin[1] ($)	98	77	157	128
Gross margin[1] (%)	31%	26%	30%	27%
Income before income taxes	49	30	84	37
Income tax expense	(6)	(5)	(14)	(8)
Net income attributable to Brookfield Residential	42	24	67	29
Basic income per share	$ 0.36	$ 0.21	$ 0.57	$ 0.24
Diluted income per share	$ 0.36	$ 0.21	$ 0.57	$ 0.24
Key Operating Data				
Lot closings for Brookfield Residential (single family units)	515	408	839	762
Lot closings for unconsolidated entities (single family units)	82	—	204	16
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	6	6	10	6
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	—	—	2	—
Average lot selling price for Brookfield Residential (single family units)	$ 144,000	$ 148,000	$ 138,000	$ 147,000
Average lot selling price for unconsolidated entities (single family units)	$ 138,000	$ —	$ 90,000	$ 239,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 1,082,000	$ 815,000	$ 986,000	$ 815,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ —	$ —	$ 188,000	$ —
Home closings for Brookfield Residential (units)	435	460	781	754
Home closings for unconsolidated entities (units)	21	20	25	21
Average home selling price for Brookfield Residential (per unit)	$ 552,000	$ 420,000	$ 517,000	$ 414,000
Average home selling price for unconsolidated entities (per unit)	$ 487,000	$ 478,000	$ 501,000	$ 509,000
Net new home orders for Brookfield Residential (units)	642	659	1,297	1,316
Net new home orders for unconsolidated entities (units)	37	6	66	24
Backlog for Brookfield Residential (units at end of period)	1,418	1,378	1,418	1,378
Backlog for unconsolidated entities (units at end of period)	54	20	54	20
Backlog value for Brookfield Residential	$ 742	$ 609	$ 742	$ 609
Backlog value for unconsolidated entities	$ 21	$ 10	$ 21	$ 10

(1) *Gross margin is a non-GAAP financial measure and has been presented as we find it useful in evaluating our performance and believe that it helps readers of our financial statements compare our operations with those of our competitors. However, gross margins as presented may not be fully comparable to similarly-titled measures reported by our competitors. See the Non-GAAP Financial Measures section on page 30.*

Segmented Information

We operate in three operating segments within North America: 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 other risk factors. The following table summarizes information relating to revenues, gross margin and assets by operating segment for the three and six months ended June 30, 2014 and 2013.

(US$ millions, except unit activity and average selling price)	Three Months Ended June 30		Six Months Ended June 30	
	2014	**2013**	**2014**	**2013**
Land revenue				
Canada	$ 64	$ 99	$ 102	$ 147
California	9	—	9	—
Central and Eastern U.S	8	6	14	10
Total	$ 81	$ 105	$ 125	$ 157
Housing revenue				
Canada	$ 84	$ 84	$ 159	$ 142
California	118	85	186	128
Central and Eastern U.S	38	24	59	42
Total	$ 240	$ 193	$ 404	$ 312
Gross margin				
Canada	$ 57	$ 57	$ 95	$ 98
California	34	16	52	24
Central and Eastern U.S	7	4	10	6
Total	$ 98	$ 77	$ 157	$ 128
Lot closings (single family lots)				
Canada	331	326	546	628
California	94	—	94	—
Central and Eastern U.S	90	82	199	134
	515	408	839	762
Unconsolidated Entities	82	—	204	16
Total	597	408	1,043	778
Acre closings (multi-family, industrial and commercial)				
Canada	6	6	10	6
California	—	—	—	—
Central and Eastern U.S	—	—	—	—
	6	6	10	6
Unconsolidated Entities	—	—	2	—
Total	6	6	12	6
Acre closings (raw and partially finished)				
Canada	1	216	3	216
California	—	—	—	—
Central and Eastern U.S	—	—	—	—
Total	1	216	3	216
Average lot selling price (single family lots)				
Canada	$ 173,000	$ 167,000	$ 169,000	$ 162,000
California	96,000	—	96,000	—
Central and Eastern U.S	89,000	73,000	72,000	76,000
	144,000	148,000	138,000	147,000
Unconsolidated Entities	138,000	—	90,000	239,000
Average	$ 144,000	$ 148,000	$ 128,000	$ 149,000

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Average per acre selling price (multi-family, industrial and commercial)				
Canada	$ 1,082,000	$ 815,000	$ 986,000	$ 815,000
California	—	—	—	—
Central and Eastern U.S	—	—	—	—
	1,082,000	815,000	986,000	815,000
Unconsolidated Entities	—	—	188,000	—
Total	$ 1,082,000	$ 815,000	$ 815,000	$ 815,000
Average per acre selling price (raw and partially finished)				
Canada	$ 367,000	$ 181,000	$ 263,000	$ 181,000
California	—	—	—	—
Central and Eastern U.S	—	—	—	—
Average	$ 367,000	$ 181,000	$ 263,000	$ 181,000
Active land communities				
Canada			12	12
California			5	2
Central and Eastern U.S			8	7
			25	21
Unconsolidated Entities			1	1
Total			26	22
Home closings (units)				
Canada	241	263	462	444
California	116	137	196	208
Central and Eastern U.S	78	60	123	102
	435	460	781	754
Unconsolidated Entities	21	20	25	21
Total	456	480	806	775
Average home selling price				
Canada	$ 350,000	$ 320,000	$ 344,000	$ 321,000
California	1,018,000	622,000	949,000	614,000
Central and Eastern U.S	483,000	394,000	478,000	413,000
	552,000	420,000	517,000	414,000
Unconsolidated Entities	487,000	478,000	501,000	509,000
Average	$ 549,000	$ 422,000	$ 516,000	$ 417,000
Active housing communities				
Canada			20	17
California			19	11
Central and Eastern U.S			14	11
			53	39
Unconsolidated Entities			3	2
Total			56	41

(US$ millions)	As at June 30 2014	As at December 31 2013
Total assets		
Canada	$ 1,251	$ 1,290
California	985	910
Central and Eastern U.S	812	781
Corporate and other	227	363
Total	$ 3,275	$ 3,344

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

Three and Six Months Ended June 30, 2014 Compared with Three and Six Months Ended June 30, 2013

Net Income

Net income attributable to Brookfield Residential for the three and six months ended June 30, 2014 was $42 million and $67 million respectively compared to $24 million and $29 million for the same periods in 2013.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except per share amounts)	**2014**	**2013**	**2014**	**2013**
Net income attributable to Brookfield Residential ..	$ 42	$ 24	$ 67	$ 29
Basic earnings per share	$ 0.36	$ 0.21	$ 0.57	$ 0.24
Diluted earnings per share....................................	$ 0.36	$ 0.21	$ 0.57	$ 0.24

The increase of $18 million in net income for the three months ended June 30, 2014 compared to the same period in 2013 was primarily the result of a $21 million increase in gross margin, which resulted mainly from higher lot closings and higher average home selling prices, combined with an increase in equity earnings from unconsolidated entities of $5 million, an increase in other income of $2 million and a recovery in the fair value of equity swap contracts and share based compensation expense of $1 million. This was partially offset by higher general and administrative expense of $6 million, an increase in interest expense of $4 million and an increase in income tax expense of $1 million.

The increase of $38 million in net income for the six months ended June 30, 2014 compared to the same period in 2013 was primarily the result of a $29 million increase in gross margin, which resulted mainly from higher home and lot closings and higher average home selling prices, combined with an increase in equity earnings from unconsolidated entities of $5 million, an increase in other income of $3 million and a gain on commercial assets held for sale of $33 million. This was partially offset by higher sales and marketing costs of $1 million, higher general and administrative expense of $11 million, change in the fair value of equity swap contracts and share based compensation expense of $2 million, an increase in interest expense of $10 million, an increase in non-controlling interests and other interests in consolidated subsidiaries of $2 million and an increase in income tax expense of $6 million.

A breakdown of the revenue and gross margin for the three and six months ended June 30, 2014 and 2013 is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except percentages)	**2014**	**2013**	**2014**	**2013**
Revenue				
Land..	$ 81	$ 105	$ 125	$ 157
Housing...	240	193	404	312
	$ 321	$ 298	$ 529	$ 469
Gross Margin				
Land..	$ 43	$ 41	$ 63	$ 69
Housing...	55	36	94	59
	$ 98	$ 77	$ 157	$ 128
Gross Margin (%)				
Land..	53%	39%	50%	44%
Housing...	23%	19%	23%	19%
	31%	26%	30%	27%

Total revenue and gross margin for the three months ended June 30, 2014 increased $23 million and $21 million, respectively, when compared to the same period in 2013. The increase in total revenue and gross margin was primarily the result of a higher average home selling price, increased lot closings of 107 more lots sold and from the mix of sales between operating segments when compared to the same period in 2013. Gross margin percentage for the three months ended June 30, 2014 increased primarily as a result of higher land and housing margins due to improved market conditions when compared to the same period in 2013.

Total revenue and gross margin for the six months ended June 30, 2014 increased $60 million and $29 million, respectively, when compared to the same period in 2013. The increase in total revenue and gross margin was primarily the result of increased activity in our housing operations with 27 more home closings and a higher average home selling price from both improved market conditions and product mix when compared to the same period in 2013. Lot closings increased by 77 units, which was partially offset by lower average lot selling prices as a result of the mix of

lots sold. Gross margin percentage for the six months ended June 30, 2014 increased primarily as a result of higher land and housing margins due to improved market conditions when compared to the same period in 2013.

Results of Operations – Land

Land revenue totalled $81 million for the three months ended June 30, 2014, a decrease of $24 million when compared to the same period in 2013, while gross margin increased $2 million to $43 million over the same period in 2013. The decrease in land revenue was primarily due to the inclusion of a 216 acre raw and partially finished acre sale in Canada in 2013. There was no such sale in 2014. The increase in gross margin for the three months ended June 30, 2014 was due to 107 additional lot sales in 2014 combined with an increase in the gross margin percentage with improved market conditions when compared to the same period in 2013.

Land revenue totalled $125 million for the six months ended June 30, 2014, a decrease of $32 million when compared to the same period in 2013 and land gross margin decreased $6 million to $63 million. The decrease in land revenue and gross margin for the six months ended June 30, 2014 was due to the mix of lots sold with fewer raw and partially finished acre sales when compared to the same period in 2013. This was partially offset by four additional multi-family, industrial and commercial acre sales and 77 additional single-family lot sales and an increase in the gross margin percentage with improved market conditions. Our land revenue may vary significantly from period to period due to the nature and timing of land sales. Revenues are also affected by local product mix and market conditions, which have an impact on the selling price per lot.

A breakdown of our results from land operations for the three and six months ended June 30, 2014 and 2013 is as follows:

Consolidated

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2014**	**2013**	**2014**	**2013**
Lot closings (single family units)	515	408	839	762
Acre sales (multi-family, industrial and commercial)	6	6	10	6
Acre sales (raw and partially finished)	1	216	3	216
Revenue	$ 81	$ 105	$ 125	$ 157
Gross margin	$ 43	$ 41	$ 63	$ 69
Average lot selling price (single family units)	$ 144,000	$ 148,000	$ 138,000	$ 147,000
Average per acre selling price (multi-family, industrial and commercial)	$ 1,082,000	$ 815,000	$ 986,000	$ 815,000
Average per acre selling price (raw and partially finished)	$ 367,000	$ 181,000	$ 263,000	$ 181,000

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

Canada

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2014**	**2013**	**2014**	**2013**
Lot closings (single family units)	331	326	546	628
Acre sales (multi-family, industrial and commercial)	6	6	10	6
Acre sales (raw and partially finished)	1	216	3	216
Revenue	$ 64	$ 99	$ 102	$ 147
Gross margin	$ 39	$ 41	$ 58	$ 69
Average lot selling price (single family units)	$ 173,000	$ 167,000	$ 169,000	$ 162,000
Average per acre selling price (multi-family, industrial and commercial)	$ 1,082,000	$ 815,000	$ 986,000	$ 815,000
Average per acre selling price (raw and partially finished)	$ 367,000	$ 181,000	$ 263,000	$ 181,000

Land revenue in Canada for the three months ended June 30, 2014 was $64 million, a decrease of $35 million when compared to the same period in 2013. The decrease was primarily the result of the mix of land sold as there was a

decrease in raw and partially finished acre parcel sales due to a 216 acre parcel sale in 2013. This was partially offset by five additional single family lots sold in 2014 when compared to the same period in 2013. Gross margin decreased $2 million to $39 million when compared to 2013 as a result of lower raw and partially finished acre parcel sales in 2014, partially offset by the mix of land sold, additional single family lots sold and higher average lot selling prices due to improved market conditions.

Land revenue in Canada for the six months ended June 30, 2014 was $102 million, a decrease of $45 million when compared to the same period in 2013. The decrease was the result of the mix of land sold with 82 fewer single family lots and 213 fewer raw and partially finished acre parcel sales being sold in 2014 when compared to the same period in 2013. This was partially offset by four additional multi-family, industrial and commercial acre parcel sales in 2014 when compared to 2013. Gross margin decreased $11 million to $58 million when compared to 2013 primarily as a result of lower raw and partially finished acre sales and lower single family lot sales in 2014, partially offset by higher average lot selling prices due to market conditions in Calgary and mix of land sold.

California

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2014**	**2013**	**2014**	**2013**
Lot closings (single family units)	94	—	94	—
Revenue	$ 9	$ —	$ 9	$ —
Gross margin	$ 4	$ —	$ 4	$ —
Average lot selling price (single family units)	$ 96,000	$ —	$ 96,000	$ —

Land revenue in California for the three and six months ended June 30, 2014 increased by $9 million when compared to the same periods in 2013. This was primarily the result of a bulk sale of 94 single family lots in 2014 compared to no land sales in 2013.

Central and Eastern U.S.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2014**	**2013**	**2014**	**2013**
Lot closings (single family units)	90	82	199	134
Revenue	$ 8	$ 6	$ 14	$ 10
Gross margin	$ —	$ —	$ 1	$ —
Average lot selling price (single family units)	$ 89,000	$ 73,000	$ 72,000	$ 76,000

Revenue in the Central and Eastern U.S. segment increased by $2 million and gross margin remained flat for the three months ended June 30, 2014. The increase in revenue was due to an increase of eight single family lots sold, primarily in our Denver market, and an increase in average lot selling price related to the mix of lots sold.

For the six months ended June 30, 2014, the Central and Eastern U.S. segment continued to increase activity as a result of improved market conditions. Revenue increased by $4 million and gross margin increased by $1 million. This was due to an increase of 65 single family lots sold, primarily in our Denver market, partially offset by a decrease in average lot selling price related to the mix of lots sold.

Results of Operations – Housing

Housing revenue was $240 million for the three months ended June 30, 2014 compared to $193 million for the same period in 2013. The increase was the result of increased average home selling prices in all operating segments, partially offset by fewer home closings. Gross margin increased $19 million as a result of a 31% increase in the average selling price when compared to the same period in 2013, partially offset by a 5% decrease in home closings.

Housing revenue was $404 million for the six months ended June 30, 2014 compared to $312 million for the same period in 2013. The increase was the result of additional home closings and higher average selling prices. Gross margin increased $35 million as a result of a 4% increase in home closings and a 25% increase in the average selling price when compared to the same period in 2013.

A breakdown of our results from housing operations for the three and six months ended June 30, 2014 and 2013 is as follows:

Consolidated

(US$ millions, except unit activity and average selling price)	Three Months Ended June 30		Six Months Ended June 30	
	2014	**2013**	**2014**	**2013**
Home closings	435	460	781	754
Revenue	$ 240	$ 193	$ 404	$ 312
Gross margin	$ 55	$ 36	$ 94	$ 59
Average home selling price	$ 552,000	$ 420,000	$ 517,000	$ 414,000

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

Canada

(US$ millions, except unit activity and average selling price)	Three Months Ended June 30		Six Months Ended June 30	
	2014	**2013**	**2014**	**2013**
Home closings	241	263	462	444
Revenue	$ 84	$ 84	$ 159	$ 142
Gross margin	$ 19	$ 16	$ 37	$ 29
Average home selling price	$ 350,000	$ 320,000	$ 344,000	$ 321,000

Housing revenue for the three months ended June 30, 2014 remained consistent when compared to the same period in 2013. Total home closings decreased 8% for the three months ended June 30, 2014 compared to the same period in 2013 due to decreased closings in Alberta as a result of timing. The average home selling price increased 9% due to price escalation from market conditions in Alberta and from product mix, particularly due to Ontario having a higher proportionate share of the total home closings as our homes in Ontario have slightly higher average selling prices. As a result of higher average selling prices, gross margin increased by $3 million for the three months ended June 30, 2014 when compared to the same period in 2013.

Housing revenue for the six months ended June 30, 2014 increased $17 million when compared to the same period in 2013. This resulted from a 4% increase in home closings and a 7% increase in the average home selling price for the six months ended June 30, 2014 compared to the same period in 2013. The increase in the average home selling price was attributable to price escalation in Alberta and product mix, particularly due to Ontario having a higher proportionate share of the increase in total home closings. As a result of increased closings and a higher average selling price, gross margin increased by $8 million for the six months ended June 30, 2014 when compared to the same period in 2013.

California

(US$ millions, except unit activity and average selling price)	Three Months Ended June 30		Six Months Ended June 30	
	2014	**2013**	**2014**	**2013**
Home closings	116	137	196	208
Revenue	$ 118	$ 85	$ 186	$ 128
Gross margin	$ 30	$ 16	$ 48	$ 24
Average home selling price	$ 1,018,000	$ 622,000	$ 949,000	$ 614,000

Our California segment had housing revenue of $118 million for the three months ended June 30, 2014, an increase of $33 million when compared to the same period in 2013. The increase in revenue was due to a 64% increase in the average home selling price for the three months ended June 30, 2014 compared to the same period in 2013, partially offset by 21 fewer home closings. Gross margin increased $14 million as a result of the increase in the average home selling price when compared to the same period in 2013, which was primarily driven by product mix of higher priced homes closed with average home selling prices of $1 million and above in some of our San Francisco Bay Area and Southern California communities for the three months ended June 30, 2014.

Our California segment had housing revenue of $186 million for the six months ended June 30, 2014, an increase of $58 million when compared to the same period in 2013. The increase in revenue was due to a 55% increase in the average home selling price for the six months ended June 30, 2014 compared to the same period in 2013, partially

offset by 12 fewer home closings. Gross margin increased $24 million when compared to the same period in 2013 as a result of the increase in the average home selling price which was primarily driven by product mix of higher priced homes closed in some of our San Francisco Bay Area and Southern California communities for the six months ended June 30, 2014.

Central and Eastern U.S.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2014**	**2013**	**2014**	**2013**
Home closings	78	60	123	102
Revenue	$ 38	$ 24	$ 59	$ 42
Gross margin	$ 6	$ 4	$ 9	$ 6
Average home selling price	$ 483,000	$ 394,000	$ 478,000	$ 413,000

The Central and Eastern U.S. housing revenue increased $14 million for the three months ended June 30, 2014 when compared to the same period of 2013 as a result of 18 additional home closings and an increase in the average home selling price. A portion of the increase is a result of the Denver market, which had 13 home closings for the three months ended June 30, 2014 compared to no closings in the same period in 2013. Our Denver operations began in 2013 and did not start having closings until the third quarter of 2013. Gross margin increased by $2 million when compared to the same period in 2013 due to product mix and higher selling prices. The increase in the average home selling price is due to the increase in home closings and product mix of the homes closed in different communities across the segment when compared to 2013.

The Central and Eastern U.S. housing revenue increased $17 million for the six months ended June 30, 2014 when compared to the same period of 2013 as a result of 21 additional home closings and an increase in the average home selling price. A portion of the increase is a result of the Denver market, which had 26 home closings for the six months ended June 30, 2014 compared to no closings in the same period in 2013. This was partially offset by a slight decrease in home closings in the Washington market due to inclement weather during the first quarter of 2014. Gross margin increased by $3 million when compared to the same period in 2013 due to product mix and higher selling prices. The increase in the average home selling price is due to the increase in home closings and product mix of the homes closed in different communities across the segment when compared to 2013.

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 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 that we pay to an outside party, such as paying some or all of a homebuyer's closing costs, are recorded as cost of sales. Incentives are recognized at the time title passes to the homebuyer and the sale is recognized. For the three and six months ended June 30, 2014, incentives recognized as a percentage of gross revenues remained constant when compared to the same periods in 2013.

Our incentives on homes closed by operating segment for the three and six months ended June 30, 2014 and 2013 were as follows:

	Three Months Ended June 30			
	2014		2013	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 2	2%	$ 2	2%
California	1	1%	1	1%
Central and Eastern U.S.	3	7%	1	4%
	$ 6	2%	$ 4	2%

	Six Months Ended June 30			
	2014		2013	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 3	2%	$ 3	2%
California	1	1%	1	1%
Central and Eastern U.S.	5	8%	3	7%
	$ 9	2%	$ 7	2%

Home Sales – Net New Home Orders

Net new home orders for the three and six months ended June 30, 2014 totalled 679 units and 1,363 units, respectively, an increase of 14 units and 23 units when compared to the same periods in 2013. Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. For the six months ended June 30, 2014, the increase in net new home orders was a result of stable market performance in Canada and increased absorptions in communities in unconsolidated entities. This was partially offset by a decrease in net new orders in California and Central and Eastern U.S. Average monthly sales per community by reportable segment for the three and six months ended June 30, 2014 were: Canada – 7 and 7 units (2013 – 8 and 8 units); California – 2 and 2 units (2013 – 4 and 4 units); Central and Eastern U.S. – 2 and 2 units (2013 – 4 and 4 units); and unconsolidated entities – 4 and 4 units (2013 – 1 and 2 units). The changes in sales per community were largely affected by the addition of 15 new communities compared to the same period in the prior year. We were selling from 56 active housing communities, including our share of unconsolidated entities, at June 30, 2014 compared to 41 at June 30, 2013. The net new home orders for the three and six months ended June 30, 2014 and 2013 by operating segment were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(Units)	**2014**	**2013**	**2014**	**2013**
Canada...	437	396	883	776
California	129	125	256	296
Central and Eastern U.S...	76	138	158	244
	642	659	1,297	1,316
Unconsolidated entities	37	6	66	24
	679	665	1,363	1,340

The cancellation rates for the three and six months ended June 30, 2014 and 2013 by our three operating segments were as follows:

	Three Months Ended June 30			
	2014		**2013**	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	9	2%	4	1%
California	20	13%	21	14%
Central and Eastern U.S.	17	18%	18	12%
	46	7%	43	6%
Unconsolidated entities	5	12%	1	14%
	51	7%	44	6%

	Six Months Ended June 30			
	2014		**2013**	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	12	1%	9	1%
California	37	13%	37	11%
Central and Eastern U.S.	39	20%	40	14%
	88	6%	86	6%
Unconsolidated entities	6	8%	2	6%
	94	6%	88	6%

Home Sales – Backlog

Our backlog, which represents the number of new homes subject to sales contracts, as at June 30, 2014 and 2013 by operating segment, was as follows:

	As at June 30			
	2014		2013	
(US$ millions, except unit activity)	**Units**	**Value**	**Units**	**Value**
Canada	1,083	$ 446	950	$ 367
California	186	216	206	137
Central and Eastern U.S.	149	80	222	105
	1,418	742	1,378	609
Unconsolidated entities	54	21	20	10
Total	1,472	$ 763	1,398	$ 619

We expect all of our backlog to close in 2014 or 2015, subject to future cancellations. The units in our backlog were up compared to the prior period due to higher backlog entering into 2014 and stronger net new home orders, while the backlog value increased compared to the same period in 2013 as a result of product mix. Our Canadian operations continued to be steady with an increase in backlog, primarily due to an increase in net new home orders for the six months ended June 30, 2014. The Canadian market has shown a steady increase in sales with its backlog units up 14% year-over-year. The California segment's decrease of 20 units at June 30, 2014 was mainly due to a decrease in net new home orders during the six months ended June 30, 2014 when compared to the same period in 2013. However, this is partially offset by an increase in net new home orders in unconsolidated entities of 42 units as many of them are in California. The Central and Eastern U.S. segment's decrease of 73 units at June 30, 2014, when compared to the same period in 2013, was mainly due to decreased net new homes orders for the six months ended June 30, 2014.

Equity in Earnings from Unconsolidated Entities

Equity in earnings from unconsolidated entities for the three and six months ended June 30, 2014 totalled $6 million and $8 million respectively, compared to $1 million and $3 million, respectively, for the same period in 2013. The land and housing operations of our unconsolidated entities are discussed below.

Land

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

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2014**	**2013**	**2014**	**2013**
Lot closings (single family units)	82	—	204	16
Acre closings (multi-family, industrial and commercial)	—	—	2	—
Revenue	$ 11	$ —	$ 19	$ 4
Gross margin	$ 4	$ —	$ 7	$ 1
Average lot selling price (single family units)	$ 138,000	$ —	$ 90,000	$ 239,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ —	$ 188,000	$ —

Land revenue within unconsolidated entities increased $11 million and gross margin increased $4 million for the three months ended June 30, 2014 compared to the same period in 2013. This was the result of 82 single family lot closings, for the three months ended June 30, 2014 compared to no closings in the same period in 2013.

Land revenue within unconsolidated entities increased $15 million and gross margin increased $6 million for the six months ended June 30, 2014 compared to the same period in 2013. This was the result of an increase of 188 single family lot closings primarily from our Phoenix operations, partially offset by a $149,000 decrease in the average lot selling price for the six months ended June 30, 2014 compared to the same period in 2013. The decrease in average lot selling price was attributable to the mix of land sold amongst the unconsolidated entities.

Housing

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

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2014**	**2013**	**2014**	**2013**
Home closings	21	20	25	21
Revenue	$ 10	$ 9	$ 12	$ 11
Gross margin	$ 2	$ 2	$ 3	$ 2
Average home selling price	$ 487,000	$ 478,000	$ 501,000	$ 509,000

Housing revenue within unconsolidated entities increased $1 million for the three months ended June 30, 2014 compared to the same period in 2013. The increase in revenue is the result of an increase of one additional home closing and a $9,000 increase in the average home selling price due to product mix compared to 2013.

Housing revenue within unconsolidated entities increased $1 million for the six months ended June 30, 2014 compared to the same period in 2013. The increase in revenue is the result of an increase of four home closings which was partially offset by an $8,000 decrease in the average home selling price compared to 2013. The decrease in average home selling price was due to product mix of closings.

Gain on Commercial Assets Held For Sale

The components of the gain on commercial assets held for sale for the three and six months ended June 30, 2014 and 2013 are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity)	**2014**	**2013**	**2014**	**2013**
Square feet	—	—	150,700	—
Proceeds	$ —	$ —	$ 83	$ —
Gain on commercial assets held for sale	$ —	$ —	$ 33	$ —

There were no commercial assets sold during the three months ended June 30, 2014.

Income was generated from the sale of two large commercial income producing properties that were sold during the six months ended June 30, 2014. The Canadian operating segment sold a 128,000 square foot commercial property at Seton in Calgary, Alberta for proceeds of $66 million and a gain of $32 million and the California operating segment sold a 22,700 square foot commercial property at Playa Vista in Los Angeles, California for proceeds of $17 million and a gain of $1 million.

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three and six months ended June 30, 2014 and 2013 are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2014**	**2013**	**2014**	**2013**
General and administrative expense	$ 28	$ 22	$ 57	$ 46
Sales and marketing expense	12	12	22	21
Share-based compensation	4	1	5	9
Change in fair value of equity swap contracts	—	5	5	—
	$ 44	$ 40	$ 89	$ 76

The selling, general and administrative expense was $44 million for the three months ended June 30, 2014, an increase of $4 million when compared to the same period in 2013. General and administrative expense increased $6 million for the three months ended June 30, 2014 compared to the same period in 2013 due primarily to an increase in compensation costs and head count resulting from increased activity. Sales and marketing expense for the three months ended June 30, 2014 remained consistent when compared to the same period in 2013. Share-based compensation expense for the three months ended June 30, 2014 increased $3 million, as a result of the increase in the liability related to the change in share price and vesting of share-based compensation plans compared to the same period in 2013. The fair value adjustment of the equity swap contract related to the deferred share unit plan decreased $5 million due to the change in share price.

The selling, general and administrative expense was $89 million for the six months ended June 30, 2014, an increase of $13 million when compared to the same period in 2013. General and administrative expense increased $11 million for the three months ended June 30, 2014 compared to the same period in 2013 due primarily to an increase in compensation costs and head count resulting from increased activity. Sales and marketing expense for the six months ended June 30, 2014 increased $1 million as a result of increased activity in all of our operating segments, when compared to the same period in 2013. Share-based compensation expense for the three months ended June 30, 2014 decreased $4 million, as a result of a lower deferred share unit plan liability from the change in share price in the six months ended June 30, 2014 compared to the same period in 2013. The fair value adjustment of the equity swap contract related to the deferred share unit plan increased $5 million due to the change in share price.

Other Income

Other income for the three and six months ended June 30, 2014 increased $2 million and $3 million, respectively, when compared to the same period in 2013. The components of other income for the three and six months ended June 30, 2014 and 2013 are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2014**	**2013**	**2014**	**2013**
Interest income	$ 1	$ 1	$ 2	$ 2
Interest rate swap contracts	—	1	—	1
Other	5	2	6	2
	$ 6	$ 4	$ 8	$ 5

Income Tax Expense

Income tax expense for the three and six months ended June 30, 2014 was $6 million and $14 million, respectively, an increase of $1 million and $6 million when compared to the same periods in 2013. The increase in tax expense was primarily a result of an increase in taxable income from our Canadian operations.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2014**	**2013**	**2014**	**2013**
Income tax expense – current	$ 1	$ —	$ 1	$ —
Income tax expense – deferred	5	5	13	8
	$ 6	$ 5	$ 14	$ 8

During the six months ended June 30, 2014, the Company decreased the valuation allowance against its deferred tax assets by $8 million. The decrease is primarily due to an increase in income from our U.S. operations during the period. Canadian operations continue to be profitable in the Ontario and Alberta markets and, as such, it is more-likely-than-not that the deferred tax assets related to the Canadian operations can be realized.

The Company records net deferred tax assets to the extent it believes these assets will more-likely-than-not be realized. 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. The positive evidence includes factors such as (i) an indication that the events and conditions that gave rise to significant reported U.S. losses in recent years were unlikely to recur in the foreseeable future, (ii) a return to profitability in some of our U.S. operations in 2012, (iii) an increase in profitability in 2013, and (iv) long net operating loss carryforward periods that provide evidence that even without significant growth these deferred tax assets will more-likely-than-not be realized. The most significant negative evidence that currently exists is that the Company is in a three-year cumulative loss position with respect to its operations in the U.S., which is largely the result of pre-tax losses in 2012 and 2011, as our U.S. operations generated pre-tax income for the year ended December 31, 2013. In the second quarter of 2014, the Company reported its fourth quarter of pre-tax income for its U.S. operations and experienced year-over-year increases in its U.S. revenues, gross profit margin, net orders and backlog. If these trends continue, together with favourable conditions in the U.S. housing markets and the Company is profitable on a sustained basis, we believe that there could be sufficient positive evidence to support reducing a large portion of our valuation allowance in the latter half of 2014.

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 equity accounted investees having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at June 30, 2014, the rate of exchange was C$1.0670 equivalent to US$1 (December 31, 2013 – C$1.0622 equivalent to US$1). Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the three months ended June 30, 2014, the average rate of exchange was C$1.0903, equivalent to US$1 (June 30, 2013 – C$1.0232 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 resulted in a gain of $28 million and loss of $2 million for the three and six months ended June 30, 2014, compared to losses of $23 million and $42 million in the same period of 2013.

QUARTERLY OPERATING AND FINANCIAL DATA

(US$ millions, except unit activity and per share amounts)	2014		2013				2012	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Quarterly Operating Data								
Lot closings (single family units)	515	324	1,177	463	408	354	1,019	386
Acre closings (multi-family, industrial and commercial)	6	4	8	13	6	—	79	2
Home closings (units)	435	346	856	606	460	294	725	477
Net new home orders (units)	642	655	445	540	659	657	447	461
Backlog (units at end of period)	1,418	1,211	902	1,311	1,378	1,180	817	1,095
Backlog value	$ 742	$ 609	$ 442	$ 630	$ 609	$ 519	$ 358	$ 476
Quarterly Financial Data								
Revenue	$ 321	$ 208	$ 555	$ 333	$ 298	$ 171	$ 715	$ 245
Direct cost of sales	(223)	(149)	(407)	(234)	(221)	(120)	(603)	(176)
Gross margin	98	59	148	99	77	51	112	69
Gain on commercial assets held for sale	—	33	—	—	—	—	—	—
Selling, general and administrative expense	(44)	(45)	(52)	(42)	(40)	(36)	(41)	(32)
Interest expense	(15)	(16)	(15)	(15)	(11)	(11)	(10)	(11)
Other income / (expense)	10	4	9	2	4	3	4	(1)
Income before taxes	49	35	90	44	30	7	65	25
Income tax expense	(6)	(8)	(7)	(8)	(5)	(3)	(9)	(11)
Net income	43	27	83	36	25	4	56	14
Net (income) / loss attributable to non-controlling interest and other interest in consolidated subsidiaries	(1)	(2)	(4)	(1)	(1)	—	—	1
Net income attributable to Brookfield Residential	$ 42	$ 25	$ 79	$ 35	$ 24	$ 4	$ 56	$ 15
Foreign currency translation	28	(29)	(23)	14	(23)	(19)	(4)	6
Comprehensive income / (loss)	$ 70	$ (4)	$ 56	$ 49	$ 1	$ (15)	$ 52	$ 21
Earnings per common share attributable to Brookfield Residential								
Basic	$ 0.36	$ 0.21	$ 0.67	$ 0.30	$ 0.21	$ 0.04	$ 0.52	$ 0.15
Diluted	$ 0.36	$ 0.21	$ 0.67	$ 0.29	$ 0.21	$ 0.04	$ 0.52	$ 0.15

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 acre sales, which are a meaningful part of our business, results are more variable from year to year given the nature of the development and monetization cycle.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's condensed consolidated balance sheets as of June 30, 2014 and December 31, 2013:

	As at	
(US$ millions)	**June 30 2014**	**December 31 2013**
Land and housing inventory	$ 2,524	$ 2,399
Investments in unconsolidated entities	231	206
Commercial assets held for sale	—	48
Receivables and other assets	318	341
Cash and restricted cash	190	328
Deferred income tax asset	12	22
	$ 3,275	$ 3,344
Notes payable	$ 1,100	$ 1,100
Bank indebtedness and other financings	261	349
Accounts payable and other liabilities	399	418
Other interests in consolidated subsidiaries	17	37
Total equity	1,498	1,440
	$ 3,275	$ 3,344

Assets

Our assets as of June 30, 2014 totalled $3,275 million, a decrease of $69 million compared to December 31, 2013. Our land and housing inventory and investments in unconsolidated entities are our most significant assets with a combined book value of $2,755 million, or approximately 84% of our total assets. The land and housing assets increased when compared to December 31, 2013 due to acquisitions of $120 million, development activity and stronger backlog, partially offset by sales activity. Our land and housing assets include land under development and land held for development, finished lots ready for construction, homes completed and under construction and model homes.

A summary of our lots owned, excluding unconsolidated entities, and their stage of development as at June 30, 2014 compared with December 31, 2013 follows:

	As at			
	June 30, 2014		**December 31, 2013**	
(US$ millions, except units)	**Units**	**Book Value**	**Units**	**Book Value**
Land held for development (lot equivalents)	89,820	$ 1,475	92,840	$ 1,525
Land under development and finished lots (single family units)	6,555	595	5,336	554
Housing units, including models	1,536	396	864	251
	97,911	$ 2,466	99,040	$ 2,330
Multi-family, industrial and commercial parcels (acres)	151	$ 58	158	$ 69

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at June 30 2014	As at December 31 2013
6.5% unsecured senior notes due December 15, 2020 (a)	$ 600	$ 600
6.125% unsecured senior notes due July 1, 2022 (b)	500	500
	$ 1,100	$ 1,100

(a) On December 14, 2012, Brookfield Residential issued $600 million of unsecured senior notes. The notes were offered in a private placement, with an eight-year term due December 15, 2020 at a fixed interest rate of 6.5%. The notes require semi-annual interest payments on June 15 and December 15 of each year until maturity. The Company's obligations to pay principal and interest on the unsecured senior notes is guaranteed by certain of our subsidiaries.

(b) On June 25, 2013, the Company and Brookfield Residential US Corporation, a wholly-owned subsidiary of the Company, co-issued a private placement of $500 million of unsecured senior notes. The notes have a nine-year term, are due July 1, 2022 and bear interest at a fixed rate of 6.125%. The notes require semi-annual interest payments on January 1 and July 1 each year until maturity. The Company's obligations to pay principal and interest on the unsecured notes is guaranteed by the Company and certain of the Company's subsidiaries.

Transaction costs are incremental costs directly related to the issuance of the unsecured senior notes and the Company classified these costs within receivables and other assets as a deferred asset. These costs are amortized using the effective interest rate method over the life of the related debt instrument.

The notes include covenants that, among others, place limitations on incurring additional indebtedness and making restricted payments. Under the limitation on additional indebtedness, we are permitted to incur specified categories of indebtedness but are prohibited from incurring further indebtedness if we do not satisfy either an indebtedness to consolidated net tangible worth ratio or a fixed charge coverage ratio. Brookfield Residential was in compliance with these financial incurrence covenants for the six months ended June 30, 2014. Our actual fixed charge coverage and indebtedness to consolidated net tangible worth ratio as of June 30, 2014 are reflected in the table below:

	Covenant	Actual as at June 30 2014
Minimum fixed charge coverage	2.0 to 1	3.8 to 1
Maximum indebtedness to consolidated net tangible worth	2.25 to 1	1.0 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings as of June 30, 2014 were $261 million, a decrease of $88 million from December 31, 2013. The decrease was primarily the result of the pay down of project-specific financings, bank indebtedness and secured vendor take-back ("VTB") mortgages in 2014. Our bank indebtedness and other financings represent construction and development loans and facilities that are used to fund the operations of our communities as new homes are constructed. As of June 30, 2014, the weighted average interest rate on our bank indebtedness and other financings was 3.8% (December 31, 2013 – 4.0%).

The debt maturing in 2014 and onwards is expected to either be repaid from home and/or lot deliveries over this period or extended. Additionally, as of June 30, 2014, we had bank indebtedness and due to affiliates of $813 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 consists of the following:

(US$ millions)	As at June 30 2014	As at December 31 2013
Bank indebtedness (a)	$ 156	$ 206
VTB mortgages (b)	105	117
Project-specific financings (c)	—	26
Due to affiliates (d)	—	—
	$ 261	$ 349

(a) Bank indebtedness

The Company has four secured credit facilities (December 31, 2013 – three secured credit facilities) with various Canadian banks with outstanding amounts totalling $156 million (December 31, 2013 – $206 million). The secured facilities are repayable in Canadian dollars in the amount of C$167 million at June 30, 2014 (December 31, 2013 – C$219 million). These facilities allow the Company to borrow up to approximately C$565 million (US$530 million) as at June 30, 2014 (December 31, 2013 – C$515 million (US$485 million)). The credit facilities bear interest between Canadian prime plus 0.50% to 0.75% for any amounts drawn. The secured facilities are secured by fixed and floating charges over the land and housing inventory assets of the Alberta and Ontario operations and a general charge over the property of Brookfield Residential (Alberta) LP and Brookfield Homes (Ontario) Limited, both wholly-owned subsidiaries of the Company.

These facilities require Brookfield Residential (Alberta) LP, a wholly-owned subsidiary of the Company, to maintain a minimum tangible net worth of $347 million (C$370 million) and a debt to equity ratio of no greater than 1.75 to 1. At June 30, 2014, we were in compliance with all of our covenants relating to bank indebtedness. The following are computations of Brookfield Residential (Alberta) LP's tangible net worth and debt to equity ratio covenants:

(US$ millions, except ratios)	Covenant	Actual as at June 30 2014
Tangible net worth	$ 347	$ 633
Debt to equity	1.75 to 1	0.39 to 1

These facilities also require Brookfield Homes (Ontario) Limited, a wholly-owned subsidiary of the Company, to maintain a minimum tangible net worth of $70 million (C$75 million) and a debt to equity ratio of no greater than 1.75 to 1. At June 30, 2014, we were in compliance with all of our covenants relating to bank indebtedness. The following are computations of Brookfield Homes (Ontario) Limited's tangible net worth and debt to equity ratio covenants:

(US$ millions, except ratios)	Covenant	Actual as at June 30 2014
Tangible net worth	$ 70	$ 121
Debt to equity	1.75 to 1	0.77 to 1

Brookfield Residential US Corporation, a wholly-owned subsidiary of the Company, as borrower, and the Company, as the parent company to the borrower, entered into a $250 million unsecured Revolving Credit Facility with various lenders, with availability subject to a borrowing base calculation. Interest is charged on the facility at a rate equal to either the adjusted LIBOR plus the applicable rate between 1.875% and 2.25% per annum or the alternate base rate ("ABR") plus the applicable rate between 0.875% and 1.25% per annum, at the option of the borrower.

The credit 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, fundamental changes, sale leasebacks, modifications of material agreements, and certain financial covenants as discussed below.

The facility requires the Company and Brookfield Residential US Corporation to maintain a minimum consolidated tangible net worth of $1,052 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at June 30, 2014, the Company and Brookfield Residential US Corporation were in compliance with these covenants relating to this facility. The following are computations of consolidated tangible net worth and consolidated net debt to capitalization as directed by the covenants:

(US$ millions, except ratios)	Covenant	Actual as at June 30 2014
Tangible net worth	$ 1,052	$ 1,515
Net debt to capitalization	65%	45%

The Company had no outstanding borrowings under the Revolving Credit Facility at June 30, 2014. As of June 30, 2014, the Company had $250 million of borrowing availability under the facility.

The transaction costs and administrative and upfront fees related to the Revolving Credit Facility are within receivables and other assets (refer to Note 5 "Receivables and Other Assets" in the condensed consolidated financial statements).

(b) Secured vendor take back ("VTB") mortgages

A total of 23 secured VTB mortgages (December 31, 2013 – 25 secured VTB mortgages) in the amount of $100 million (December 31, 2013 – $111 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Homes (Ontario) Limited. This debt is repayable in Canadian dollars of C$107 million (December 31, 2013 – C$118 million). The interest rate on this debt ranges from prime plus 1.0% to prime plus 2.0% to fixed rates ranging from 2.5% to 6.0% and the debt is secured by related lands. As at June 30, 2014, these borrowings are not subject to financial covenants.

A total of three secured VTB mortgages (December 31, 2013 – four secured VTB mortgages) in the amount of $5 million (December 31, 2013 – $6 million) relate to raw land held for development by Brookfield Homes Holdings LLC and Brookfield Residential (US) LLC, both wholly-owned subsidiaries of the Company. The interest rate on this debt is fixed at rates between 1.5% and 12.0% and the debt is secured by related lands. As at June 30, 2014, these borrowings are not subject to any financial covenants.

(c) Project-specific financings

At June 30, 2014, the Company does not have any outstanding project-specific borrowings. At December 31, 2013, project-specific financings totalled $26 million which had a floating interest rate of prime plus 0.75%, matured in 2014 and were secured by the land assets to which the borrowings relate. This debt was repayable in Canadian dollars of C$28 million and was repaid during the three months ended March 31, 2014. These facilities required Brookfield Residential (Alberta) LP to maintain a minimum tangible net worth of C$370 million (US$348 million) and a debt to equity ratio of no greater than 1.75 to 1.

(d) Due to affiliates

There were no amounts due to affiliates at June 30, 2014 or December 31, 2013 on an unsecured revolving operating facility with a subsidiary of our largest shareholder, Brookfield Asset Management Inc. At June 30, 2014, the availability on this facility was $300 million. The revolving operating facility is in a principal amount not to exceed $300 million, bears interest at LIBOR plus 4.5% and could be fully drawn upon without violation of any covenants.

At June 30, 2014, this revolving operating facility required Brookfield Residential US Corporation to maintain minimum total equity of $300 million and a consolidated net debt to capitalization ratio of no greater than 65%. At June 30, 2014, we were in compliance with all of our covenants relating to this facility. The following are computations of Brookfield Residential US Corporation's minimum shareholders' equity and net debt to capitalization ratio covenants:

(US$ millions, except ratios)	Covenant	Actual as at June 30 2014
Minimum shareholders' equity	$ 300	$ 1,076
Net debt to capitalization	65%	33%

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, other interests in consolidated subsidiaries and interest bearing debt, less cash.

Our net debt to total capitalization ratio as of June 30, 2014 and December 31, 2013 is as follows:

	As at	
(US$ millions)	June 30 2014	December 31 2013
Bank indebtedness and other financings	$ 261	$ 349
Notes payable	1,100	1,100
Total interest bearing debt	1,361	1,449
Less: cash	(185)	(320)
	1,176	1,129
Other interests in consolidated subsidiaries	17	37
Total equity	1,498	1,440
Total capitalization	$ 2,691	$ 2,606
Net debt to capitalization	44%	43%

Credit Ratings

Our access to financing depends on, among other things, suitable market conditions and the maintenance of suitable long-term credit ratings. Our credit ratings may be adversely affected by various factors, including increased debt levels, decreased earnings, declines in our customer demand, increased competition, a further deterioration in general economic and business conditions and adverse publicity. Any downgrades in our credit rating may impede our access to capital markets or raise our borrowing rates. We are currently rated by two credit rating agencies, Moody's and Standard & Poor's ("S&P"). We are committed to maintaining these ratings and improving them further over time. Our credit ratings at June 30, 2014 and at the date of this report 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. The credit ratings presented are not recommendations to purchase, hold or sell our common or preferred shares, as such ratings do not comment as to market price or suitability for a particular investor.

Cash Flow

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

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

At June 30, 2014, we had cash and cash equivalents of $185 million, compared to $320 million at December 31, 2013.

The net cash flows for the six months ended June 30, 2014 and 2013 were as follows:

	Six Months Ended June 30	
(US$ millions)	2014	2013
Cash flows provided by / (used in) operating activities	$ 6	$ (218)
Cash flows used in investing activities	(18)	(40)
Cash flows (used in) / provided by financing activities	(118)	482
Effect of foreign exchange rates on cash	(5)	1
	$ (135)	$ 225

Cash Flow Provided by Operating Activities

Cash flows provided by operating activities during the six months ended June 30, 2014 totalled $6 million, compared to $218 million cash flow used in operating activities during 2013. During 2014, cash provided by operating activities was impacted by an increase in land and housing inventory due to strategic land purchases and development activity, a decrease in receivables and other assets, a decrease in commercial assets held for sale, a decrease in accounts payable and other liabilities and our net income. Acquisitions for the six months ended June 30, 2014 totalled $120 million consisting of $32 million in Canada, $73 million in California and $15 million in Central and Eastern U.S. During 2013, cash used in operating activities was impacted by an increase in land and housing inventory, an increase in receivables and other assets and a decrease in accounts payable. Acquisitions for the six months ended June 30, 2013 totalled $236 million consisting of $142 million in Canada, $81 million in California and $13 million in Central and Eastern U.S.

Cash Flow Used in Investing Activities

During the six months ended June 30, 2014, cash flows used in investing activities totalled $18 million compared to $40 million in 2013. During 2014, we invested $25 million in unconsolidated entities which was partially offset by a decrease in restricted cash balances of $3 million and distributions from unconsolidated entities of $4 million. During 2013, we invested $40 million in unconsolidated entities and increased restricted cash balances by $6 million. This was partially offset by distributions of $6 million from unconsolidated entities.

Cash Flow Used in Financing Activities

Cash used in our financing activities for the six months ended June 30, 2014 was $118 million, compared to $482 million provided by financing activities in the same period in 2013. The cash used in our financing activities in 2014 was primarily from net repayments under project-specific financings and other financings of $36 million, net repayments under bank indebtedness of $48 million, repurchases of other interests in consolidated subsidiaries of $20 million and common share repurchases of $11 million. This was in contrast to net proceeds of $491 million from our unsecured senior notes offering, net repayments under project-specific and other financings of $110 million and net drawings under bank indebtedness of $104 million in 2013. The draws to date in 2014 have been used to fund acquisitions and development costs towards 2014 sales.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at June 30, 2014 is as follows:

	Payment Due by Period				
(US$ millions)	**Total**	**Less than 1 Years**	**1 – 3 Years**	**3 – 5 Years**	**More than 5 Years**
Notes payable[1]	$ 1,100	$ —	$ —	$ —	$ 1,100
Interest on notes payable	498	70	139	139	150
Secured VTB mortgages[2][3]	105	35	51	15	4
Bank indebtedness[2][3]	156	44	112	—	—
Accounts payable and other liabilities[4]	399	399	—	—	—
Operating lease obligations[5]	37	4	12	10	11
Purchase agreements[6]	34	15	19	—	—

(1) Amounts are included on the condensed consolidated balance sheets. See Note 7 to the condensed consolidated financial statements for additional information regarding unsecured senior notes payable.
(2) Amounts are included on the condensed consolidated balance sheets. See Note 8 to the condensed consolidated financial statements for additional information regarding bank indebtedness and other financings and related matters.
(3) Amounts do not include interest due to the floating nature of our debt. See Note 8 to the condensed consolidated financial statements for additional information regarding our floating rate debt.
(4) Amounts are included on the condensed consolidated balance sheets. See Note 9 to the condensed consolidated financial statements for additional information regarding accounts payable and other liabilities.
(5) Amounts relate to non-cancellable operating leases involving office space, design centres and model homes.
(6) See Note 15 to the condensed consolidated financial statements for additional information regarding purchase agreements.

Shareholders' Equity

At August 6, 2014, 116,269,891 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 Common Shares. Each option granted can be exercised for one Common Share. At August 6, 2014, 6,537,112 options were outstanding under the stock option plan and the escrowed stock plan, collectively.

On May 1, 2014, Brookfield Residential announced a normal course issuer bid ("NCIB") for a portion of our Common Shares. The NCIB is made in accordance with the requirements of the TSX and NYSE. During the six months ended June 30, 2014, the Company purchased 540,776 common shares for total consideration of $11 million.

On August 1, 2014, the Company converted all 61,638 issued and outstanding Preferred Shares into 168,380 Common Shares.

Off-Balance Sheet Arrangements

In the ordinary course of business, and where market conditions permit, we enter into land and lot option contracts and 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 options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of June 30, 2014, we had $69 million of primarily non-refundable option deposits and advanced costs. The total remaining exercise price of these options was $116 million. Pursuant to the guidance in the United States Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810 *Consolidation*, as described in Note 2 to our condensed consolidated financial statements included elsewhere in this interim report, we have consolidated $30 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 9,481 lots and control under option 1,527 lots through our proportionate share of unconsolidated entities. As of June 30, 2014, our investment in unconsolidated entities totaled $231 million. We have provided varying levels of guarantees of debt in our unconsolidated entities. As of June 30, 2014, we had completion guarantees of $10 million and recourse guarantees of $1 million with respect to debt in our unconsolidated entities. During the six months ended June 30, 2014, we did not make any loan re-margin repayments on the debt in our unconsolidated entities. Please refer to Note 3 to our condensed consolidated financial statements included later in this interim report for additional information about our investments in unconsolidated entities.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of June 30, 2014, we had $59 million in letters of credit outstanding and $276 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds at June 30, 2014 are $37 million and $162 million, respectively.

Transactions Between Related Parties

Related parties include the directors, executive officers, director nominees or 5% 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 and an unsecured revolving credit facility. The Company's significant related party transactions as of and for the three and six months ended June 30, 2014 and 2013 were as follows:

- In 2013, the Company purchased the tax attributes of a subsidiary of Brookfield Asset Management Inc. in consideration for a $33 million (2012 - $26 million) non-interest bearing promissory note. During the three and six months ended June 30, 2014, $7 million and $11 million, respectively, (2013 - $6 million and $13 million) of this note was repaid. These transactions were recorded at the exchange amount.

- During the three and six months ended June 30, 2014, the Company paid $10 million (2013 - $nil and $18 million, respectively) to Brookfield Asset Management Inc. for Canadian tax credits. The transactions were recorded at the exchange amount.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations is based upon the condensed consolidated financial statements of Brookfield Residential, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make assumptions, estimates and judgments that affect the carrying amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Significant areas where judgment is applied include asset valuations, investments in unconsolidated entities, assessment of variable interest entities, tax provisions, warranty costs, valuation of financial instruments, deferred income tax assets and liabilities, accrued liabilities and contingent liabilities including litigation. Our actual results may differ materially from these estimates under different assumptions or conditions.

Our most critical accounting policies are those that we believe are the most important in portraying our financial condition and results of operations, and require the most subjectivity and estimates by our management. A summary of our significant accounting policies, including the critical accounting policies discussed below, is provided in the notes to the condensed consolidated financial statements of the Company included later in this interim report.

Revenue Recognition

Revenues from the sale of homes are recognized when title passes to the purchaser upon closing, wherein all proceeds are received or collectability is reasonably assured. 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 reasonably assured. In certain circumstances, when title transfers but material future development exists, the percentage-of-completion method is used to recognize revenue.

Sales Incentives

We grant our homebuyers sales incentives from time-to-time in order to promote sales of our 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 that we pay to an outside party, such as paying some or all of a homebuyer's closing costs, are recorded as cost of sales. Incentives are recognized at the time the home is delivered to the homebuyer and we receive the sales proceeds.

Land and Housing Inventory

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*, housing and land assets that we own directly and through unconsolidated entities are reviewed for recoverability on a regular basis and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. 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 housing and land inventory impaired, we estimate the cash flow for the life of each project. Specifically, on land projects, we estimate 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, we evaluate 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, we continuously evaluate projects where inventory is turning over more slowly than expected or where 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 2014 assume recent sales activity and normalized sales rates beyond 2014. We identify 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 less estimated selling costs using a discounted cash flow methodology which incorporates market-based assumptions.

All projects were reviewed for impairment charges and option write-offs for the six months ended June 30, 2014 and no impairment charges were required. This is consistent with the six months ended June 30, 2013.

The locations of the projects reviewed were as follows:	Number of Projects
Canada	52
California	37
Central and Eastern U.S.	30
Unconsolidated entities	16
	135

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

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 period 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 835-20, is charged to the condensed consolidated statement of operations in the period incurred.

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 financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse.

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 estimable 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 (which are based on current pricing and volume trends); the long duration of five to twenty years or more in all significant operating jurisdictions before the expiry of net operating 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.

Derivative Financial Instruments

We revalue our equity swap contract each reporting period. The fair value of the equity swap contract is determined based on the notional amount, share price, the number of underlying Common Shares and the three month LIBOR rate. We performed a sensitivity analysis of the estimated fair value and the impact to the financial statements using alternative reasonably likely assumptions on June 30, 2014 and the impact to the financial statements was nominal. However, future fluctuations in the Company's share price could have a significant impact on net income.

The interest rate swaps are revalued at each reporting period. The fair value of interest rate swaps is determined based on the notional amount, term to maturity and the three month LIBOR rate. The LIBOR rates vary depending on the term to maturity and the conditions set out in the underlying swap agreements.

Fair Value Instruments

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 our 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 our own estimates about the assumptions that market participants would use to value the asset or liability.

When available, we use quoted market prices in active markets to determine fair value. We consider the principal market and non-performance risks associated with our counterparties when determining the fair value measurements, if applicable. Fair value measurements are used for our interest rate and equity swaps and fair value debt, as well as for inventories when events and circumstances indicate that the carrying value may not be recoverable.

Other Interests in Consolidated Subsidiaries

The Company accounts for the other interests in consolidated subsidiaries in accordance with ASC Topic 480 *Distinguishing Liabilities From Equity*. Redeemable non-controlling interest is initially measured at the non-controlling interests' proportionate share of the net fair value of the identifiable assets, liabilities and contingent liabilities recognized at the time of investment outside of permanent equity of the Company's condensed consolidated balance sheet in accordance with ASC 480-10. Subsequently, the redeemable non-controlling interests are carried at the higher of (1) the initial carrying amount, increased or decreased for the non-controlling interests' share of net income or loss; or (2) the expected redemption value. The change of the carrying amounts of the redeemable non-controlling interests is recognized as net income attributable to redeemable non-controlling interests in the consolidated statements of operations. In accordance with ASC Topic 810 *Consolidations*, adjustments to reflect changes in the excess, if any, of the redeemable non-controlling interests' redemption value over their ASC 810-10 measurement amount is recorded against permanent equity in retained earnings.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 provides a comprehensive model for entities to use in accounting for revenue arising from contracts with customers and replaces most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 indicates that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects that consideration to which the entity expects to be entitled in exchange for those goods or services. This is achieved through the application of a five-step model which requires entities to exercise judgment in analyzing revenue transactions. ASU 2014-09 is effective for public entities for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted and companies may use either a full retrospective or a modified retrospective approach when implementing the new guidance. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on the condensed consolidated financial statements.

Non-GAAP Financial Measures

Gross margins on land and home sales are non-GAAP financial measures and are defined by the Company as sales of land and homes less respective direct cost of sales of land and homes. Management finds gross margin 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 also provides comparability to similar calculations by its peers in the homebuilding industry. Additionally, gross margin 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 margins 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 margins and it should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

Internal Control Over Financial Reporting

The President and Chief Executive Officer and Executive Vice President and Chief Financial Officer are responsible for maintaining adequate internal controls over financial reporting. As at June 30, 2014, the President and Chief Executive Officer and Executive Vice President and Chief Financial Officer evaluated the design and operation of the Company's disclosure controls and procedures and internal controls over financial reporting. Based on that evaluation, the Company's disclosure controls and procedures and internal control over financial reporting were effective as at June 30, 2014, to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under applicable United States and Canadian securities laws is (i) recorded, processed, summarized, and reported on a timely basis, and (ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures. There has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT 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.

Financial instruments held by the Company that are subject to market risk include other financial assets, borrowings, and derivative instruments such as interest rate and equity swap contracts.

Interest Rates

We are exposed to financial risks that arise from the fluctuations in interest rates. Our interest-bearing assets and liabilities are mainly at floating rates, so we would be negatively impacted, on balance, if interest rates increase. From time to time, the Company enters into interest rate swap contracts. At June 30, 2014, we had interest rate swap contracts totalling $50 million at an average rate of 5% per annum. Based on our net debt levels as of June 30, 2014, a 1% change in interest rates would have either a negative or positive effect of approximately $2 million on our cash flows. Expense of $nil and $nil was recognized during the three and six months ended June 30, 2014, respectively, and was included in other income. All interest rate swaps are recorded at fair market value and fluctuations in fair market value are presented in the statements of operations as hedge accounting has not been applied.

Our interest rate swaps are not designated as hedges under ASC Topic 815 *Derivatives and Hedging*. We are exposed to market risk associated with changes in the fair values of the swaps, and such changes must be reflected in our condensed consolidated statements of operations. As of June 30, 2014, the fair value of the interest rate swaps totalled a liability of $6 million.

Exchange Rates

We conduct business in both Canadian and U.S. dollars; therefore, we are exposed to currency risks. Our 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.

As at June 30, 2014, the Company does not hold any hedging instruments in currencies other than U.S. dollars.

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.

Financial instruments held by the Company that are exposed to equity price risk include equity derivatives. A 5% decrease in the market price of equity derivatives held by the Company would have decreased net income by $2 million. Our liability in respect of equity compensation arrangements is subject to variability based on changes in our underlying Common Share price. To hedge against future deferred share unit payments, in May 2013 and in September 2011, we entered into two separate total return swap transactions at a weighted average cost of $16.20 per share on 1,585,889 shares. Both swaps mature in September 2016. At June 30, 2014, the fair market value of the total return swap was an asset of $7 million and was included in accounts receivable and other assets. Expense of $nil and $5 million was recognized related to the total return swap during the three and six months ended June 30, 2014, respectively, and was included in selling, general and administrative expense. Also included in selling, general and administrative expense for the three and six months ended June 30, 2014 was expense of $4 million and $5 million, respectively, relating to the Company's share-based compensation plans. The total return swap is recorded at fair market value and is recorded through the statements of operations because hedge accounting has not been applied.

(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's exposure to credit risk in respect of financial instruments relates primarily to counterparty obligations regarding derivative contracts and receivables.

We assess the credit worthiness of each counterparty before entering into contracts and ensure that counterparties meet minimum credit quality requirements. The credit risk of derivative financial instruments is generally limited to the positive fair value of the instruments, which, in general, tends to be a relatively small proportion of the notional value. Substantially all of our derivative financial instruments involve either counterparties that are banks or other financial institutions in North America that have embedded credit risk mitigation features. We do not expect to incur credit losses in respect to any of these counterparties. The maximum exposure in respect to receivables is equal to the carrying value.

(c) Liquidity Risk

Liquidity risk is the risk that we 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 we are able to react to contingencies and investment opportunities quickly, we maintain 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.

We are subject to the risks associated with debt financing, including the ability to refinance indebtedness at maturity. We believe these risks are mitigated through the use of long-term debt secured by high quality assets, maintaining debt levels that are in management's opinion relatively conservative, and by diversifying maturities over an extended period of time. We also seek to include in debt agreements terms that protect us from liquidity issues of counterparties that might otherwise impact our liquidity.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

		(Unaudited)	
		As at	
	Note	June 30 2014	December 31 2013
Assets			
Land and housing inventory	2	$ 2,523,972	$ 2,399,242
Investments in unconsolidated entities	3	230,587	206,198
Commercial assets held for sale	4	—	47,733
Receivables and other assets	5	318,461	341,090
Restricted cash	6	5,568	8,169
Cash and cash equivalents		184,508	319,735
Deferred income tax assets	10	12,192	21,594
Total assets		$ 3,275,288	$ 3,343,761
Liabilities and Equity			
Notes payable	7	$ 1,100,000	$ 1,100,000
Bank indebtedness and other financings	8	261,109	348,853
Accounts payable and other liabilities	9	399,181	418,410
Total liabilities		1,760,290	1,867,263
Other interests in consolidated subsidiaries	11	17,214	36,641
Preferred Shares – 61,638 shares outstanding (December 31, 2013 – 64,061 shares outstanding)	12	1,539	1,600
Common Shares – 116,491,917 shares outstanding (December 31, 2013 – 117,026,076 shares outstanding)	12	331,061	332,511
Additional paid-in-capital		419,115	415,377
Retained earnings		683,275	625,482
Non-controlling interest	11	34,790	35,047
Accumulated other comprehensive income		28,004	29,840
Total equity		1,497,784	1,439,857
Total liabilities and equity		$ 3,275,288	$ 3,343,761
Commitments, contingent liabilities and other	15		
Guarantees	16		

See accompanying notes to the condensed consolidated financial statements

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

		(Unaudited)			
		Three Months Ended June 30		**Six Months Ended June 30**	
	Note	**2014**	**2013**	**2014**	**2013**
Revenue					
Land		$ 81,041	$ 104,790	$ 125,746	$ 156,503
Housing		240,000	193,078	403,674	312,387
Total revenue		321,041	297,868	529,420	468,890
Direct Cost of Sales					
Land		(38,153)	(64,127)	(62,240)	(87,366)
Housing		(184,759)	(156,690)	(310,164)	(253,394)
Total direct cost of sales		(222,912)	(220,817)	(372,404)	(340,760)
Gain on commercial assets held for sale	4	—	—	32,927	—
Selling, general and administrative expense		(44,462)	(40,066)	(89,298)	(76,318)
Interest expense		(15,145)	(10,777)	(31,249)	(21,283)
Equity in earnings from unconsolidated entities	3	5,763	1,201	8,414	2,995
Other income		5,873	3,526	8,194	5,378
Depreciation		(1,122)	(1,046)	(2,271)	(2,045)
Income Before Income Taxes		49,036	29,889	83,733	36,857
Current income tax expense	10	(840)	(112)	(876)	(52)
Deferred income tax expense	10	(5,022)	(5,104)	(13,087)	(7,735)
Net Income		43,174	24,673	69,770	29,070
Other Comprehensive Income / (Loss)					
Unrealized foreign exchange gain / (loss) on translation of the net investment in Canadian subsidiaries		27,609	(23,161)	(1,836)	(42,347)
Comprehensive Income / (Loss)		$ 70,783	$ 1,512	$ 67,934	$ (13,277)
Net Income Attributable To:					
Consolidated		$ 43,174	$ 24,673	$ 69,770	$ 29,070
Non-controlling interests and other interests in consolidated subsidiaries	11	795	437	2,542	557
Brookfield Residential		$ 42,379	$ 24,236	$ 67,228	$ 28,513
Comprehensive Income / (Loss) Attributable To:					
Consolidated		$ 70,783	$ 1,512	$ 67,934	$ (13,277)
Non-controlling interests and other interests in consolidated subsidiaries	11	795	437	2,542	557
Brookfield Residential		$ 69,988	$ 1,075	$ 65,392	$ (13,834)
Common Shareholders Earnings Per Share					
Basic	14	$ 0.36	$ 0.21	$ 0.57	$ 0.24
Diluted	14	$ 0.36	$ 0.21	$ 0.57	$ 0.24
Weighted Average Common Shares Outstanding *(in thousands)*					
Basic	14	116,863	116,455	116,947	116,395
Diluted	14	118,277	117,556	118,414	117,461

See accompanying notes to the condensed consolidated financial statements

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

	(Unaudited)	
	Six Months Ended June 30	
Preferred Shares *(Note 12)*	**2014**	**2013**
Opening balance	$ 1,600	$ 1,630
Conversion of Preferred Shares into Common Shares	(61)	(28)
Ending balance	1,539	1,602
Common Shares *(Note 12)*		
Opening balance	332,511	324,704
Issuance of Common Shares	—	4,704
Conversion of Preferred Shares into Common Shares	61	28
Common Shares repurchased for cancellation	(1,511)	—
Ending balance	331,061	329,436
Additional Paid-in-Capital		
Opening balance	415,377	411,010
Share-based compensation costs	3,738	2,527
Stock option exercises	—	(1,971)
Ending balance	419,115	411,566
Retained Earnings		
Opening balance	625,482	483,450
Net income attributable to Brookfield Residential	67,228	28,513
Dividends on Preferred Shares	(61)	(64)
Common Shares repurchased for cancellation	(9,374)	—
Ending balance	683,275	511,899
Accumulated Other Comprehensive Income		
Opening balance	29,840	81,062
Other comprehensive loss	(1,836)	(42,347)
Ending balance	28,004	38,715
Total Brookfield Residential Equity	$ 1,462,994	$ 1,293,218
Non-controlling Interest *(Note 11)*		
Opening balance	$ 35,047	$ 5,539
Acquisition	—	26,721
Net loss attributable to non-controlling interest	(257)	—
Ending balance	$ 34,790	$ 32,260
Total Equity	$ 1,497,784	$ 1,325,478

See accompanying notes to the condensed consolidated financial statements

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

	(Unaudited)	
	Six Months Ended June 30	
Cash Flows Provided by / (Used in) Operating Activities	**2014**	**2013**
Net income	$ 69,770	$ 29,070
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities	(3,733)	(604)
Deferred income tax expense	13,087	7,735
Share-based compensation costs	4,989	2,527
Depreciation	2,271	2,045
Amortization of non-cash vendor take back (“VTB”) interest	188	283
Changes in operating assets and liabilities:		
Decrease / (increase) in receivables and other assets	18,678	(1,352)
Increase in land and housing inventory	(127,199)	(212,482)
Decrease in commercial assets held for sale	45,956	—
Decrease in accounts payable and other liabilities	(17,910)	(45,852)
Net cash provided by / (used in) operating activities	6,097	(218,630)
Cash Flows Provided by / (Used in) Investing Activities		
Investments in unconsolidated entities	(24,693)	(40,307)
Distributions from unconsolidated entities	3,774	6,117
Change in restricted cash	2,588	(5,954)
Net cash used in investing activities	(18,331)	(40,144)
Cash Flows Provided by / (Used in) Financing Activities		
Drawings under project-specific and other financings	11,494	182,907
Repayments under project-specific and other financings	(47,727)	(293,180)
Drawings on bank indebtedness	4,394	138,768
Repayments on bank indebtedness	(52,150)	(35,228)
Net drawings under unsecured senior notes payable	—	491,000
Net distributions to non-controlling interest and other interests in consolidated subsidiaries	(2,000)	(5,036)
Repurchase from non-controlling interest and other interests in consolidated subsidiaries	(20,240)	—
Purchase of Common Shares for restricted stock and share unit plan	(1,251)	—
Exercise of stock options	—	2,733
Repurchase of Common Shares for cancellation	(10,885)	—
Dividends paid to preferred shareholders	(61)	(64)
Net cash (used in) / provided by financing activities	(118,426)	481,900
Effect of foreign exchange rates on cash	(4,567)	1,486
Change in cash and cash equivalents	(135,227)	224,612
Cash and cash equivalents at beginning of period	319,735	49,826
Cash and cash equivalents at end of period	$ 184,508	$ 274,438
Supplemental Cash Flow Information		
Interest paid	$ 54,478	$ 29,907
Income taxes paid	$ 22,574	$ 34,591

See accompanying notes to the condensed consolidated financial statements

Note 1. Significant Accounting Policies

(a) Basis of Presentation

Brookfield Residential Properties Inc. (the “Company” or “Brookfield Residential”) was incorporated in Ontario, Canada and became a public company on March 31, 2011 pursuant to the contribution of Brookfield Office Properties’ residential land and housing division (“BPO Residential”) and the merger of Brookfield Homes Corporation (“Brookfield Homes”) into a single residential land and housing company, which was achieved through a merger and series of related transactions completed on March 31, 2011 (the “Transaction”). The Company trades on the New York Stock Exchange (“NYSE”) and the Toronto Stock Exchange (“TSX”) under the symbol “BRP”.

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. They should be read in conjunction with the Company’s consolidated financial statements and footnotes included in the Company’s Annual Report for the year ended December 31, 2013. The unaudited condensed consolidated financial statements include the consolidated accounts of Brookfield Residential, its subsidiaries, investments in unconsolidated entities and variable interest entities in which the Company is the primary beneficiary. All intercompany accounts, transactions and balances have been eliminated upon consolidation.

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

Brookfield Residential has historically experienced variability in results of operations from quarter to quarter due to the seasonal nature of the home building business and the timing of new community openings and the closing out of projects. The Company typically experiences 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, the Company typically delivers a greater percentage of new homes in the second half of the year compared with the first half of the year. As a result, revenues from sales of homes are generally higher in the second half of the year. Acre sales results are more variable from year to year given the nature of the development and monetization cycle.

(b) Revenue Recognition

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 reasonably assured. Revenues from the sale of homes are recognized when title passes to the purchaser upon closing, wherein all proceeds are received or collectability is reasonably assured. In certain circumstances, when title transfers but material future development is required, the percentage-of-completion method is used to recognize revenue.

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 that are paid to an outside party, such as paying some or all of a homebuyer’s closing costs, are recorded as cost of sales. Incentives are recognized at the time title passes to the homebuyer and the sale is recognized.

(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 the United States Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 360 *Property, Plant and Equipment*, land and housing assets owned directly by the Company and through its unconsolidated entities 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 analyses 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 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 2014 generally assume recent sales activity and normalized sales rates beyond 2014. In some instances, the Company may incorporate a certain level of inflation or deflation into the projected revenue and cost assumptions for these longer term projects. 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 less estimated selling costs 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 analyses. 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 decreased 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 period 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 835-20, is charged to the condensed 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. 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. After initial recognition, commercial properties are carried at the cost basis less accumulated depreciation. 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 commercial property is recorded over the estimated useful life using the straight-line method.

(e) 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.

(f) Unconsolidated Entities

The Company participates in a number of unconsolidated entities in which it has less than a controlling interest 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.

(g) Use of Estimates

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

(h) 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.

(i) 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.

(j) 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 financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse.

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 estimable 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 (which are based on current pricing and volume trends); the long duration of five to twenty years or more in all significant operating jurisdictions before the expiry of net operating 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.

(k) Share-Based Compensation

The Company accounts for option grants, escrowed stock, deferred share unit grants, and restricted shares in accordance with ASC Topic 718 *Compensation-Stock Compensation*. All options granted have exercise prices equal to the market value of the Common Shares on the date of the grant, determined in accordance with the Company's management share option plan ("option plan"). Participants in the option plan can exercise their options to purchase shares at the exercise price as options vest. All options vest over a period of five years.

The Company records the fair value of options using a Black-Scholes option pricing model. Options have been recorded in additional paid-in-capital. In addition, the Company records the deferred share units as a liability as disclosed in accounts payable and other liabilities. Restricted shares vest over a period of three years and are included in paid-in-capital. Employee compensation expense for restricted shares is recognized into income over the vesting period.

See Note 13 "Share-Based Compensation" for further discussion.

(l) 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 self-sustaining Canadian operations are translated into U.S. dollars using the current rate method.

Assets and liabilities of subsidiaries or equity accounted investees 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.

(m) 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 less Preferred Share dividends 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 less Preferred Share dividends for the period by the average number of Common Shares outstanding including all potentially dilutive convertible Preferred Shares and issuable Common Shares under the option plan.

(n) Advertising Costs

The Company expenses advertising costs as incurred, which are included in the consolidated statements of operations as selling, general and administrative expense.

(o) 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.

(p) Variable Interest Entities

The Company accounts for its variable interest entities ("VIEs") 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 the power to direct the activities of an entity that most significantly impact the entity's economic performance, the obligation to absorb the expected losses of the entity, and the right to receive the expected residual returns of the entity. The entity that has (i) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance; and (ii) 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 VIEs which are included in these financial statements as a component of "land and housing inventory." The interests of others are included in accounts payable and other liabilities. See Note 2 "Land and Housing Inventory" and Note 3 "Investments in Unconsolidated Entities" for further discussion on the consolidation of land option contracts and unconsolidated entities.

(q) Other Interests in Consolidated Subsidiaries

The Company accounts for the other interests in consolidated subsidiaries in accordance with ASC Topic 480 *Distinguishing Liabilities From Equity*. Redeemable non-controlling interest is initially measured at the non-controlling interests' proportionate share of the net fair value of the identifiable assets, liabilities and contingent liabilities recognized at the time of investment outside of permanent equity on the Company's consolidated balance sheet in accordance with ASC 480-10. Subsequently, the redeemable non-controlling interests are carried at the higher of (1) the initial carrying amount, increased or decreased for the non-controlling interests' share of net income or loss; or (2) the expected redemption value. The change in the carrying amounts of the redeemable non-controlling interests is recognized as net income attributable to redeemable non-controlling interests in the consolidated statements of operations. Adjustments to reflect changes in the excess, if any, of the redeemable non-controlling interests' redemption value over their ASC 810-10 measurement amount is recorded against permanent equity in retained earnings.

(r) Derivative Financial Instruments and Hedging 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 derivative instruments that are designated and qualify as a cash flow hedge (i.e. hedging the exposure to variability in expected future cash flows that are attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings (i.e. in "interest expense" when the hedged transactions are interest cash flows associated with floating-rate debt). The remaining gain or loss on the derivative instrument in excess of the cumulative changes in the present value of future cash flows of the hedged item, if any, is recognized in the realized and unrealized gain / (loss) on derivatives in current earnings during the period of change. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in realized and unrealized gain / (loss) on derivatives in current earnings during the period of change. Income and/or expense from changes in fair value on interest rate swaps are recognized as an adjustment to other income. The exchanges of payments on interest rate swap contracts are recorded as an adjustment to interest expense.

For hedges of net investments in foreign operations, any foreign exchange gains or losses on the hedging instrument relating to the effective portion of the hedge are initially recorded in other comprehensive income. Gains and losses are recognized in current earnings on the ineffective portion of the hedge, or when there is a disposal or partial disposal of a foreign operation being hedged.

(s) Fair Value Instruments

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. Fair value measurements are used for its interest rate and equity swaps, as well as for inventories when events and circumstances indicate that the carrying value may not be recoverable.

(t) Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 provides a comprehensive model for entities to use in accounting for revenue arising from contracts with customers and replaces most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 indicates that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects that consideration to which the entity expects to be entitled in exchange for those goods or services. This is achieved through the application of a five-step model which requires entities to exercise judgment in analyzing revenue transactions. ASU 2014-09 is effective for public entities for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted and companies may use either a full retrospective or a modified retrospective approach when implementing the new guidance. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on the condensed consolidated financial statements.

Note 2. Land and Housing Inventory

Land and housing inventory includes land under development and land held for 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 lots ready for construction and model homes. The following summarizes the components of land and housing inventory:

	As at	
	June 30 2014	December 31 2013
Land held for development	$ 1,474,620	$ 1,525,319
Land under development	653,646	622,668
Housing inventory	343,317	213,349
Model homes	52,389	37,906
	$ 2,523,972	$ 2,399,242

The Company capitalizes interest which is expensed as housing units and building lots are sold. Interest capitalized and expensed in the three and six months ended June 30, 2014 and 2013 was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Interest capitalized, beginning of period	$ 173,727	$ 186,556	$ 174,923	$ 189,984
Interest capitalized	6,831	5,947	12,286	10,174
Interest expensed to cost of sales	(8,296)	(10,224)	(14,947)	(17,879)
Interest capitalized, end of period	$ 172,262	$ 182,279	$ 172,262	$ 182,279

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 over 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 $29.6 million (December 31, 2013 – $29.8 million), which are required to be consolidated. In these cases, the only asset recorded is the Company's exercise price for the option to purchase, with an increase in accounts payable and other liabilities of $29.6 million (December 31, 2013 – $29.8 million) 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 totalling $68.9 million (December 31, 2013 – $67.0 million) in connection with options that are not required to be consolidated in terms of the guidance incorporated in ASC Topic 810. The total remaining exercise price of these options is $115.9 million (December 31, 2013 – $117.7 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 unconsolidated entities, and their respective dates of expiry and aggregate exercise prices follow:

Years of Expiry	Number of Lots	Total Exercise Price
2014	1,408	$ 15,844
2015	539	21,803
2016	665	34,629
2017	—	—
2018	—	—
Thereafter	3,404	43,659
	6,016	$ 115,935

The Company holds agreements for a further 4,878 acres (December 31, 2013 – 4,878 acres) of longer-term land, with non-refundable deposits and other entitlement costs of $5.9 million (December 31, 2013 – $5.9 million), which is included in land and housing inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of $58.6 million (December 31, 2013 – $58.6 million). However, given that the Company is in the initial stage of land entitlement, the Company has concluded at this time that the level of uncertainty in entitling these properties does not warrant including them in the above totals.

Note 3. Investments in Unconsolidated Entities

As part of its operations, the Company participates in joint ventures to explore opportunities while minimizing risk. As of June 30, 2014, the Company was involved with 16 unconsolidated entities (December 31, 2013 – 18 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities includes $29.4 million (December 31, 2013 – $37.4 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 1,527 lots (December 31, 2013 – 1,849 lots) under option. The Company's share of the total exercise price of these options is $72.7 million (December 31, 2013 – $80.1 million). Summarized financial information on a 100% basis for the combined unconsolidated entities follows:

	As at	
	June 30 2014	December 31 2013
Assets		
Land and housing inventory	$ 631,273	$ 599,487
Other assets	55,022	57,771
	$ 686,295	$ 657,258
Liability and Equity		
Bank indebtedness and other financings	$ 171,502	$ 182,023
Accounts payable and other liabilities	53,311	62,785
Equity		
Brookfield Residential's interest	230,587	206,198
Others' interest	230,895	206,252
	$ 686,295	$ 657,258

	Three Months Ended June 30		Six Months Ended June 30	
	2014	**2013**	**2014**	**2013**
Revenue and Expenses				
Revenue	$ 50,523	$ 32,751	$ 76,932	$ 35,973
Direct cost of sales	(36,360)	(27,221)	(56,399)	(28,737)
Other expense	(1,484)	(3,969)	(2,756)	(2,368)
Net income	$ 12,679	$ 1,561	$ 17,777	$ 4,868
Brookfield Residential's share of net income	$ 5,763	$ 1,201	$ 8,414	$ 2,995

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 of its unconsolidated entities. At June 30, 2014, the Company had completion guarantees of $9.7 million (December 31, 2013 – $6.4 million) and recourse guarantees of $1.0 million (December 31, 2013 – $1.0 million) with respect to debt of its unconsolidated entities.

Note 4. Commercial Assets Held for Sale

Assets classified as held for sale consist of the following:

	As at	
	June 30 2014	**December 31 2013**
Assets		
Commercial properties	$ —	$ 47,144
Accounts receivable and other assets	—	589
Assets held for sale	$ —	$ 47,733

As required in ASC Topic 360, the assets were recorded at carrying value as the fair value less costs to sell exceeded the carrying amount of the assets to be disposed. These assets were reported in the Canada and California segments. The commercial properties presented as held for sale at December 31, 2013 were sold during the six months ended June 30, 2014 for a gain of $32.9 million (June 30, 2013 - $nil).

Note 5. Receivables and Other Assets

The components of receivables and other assets included in the Company's condensed consolidated balance sheets are summarized as follows:

	As at	
	June 30 2014	**December 31 2013**
Receivables	$ 262,009	$ 278,765
Other assets	56,452	62,325
	$ 318,461	$ 341,090

The components of receivables included in the Company's condensed consolidated balance sheets are summarized as follows:

	As at	
	June 30 2014	**December 31 2013**
Real estate receivables (a)	$ 138,592	$ 153,367
Development recovery receivables (b)	74,549	77,252
Sundry receivables (c)	19,749	17,412
Proceeds and escrow receivables (d)	18,478	24,692
Refundable deposits	7,370	2,762
Receivables from other interests in consolidated subsidiaries (e)	3,140	3,090
Taxes receivable	131	190
	$ 262,009	$ 278,765

(a) Real estate receivables include vendor take back ("VTB") mortgage receivables. The VTB collection terms range from six months to three years and bear variable interest of Canadian prime plus 3.0% or a fixed interest rate of 6.0%, whichever is greater (December 31, 2013 – Canadian prime plus 3.0% or a fixed interest rate of 6.0%, whichever is greater).

(b) 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 U.S. prime plus 0.5% to a fixed rate of 6.0% (December 31, 2013 – U.S. prime plus 0.5% to a fixed rate of 6.0%).

(c) Sundry receivables are comprised of lot interest receivables, goods and services taxes receivable and miscellaneous amounts.

(d) Proceeds and escrow receivables relate to receivables held in trust due to timing of lots closed and housing sales 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.

(e) Receivables from other interests in consolidated subsidiaries relate to monies receivable from certain non-controlling members.

As at June 30, 2014 and December 31, 2013, allowances for doubtful accounts were $1.5 million and $1.5 million, respectively.

The components of other assets included in the Company's condensed consolidated balance sheets are summarized as follows:

	As at	
	June 30 2014	**December 31 2013**
Transaction costs (a)	$ 19,990	$ 21,726
Capital assets (b)	15,690	11,615
Swap contracts (Note 17)	7,220	12,676
Non-refundable earnest funds and investigation fees (c)	6,446	8,081
Prepaid expenses	5,794	2,615
Other	1,312	5,612
	$ 56,452	$ 62,325

(a) The transaction costs are costs related to the issuance of both notes payable and the revolving credit facility (refer to Note 7 "Notes Payable"). These costs are amortized using the effective interest rate method over the life of the related debt instrument.

(b) 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 $14.0 million (December 31, 2013 – $11.7 million).

(c) 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.

Note 6. Restricted Cash

At June 30, 2014, the Company had restricted cash consisting of (i) $2.5 million (December 31, 2013 – $3.2 million) relating to cash collateralization of development letters of credit and (ii) $3.1 million (December 31, 2013 – $4.9 million) of restricted cash relating to funds in various cash accounts reserved for guarantees on completion of certain improvements, and guarantees on future insurance loss deductible payments.

Note 7. Notes Payable

	As at	
	June 30 2014	December 31 2013
6.50% unsecured senior notes due December 15, 2020 (a)	$ 600,000	$ 600,000
6.125% unsecured senior notes due July 1, 2022 (b)	500,000	500,000
	$ 1,100,000	$ 1,100,000

(a) On December 14, 2012, the Company issued a private placement of $600.0 million of unsecured senior notes. The notes have an eight-year term, are due December 15, 2020, and bear a fixed interest rate of 6.50%. The notes require semi-annual interest payments on June 15 and December 15 of each year until maturity. Obligations to pay principal and interest on the unsecured senior notes are guaranteed by certain of the Company's subsidiaries.

The unsecured senior notes issued December 14, 2012 include an optional redemption under which, at any time prior to December 15, 2015, Brookfield Residential may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 106.50% of the principal amount, plus accrued and unpaid interest, using the net cash proceeds of one or more equity offerings.

At any time prior to December 15, 2015, the Company may also redeem all or part of the notes at a redemption price equal to 100% of the principal amount of the notes to be redeemed plus the applicable premiums as of and accrued and unpaid interest to the date of redemption, in certain circumstances in which Brookfield Residential would become obligated to pay additional amounts under the notes.

On or after December 15, 2015, 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
2015	104.88%
2016	103.25%
2017	101.63%
2018 and thereafter	100.00%

(b) On June 25, 2013, the Company and Brookfield Residential US Corporation, a wholly-owned subsidiary of the Company, co-issued a private placement of $500.0 million of unsecured senior notes. The notes have a nine-year term, are due July 1, 2022 and bear interest at a fixed rate of 6.125%. The notes require semi-annual interest payments on January 1 and July 1, of each year until maturity. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries.

The unsecured senior notes issued June 25, 2013 include an optional redemption under which, at any time prior to July 1, 2016, Brookfield Residential may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 106.125% of the principal amount, plus accrued and unpaid interest, using the net cash proceeds of one or more equity offerings.

At any time prior to July 1, 2017, the Company can redeem all or part of the notes, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus the applicable premiums as of and accrued and unpaid interest to the date of redemption, in certain circumstances in which Brookfield Residential would become obligated to pay additional amounts under the notes.

On or after July 1, 2017, the Company is entitled to redeem all or part of the notes at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest on the notes redeemed:

	Notes Redemption Price
2017	104.59%
2018	103.06%
2019	101.53%
2020 and thereafter	100.00%

Both senior notes include covenants that, among others, place limitations on incurring additional indebtedness and restricted payments. Under the limitation on additional indebtedness, Brookfield Residential is permitted to incur specified categories of indebtedness but is prohibited from incurring further indebtedness if it does not satisfy either an indebtedness to consolidated net tangible worth ratio condition of 2.25 to 1 or a fixed coverage ratio of 2.0 to 1. The Company was in compliance with these financial incurrence covenants as at June 30, 2014.

The transaction costs related to the notes payable are within other assets (refer to Note 5 "Receivables and Other Assets").

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 notes payable, the derivatives are not accounted for separately.

Note 8. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	June 30 2014	December 31 2013
Bank indebtedness (a)	$ 156,215	$ 206,208
Secured VTB mortgages (b)	104,894	116,580
Project-specific financings (c)	—	26,065
Due to affiliates (d)	—	—
	$ 261,109	$ 348,853

(a) Bank indebtedness

The Company has four secured credit facilities (December 31, 2013 – three secured credit facilities) with various Canadian banks with outstanding amounts totalling $156.2 million (December 31, 2013 – $206.2 million). The secured facilities are repayable in Canadian dollars in the amount of C$166.7 million at June 30, 2014 (December 31, 2013 – C$219.0 million). These facilities allow the Company to borrow up to approximately C$565.0 million (US$529.5 million) as at June 30, 2014 (December 31, 2013 – C$515.0 million (US$484.8 million)). The credit facilities bear interest between Canadian prime plus 0.50% to 0.75% for any amounts drawn. The secured facilities are secured by fixed and floating charges over the land and housing inventory assets of the Alberta and Ontario operations and a general charge over the property of Brookfield Residential (Alberta) LP and Brookfield Homes (Ontario) Limited, both wholly-owned subsidiaries of the Company.

The Brookfield Residential (Alberta) LP facilities include a minimum net worth requirement of C$370.0 million (US$346.8 million) and a debt to equity covenant of no greater than 1.75 to 1 for its limited partnership.

The Brookfield Homes (Ontario) Limited facilities include a minimum net worth requirement of C$75.0 million (US$70.3 million) and a debt to equity covenant of no greater than 1.75 to 1 for its limited partnership.

As at June 30, 2014, the Company was in compliance with all financial covenants related to bank indebtedness.

Brookfield Residential US Corporation, a wholly-owned subsidiary of the Company, as borrower, and the Company, as the parent company to the borrower, have a $250.0 million unsecured Revolving Credit Facility with various lenders, with availability subject to a borrowing base calculation. Interest is charged on the facility at a rate equal to either the adjusted LIBOR plus the applicable rate between 1.875% and 2.25% per annum or the alternate base rate ("ABR") plus the applicable rate between 0.875% and 1.25% per annum, at the option of the borrower.

The credit 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, fundamental changes, sale leasebacks, modifications of material agreements, and certain financial covenants as discussed below.

The facility requires the Company and Brookfield Residential US Corporation to maintain a minimum consolidated tangible net worth of $1,051.9 million, as well as a consolidated net debt to book capitalization of no greater than 65%.

As at June 30, 2014, the Company and Brookfield Residential US Corporation were in compliance with these financial covenants.

The Company had no outstanding borrowings under the Revolving Credit Facility at June 30, 2014.

The transaction costs and administrative and upfront fees related to the Revolving Credit Facility are within receivables and other assets (refer to Note 5 “Receivables and Other Assets”).

(b) Secured VTB mortgages

The Company has 26 secured VTB mortgages (December 31, 2013 – 29 secured VTB mortgages) in the amount of $104.9 million (December 31, 2013 – $116.6 million). Secured VTB mortgages mature as follows: 2014 – $35.0 million; 2015 – $44.1 million; 2016 – $7.0 million; 2017 – $4.2 million and thereafter – $14.6 million.

A total of 23 secured VTB mortgages (December 31, 2013 – 25 secured VTB mortgages) in the amount of $99.8 million (December 31, 2013 – $111.1 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Homes (Ontario) Limited. This debt is repayable in Canadian dollars of C$106.5 million (December 31, 2013 – C$118.0 million). The interest rate on this debt ranges from prime plus 1.00% to prime plus 2.00% to fixed rates ranging from 2.50% to 6.00% and the debt is secured by the related lands. As at June 30, 2014, these borrowings are not subject to financial covenants.

A total of three secured VTB mortgages (December 31, 2013 – four secured VTB mortgages) in the amount of $5.1 million (December 31, 2013 – $5.5 million) relate to raw land held for development by Brookfield Homes Holdings LLC and Brookfield Residential (US) LLC, both wholly-owned subsidiaries of the Company. The interest rate on this debt is fixed at rates between 1.50% and 12.00% and the debt is secured by the related lands. As at June 30, 2014, these borrowings are not subject to any financial covenants.

(c) Project-specific financings

At June 30, 2014, the Company does not have any outstanding project-specific financings. At December 31, 2013, project-specific financings totalled $26.1 million which had a floating interest rate of prime plus 0.75%, matured in 2014 and were secured by the land assets to which the borrowings relate. This debt was repayable in Canadian dollars of C$27.7 million and was repaid during the six months ended June 30, 2014. These facilities required Brookfield Residential (Alberta) LP to maintain a minimum tangible net worth of C$370.0 million (US$348.3 million) and a debt to equity ratio of no greater than 1.75 to 1.

(d) Due to Affiliates

There were no amounts due to affiliates at June 30, 2014 or December 31, 2013 on an unsecured revolving operating facility with a subsidiary of the Company’s largest shareholder, Brookfield Asset Management Inc.

The revolving operating facility is in a principal amount not to exceed $300.0 million. This facility matures December 2015, bears interest at LIBOR plus 4.5% and could be fully drawn upon without violation of any covenants. During the three and six months ended June 30, 2014 and 2013, no interest was incurred related to this facility.

These facilities require Brookfield Residential US Corporation to maintain a minimum total equity of $300.0 million and a consolidated net debt to book capitalization ratio of no greater than 65%. As of June 30, 2014, the Company was in compliance with all financial covenants relating to amounts due to affiliates.

Note 9. Accounts Payable and Other Liabilities

The components of accounts payable and other liabilities included in the Company’s condensed consolidated balance sheets are summarized as follows:

	As at	
	June 30 2014	**December 31 2013**
Accounts payable	$ 302,676	$ 310,166
Other liabilities	96,505	108,244
	$ 399,181	$ 418,410

The components of accounts payables included in the Company's condensed consolidated balance sheets are summarized as follows:

	As at	
	June 30 2014	**December 31 2013**
Development costs payable (a)	$ 139,610	$ 146,042
Trade payables and other accruals	93,940	80,059
Customer deposits	44,301	26,658
Due to related party (b)	22,185	33,347
Interest on notes payable	1,517	17,340
Current income taxes payable	1,123	6,720
	$ 302,676	$ 310,166

(a) 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) Promissory note due to a subsidiary of Brookfield Asset Management Inc. See Note 20 "Related Party Transactions".

The components of other liabilities included in the Company's condensed consolidated balance sheets are summarized as follows:

	As at	
	June 30 2014	**December 31 2013**
Consolidated land option contracts (a)	$ 29,572	$ 29,802
Accrued and deferred compensation	24,283	35,485
Shared-based compensation (Note 13 (b))	22,741	23,312
Warranty costs (Note 15 (a))	14,374	13,134
Swap contracts (Note 17)	5,535	6,497
Loans from other interests in consolidated subsidiaries (b)	—	14
	$ 96,505	$ 108,244

(a) 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 2 "Land and Housing Inventory."
(b) Loans from other interests in consolidated subsidiaries relate to monies held on deposit from certain non-controlling members.

Note 10. Income Taxes

A reconciliation of the Company's effective tax rate from the Canadian federal statutory tax rate for the six months ended June 30, 2014 and 2013 is as follows:

	Six Months Ended June 30	
	2014	**2013**
Statutory rate	25.0%	25.0%
Non-temporary differences	1.8	1.9
Rate difference from statutory rate	—	(8.1)
Change in tax rates on temporary differences	—	—
Change in valuation allowance	(9.8)	2.2
Other	(0.3)	0.1
Effective tax rate	16.7%	21.1%

The Company currently operates in nine different states in the U.S. and is subject to various state tax jurisdictions. The Company estimates its tax liability based upon the individual taxing authorities' regulations, estimates of income by taxing jurisdiction and the Company's ability to utilize certain tax-saving strategies. The Company also operates in Alberta and Ontario, Canada, and is therefore subject to provincial tax jurisdictions as well as federal tax legislation. Based on the Company's estimate of the allocation of income or loss, as the case may be, among the various taxing jurisdictions and changes in tax regulations and their impact on the Company's tax strategies, the estimated effective tax rate for the Company is 16.7% for the six months ended June 30, 2014 (June 30, 2013 – 21.1%).

The provision for income taxes for the three and six months ended June 30, 2014 and 2013 is set forth below:

	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Current				
Canada	$ (813)	$ (108)	$ (849)	$ (48)
U.S.	—	—	—	—
International	(27)	(4)	(27)	(4)
Total current tax expense	(840)	(112)	(876)	(52)
Deferred				
Canada	(5,129)	(5,166)	(13,311)	(7,848)
U.S.	107	62	224	113
International	—	—	—	—
Total deferred tax expense	(5,022)	(5,104)	(13,087)	(7,735)
Total income tax expense	$ (5,862)	$ (5,216)	$ (13,963)	$ (7,787)

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	
Net deferred tax (liabilities) / assets	June 30 2014	December 31 2013
Differences relating to land and housing inventory	$ (17,231)	$ (15,957)
Compensation deductible for tax purposes when paid	8,491	10,060
Differences related to derivative instruments	523	(533)
Operating loss carry-forwards	95,595	112,674
Other	7,010	5,121
Net deferred tax assets before valuation allowance	94,388	111,365
Cumulative valuation allowance	(82,196)	(89,771)
Net deferred tax assets	$ 12,192	$ 21,594

The Company has Canadian and U.S. federal non-capital loss carry-forwards of approximately $106.6 million and $159.1 million, respectively, as at June 30, 2014 (December 31, 2013 – $159.9 million and $180.7 million, 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 2030 and 2032. The Company also has state loss carryforwards of approximately $198.7 million (December 31, 2013 – $219.3 million) that may be carried forward from 5 to 20 years, depending on the tax jurisdiction, and which expire between 2015 and 2032.

During the six months ended June 30, 2014, the Company decreased the valuation allowance against its deferred tax assets by $7.6 million. The decrease is primarily due to an increase in income from our U.S. operations during the period. Canadian operations continue to be profitable in the Ontario and Alberta markets and, as such, it is more-likely-than-not that the deferred tax assets related to the Canadian operations can be realized.

The Company records net deferred tax assets to the extent it believes these assets will more-likely-than-not be realized. 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. The positive evidence included factors such as (i) an indication that the events and conditions that gave rise to significant reported U.S. losses in recent years were unlikely to recur in the foreseeable future, (ii) a return to profitability in some of our U.S. operations in 2012, (iii) an increase in profitability in 2013, and (iv) long net operating loss carryforward periods that provide evidence that even without significant growth these deferred tax assets will more-likely-than-not be realized. The most significant negative evidence that currently exists is that the Company is in a three-year cumulative loss position with respect to its U.S operations, which is largely the result of pre-tax losses in 2012 and 2011, as its U.S. operations generated pre-tax income for the year ended December 31, 2013. In the second quarter of 2014, the Company reported its fourth quarter of pre-tax income for its U.S. operations and experienced year-over-year increases in its U.S. revenues, gross profit margin, net orders and backlog. If these trends continue, together with favorable conditions in U.S. housing markets and the Company is profitable on a sustained basis, management believes that there could be sufficient positive evidence to support reducing a large portion of the valuation allowance in the latter half of 2014.

Note 11. Other Interests in Consolidated Subsidiaries and Non-Controlling Interest

(a) Other Interests in Consolidated Subsidiaries

Other interests in consolidated subsidiaries include ownership interests of certain business unit presidents of the Company totalling $17.2 million at June 30, 2014 (December 31, 2013 – $36.6 million). In the event that a business unit president ("Minority Member") of the Company is no longer employed by an affiliate of the Company, the Company has the right to purchase the Minority Member's interest and the Minority Member has the right to require the Company to purchase their interest. Should such rights be exercised, the purchase price will be based on the estimated value of the business unit's net assets.

The following table reflects the change in the Company's other interests in consolidated subsidiaries for the six months ended June 30, 2014 and the year ended December 31, 2013:

	For the Period Ended	
	June 30 2014	December 31 2013
Other interests in consolidated subsidiaries, beginning of period	$ 36,641	$ 32,445
Net income attributable to other interests in consolidated subsidiaries	1,695	4,546
Adjustment to fair value of other interests in consolidated subsidiaries	1,118	2,240
Distributions to other interests in consolidated subsidiaries	(2,000)	(2,590)
Repurchase of other interests in consolidated subsidiaries	(20,240)	—
Other interests in consolidated subsidiaries, end of period	$ 17,214	$ 36,641

(b) Non-controlling Interest

Non-controlling interest includes third-party investments in consolidated entities of $34.8 million at June 30, 2014 (December 31, 2013 – $35.0 million).

In accordance with ASC Topic 810, non-controlling interest has been classified as a component of total equity and the net income / (loss) on the consolidated statement of operations has been adjusted to include the net income / (loss) attributable to non-controlling interest, which for the three and six months ended June 30, 2014 was a loss of $0.1 million and $0.3 million (2013 – $nil and $nil).

Note 12. Equity

(a) Preferred Shares

The Company has an unlimited number of Preferred Shares without par value that are authorized, of which 61,638 shares are issued and outstanding and designated as Brookfield Residential 8% convertible Preferred Shares, series A.

Preferred Shares issued and outstanding changed as follows during the six months ended June 30, 2014 and the year ended December 31, 2013:

	For the Period Ended	
	June 30 2014	December 31 2013
Preferred Shares outstanding, beginning of period	64,061	65,286
Conversion of Preferred Shares into Common Shares	(2,423)	(1,225)
Preferred Shares outstanding, end of period	61,638	64,061

The Brookfield Residential 8% convertible Preferred Shares are convertible at the option of the shareholder into Common Shares of the Company, at a conversion rate of 2.731787607 Common Shares per convertible Preferred Share, which is equivalent to a conversion price of $9.15 per share. Dividends on convertible Preferred Shares are fully cumulative, without interest, from the date of original issuance of the convertible Preferred Shares and are payable semi-annually in arrears. There were no Preferred Share dividends in arrears for the six months ended June 30, 2014 or 2013. The Preferred Shares are perpetual and do not have a maturity date; however, beginning June 30, 2014, if the 90-day volume weighted average market price of the Common Shares is greater than $18.30 per share, Brookfield Residential may, at its option, require all such Preferred Shares to be converted into Common Shares. On July 3, 2014 the Company announced that all 61,638 issued and outstanding Preferred Shares will be converted into Common Shares, effective August 1, 2014.

(b) Common Shares

The authorized Common Share capital consists of an unlimited number of voting Common Shares. On May 1, 2014, Brookfield Residential announced a normal course issuer bid ("NCIB") for a portion of our Common Shares. The NCIB is made in accordance with the requirements of the TSX and NYSE. The Company is authorized to repurchase for cancellation up to 2,000,000 Common Shares. During the six months ended June 30, 2014, the Company purchased 540,776 Common Shares for total consideration of $10.9 million. Of the amount recognized, $1.5 million (2013 - $nil) was charged to share capital and $9.4 million (2013 - $nil) to retained earnings.

Common Shares issued changed as follows during the six months ended June 30, 2014 and the year ended December 31, 2013:

	For the Period Ended	
	June 30 2014	**December 31 2013**
Common Shares issued, beginning of period	119,026,076	118,279,534
Issuance of Common Shares upon exercise of options	—	743,198
Conversion of Preferred Shares into Common Shares	6,617	3,344
Common Shares repurchased	(540,776)	—
Common Shares issued, end of period	118,491,917	119,026,076

Common Shares outstanding is determined as follows:

	As at	
	June 30 2014	**December 31 2013**
Common Shares issued	118,491,917	119,026,076
Common Shares purchased for escrowed stock plan	(2,000,000)	(2,000,000)
Common Shares outstanding	116,491,917	117,026,076

Note 13. Share-Based Compensation

(a) Option Plan and Escrowed Stock Plan

Options issued under the Company's Management Share Option Plan vest over a period of up to five years, expire 10 years after the grant date, and are settled through issuance of Common Shares. The exercise price is the volume-weighted average trading price for Common Shares on the New York Stock Exchange for the five business days preceding the effective grant date.

Brookfield Residential grants options to purchase Common Shares at the exercise price of the options, determined in accordance with the option plan. The fair value of the Company's stock option awards is estimated at the grant date 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 based on historical volatility of Brookfield Residential's Common Shares. 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 option awards granted for some participants 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 three and six months ended June 30, 2014, Brookfield Residential granted a total of nil and 912,500 new options (2013 – nil and 1,180,000) to eligible employees that are subject to graded vesting. The significant weighted average assumptions relating to the valuation of the Company's options and escrowed stock granted during the six months ended June 30, 2014 and 2013 are as follows:

	June 30	
	2014	**2013**
Dividend yield	—	—
Volatility rate	36.98%	37.32%
Risk-free interest rate	2.20%	1.25%
Expected option life (years)	7.5	7.5

The total compensation cost recognized in selling, general and administrative expense relating to the Company's options during the three and six months ended June 30, 2014 was an expense of $2.4 million and $4.8 million, respectively (2013 - $0.8 million and $2.5 million, respectively). The following tables set out the number of Common Shares that employees of the Company may acquire under options granted under the Company's option plan and escrowed stock plan for the six months ended June 30, 2014 and 2013:

	June 30, 2014		June 30, 2013	
	Shares	Weighted Average Per Share Exercise Price	Shares	Weighted Average Per Share Exercise Price
Outstanding, beginning of period	5,720,989	$ 12.61	5,284,187	$ 9.88
Granted	912,500	21.66	1,180,000	20.99
Exercised	—	—	(543,199)	5.03
Cancelled	(96,377)	19.22	—	—
Outstanding, end of period	6,537,112	$ 10.75	5,920,988	$ 12.54
Options exercisable, end of period	2,691,057	$ 9.10	1,676,135	$ 10.31

At June 30, 2014, the aggregate intrinsic value of options currently exercisable is $46.7 million (2013 – $19.7 million) and the aggregate intrinsic value of options outstanding is $26.5 million (2013 – $56.4 million).

A summary of the status of the Company's unvested options and escrowed stock included in equity for the six months ended June 30, 2014 and 2013 is as follows:

	June 30, 2014		June 30, 2013	
	Shares	Weighted Average Fair Value Per Option	Shares	Weighted Average Fair Value Per Option
Unvested options outstanding, beginning of period	4,199,877	$ 6.13	4,320,193	$ 4.90
Granted	912,500	9.49	1,180,000	8.80
Vested	(1,208,497)	5.54	(1,255,340)	4.37
Cancelled	(57,826)	13.64	—	—
Unvested options outstanding, end of period	3,846,054	$ 7.00	4,224,853	$ 5.05

At June 30, 2014, there was $16.0 million (2013 – $17.6 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 3.7 years (2013 – 3.8 years).

The Company's Board of Directors approved an escrowed stock plan on September 16, 2011, which allows a certain executive to increase their ownership of Brookfield Residential's Common Shares. Under the escrowed plan, a private company was capitalized with Common Shares (the "escrowed shares") and preferred shares were issued to Brookfield Residential for cash proceeds. On September 23, 2011, the initial proceeds were used to purchase 2,000,000 Common Shares of the Company from Brookfield Asset Management Inc. with 75% of the escrowed shares granted to the executive. Awards under the escrowed stock plan will not vest until five years after the date of grant and will ultimately be received in the form of Common Shares. The escrowed shares vest on and must be held until the fifth anniversary of the grant date. At a date at least five years from and no more than ten years from the grant date, all escrowed shares held will be acquired by the Company in exchange for issuance of Common Shares from treasury of the Company, where the value of the Common Shares being issued is equal to the value of the escrowed shares being acquired. The value of the escrowed shares will be equal to the value of the Common Shares held by the private company less the net liabilities and preferred share obligations of the private company. The private company will then be immediately wound up or merged into the Company and the Common Shares held by the private company will be cancelled, resulting in a reduction in the total number of Common Shares issued.

(b) Deferred Share Unit Plan

Brookfield Residential has a Deferred Share Unit Plan ("DSUP") under which certain of its executive officers and directors can, at their option, receive all or a portion of their annual bonus awards or retainers in the form of deferred share units. The Company can also make additional grants of units to its executives and directors pursuant to the DSUP. In addition, the Company has a Senior Operating Management Deferred Share Unit Plan ("MDSUP"), under

which certain senior operating management employees receive a portion of their annual compensation in the form of deferred share units.

The following table sets out changes in and the number of deferred share units that executives, directors and senior operating management employees may redeem under Brookfield Residential's DSUP and MDSUP at June 30, 2014 and December 31, 2013:

	For the Period Ended	
	June 30 2014	**December 31 2013**
Outstanding, beginning of period	1,624,893	1,585,889
Granted	20,314	39,004
Redeemed	(8,760)	—
Outstanding, end of period	1,636,447	1,624,893
Deferred share units vested	763,418	746,210

Of the 1,620,003 (December 31, 2013 – 1,599,689) units outstanding under the DSUP, 873,029 (December 31, 2013 – 878,683) units vest over the next five years. As of June 30, 2014, there are 16,444 units (December 31, 2013 – 25,204 units) outstanding under the MDSUP which are fully vested.

The liability of $22.7 million (December 31, 2013 – $23.3 million) relating to the DSUP and MDSUP is included in accounts payable and other liabilities. The financial statement impact relating to the DSUP and MDSUP for the three and six months ended June 30, 2014 was an expense of $1.2 million and recovery of $0.4 million, respectively (2013 – expense of $nil and $6.0 million, respectively) which has been included in selling, general and administrative expense.

(c) Restricted Stock Plan and Restricted Share Unit Plan

Restricted Stock and Restricted Share Units are granted to certain senior executives at the Company. Restricted share units are notional units that represent a right to receive Common Shares, purchased on the open market, on vesting equal to the fair market value of the Company's Common Shares. Under both plans, units awarded vest equally over a period of three years, except those issued in lieu of a participant's cash bonus, which will vest immediately. Holders of restricted stock are entitled to vote and to receive associated dividends while holders of restricted share units are not entitled to vote or receive dividends until units are vested. Funds used to purchase shares on the open market are recorded in paid-in-capital and compensation expense for the restricted stock and share unit plans is charged against income over the vesting period. The total compensation cost recognized in selling, general and administrative expense relating to the Company's restricted stock and share unit plans during the three and six months ended June 30, 2014 was an expense of $0.1 million and $0.2 million, respectively (2013 – $nil and $nil).

At June 30, 2014, there was $1.1 million (2013 – $nil) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of three years.

The following table sets out changes in and the number of units that are outstanding under both plans for the six months ended June 30, 2014 and 2013:

	June 30, 2014		June 30, 2013	
	Shares	**Weighted Average Fair Value Per Unit**	**Shares**	**Weighted Average Fair Value Per unit**
Unvested units outstanding, beginning of period	—	$ —	—	$ —
Granted	57,500	21.75	—	—
Vested	—	—	—	—
Unvested units outstanding, end of period	57,500	$ 21.75	—	$ —

Note 14. Earnings Per Share

Basic and diluted earnings per share for the three and six months ended June 30, 2014 and 2013 were calculated as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2014	**2013**	**2014**	**2013**
Numerator:				
Net income attributable to Brookfield Residential	$ 42,379	$ 24,236	$ 67,228	$ 28,513
Less: Preferred Share dividends	(61)	(64)	(61)	(64)
Net income attributable to common shareholders	$ 42,318	$ 24,172	$ 67,167	$ 28,449
Denominator (in 000s of shares):				
Basic weighted average shares outstanding	116,863	116,455	116,947	116,395
Net effect of convertible Preferred Shares	168	175	168	175
Net effect of share options assumed to be exercised	1,246	926	1,299	891
Diluted weighted average shares outstanding	118,277	117,556	118,414	117,461
Basic earnings per share	$ 0.36	$ 0.21	$ 0.57	$ 0.24
Diluted earnings per share	$ 0.36	$ 0.21	$ 0.57	$ 0.24

Note 15. Commitments, Contingent Liabilities and Other

(a) 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 six months ended June 30, 2014 and 2013:

	Six Months Ended June 30	
	2014	**2013**
Balance, beginning of period	$ 13,134	$ 14,179
Payments and other adjustments made during the period	(1,951)	(4,862)
Warranties issued during the period	3,180	1,806
Adjustments made for pre-existing warranties	11	(115)
Balance, end of period	$ 14,374	$ 11,008

(b) The Company has committed to future minimum payments for lease and other obligations as follows:

Years of Expiry	
2014	$ 3,947
2015	6,306
2016	5,607
2017	5,231
2018	4,804
Thereafter	11,305
	$ 37,200

(c) As at June 30, 2014, $1.8 million (December 31, 2013 - $2.0 million) of the amount held in other assets related to land purchase obligations. The total amount owing on these obligations is $34.2 million (December 31, 2013 - $22.1 million).

Note 16. Guarantees

(a) The Company has provided financial guarantees for municipal bonds which, as at June 30, 2014, amounted to $10.7 million (December 31, 2013 – $10.7 million), which have not been recognized in the condensed consolidated financial statements. These guarantees arose from the issuance of tax-exempt municipal bonds for infrastructure construction in the Company's U.S. operations. The terms of the guarantees span the life of the projects, which range from three to ten years. The values of the guarantees are reduced as completion milestones are achieved on the projects and are terminated on or before community build out. Payment of the guarantees is triggered in the event that the debt payments to the bondholders are not fulfilled. The Company has not been required to make any payments under these guarantees.

(b) In the ordinary course of business, the Company has provided construction guarantees in the form of letters of credit and performance bonds. As at June 30, 2014, these guarantees amounted to $334.8 million (December 31, 2013 – $256.4 million) and have not been recognized in the condensed consolidated financial statements. However, the proportionate development costs that relate to lots that have been sold are accrued in accounts payable and other liabilities. Such guarantees are required by the municipalities in which the Company operates before construction permission is granted.

The scope of these guarantees covers specific construction obligations of individual projects as they are developed, and the terms of these guarantees span the life of the projects, which range from three to ten years. The values of the guarantees are reduced as completion milestones are achieved on the projects.

These guarantees are terminated only when the municipality has issued conditions to release a Final Acceptance Certificate or similar document to the Company, which verifies that the Company has fulfilled all its contractual obligations. Payments of the guarantees are triggered in the event expired letters of credit or performance bonds are not renewed and the contractual obligations have not been fulfilled. The Company has not been required to make any payments under these construction guarantees.

Note 17. Fair Value Measurements

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or ask prices, as appropriate. Where bid and ask prices are unavailable, the closing price of the most recent transaction of that instrument is used. In the absence of an active market, fair values are determined based on prevailing market rates for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Company looks primarily to external readily observable market inputs such as interest rate yield curves, currency rates and price and rate volatilities as applicable.

The fair value measurements for land and housing inventory were determined by comparing the carrying amount of an asset to its expected future cash flows. To arrive at the estimated fair value of land and housing inventory deemed to be impaired during the six months ended June 30, 2014, the Company estimated the cash flow for the life of each project. Specifically, project by project, the Company evaluated 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 projects, as well as estimated margins with respect to future land sales. The Company evaluated and continues to evaluate 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, with cost estimates and sales rates for short-term projects consistent with recent sales activity. For longer-term projects, planned sales rates for 2014 generally assume recent sales activity and normalized sales rates beyond 2014. 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 less estimated selling costs.

There are several factors that could lead to changes in the estimate of future cash flows for a given project. The most significant of these include the sales pricing levels actually realized by the project, the sales rate, and the costs incurred to construct the homes. The sales pricing levels are often inter-related with sales rates for a project, as a price reduction usually results in an increase in the sales rate. Further, pricing is heavily influenced by the competitive pressures facing a given community from both new homes and existing homes, including foreclosures.

The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. For the three and six months ended June 30, 2014 and 2013, no impairment charges were recognized.

Hedging Activities

The Company uses derivative and non-derivative financial instruments to manage or maintain exposures to interest, currency, credit and other market risks. For certain derivatives which are used to manage exposures, the Company determines whether hedge accounting can be applied. To qualify for hedge accounting, the derivative must be highly effective in accomplishing the objective of offsetting changes in the fair value or cash flows attributable to the hedged risk both at inception and over the life of the hedge. If it is determined that the derivative is not highly effective as a hedge, hedge accounting is discontinued prospectively.

Net Investment Hedges

The Company uses foreign currency denominated debt instruments to manage its foreign currency exposures arising from net investments in foreign operations. For three and six months ended June 30, 2014, an unrealized pre-tax loss of $nil for both periods (2013 – pre-tax loss of $nil) was recorded in other comprehensive income for the effective portion of hedges of net investments in foreign operations.

Fair Value Hierarchy

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

As at June 30, 2014, all of the Company's financial assets and liabilities, except for the equity swap contract and the interest rate swap contracts, are recorded at their carrying value as it approximates fair value due to their short term nature. Assets and liabilities measured at fair value on a recurring basis include $7.2 million (December 31, 2013 – $12.7 million) of financial assets based on management's best estimates and $5.5 million (December 31, 2013 – $6.5 million) of financial liabilities which are measured at fair value using valuation inputs based on a model-based techniques or similar instruments in markets that are not active. The following table categorizes financial assets and liabilities, which are carried at fair value, based upon the level of input to the valuations as described in Note 1 "Significant Accounting Policies":

	June 30, 2014			December 31, 2013		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Receivables and other assets (a)	$ —	$ —	$ 7,220	$ —	$ —	$ 12,676
Restricted cash	5,568	—	—	8,169	—	—
Cash and cash equivalents	184,508	—	—	319,735	—	—
	$ 190,076	$ —	$ 7,220	$ 327,904	$ —	$ 12,676
Financial liabilities						
Bank indebtedness and other financings	$ —	$ —	$ —	$ —	$ —	$ —
Notes payable	—	—	—	—	—	—
Accounts payable and other liabilities (b)	—	5,535	—	—	6,497	—
	$ —	$ 5,535	$ —	$ —	$ 6,497	$ —

(a) The fair value measurement for the equity swap contracts are determined using the intrinsic valuation technique. Inputs used in the calculation are the notional amount ($16.20), share price ($20.75) and the number of underlying shares (1,585,889).

(b) The fair value measurements for the interest rate swap contracts are determined based on notional amounts, terms to maturity, and the LIBOR rates. The LIBOR rates vary depending on the term to maturity and the conditions set out in the underlying swap agreements.

The following is a reconciliation of Level 3 (equity swaps) fair value measurements:

	For the Period Ended	
	June 30 2014	December 31 2013
Balance, beginning of period	$ 12,676	$ 9,014
Total (losses) / gains for the period included in earnings (or changes in net assets)	(5,456)	3,662
Balance, end of period	$ 7,220	$ 12,676

Note 18. 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.

Financial instruments held by the Company that are subject to market risk include other financial assets, borrowings, and derivative instruments such as interest rate and equity swap contracts.

Interest Rate Risk

The Company is exposed to financial risk that arises from fluctuations in interest rates. The interest-bearing assets and liabilities of the Company are mainly 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. From time to time, the Company enters into interest rate swap contracts. As at June 30, 2014, the Company had two interest rate swap contracts outstanding totalling $50.0 million at an average rate of 5.08% per annum. The two contracts expire in 2016. At June 30, 2014, the fair market value of the contracts was a liability of $5.5 million (December 31, 2013 – liability of $6.5 million) and was included in accounts payable and other liabilities. Expense of $0.2 and $0.3 was recognized during the three and six months ended June 30, 2014, respectively (2013 – expense of $0.8 million and $0.8 million) and was included in other income. All interest rate swaps are recorded at fair market value and fluctuations in fair market value are presented in the consolidated statements of operations as hedge accounting has not been applied. Refer to Note 17 “Fair Value Measurements” for additional disclosure.

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 June 30, 2014, the fair value of debt exceeded its book value of all outstanding debt by $15.1 million (December 31, 2013 – fair value of debt exceeded book value by $2.0 million). The lands to which these borrowings relate generally secure these principal amounts.

Currency Exchange Rate Risk

Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than the U.S. dollar.

As at June 30, 2014, the Company does not hold any hedging instruments in currencies other than U.S. dollars.

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.

Financial instruments held by the Company that are exposed to equity price risk include equity derivatives. A 5% decrease in the market price of equity derivatives held by the Company would have decreased net income by $1.6 million (December 31, 2013 – $1.9 million). The Company’s liability in respect of equity compensation arrangements is subject to variability based on changes in the Company’s underlying Common Share price. To hedge against future

deferred share unit payments, in May 2013 and in September 2011, the Company entered into two separate total return swap transactions at a weighted average cost of $16.20 per share on 1,585,889 shares. Both swaps mature in September 2016. At June 30, 2014, the fair market value of the total return swaps was an asset of $7.2 million and was included in accounts receivable and other assets (December 31, 2013 – asset of $12.7 million). Expense of $0.4 million and $5.5 million was recognized related to the total return swaps during the three and six months ended June 30, 2014, respectively (2013 – expense of $4.7 million and income of $0.3 million), and was included in selling, general and administrative expense. Also included in selling, general and administrative expense for the three and six months ended June 30, 2014 was expense of $3.7 million and $4.6 million (2013 – expense of $0.7 million and $8.5 million, respectively), relating to the Company's share-based compensation plans. The total return swap is recorded at fair market value and is recorded through the condensed consolidated statements of operations because hedge accounting has not been applied. See Note 17 "Fair Value Measurements" for additional disclosure.

(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's exposure to credit risk in respect of financial instruments relates primarily to counterparty obligations regarding derivative contracts and receivables.

The Company assesses the credit worthiness of each counterparty before entering into contracts and ensures that counterparties meet minimum credit quality requirements. The credit risk of derivative financial instruments is generally limited to the positive fair value of the instruments, which, in general, tends to be a relatively small proportion of the notional value. Substantially all of the Company's derivative financial instruments involve either counterparties that are banks or other financial institutions in North America that have embedded credit risk mitigation features. 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 secured by high quality assets, 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 June 30, 2014 is as follows:

	Payment Due by Period				
	Total	**Less than 1 Years**	**1 – 3 Years**	**3 – 5 Years**	**More than 5 Years**
Notes payable[1]	$ 1,100,000	$ —	$ —	$ —	$ 1,100,000
Interest on notes payable	498,500	69,625	139,250	139,250	150,375
Secured VTB mortgages[2][3]	104,894	34,885	51,117	15,365	3,527
Bank indebtedness[2][3]	156,215	43,886	112,329	—	—
Accounts payable and other liabilities[4]	399,181	399,181	—	—	—
Operating lease obligations[5]	37,200	3,947	11,913	10,035	11,305
Purchase agreements[6]	34,198	14,846	19,352	—	—

(1) Amounts are included on the condensed consolidated balance sheets. See Note 7 for additional information regarding notes payable.
(2) Amounts are included on the condensed consolidated balance sheets. See Note 8 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 debt. See Note 8 for additional information regarding floating rate debt.
(4) Amounts are included on the condensed consolidated balance sheets. See Note 9 for additional information regarding accounts payable and other liabilities.
(5) Amounts relate to non-cancellable operating leases involving office space, design centres and model homes.
(6) See Note 15 for additional information regarding purchase agreements.

Note 19. Segmented Information

As determined under ASC Topic 280 *Segment Reporting*, the Company has the following segments: Canada, California and Central and Eastern U.S.

The Company is a land developer and residential homebuilder. The Company is organized and manages its business based on the geographical areas in which it operates. Each of the Company's segments specializes in lot 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 other risk factors. Earnings performance is measured using income before income taxes. The accounting policies of the segments are the same as those referred to in Note 1, "Significant Accounting Policies."

Corporate and other is a non-operating segment that develops and implements strategic initiatives and supports the operating divisions by centralizing key administrative functions, such as accounting, finance and treasury, information technology, compliance, risk management, litigation, marketing and human resources. Corporate also provides the necessary administrative functions to support being a publicly traded company.

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

	Three Months Ended June 30, 2014				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 148,259	$ 127,295	$ 45,487	$ —	$ 321,041
Direct cost of sales	(90,843)	(93,167)	(38,902)	—	(222,912)
	57,416	34,128	6,585	—	98,129
Equity in earnings	(128)	1,687	4,204	—	5,763
Expenses	(16,310)	(5,090)	(9,231)	(24,225)	(54,856)
Income/(loss) before income taxes	$ 40,978	$ 30,725	$ 1,558	$ (24,225)	$ 49,036

	Three Months Ended June 30, 2013				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 182,643	$ 85,544	$ 29,681	$ —	$ 297,868
Direct cost of sales	(125,779)	(69,463)	(25,575)	—	(220,817)
	56,864	16,081	4,106	—	77,051
Equity in earnings	(196)	1,627	(230)	—	1,201
Expenses	(15,374)	(8,024)	(6,248)	(18,717)	(48,363)
Income/(loss) before income taxes	$ 41,294	$ 9,684	$ (2,372)	$ (18,717)	$ 29,889

	Six Months Ended June 30, 2014				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 261,180	$ 195,247	$ 72,993	$ —	$ 529,420
Direct cost of sales	(166,224)	(143,662)	(62,518)	—	(372,404)
	94,956	51,585	10,475	—	157,016
Gain on commercial assets held for sale	31,549	1,378	—	—	32,927
Equity in earnings	(245)	1,999	6,660	—	8,414
Expenses	(32,357)	(13,085)	(16,755)	(52,427)	(114,624)
Income/(loss) before income taxes	$ 93,903	$ 41,877	$ 380	$ (52,427)	$ 83,733

	Six Months Ended June 30, 2013				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 288,563	$ 127,976	$ 52,351	$ —	$ 468,890
Direct cost of sales	(190,916)	(104,082)	(45,762)	—	(340,760)
	97,647	23,894	6,589	—	128,130
Equity in earnings	(333)	3,808	(480)	—	2,995
Expenses	(30,225)	(17,668)	(12,351)	(34,024)	(94,268)
Income/(loss) before income taxes	$ 67,089	$ 10,034	$ (6,242)	$ (34,024)	$ 36,857

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

	As at June 30, 2014				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 661,472	$ 366,295	$ 446,853	$ —	$ 1,474,620
Land under development	214,993	294,291	144,362	—	653,646
Housing inventory	157,304	133,030	52,983	—	343,317
Model homes	16,720	29,149	6,520	—	52,389
Total land and housing inventory	1,050,489	822,765	650,718	—	2,523,972
Investments in unconsolidated entities	45,169	117,076	68,342	—	230,587
Other assets [1]	155,941	45,633	92,488	226,667	520,729
Total assets	$ 1,251,599	$ 985,474	$ 811,548	$ 226,667	$ 3,275,288

	As at December 31, 2013				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 699,811	$ 385,860	$ 439,648	$ —	$ 1,525,319
Land under development	222,139	279,179	121,350	—	622,668
Housing inventory	82,561	78,593	52,195	—	213,349
Model homes	14,266	18,079	5,561	—	37,906
Total land and housing inventory	1,018,777	761,711	618,754	—	2,399,242
Investments in unconsolidated entities	45,242	92,380	68,576	—	206,198
Commercial assets held for sale.	32,582	15,151	—	—	47,733
Other assets [(1)]	193,649	40,652	93,137	363,150	690,588
Total assets	$ 1,290,250	$ 909,894	$ 780,467	$ 363,150	$ 3,343,761

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

Note 20. Related Party Transactions

Related parties include the directors, executive officers, director nominees or greater than 5% shareholders, and their respective immediate family members. There are agreements among the Company's affiliates to which the Company is a party or subject to, including a name license and an unsecured revolving credit facility. The Company's significant related party transactions as of and for the three and six months ended June 30, 2014 and 2013 were as follows:

- In 2013, the Company purchased the tax attributes of a subsidiary of Brookfield Asset Management Inc. in consideration for a $33.3 million (2012 - $25.6 million) non-interest bearing promissory note. During the three and six months ended June 30, 2014, $7.3 million and $10.9 million, respectively, (2013 - $6.2 million and $12.6 million) of this note was repaid. These transactions were recorded at the exchange amount.

- During the three and six months ended June 30, 2014, the Company paid $10.3 million (2013 - $nil and $17.7 million, respectively) to Brookfield Asset Management Inc. for Canadian tax credits. The transactions were recorded at the exchange amount.

CORPORATE INFORMATION

CORPORATE PROFILE

Brookfield Residential Properties Inc. is a North American land developer and homebuilder, active primarily in eleven markets. We entitle and develop land to create master-planned communities and build and sell lots to third-party builders, as well as to our own homebuilding division. We also participate in selected, strategic real estate opportunities, including infill projects, mixed-use developments, infrastructure projects, and joint ventures. Brookfield Residential is listed on the New York Stock Exchange and the Toronto Stock Exchange under the symbol "BRP". For more information, please visit our website at www.brookfieldrp.com. Brookfield Residential's public filings under applicable Canadian securities law are available on SEDAR at www.sedar.com and under applicable U.S. federal securities laws are available on EDGAR at www.sec.gov.

BROOKFIELD RESIDENTIAL PROPERTIES INC.

4906 Richard Road S.W.
Calgary, Alberta T3E 6L1
Tel: (403) 231-8900
Fax: (403) 231-8960
Email: info@brookfieldrp.com
Website: www.brookfieldrp.com

SHAREHOLDER INQUIRIES

Brookfield Residential welcomes inquiries from shareholders, analysts, media representatives and other interested parties. Questions relating to investor relations or media inquiries can be directed to Nicole French, Manager, Investor Relations and Communications, at (403) 231-8952 or via e-mail at nicole.french@brookfieldrp.com. Inquiries regarding financial results should be directed to either Craig Laurie, Executive Vice President and Chief Financial Officer, at (212) 417-7040 or via e-mail at craig.laurie@brookfieldrp.com or Thomas Lui, Corporate Controller, at (403) 231-8938 or via e-mail at thomas.lui@brookfieldrp.com.

Shareholder questions relating to dividends, address changes and share certificates should be directed to the Company's Transfer Agent:

CST TRUST COMPANY

By mail:	P.O. Box 700 Station B Montreal, Quebec, H3B 3K3	By courier:	320 Bay Street B1 Level Toronto, Ontario, M5H 4A6

Tel: (800) 387-0825; (416) 682-3860
Fax: (888) 249-6189
E-mail: inquiries@canstockta.com
Website: www.canstockta.com

COMMUNICATIONS

We strive to keep our shareholders updated on our progress through a comprehensive annual report, quarterly interim reports, periodic press releases and quarterly conference calls.

Brookfield Residential maintains a website, www.brookfieldrp.com, which provides access to our published reports, press releases, statutory filings, supplementary information and share and dividend information as well as summary information on the Company. Information available on or accessible through this website is not incorporated herein by reference.

We maintain an investor relations program and respond to inquiries in a timely manner. Management meets on a regular basis with investment analysts and shareholders to ensure that accurate information is available to investors, and conducts quarterly conference calls and webcasts to discuss the Company's financial results. We strive to disseminate material information about the Company's activities to the media in a timely, factual and accurate manner.