2015 | ANNUAL REPORT

December 31, 2015

President & Chief Executive Officer's Report

In 2015, Brookfield Residential continued to reinforce our long-term approach to the business with a focus on performing in mixed-market conditions and identifying opportunities to increase our presence in each of the markets in which we operate. While Brookfield Residential is no longer a public company, little has changed in the way we operate. We remain focused on generating value from our sizable land portfolio located in select markets across North America.

Brookfield Residential continued to deliver results in 2015 despite a tough Alberta economic environment and a weaker Canadian dollar. Our 2015 income before income taxes was $153 million which saw our Company close 2,729 homes and 2,936 single-family lots (including our share of unconsolidated entities). This represents a 19% increase in home closings and a 20% increase in lot closings when compared to 2014. However, as we report our overall results in U.S. dollars, we encountered variability through the translation of our Canadian results given the 14% decline in the year-to-date average Canadian foreign exchange rate in 2015 when compared to 2014.

Performing in Mixed-Market Conditions

Looking at the U.S. market, housing activity has remained strong and we are encouraged with the underlying fundamentals in our markets. We believe the amendments made to the mortgage rules and the reductions in Federal Housing Administration ("FHA") premiums have had a positive impact in certain of our markets. We continue to believe that the significant pent-up demand, improving employment numbers and increasing consumer confidence will result in continued recovery of the housing market. Given our geographic position across the U.S., we believe we are well-positioned to benefit from this continued improvement.

In Canada, we have two very different markets in Alberta and Ontario. In Alberta, we are being challenged with low energy prices, which is impacting consumer confidence as many energy companies reduce their capital spending and headcount. Despite the declining price of crude oil, we continue to see demand in the entry-level and luxury product offerings in which we tend to focus our homebuilding efforts. We had a record number of home closings in our Edmonton operations with over 600 homes closed in 2015. However, our lot sales to third party builders in Alberta have declined as most of their focus is on move-up products. This market is the area that has been hurt the most in these challenging times. In the short run, we believe that results in Alberta will not be as robust as recent years, but that the market will recover and we are extremely well positioned when it does. In Ontario, our operation is performing very well with nearly 500 homes closed in 2015 as house prices continue to surge, sustained by strong immigration, limited supply and the continued influx of foreign investment. Our operation has continued to respond to the demand in Ontario ensuring that this market is very well-positioned for the future.

Recognizing the Value of our Approach

What strikes me most about 2015 is just how much we accomplished while driving performance amidst uneven and challenging market conditions. In March 2015, we completed the going private transaction with Brookfield Asset Management where they acquired the remaining 30.6% of our shares they did not already own. The privatization did not result in a change to our strategy or the way in which we operate. Rather it demonstrates the continued confidence in our disciplined and active approach to managing our land and housing portfolio.

In the second quarter of 2015, we continued to execute on our capital plan with the issuance of $350 million corporate senior unsecured notes due in 2025 and C$250 million corporate senior unsecured notes due in 2023. The proceeds from these offerings were used to reduce the amount drawn on our revolving credit facilities and place cash on the balance sheet. In addition, we extended and increased our revolving credit facility to $275 million, providing us strong liquidity as we move forward to expand our operations.

The acquisition of Grand Haven Homes, an established homebuilder in Austin, allowed us to increase our presence and homebuilding capabilities in the Austin market where we also launched two new communities this year. In Calgary, we acquired ALBI Homes, a leading luxury builder, which allowed us to expand our product offerings from entry-level homes through to the estate market. Ramping up our homebuilding operations in both of these markets ensured that we continue to move towards increasing our homebuilding presence. Finally, our acquisition of 189 acres of the Parks Reserve Forces Training Area in Dublin, California, a joint venture with CalAtlantic Homes and the California State Teacher's Retirement System, represents a great opportunity that will help us to maintain a strong portfolio in a prime location in the supply constrained San Francisco Bay Area market.

Our View Going Forward

We look to gradually reduce our overall leverage over the next few years. We anticipate this will be achieved by executing on our strategic business plan to deliver results which will reduce our debt to capitalization ratio to levels achieved in the past few years. We remain on track to reduce our land inventory to an 8-to-10 year supply by getting our homebuilding operations to approximately 5,000 units per year and lot sales to 5,000 lots per year. As discussed in previous quarters, we plan to use the additional cash flow provided by this strategy to service debt and take advantage of new opportunities as they arise.

As our markets continue to evolve, we look to grow our infill business, mixed-use developments and evaluate other built forms to keep us closely in step with the changing demands and requirements of the consumer. Our geographic diversity continues to serve us well and we are optimistic about our results for the upcoming years.

Alan Norris
President & Chief Executive Officer
February 9, 2016

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 December 31, 2015 were $3.6 billion.

As of December 31, 2015, we controlled 103,734 single family lots (serviced lots and future lot equivalents) and 139 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 December 31, 2015 follows:

	Single Family Housing & Land Under and Held for Development[1]								Multi-Family, Industrial & Commercial Parcels Under Development	
	Housing & Land		Unconsolidated Entities		Total Lots		Status of Lots 12/31/2015		Total Acres	
	Owned	Options	Owned	Options	12/31/2015	12/31/2014	Entitled	Unentitled	12/31/2015	12/31/2014
Calgary	23,607	—	2,635	—	26,242	27,112	4,397	21,845	79	68
Edmonton	14,180	—	—	—	14,180	15,222	7,168	7,012	30	50
Ontario	10,329	—	—	—	10,329	10,041	1,830	8,499	—	—
Canada	48,116	—	2,635	—	50,751	52,375	13,395	37,356	109	118
Northern California	3,504	4,950	569	—	9,023	8,996	3,504	5,519	—	—
Southern California	8,997	—	1,533	1,522	12,052	12,512	8,942	3,110	—	—
Hawaii	190	—	31	—	221	230	221	—	—	—
California	12,691	4,950	2,133	1,522	21,296	21,738	12,667	8,629	—	—
Denver	9,108	—	—	—	9,108	9,605	9,108	—	10	10
Austin	13,067	434	—	—	13,501	13,235	13,501	—	—	—
Phoenix	689	—	4,306	—	4,995	4,585	4,711	284	3	103
Washington, D.C. Area	2,218	1,066	799	—	4,083	4,335	4,046	37	17	5
Central and Eastern U.S.	25,082	1,500	5,105	—	31,687	31,760	31,366	321	30	118
Total	85,889	6,450	9,873	1,522	103,734	105,873	57,428	46,306	139	236
Entitled lots	49,777	1,500	6,151	—	57,428					
Unentitled lots	36,112	4,950	3,722	1,522	46,306					
Total December 31, 2015	85,889	6,450	9,873	1,522	103,734					
Total December 31, 2014	89,602	6,016	8,710	1,545		105,873				

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

BROOKFIELD RESIDENTIAL PROPERTIES INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report, including the President and Chief Executive Officer's Report, 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," "plan," "intend," "estimate," "project," "future," and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters 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 annual 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; the impact of amendments made to the mortgage rules and the reductions in the Federal Housing Administration premiums in the U.S.; the effect of pent-up demand, improving employment numbers, and increasing consumer confidence on continued recovery of the housing market; our ability to benefit from continued improvement in the U.S. housing market; recovery in the housing market and the pace thereof; forecasts regarding our land supply and the timing and methods of any reduction thereto; our expected unit and lot sales; expectations for 2016; reduction in our debt levels and the timing thereof; the impact of energy and commodity prices on the Alberta housing markets and the homebuilding industry generally; long-term fundamental demand growth in the U.S. housing market; and home price growth rates and affordability levels;
- possible or assumed future results;
- the expected closing of transactions;
- the effect on our business of business acquisitions;
- business goals, strategy and growth plans;
- the stability of home prices;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the homebuilding industry;
- the ability to generate sufficient cash flow from our assets to repay maturing bank indebtedness and project specific financings and take advantage of new opportunities;
- the visibility of our future cash flow;
- social and environmental policies and risks;
- expected backlog and closings and the timing thereof;
- the sufficiency of our access to and the sources of our capital resources;
- the impact of foreign exchange on our financial performance;
- the timing of the effect of interest rate changes on our cash flows;
- the effect of debt and leverage on our business and financial condition; 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 annual report are based upon reasonable assumptions and expectations, readers of this annual report should not place undue reliance on such forward-looking statements and information because they involve assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of Brookfield Residential to differ materially from anticipated future results, performance, or achievements expressed or implied by such forward-looking statements and information.

Various factors, in addition to those discussed elsewhere in this annual report, that could affect the future results of Brookfield Residential and could cause actual results, performance, or achievements to differ materially from those expressed in the forward-looking statements and information include, but are not limited to, those factors included under the sections entitled "Cautionary Statements Regarding Forward-Looking Statements" and "Business Environment and Risks" of the Annual Report for the fiscal year ended December 31, 2015.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis relates to the year ended December 31, 2015 and has been prepared with an effective date of February 9, 2016. It should be read in conjunction with the annual consolidated financial statements and the related notes thereto included elsewhere in this annual report. All dollar amounts discussed herein are in U.S. dollars, unless otherwise stated. Amounts in Canadian dollars are identified as "C$." The financial statements referenced herein have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

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 homebuilding and land development operations) is a wholly-owned subsidiary of Brookfield Asset Management Inc. and has been developing land and building homes for over 50 years. On March 13, 2015, Brookfield Asset Management Inc. and Brookfield Residential completed the closing of the going private transaction of Brookfield Residential, pursuant to which 1927726 Ontario Inc., a wholly-owned subsidiary of Brookfield Asset Management Inc., acquired all of the issued and outstanding Common Shares of Brookfield Residential that Brookfield Asset Management Inc. did not already own by way of a plan of arrangement ("Privatization Transaction").

Brookfield Residential is a leading North American homebuilder and land developer with operations in Canada and the United States. We entitle and develop land to create master-planned communities 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 are the flagship North American residential property company of Brookfield Asset Management, a leading global alternative asset manager with approximately $225 billion of assets under management.

We currently focus on the following operating segments: Canada, California and Central and Eastern United States. Our Canadian operations are primarily in the Alberta (Calgary and Edmonton) and Ontario (Toronto) markets. Our California operations include Northern California (San Francisco Bay Area and Sacramento), Southern California (Los Angeles / Southland and San Diego / Riverside) and Hawaii. Our Central and Eastern United States operations include Washington, D.C. Area, Colorado (Denver), Texas (Austin) and Arizona (Phoenix). 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 providing 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.

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.

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.

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.

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.

RESULTS OF OPERATIONS

Key financial results and operating data for the year ended December 31, 2015 compared to the year ended December 31, 2014 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Years Ended December 31 2015	2014
Key Financial Results		
Housing revenue	$ 1,249	$ 1,136
Land revenue	342	340
Gross margin(1) ($)	417	445
Gross margin(1) (%)	26%	30%
Income before income taxes	153	269
Income tax (expense) / recovery	(41)	7
Net income attributable to Brookfield Residential	112	274
Basic earnings per share	$ 0.98	$ 2.35
Diluted earnings per share	$ 0.98	$ 2.33
Key Operating Data		
Home closings for Brookfield Residential (units)	2,656	2,204
Home closings for unconsolidated entities (units)	73	89
Average home selling price for Brookfield Residential (per unit)	$ 470,000	$ 516,000
Average home selling price for unconsolidated entities (per unit)	$ 563,000	$ 484,000
Net new home orders for Brookfield Residential (units)	2,890	2,274
Net new home orders for unconsolidated entities (units)	40	108
Backlog for Brookfield Residential (units)	1,340	972
Backlog for unconsolidated entities (units)	—	33
Backlog value for Brookfield Residential	$ 573	$ 483
Backlog value for unconsolidated entities	$ —	$ 14
Lot closings for Brookfield Residential (single family units)	2,760	2,107
Lot closings for unconsolidated entities (single family units)	176	335
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	35	31
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	—	2
Acre closings for Brookfield Residential (raw and partially finished parcels)	31	3
Acre closings for unconsolidated entities (raw and partially finished parcels)	—	188
Average lot selling price for Brookfield Residential (single family units)	$ 115,000	$ 145,000
Average lot selling price for unconsolidated entities (single family units)	$ 96,000	$ 79,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 667,000	$ 781,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ —	$ 188,000
Average per acre selling price for Brookfield Residential (raw and partially finished parcels)	$ 66,000	$ 263,000
Average per acre selling price for unconsolidated entities (raw and partially finished parcels)	$ —	$ 158,000

(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 margin 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 risk factors. The following table summarizes information relating to revenues, gross margin and assets by operating segment for the years ended December 31, 2015 and 2014.

	Years Ended December 31	
(US$ millions, except unit activity and average selling price)	**2015**	**2014**
Housing revenue		
Canada	$ 497	$ 499
California	505	488
Central and Eastern U.S	247	149
Total	$ 1,249	$ 1,136
Land revenue		
Canada	$ 131	$ 270
California	155	13
Central and Eastern U.S	56	57
Total	$ 342	$ 340
Housing gross margin		
Canada	$ 116	$ 113
California	127	137
Central and Eastern U.S	33	23
Total	$ 276	$ 273
Land gross margin		
Canada	$ 91	$ 154
California	36	9
Central and Eastern U.S	14	9
Total	$ 141	$ 172
Home closings (units)		
Canada	1,513	1,419
California	602	470
Central and Eastern U.S	541	315
	2,656	2,204
Unconsolidated Entities	73	89
Total	2,729	2,293
Average home selling price		
Canada	$ 328,000	$ 352,000
California	839,000	1,039,000
Central and Eastern U.S	457,000	473,000
	470,000	516,000
Unconsolidated Entities	563,000	484,000
Average	$ 473,000	$ 514,000
Active housing communities		
Canada	19	20
California	29	23
Central and Eastern U.S	20	16
	68	59
Unconsolidated Entities	—	2
Total	68	61

	Years Ended December 31	
	2015	2014
Lot closings (single family units)		
Canada	800	1,477
California	1,197	94
Central and Eastern U.S	763	536
	2,760	2,107
Unconsolidated Entities	176	335
Total	2,936	2,442
Acre closings (multi-family, industrial and commercial)		
Canada	33	31
California	—	—
Central and Eastern U.S	2	—
	35	31
Unconsolidated Entities	—	2
Total	35	33
Acre closings (raw and partially finished parcels)		
Canada	—	3
California	—	—
Central and Eastern U.S	31	—
	31	3
Unconsolidated Entities	—	188
Total	31	191
Average lot selling price (single family units)		
Canada	$ 136,000	$ 166,000
California	130,000	141,000
Central and Eastern U.S	69,000	105,000
	115,000	145,000
Unconsolidated Entities	96,000	79,000
Average	$ 114,000	$ 136,000
Average per acre selling price (multi-family, industrial and commercial)		
Canada	$ 677,000	$ 781,000
California	—	—
Central and Eastern U.S	503,000	—
	667,000	781,000
Unconsolidated Entities	—	188,000
Average	$ 667,000	$ 758,000
Average per acre selling price (raw and partially finished parcels)		
Canada	$ —	$ 263,000
California	—	—
Central and Eastern U.S	66,000	—
	66,000	263,000
Unconsolidated Entities	—	158,000
	$ 66,000	$ 160,000

	Years Ended December 31	
	2015	2014
Active land communities		
Canada	10	14
California	6	6
Central and Eastern U.S	12	8
	28	28
Unconsolidated Entities	3	1
Total	31	29

	As at	
(US$ millions)	December 31 2015	December 31 2014
Total assets		
Canada	$ 1,068	$ 1,185
California	1,276	1,062
Central and Eastern U.S	1,016	846
Corporate and other	231	297
Total	$ 3,591	$ 3,390

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

Year Ended December 31, 2015 Compared with Year Ended December 31, 2014

Net Income

Net income attributable to Brookfield Residential for the year ended December 31, 2015 was $112 million compared to $274 million for the year ended December 31, 2014.

	Years Ended December 31	
(US$ millions, except per share amounts)	2015	2014
Net income attributable to Brookfield Residential	$ 112	$ 274
Basic earnings per share	$ 0.98	$ 2.35
Diluted earnings per share	$ 0.98	$ 2.33

The decrease of $162 million in net income for the year ended December 31, 2015 compared to the same period in 2014 was primarily the result of $26 million of share-based compensation and legal costs incurred on the Privatization Transaction that occurred in the first quarter of 2015, a decrease in the gain on commercial assets held for sale of $33 million and a $48 million increase in income tax expense primarily due to the reversal of the valuation allowance on the U.S. deferred tax assets in 2014, which resulted in a recovery of $45 million. Additionally, there was a $28 million decrease in gross margin, which resulted mainly from lower land gross margins of $31 million, combined with an increase in sales and marketing expense of $13 million, a decrease in equity earnings from unconsolidated entities of $14 million and a decrease in other income of $14 million. This was partially offset by lower general and administrative expense of $8 million, a decrease in normal-course share-based compensation costs of $3 million and a decrease in net income attributable to non-controlling interests and other interests in consolidated subsidiaries of $3 million.

A breakdown of the revenue and gross margin for the years ended December 31, 2015 and 2014 is as follows:

	Years Ended December 31	
(US$ millions, except percentages)	**2015**	**2014**
Revenue		
Housing	$ 1,249	$ 1,136
Land	342	340
	$ 1,591	$ 1,476
Gross Margin		
Housing	$ 276	$ 273
Land	141	172
	$ 417	$ 445
Gross Margin (%)		
Housing	22%	24%
Land	41%	51%
	26%	30%

Total revenue increased $115 million and gross margin decreased $28 million for the year ended December 31, 2015 when compared to the same period in 2014. The increase in total revenue was primarily the result of increased activity in our housing operations with 452 additional home closings when compared to the same period in 2014. This was partially offset by lower average home selling prices due to the geographic mix of homes closed, as well as a shift in product mix, primarily in our California markets. Additionally, lot closings increased by 653 units, which was partially offset by lower average lot selling prices as a result of the mix of lots sold amongst the operating segments. Total gross margin and the gross margin percentage decreased primarily as a result of lower land margins. Land margins decreased primarily as a result of the mix of land sold between operating segments, with fewer proportionate land sales in Canada, which typically have higher land margins. Housing gross margins increased as a result of higher home closings, while the gross margin percentage decreased primarily due to lower average home selling prices, resulting primarily from product mix.

Results of Operations – Housing

Housing revenue and gross margins were $1,249 million and $276 million, respectively, for the year ended December 31, 2015, compared to $1,136 million and $273 million for the same period in 2014. The increase in both revenue and gross margin was the result of 452 additional home closings, partially offset by a 9% decrease in the average home selling price and a 14% decrease in the Canadian to U.S. dollar foreign exchange rate for the year ended December 31, 2015, compared to 2014. Revenues are also affected by local product mix and market conditions, which have an impact on the selling price per home.

A breakdown of our results from housing operations for the years ended December 31, 2015 and 2014 is as follows:

Consolidated

	Years Ended December 31	
(US$ millions, except unit activity and average selling price)	**2015**	**2014**
Home closings	2,656	2,204
Revenue	$ 1,249	$ 1,136
Gross margin	$ 276	$ 273
Average home selling price	$ 470,000	$ 516,000

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

Canada

	Years Ended December 31	
(US$ millions, except unit activity and average selling price)	**2015**	**2014**
Home closings	1,513	1,419
Revenue	$ 497	$ 499
Gross margin	$ 116	$ 113
Average home selling price	$ 328,000	$ 352,000

Housing revenue for the year ended December 31, 2015 decreased $2 million when compared to the same period in 2014 due to a 7% decrease in the average home selling price, partially offset by an increase of 94 home closings when compared to the same period in 2014. The decrease in the average home selling price was primarily attributable to a 14% decline in the foreign exchange rate between the Canadian and U.S. dollar for the year ended December 31, 2015 when compared to the same period in 2014. When comparing the average home selling price in Canadian dollars for the year ended December 31, 2015 to December 31, 2014, the average home selling price was C$425,000 compared to C$391,000, respectively, representing an increase of 9%. The overall average home selling price in Canadian dollars increased primarily as a higher proportion of homes closed were from Ontario, which typically have higher priced homes. The increase in home closings was primarily due to 149 additional home closings in the Edmonton market, which was partially offset by a slight decrease in closings in the Calgary and Ontario markets. Gross margin increased by $3 million for the year ended December 31, 2015, primarily as a result of the increase in home closings. This was partially offset by a decrease in the foreign exchange rate between the Canadian and U.S. dollar.

California

	Years Ended December 31	
(US$ millions, except unit activity and average selling price)	**2015**	**2014**
Home closings	602	470
Revenue	$ 505	$ 488
Gross margin	$ 127	$ 137
Average home selling price	$ 839,000	$ 1,039,000

Our California segment had housing revenue of $505 million for the year ended December 31, 2015, an increase of $17 million when compared to the same period in 2014. The increase in revenue was due to a 28% increase in home closings, partially offset by a 19% decrease in the average home selling price for the year ended December 31, 2015 when compared to the same period in 2014. Gross margin decreased $10 million when compared to the same period in 2014 as a result of a decrease in the housing gross margin percentage and the average home selling price, which was primarily driven by product mix, particularly in our San Francisco Bay Area where a larger proportionate share of homes closed in 2014 were from communities with higher priced homes with selling prices over $1 million. In 2015, several communities opened which resulted in greater product mix at lower average selling prices. The decreased gross margin was partially offset by the increase in home closings which was due to higher closings in the San Francisco Bay Area and the Southern California markets.

Central and Eastern U.S.

	Years Ended December 31	
(US$ millions, except unit activity and average selling price)	**2015**	**2014**
Home closings	541	315
Revenue	$ 247	$ 149
Gross margin	$ 33	$ 23
Average home selling price	$ 457,000	$ 473,000

Central and Eastern U.S. housing revenue increased $98 million for the year ended December 31, 2015 when compared to the same period of 2014 as a result of increased activity and the acquisition of Grand Haven Homes L.P., which resulted in 154 home closings in our Austin, Texas market, which had no home closings in 2014. Additionally, for the year ended December 31, 2015, both our Denver and Washington markets saw an increase in home closings, when compared to the same period in 2014. Gross margin increased $10 million when compared to the same period in 2014 due to higher home closings, partially offset by a slight decrease in the average home selling price. The decrease in average home selling price was due to a higher proportion of homes sold in the Denver and Austin markets, which have lower selling prices due to product mix.

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 year ended December 31, 2015, total incentives recognized as a percentage of gross revenues were slightly higher when compared to 2014. The increase was primarily due to higher incentives in Alberta due to weakened market conditions as a result of depressed commodity prices.

Our incentives on homes closed by operating segment for the years ended December 31, 2015 and 2014 were as follows:

	Years Ended December 31			
	2015		2014	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 13	3%	$ 9	2%
California	5	1%	4	1%
Central and Eastern U.S.	15	6%	13	8%
	$ 33	3%	$ 26	2%

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders, including our share of unconsolidated entities, for the year ended December 31, 2015 totalled 2,930 units, an increase of 548 units when compared to the same periods in 2014. For the year ended December 31, 2015, the increase in net new home orders was a result of higher net new orders across all operating segments. Average monthly sales per community by reportable segment for the year ended December 31, 2015 were: Canada – 7 units (2014 – 6 units); California – 2 units (2014 – 2 units); Central and Eastern U.S. – 3 units (2014 – 2 units); and unconsolidated entities – 1 unit (2014 – 5 units). We were selling from 68 active housing communities, including our share of unconsolidated entities, at December 31, 2015 compared to 61 at December 31, 2014.

The net new home orders for the years ended December 31, 2015 and 2014 by our three operating segments were as follows:

	Years Ended December 31	
(Units)	2015	2014
Canada	1,655	1,481
California	655	489
Central and Eastern U.S.	580	304
	2,890	2,274
Unconsolidated entities	40	108
	2,930	2,382

The cancellation rates for the years ended December 31, 2015 and 2014 by our three operating segments were as follows:

	Years Ended December 31			
	2015		2014	
(Units, except percentages)	Units	% of Gross Home Orders	Units	% of Gross Home Orders
Canada	10	1%	21	1%
California	92	12%	64	12%
Central and Eastern U.S.	149	20%	98	24%
	251	8%	183	7%
Unconsolidated entities	6	13%	12	10%
	257	8%	195	8%

Home Sales – Backlog

Our backlog, which represents the number of new homes subject to sales contracts, as at December 31, 2015 and 2014 by operating segment, was as follows:

	As at December 31					
	2015			2014		
(US$ millions, except unit activity)	Units		Value	Units		Value
Canada	913	$	338	724	$	286
California	198		127	145		143
Central and Eastern U.S.	229		108	103		54
	1,340		573	972		483
Unconsolidated entities	—		—	33		14
Total	1,340	$	573	1,005	$	497

We expect all of our backlog to close in 2016 or 2017, subject to future cancellations. The units in our backlog increased compared to the prior period primarily due to higher net new home orders across all three operating segments, for the year ended December 31, 2015. Our Canadian and California operations had an increase of 189 units and 53 units in backlog, respectively, primarily due to an increase in net new home orders for the year ended December 31, 2015 compared to 2014. The Central and Eastern U.S. segment's increase of 126 units at December 31, 2015, when compared to the same period in 2014, was mainly due to 62 units in backlog in our Austin market from the acquisition of Grand Haven Homes L.P. in the year ended December 31, 2015, compared to no backlog units in 2014. Additionally, backlog units in Denver and Washington, D.C. increased by 47 units and 17 units, respectively, when compared to the same period in 2014. The backlog value increased compared to the same period in 2014 primarily as a result of higher backlog units across all segments, partially offset by a decrease in backlog value in California resulting from product mix where there were more homes in backlog in 2015 from homes sold in California communities with lower average selling prices. In addition, there was as a decrease in the foreign exchange rate between the Canadian and U.S. dollar, which impacted our Canadian backlog value compared to 2014.

Results of Operations – Land

Land revenue totalled $342 million for the year ended December 31, 2015, an increase of $2 million when compared to the same period in 2014, and land gross margin decreased $31 million to $141 million over the same period. The increase in land revenue was primarily due to 1,330 additional single family lot closings in our California and Central and Eastern U.S. markets for the year ended December 31, 2015 compared to 2014. This was partially offset by a 21% decrease in the average single family lot selling price from the mix of lots sold, due to 677 fewer single family lot closings in Canada, as well as a decrease in the average selling price for multi-family, commercial and industrial acre sales for the year ended December 31, 2015 compared to the same period in 2014 . Gross margin decreased for the year ended December 31, 2015 primarily due to the mix of lots sold with fewer single family lot closings in the Canadian segment, which typically have higher average selling prices and gross margins. Additionally, there was a 14% decrease in the Canadian to U.S. dollar foreign exchange rate for the year ended December 31, 2015, which resulted in lower translated Canadian results compared to 2014. 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 years ended December 31, 2015 and 2014 is as follows:

Consolidated

(US$ millions, except unit activity and average selling price)	Years Ended December 31 2015	Years Ended December 31 2014
Lot closings (single family units)	2,760	2,107
Acre sales (multi-family, industrial and commercial)	35	31
Acre sales (raw and partially finished)	31	3
Revenue	$ 342	$ 340
Gross margin	$ 141	$ 172
Average lot selling price (single family units)	$ 115,000	$ 145,000
Average per acre selling price (multi-family, industrial and commercial)	$ 667,000	$ 781,000
Average per acre selling price (raw and partially finished)	$ 66,000	$ 263,000

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

Canada

(US$ millions, except unit activity and average selling price)	Years Ended December 31 2015	Years Ended December 31 2014
Lot closings (single family units)	800	1,477
Acre sales (multi-family, industrial and commercial)	33	31
Acre sales (raw and partially finished)	—	3
Revenue	$ 131	$ 270
Gross margin	$ 91	$ 154
Average lot selling price (single family units)	$ 136,000	$ 166,000
Average per acre selling price (multi-family, industrial and commercial)	$ 677,000	$ 781,000
Average per acre selling price (raw and partially finished)	$ —	$ 263,000

Land revenue in Canada for the year ended December 31, 2015 was $131 million, a decrease of $139 million when compared to the same period in 2014. The decrease was primarily the result of 677 fewer single family lots closed in 2015 when compared to the same period in 2014, as well as a decrease in the average selling price for both single family lots and multi-family, industrial and commercial acre sales. Gross margin decreased $63 million to $91 million when compared to 2014 primarily as a result of lower single family lot closings in 2015, mainly due to market conditions in Alberta as a result of depressed energy prices. Additionally, the 14% decline in the Canadian to U.S. dollar foreign exchange rate results in a decrease in the translated average lot selling price for 2015 compared to 2014. When comparing the average single family lot selling price in Canadian dollars for the year ended December 31, 2015 to December 31, 2014, the average lot selling price was C$177,000 compared to C$184,000 in the same period in 2014. The decrease in the Canadian dollar average lot selling price is a result of the mix of lots sold within the segment.

California

(US$ millions, except unit activity and average selling price)	Years Ended December 31 2015	Years Ended December 31 2014
Lot closings (single family units)	1,197	94
Revenue	$ 155	$ 13
Gross margin	$ 36	$ 9
Average lot selling price (single family units)	$ 130,000	$ 141,000

Land revenue in California for the year ended December 31, 2015 increased by $142 million when compared to the same period in 2014. This was primarily the result of 1,103 additional single family lot closings in 2015 compared to the same period in 2014. Gross margin increased $27 million when compared to the same period in 2014 as a result of higher lot closings, partially offset by a slight decrease in the average lot selling price, due to the geographic mix of lots sold within the segment.

Central and Eastern U.S.

(US$ millions, except unit activity and average selling price)	Years Ended December 31 2015	2014
Lot closings (single family units)	763	536
Acre sales (multi-family, industrial and commercial)	2	—
Acre sales (raw and partially finished)	31	—
Revenue	$ 56	$ 57
Gross margin	$ 14	$ 9
Average lot selling price (single family units)	$ 69,000	$ 105,000
Average per acre selling price (multi-family, industrial and commercial)	$ 503,000	$ —
Average per acre selling price (raw and partially finished)	$ 66,000	$ —

For the year ended December 31, 2015, Central and Eastern U.S. land revenue decreased by $1 million and gross margin increased by $5 million compared to the same period in 2014. The increase in gross margin was due to an increase of 227 single family lots closed in 2015 at a higher gross margin percentage compared to 2014, primarily in our Austin, Texas market. This was partially offset by a decrease in the average lot selling price related to the geographic mix of lots sold within the segment, including an increase in lots sold in Austin, which have a lower average selling price compared to other markets within the segment.

Equity in Earnings from Unconsolidated Entities

Equity in earnings from unconsolidated entities for the year ended December 31, 2015 totalled $12 million, compared to $26 million for the same period in 2014. The housing and land operations of our unconsolidated entities are discussed below.

Housing

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

(US$ millions, except unit activity and average selling price)	Years Ended December 31 2015	2014
Home closings	73	89
Revenue	$ 41	$ 43
Gross margin	$ 9	$ 9
Average home selling price	$ 563,000	$ 484,000

Housing revenue within unconsolidated entities decreased $2 million and gross margin remained consistent for the year ended December 31, 2015 compared to the same period in 2014. The decrease in revenue is the result of 16 fewer home closings, partially offset by a 16% increase in the average home selling price when compared to 2014. The increase in the average home selling price was due to product mix of closings.

Land

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

(US$ millions, except unit activity and average selling price)	Years Ended December 31 2015	2014
Lot closings (single family units)	176	335
Acre closings (multi-family, industrial and commercial)	—	2
Acre closings (raw and partially finished parcels)	—	188
Revenue	$ 17	$ 57
Gross margin	$ 8	$ 21
Average lot selling price (single family units)	$ 96,000	$ 79,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ 188,000
Average per acre selling price (raw and partially finished parcels)	$ —	$ 158,000

Land revenue within unconsolidated entities decreased $40 million and gross margin decreased $13 million for the year ended December 31, 2015 compared to the same period in 2014. This was primarily the result of a 188 raw and partially finished acre sale in 2014, compared to no acre closings in 2015. The 188 acre sale was from one of our joint ventures in Phoenix and was sold in the fourth quarter of 2014 for a gain of $10 million. Additionally, there was a decrease of 159 single family lot closings primarily from our Phoenix joint ventures, offset by a $17,000 increase in the average lot selling price for the year ended December 31, 2015 compared to the same period in 2014. The increase in average lot selling price was attributable to the mix of land sold.

Gain on Commercial Assets Held For Sale

The components of the gain on commercial assets held for sale for the years ended December 31, 2015 and 2014 are summarized as follows:

	Years Ended December 31	
(US$ millions, except unit activity)	**2015**	**2014**
Square feet	—	150,700
Proceeds	$ —	$ 83
Gain on commercial assets held for sale	$ —	$ 33

There were no sales of commercial assets held for sale for the year ended December 31, 2015. Income was generated from the sale of two large commercial income producing properties that were sold during the year ended December 31, 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 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 years ended December 31, 2015 and 2014 are summarized as follows:

	Years Ended December 31	
(US$ millions)	**2015**	**2014**
General and administrative expense	$ 115	$ 123
Sales and marketing expense	64	51
Share-based compensation	39	18
	$ 218	$ 192

The selling, general and administrative expense was $218 million for the year ended December 31, 2015, an increase of $26 million when compared to the same period in 2014. General and administrative expense decreased $8 million for the year ended December 31, 2015 primarily due to lower incentives and a decrease in the foreign exchange rate between the Canadian and U.S. dollar, when compared to the same period in 2014. Sales and marketing expense for the year ended December 31, 2015 increased $13 million, when compared to the same period in 2014, due to increased housing activity. Share-based compensation increased $21 million compared to 2014, as a result of $24 million of share-based compensation costs related to the settlement of share-based compensation plans due to the Privatization Transaction in the first quarter of the year. This was partially offset by a decrease of $3 million in share-based compensation costs resulting from a lower mark-to-market on our share-based compensation liabilities in 2015 compared to the year ended December 31, 2014.

Other (Income) / Expense

The components of other (income) / expense for the years ended December 31, 2015 and 2014 are summarized as follows:

	Years Ended December 31	
(US$ millions)	**2015**	**2014**
Privatization Transaction costs	2	—
Interest income	(4)	(4)
Other	(6)	(20)
	(8)	(24)

For the year ended December 31, 2015, other income decreased $16 million compared to the same period in 2014. This was partially the result of $2 million of legal and professional fees, which were related to the Privatization Transaction that occurred in the first three months of 2015, as well as various recoveries realized in 2014, which did not occur in 2015.

Income Tax Expense / (Recovery)

Income tax expense was $41 million for the year ended December 31, 2015, an increase of $48 million when compared to the same period in 2014. The components of income tax expense / (recovery) are summarized as follows:

	Years Ended December 31	
(US$ millions)	**2015**	**2014**
Current income tax expense	$ 10	$ 13
Deferred income tax expense / (recovery)	31	(20)
	$ 41	$ (7)

For the year ended December 31, 2015, current income tax expense was $10 million, compared to $13 million for the same period in 2014. The decrease in current income tax expense was primarily due to the increase in utilization of acquired losses in our Canadian operations, partially offset by an increase in current tax expense resulting from withholding taxes paid on distributions made from our U.S. operations in the first quarter of 2015. Deferred income tax expense / (recovery) was an expense of $31 million for the year ended December 31, 2015, compared to a recovery of $20 million for the same period in 2014. The increase in deferred income tax expense primarily relates to the reversal of the valuation allowance in the U.S. of $45 million in 2014 and an increase in utilization of acquired losses as described above, partially offset by a tax recovery recognized in the second quarter of 2015 due to a change in the Alberta corporate tax rate.

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 December 31, 2015, the rate of exchange was C$1.3837 equivalent to US$1 (December 31, 2014 – C$1.1617 equivalent to US$1). Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the year ended December 31, 2015, the average rate of exchange was C$1.2768 equivalent to US$1 (December 31, 2014 – C$1.1041 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 loss of $128 million for the year ended December 31, 2015, compared to a loss of $71 million in the same period of 2014.

QUARTERLY OPERATING AND FINANCIAL DATA

	2015				2014			
(US$ millions, except unit activity and per share amounts)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Quarterly Operating Data								
Home closings (units)	991	684	543	438	859	564	435	346
Lot closings (single family units)	1,316	441	568	435	906	368	515	324
Acre closings (multi-family, industrial and commercial)	12	—	3	20	7	15	6	4
Acre closings (raw and partially finished)	23	—	8	—	—	—	1	2
Net new home orders (units)	703	612	857	718	482	495	642	655
Backlog (units at end of period)	1,340	1,581	1,654	1,339	972	1,349	1,418	1,211
Backlog value	$ 573	$ 682	$ 776	$ 629	$ 483	$ 693	$ 742	$ 609
Quarterly Financial Data								
Revenue	$ 609	$ 394	$ 311	$ 277	$ 591	$ 355	$ 321	$ 208
Direct cost of sales	(446)	(288)	(237)	(203)	(409)	(248)	(223)	(149)
Gross margin	163	106	74	74	182	107	98	59
Gain on commercial assets held for sale	—	—	—	—	—	—	—	33
Selling, general and administrative expense	(55)	(48)	(47)	(68)	(58)	(45)	(44)	(45)
Interest expense	(13)	(17)	(18)	(15)	(15)	(16)	(15)	(16)
Equity in earnings from unconsolidated entities	4	3	3	3	15	3	6	3
Other income / (expense)	3	2	1	(2)	14	(1)	4	1
Income / (loss) before taxes	102	46	13	(8)	138	48	49	35
Income tax (expense) / recovery	(31)	(11)	5	(5)	(18)	38	(6)	(8)
Net income / (loss)	71	35	18	(13)	120	86	43	27
Net income attributable to non-controlling interest and other interest in consolidated subsidiaries	—	—	—	—	—	—	(1)	(2)
Net income / (loss) attributable to Brookfield Residential	$ 71	$ 35	$ 18	$ (13)	$ 120	$ 86	$ 42	$ 25
Foreign currency translation	(27)	(40)	9	(69)	(30)	(39)	28	(29)
Comprehensive income / (loss)	$ 44	$ (5)	$ 27	$ (82)	$ 90	$ 47	$ 70	$ (4)
Earnings / (loss) per common share attributable to Brookfield Residential								
Basic	$ 0.63	$ 0.31	$ 0.16	$ (0.11)	$ 1.04	$ 0.74	$ 0.36	$ 0.21
Diluted	$ 0.63	$ 0.31	$ 0.16	$ (0.11)	$ 1.03	$ 0.73	$ 0.36	$ 0.21

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

Fourth Quarter Highlights

Key financial results and operating data for the three months ended December 31, 2015 compared to the three months ended December 31, 2014 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Three Months Ended December 31 2015	Three Months Ended December 31 2014
Key Financial Results		
Total revenue	$ 609	$ 591
Housing revenue	449	442
Land revenue	160	149
Gross margin(1) ($)	163	182
Gross margin(1) (%)	27%	31%
Income before income taxes	102	138
Income tax expense	(31)	(18)
Net income attributable to Brookfield Residential	71	120
Basic earnings per share	$ 0.63	$ 1.04
Diluted earnings per share	$ 0.63	$ 1.03
Key Operating Data		
Home closings for Brookfield Residential (units)	991	859
Home closings for unconsolidated entities (units)	22	35
Average home selling price for Brookfield Residential (per unit)	$ 453,000	$ 514,000
Average home selling price for unconsolidated entities (per unit)	$ 565,000	$ 482,000
Net new home orders for Brookfield Residential (units)	703	482
Net new home orders for unconsolidated entities (units)	—	15
Backlog for Brookfield Residential (units)	1,340	972
Backlog for unconsolidated entities (units)	—	33
Backlog value for Brookfield Residential	$ 573	$ 483
Backlog value for unconsolidated entities	$ —	$ 14
Lot closings for Brookfield Residential (single family units)	1,316	906
Lot closings for unconsolidated entities (single family units)	26	79
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	12	7
Acre closings for Brookfield Residential (raw and partially finished parcels)	23	—
Acre closings for unconsolidated entities (raw and partially finished parcels)	—	188
Average lot selling price for Brookfield Residential (single family units)	$ 112,000	$ 152,000
Average lot selling price for unconsolidated entities (single family units)	$ 136,000	$ 59,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 942,000	$ 746,000
Average per acre selling price for Brookfield Residential (raw and partially finished parcels)	$ 33,000	$ —
Average per acre selling price for unconsolidated entities (raw and partially finished parcels)	$ —	$ 158,000

(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.

Net income attributable to Brookfield Residential for the three months ended December 31, 2015 decreased $49 million to $71 million from $120 million in the same period of 2014.

For the three months ended December 31, 2015, total revenue increased $18 million and gross margin decreased $19 million, when compared to the same period in 2014. The increase in total revenue was the result of higher home and single family lot closings, partially offset by lower average selling prices for both homes and single family lots. The decrease in total gross margin was primarily a result of lower housing gross margins, due to product mix of homes closed in the California segment. Additionally, there was a lower land gross margin due to fewer single family lots sold in Canada, which tend to have higher average selling prices and gross margin percentage compared to the California and Central and Eastern U.S. segments.

For the three months ended December 31, 2015, housing revenue was $449 million compared to $442 million for the same period in 2014. Housing gross margin for the same period in 2015 was $93 million, a $16 million decrease compared to the prior year. The increase in housing revenue was primarily due to 132 additional home closings, partially offset by 12% decrease in the average home selling price as a result of product mix. The decrease in gross margin was primarily a result of lower housing gross margins in the California segment due to product mix.

Housing gross margin in the Canadian segment remained consistent with 2014 as a result of 29 additional home closings, partially offset by a 5% decrease in the average home selling price. The decrease in the average home selling price was due to a decrease in the foreign exchange rate between the Canadian and U.S. dollar. In Canadian dollars, the average home selling price increased 12% for the three months ended December 31, 2015 compared to 2014. The California operations housing gross margin decreased $16 million due to a 31% decrease in the average home selling price due to mix of homes sold, partially offset by 60 additional home closings compared to the same period in 2014. Central and Eastern U.S. housing gross margin dollars remained consistent due to 43 additional home closings offset by a 10% decrease in the average home selling price as a result of product mix. During the three months ended December 31, 2015, there were a higher proportionate share of home closings in the Austin market, which has lower average home selling prices compared to other geographic regions within the segment.

Land revenue for the three months ended December 31, 2015 was $160 million, an $11 million increase compared to 2014. The increase in revenue compared to 2014 was mainly the result of 410 additional single family closings, partially offset by a 26% decrease in the average lot selling price.

The decrease in the average lot selling price was due to 251 fewer lot closings in Canada, which typically have higher average selling prices, as well as the decrease in the foreign exchange rate between the Canadian and U.S. dollar. Land gross margin was $70 million, a $2 million decrease compared to the same period in 2014. Land gross margin in Canada decreased $19 million due to fewer single family lot closings and lower average selling prices. This was partially offset by an $18 million increase in the California land gross margin due to 741 single family lot closings for the three months ended December 31, 2015, compared to no lot closings in the same period in 2014. Central and Eastern U.S. land gross margin decreased $1 million due to a decrease of 80 single family lot closings and a 28% decrease in the average lot selling price. The decrease in lot closings was primarily due to 138 fewer lot closings in Denver compared to 2014, which was partially offset by additional lot closings in both the Austin and Washington, D.C. markets. The decrease in the average lot selling price was due to the mix of land sold within the operating segment.

For the three months ended December 31, 2015, equity in earnings from unconsolidated entities was $4 million compared to $15 million for the same period in 2014. The decrease in equity in earnings was primarily due to a 188 raw and partially finished acre sale which occurred in the fourth quarter of 2014 in one of our joint ventures in Phoenix. Our share of the gain on the sale was $10 million. There were no acre sales in unconsolidated entities in the fourth quarter of 2015.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's consolidated balance sheets as at December 31, 2015 and December 31, 2014:

(US$ millions)	As at December 31 2015	As at December 31 2014
Land and housing inventory	$ 2,739	$ 2,522
Investments in unconsolidated entities	339	238
Receivables and other assets	327	363
Cash and restricted cash	104	196
Deferred income tax assets	82	71
	$ 3,591	$ 3,390
Notes payable	$ 1,631	$ 1,100
Bank indebtedness and other financings	144	208
Accounts payable and other liabilities	465	463
Total equity	1,351	1,619
	$ 3,591	$ 3,390

Assets

Our assets as at December 31, 2015 totalled $3.6 billion. Our land and housing inventory and investments in unconsolidated entities are our most significant assets with a combined book value of $3.1 billion, or approximately 86% of our total assets. The land and housing assets increased when compared to December 31, 2014 due to acquisitions of $412 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 December 31, 2015 compared with December 31, 2014 follows:

	As at			
	December 31, 2015		December 31, 2014	
(US$ millions, except units)	Units	Book Value	Units	Book Value
Land held for development (lot equivalents)	83,850	$ 1,385	87,922	$ 1,446
Land under development and finished lots (single family units)	6,567	653	6,457	664
Housing units, including models	1,922	632	1,239	357
	92,339	$ 2,670	95,618	$ 2,467
Multi-family, industrial and commercial parcels (acres)	136	$ 69	133	$ 55

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at December 31 2015	As at December 31 2014
6.5% unsecured senior notes due December 15, 2020 (a)	$ 600	$ 600
6.125% unsecured senior notes due July 1, 2022 (b)	500	500
6.125% unsecured senior notes due May 15, 2023 (c)	181	—
6.375% unsecured senior notes due May 15, 2025 (d)	350	—
	$ 1,631	$ 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 are guaranteed by certain of the Company's 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 and Brookfield Residential US Corporation's obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries.

(c) On May 12, 2015, Brookfield Residential issued C$250 million (US$181 million) of unsecured senior notes. The notes were offered in a private placement, with an eight-year term due May 15, 2023 at a fixed interest rate of 6.125%. The notes require semi-annual interest payments on May 15 and November 15 of each year until maturity. The Company's obligations to pay principal and interest on the unsecured senior notes are guaranteed by certain of the Company's subsidiaries.

(d) On May 12, 2015, Brookfield Residential issued $350 million of unsecured senior notes. The notes were offered in a private placement, with a ten-year term due May 15, 2025 at a fixed interest rate of 6.375%. The notes require semi-annual interest payments on May 15 and November 15 of each year until maturity. The Company's obligations to pay principal and interest on the unsecured senior notes are guaranteed by 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 indentures governing 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 year ended December 31, 2015. Our actual fixed charge coverage and indebtedness to consolidated net tangible worth ratio as of December 31, 2015 are reflected in the table below:

	Covenant	Actual as at December 31 2015
Minimum fixed charge coverage	2.0 to 1	2.69 to 1
Maximum indebtedness to consolidated net tangible worth	2.25 to 1	1.33 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings as of December 31, 2015 were $144 million, a decrease of $64 million from December 31, 2014. The decrease was primarily the result of the repayment of certain bank indebtedness borrowings using proceeds from the senior unsecured notes issued during the year ended December 31, 2015, partially offset by borrowings to fund development activity, land acquisitions, the Grand Haven Homes L.P. and ALBI Homes acquisitions, transaction costs associated with the Privatization Transaction and dividends paid to our common shareholder. 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 December 31, 2015, the weighted average interest rate on our bank indebtedness and other financings was 3.6% (December 31, 2014 – 4.0%).

The debt maturing in 2016 and onwards is expected to either be refinanced or repaid from home and/or lot closings over this period. Additionally, as of December 31, 2015, we had bank indebtedness and due to affiliates of $546 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 December 31 2015	As at December 31 2014
Bank indebtedness (a)	$ 71	$ 152
Secured Vendor take back ("VTB") mortgages (b)	73	56
Due to affiliates (c)	—	—
	$ 144	$ 208

(a) Bank indebtedness

(i) The Company has six secured credit facilities (December 31, 2014 – four secured credit facilities) with various Canadian banks with outstanding amounts totalling $71 million at December 31, 2015 (December 31, 2014 – $152 million). The secured facilities are repayable in Canadian dollars in the amount of C$98 million at December 31, 2015 (December 31, 2014 – C$176 million). These facilities allow the Company to borrow up to approximately C$565 million (US$408 million) as at December 31, 2015 (December 31, 2014 – C$565 million (US$486 million)). The credit facilities bear interest between Canadian prime plus 0.5% to 1.15% for any amounts drawn. The facilities are secured by fixed and floating charges over the land and housing inventory assets of our 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.

Three of the credit facilities are denominated in Canadian dollars and require Brookfield Residential (Alberta) LP, a wholly-owned subsidiary of the Company, to maintain a minimum tangible net worth of C$370 million and a debt to equity ratio of no greater than 1.75 to 1. At December 31, 2015, we were in compliance with all of our covenants relating to bank indebtedness. The following table reflects Brookfield Residential (Alberta) LP's tangible net worth and debt to equity ratio covenants:

(C$ millions, except ratios)	Covenant	Actual as at December 31 2015
Minimum tangible net worth	C$ 370	C$ 821
Debt to equity	1.75 to 1	0.19 to 1

The three remaining Canadian dollar denominated facilities require Brookfield Homes (Ontario) Limited, a wholly-owned subsidiary of the Company, to maintain a minimum tangible net worth of C$75 million and a debt to equity ratio of no greater than 1.75 to 1. At December 31, 2015, we were in compliance with all of our covenants relating to bank indebtedness. The following table reflects Brookfield Homes (Ontario) Limited's tangible net worth and debt to equity ratio covenants:

(C$ millions, except ratios)	Covenant	Actual as at December 31 2015
Minimum tangible net worth	C$ 75	C$ 220
Debt to equity	1.75 to 1	0.28 to 1

(ii) Brookfield Residential US Corporation, a wholly-owned subsidiary of the Company, as borrower, and the Company, as the parent company to the borrower, has a $275 million unsecured Revolving Credit Facility with various lenders. 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 $1,023 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at December 31, 2015, the Company and Brookfield Residential US Corporation were in compliance with all of our covenants relating to this facility.

The following table reflects consolidated tangible net worth and consolidated net debt to capitalization as directed by the covenants:

(US$ millions, except ratios)	Covenant	Actual as at December 31 2015
Minimum tangible net worth	$ 1,023	$ 1,351
Net debt to capitalization	65%	56%

The Company had no outstanding borrowings under the Revolving Credit Facility at December 31, 2015 (2014 – no borrowings outstanding). The transaction costs and administrative and upfront fees related to the Revolving Credit Facility are within receivables and other assets (refer to Note 6 "Receivables and Other Assets " in the consolidated financial statements).

(iii) As a result of the acquisition of Grand Haven Homes L.P. during the three months ended March 31, 2015, the Company assumed seven secured credit facilities with various banks, with outstanding amounts totalling $32 million. These facilities allowed the Company to borrow up to approximately $100 million as at March 31, 2015. The credit facilities had interest at various rates between 3.0% and 30-day LIBOR plus 4.0% for amounts drawn. The secured facilities were secured by the various land and housing assets of Grand Haven Homes. During the year ended December 31, 2015, all seven secured credit facilities were repaid in full and terminated.

(b) VTB mortgages

A total of 16 secured VTB mortgages (December 31, 2014 – 23 secured VTB mortgages) in the amount of $43 million (December 31, 2014 – $56 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$60 million (December 31, 2014 – C$65 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 December 31, 2015, these borrowings are not subject to financial covenants.

Three secured VTB mortgages (December 31, 2014 – one secured VTB mortgage) in the amount of $3 million (December 31, 2014 – $1 million) relate to raw land held for development by Brookfield Residential (US) LLC, a wholly-owned subsidiary of the Company. The interest rate on this debt is fixed and ranges from 5.0% and 6.0% and the debt is secured by related lands. As at December 31, 2015, these borrowings are not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2014 - nil) in the amount of $27 million (December 31, 2014 - $nil) relate to land held for development by Brookfield Homes Holdings LLC, a wholly-owned subsidiary of the Company. The interest rate on this debt is fixed at 2% and the debt is secured by the related lands. As at December 31, 2015, these borrowings are not subject to any financial covenants.

(c) Due to affiliates

There were no amounts due to affiliates at December 31, 2015 or December 31, 2014 on an unsecured revolving operating facility with a subsidiary of our sole shareholder, Brookfield Asset Management Inc. The operating facility is in principal not to exceed $300 million. This facility bears interest at LIBOR plus 4.5%. On December 31, 2015, the unsecured revolving operating facility matured and was not renewed.

At December 31, 2015, 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 December 31, 2015, we were in compliance with all of our covenants related to this facility.

The following table reflects Brookfield Residential US Corporation's minimum shareholders' equity and net debt to capitalization ratio covenants:

(US$ millions, except ratios)	Covenant	Actual as at December 31 2015
Minimum shareholders' equity	$ 300	$ 919
Net debt to capitalization	65%	55%

Net Debt to Capitalization Calculation

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

Our net debt to total capitalization ratio as at December 31, 2015 and December 31, 2014 is as follows:

	As at	
(US$ millions)	**December 31 2015**	**December 31 2014**
Bank indebtedness and other financings	$ 144	$ 208
Notes payable	1,631	1,100
Total interest bearing debt	1,775	1,308
Less: cash	(100)	(190)
	1,675	1,118
Total equity	1,351	1,619
Total capitalization	3,026	2,737
Net debt to total capitalization	55%	41%

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 December 31, 2015 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.

Cash Flow

Our principal uses of working capital include acquisitions 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 December 31, 2015, we had cash and cash equivalents of $100 million, compared to $190 million at December 31, 2014.

The net cash flows for the years ended December 31, 2015 and 2014 were as follows:

	Years Ended December 31	
(US$ millions)	**2015**	**2014**
Cash flows (used in) / provided by operating activities	$ (174)	$ 89
Cash flows used in investing activities	(97)	(25)
Cash flows provided by / (used in) financing activities	200	(189)
Effect of foreign exchange rates on cash	(19)	(4)
	$ (90)	$ (129)

Cash Flow (Used in) / Provided by Operating Activities

Cash flows used in operating activities during the year ended December 31, 2015 totalled $174 million, compared to $89 million provided by operating activities for the same period in 2014. During the year ended December 31, 2015, cash used in operating activities was impacted by an increase in land and housing inventory due to strategic land purchases, the acquisition of Grand Haven Homes in Austin, Texas and ALBI Homes in Calgary, Alberta and development activity, an increase in receivables and other assets, a decrease in accounts payable and other liabilities and our net income. Acquisitions for the year ended December 31, 2015 totalled $412 million consisting of $145 million in Canada, $143 million in California and $124 million in Central and Eastern U.S. During the year ended December 31, 2014, cash provided by operating activities was impacted by an increase in land and housing inventory, an increase in receivables and other assets, a decrease in commercial assets held for sale and an increase in accounts payable. Acquisitions for the year ended December 31, 2014 totalled $224 million, consisting of $31 million in Canada, $157 million in California and $36 million in Central and Eastern U.S.

Cash Flow Used in Investing Activities

During the year ended December 31, 2015, cash flows used in investing activities totalled $97 million compared to $25 million for the same period in 2014. During the year ended December 31, 2015, we invested $106 million in unconsolidated entities, primarily in our California joint ventures, which was partially offset by a reduction in restricted cash balances of $1 million and distributions from unconsolidated entities of $8 million. During the year ended December 31, 2014, we invested $36 million in unconsolidated entities which was partially offset by a decrease in restricted cash balances by $3 million and distributions of $8 million from unconsolidated entities.

Cash Flow Provided by / (Used in) Financing Activities

Cash provided by our financing activities for the year ended December 31, 2015 was $200 million, compared to $189 million used in financing activities in the same period in 2014. The cash provided by our financing activities during the year ended December 31, 2015 was primarily from the issuance of unsecured senior notes payable of $559 million and net borrowings under project-specific and other financings of $25 million, partially offset by net repayments under bank indebtedness of $107 million, dividends paid to our common shareholders of $177 million, settlement of share-based compensation awards of $46 million and common share repurchases of $60 million. This was in contrast to net repayments under project-specific and other financings of $78 million and net repayments under bank indebtedness of $39 million in the year ended December 31, 2014. The draws to date in 2015 have been used to fund acquisitions and development costs as well as costs associated with the Privatization Transaction.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at December 31, 2015 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]	$ 1,631	$ —	$ —	$ 600	$ 1,031
Interest on notes payable	707	103	207	207	190
Secured VTB mortgages[2][3]	73	27	41	4	1
Bank indebtedness[2][3]	71	27	44	—	—
Accounts payable and other liabilities[4]	465	465	—	—	—
Operating lease obligations[5]	45	8	14	9	14
Purchase agreements[6]	90	52	27	11	—

(1) Amounts are included on the consolidated balance sheets. See Note 8 to the consolidated financial statements for additional information regarding unsecured senior notes payable.

(2) Amounts are included on the consolidated balance sheets. See Note 9 to the 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 9 to the consolidated financial statements for additional information regarding our floating rate debt.

(4) Amounts are included on the consolidated balance sheets. See Note 10 to the 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 16 to the consolidated financial statements for additional information regarding purchase agreements.

Shareholders' Equity

During the three months ended March 31, 2015, as a result of the Privatization Transaction, Brookfield Asset Management Inc. acquired 32,407,562 Common Shares of Brookfield Residential for $24.25 per Common Share. Also, as a result of the Privatization Transaction, 2,454,095 Common Shares of Brookfield Residential were tendered and purchased for $24.25 per common share for cancellation by the Company for total consideration of approximately $60 million. Additionally, as a result of the Privatization Transaction, all awards under the escrowed stock plan were vested and immediately settled. In accordance with the escrowed plan, 933,526 Common Shares under Brookfield Residential were issued where the value of the Common Shares being issued was equal to the value of the escrowed shares being acquired.

At February 9, 2016, 113,900,674 Common Shares in the capital of the Company were issued and outstanding. In addition, Brookfield Residential has a stock option plan under which key officers and employees are granted options to purchase Non-Voting Class B Common Shares or settle the options in cash at the option of the holder. Each option granted can be exercised for one Non-Voting Class B Common Share or settled in cash for the fair value of one Common Share at the date of exercise. At February 9, 2016, 8,881,886 options were outstanding under the stock option plan.

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 December 31, 2015, we had $81 million of primarily non-refundable option deposits and advanced costs. The total remaining exercise price of these options was $131 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 "Land and Housing Inventory" to our consolidated financial statements included elsewhere in this annual report, we have consolidated $36 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 9,873 lots and control under option 1,522 lots through our proportionate share of unconsolidated entities. As of December 31, 2015, our investment in unconsolidated entities totaled $339 million. We have provided varying levels of guarantees of debt in our unconsolidated entities. As of December 31, 2015, we had recourse guarantees of $5 million with respect to debt in our unconsolidated entities. During the year ended December 31, 2015, we did not make any loan re-margin repayments on the debt in our unconsolidated entities. Please refer to Note 3 "Investments in Unconsolidated Entities" to our consolidated financial statements included later in this annual 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 December 31, 2015, we had $62 million in letters of credit outstanding and $373 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds at December 31, 2015 are $34 million and $165 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 years ended December 31, 2015 and 2014 were as follows:

- On March 13, 2015, Brookfield Asset Management Inc. and Brookfield Residential closed the Privatization Transaction, under which 1927726 Ontario Inc., a wholly-owned subsidiary of Brookfield Asset Management Inc. acquired the approximately 30.6% of common shares of Brookfield Residential not already owned by Brookfield Asset Management Inc. and its affiliates.
- During the year ended December 31, 2015, the Company paid a dividend to the common shareholders after the Privatization Transaction of $177 million.
- During the year ended December 31, 2015, the Company purchased the tax attributes of two subsidiaries of Brookfield Asset Management Inc. for cash consideration of $53 million. These transactions were recorded at the exchange amount.

- During the year ended December 31, 2015, the Company paid $8 million (2014 - $10 million) to Brookfield Asset Management Inc. for Canadian tax credits. The transactions were recorded at the exchange amount.
- In 2014, the Company purchased the tax attributes of a subsidiary of Brookfield Asset Management Inc. in consideration for a $29 million non-interest bearing promissory note. During the year ended December 31, 2015, $24 million of this note was repaid. These transactions were recorded at the exchange amount.
- In 2013, the Company purchased the tax attributes of a subsidiary of Brookfield Asset Management Inc. in consideration for a $33 million non-interest bearing promissory note, of which $22 million was repaid during the year ended December 31, 2014. During the year ended December 31, 2015, the remaining balance of this note was repaid. These transactions were recorded at the exchange amount.
- At December 31, 2014, the Company had a receivable of $4 million from Brookfield Asset Management Inc., included in receivables and other assets, related to certain Privatization Transaction costs incurred by Brookfield Residential that were recoverable from Brookfield Asset Management Inc. During the year ended December 31, 2015, the receivable was collected. The costs were recorded at the exchange amount.

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.

BUSINESS ENVIRONMENT AND RISKS

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

Risks Related to the Business and Industry of the Company

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

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

- employment and wage levels;
- availability and cost of financing for homebuyers including private and federal mortgage financing and mortgage insurance programs, as well as federal, provincial and state regulation of lending practices;
- regulatory changes, including zoning laws;
- interest rates;
- competitive and market demand dynamics in our key markets, including those enabling existing homeowners to sell their existing homes at acceptable prices;
- the supply of available new or existing homes for sale, as well as other housing alternatives, such as apartments and residential rental property;
- foreclosure rates;
- inflation;
- real estate taxes, federal, provincial and state property and income tax provisions (including provisions for the deduction of mortgage interest payments in the United States), and any adverse changes in tax laws;
- the level of household debt affecting our customer base;
- the cost and availability of labor, materials and supplies;
- the Canadian, U.S. and global financial system and credit markets, including stock market, commodities market, currency market and credit market volatility;
- the supply of land suitable for development in our markets in Canada and the United States;
- consumer confidence; and
- demographic housing trends, including population rates in our key markets, immigration rates and urban and suburban migration rates.

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

In fiscal 2015, we experienced a steadily improving housing market; however, especially in the U.S. market, the prior economic downturn resulted in reduced homebuyer confidence, due principally to price declines, the number of foreclosures, continued high underemployment and low wage growth, which led some homebuyers to cancel or not honor their home sales contracts altogether. We cannot predict whether recovery in the housing market will continue and improve these conditions. Although recent announcements relating to changes to lending standards and the reduction in FHA premiums will address some concerns, a more restrictive mortgage lending environment and the inability of some buyers to sell their existing homes has also impacted cancellations and reduced our ability to realize our backlog.

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

The market for new homes in Canada is and has remained relatively stable, except for the period from October 2008 to March 2009. Any economic downturn in Alberta or Ontario, increase in unemployment, increase in interest rates, decrease in immigration or other changes in the general and local market, could have a material adverse effect on our Canadian operations and financial condition. For example, oil prices have declined to their lowest level in more than a decade in the latter part of 2015 and into early 2016. Our operations in the Alberta market may be sensitive to declining oil prices as the energy sector is an important employment sector in this market.

The housing market in the United States has experienced a severe downturn in recent years, exacerbated by, among other things, a decline in the overall economy, high unemployment, fear of job loss, volatility in the securities markets, an increase in the number of homes that are or will be available for sale due to foreclosures, an inability of homebuyers to sell their current homes, a deterioration in the credit markets and the direct and indirect impact of the turmoil in the mortgage loan market. For example, the significant number of home mortgage foreclosures made the purchase of a foreclosed home an attractive alternative to purchasing a new home in some markets, which increased supply of homes and drove prices down further. Homebuilders responded to declining sales and increased cancellation rates on home purchase contracts with significant concessions, further adding to the price declines. With the decline in the values of homes and the inability of many homeowners to make their mortgage payments, the credit markets were significantly disrupted, putting strains on many households and businesses. In the face of these conditions, the overall economy weakened significantly, with high unemployment levels and substantially reduced consumer spending and confidence. As a result, demand for new homes hit historically low levels.

Although the U.S. housing market has shown signs of recovery, many of the factors contributing to the downturn remain and improved conditions did not extend consistently to every market in which we operate. We expect these uneven conditions to continue.

If the current U.S. housing market does not continue to improve or improvement takes place over an extended period of time, or if similar conditions affect the Canadian homebuilding industry, our business, results of operations and financial condition may be materially adversely affected.

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

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

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

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

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

Virtually all of the purchasers of our homes finance their acquisitions through mortgage financing. The Federal Reserve Bank of the United States increased interest rates in December 2015 for the first time since 2006. A further increase in interest and mortgage rates, which may occur in the United States in the near future, or a reduction in the availability of mortgage financing could depress new home sales because the increased monthly costs would discourage potential homebuyers. Even if potential purchasers do not need financing, these conditions could make it harder for them to resell their homes in the future, which would discourage potential homebuyers. These conditions could also increase cancellation rates on home purchase contracts, which would reduce our ability to realize our backlog. As a result, increased interest and mortgage rates and reduced mortgage availability could materially adversely affect our ability to sell new homes and the price at which we can sell them, which would have a material adverse effect on our business, results of operations and financial condition.

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

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

Prior to the recent volatility in the financial markets in the United States, a variety of mortgage products were available. As a result, more homebuyers were able to qualify for mortgage financing. Since 2007, however, there has been a significant decrease in the type of mortgage products available and a general increase in the qualification requirements for mortgages. Fewer loan products and tighter loan qualifications make it more difficult for some homebuyers to finance the purchase of new homes. This, coupled with higher mortgage interest rates for some mortgage products, has discouraged people from buying new homes. Beginning in January 2014, the U.S. Consumer Financial Protection Bureau has begun to enforce new rules regarding the origination of mortgages, including criteria for “qualified mortgages”. Other new regulations are forthcoming as required to be implemented pursuant to the U.S. Dodd-Frank Act of 2010. These new regulations could increase the difficulty of obtaining mortgage financing and result in higher mortgage interest rates, further discouraging new home purchases.

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

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

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

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

People who are unemployed, underemployed or concerned about the loss, or potential loss, of their jobs are less likely to purchase new homes, may be forced to try to sell the homes they own and may face difficulties in making required mortgage payments. Therefore, any increase in unemployment or underemployment may lead to an increase in the number of loan delinquencies and property repossessions and may have an adverse impact on us both by reducing demand for the homes we build and by increasing the supply of homes for sale, which could reduce our sales, adversely affecting our business and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

In addition, new development projects may be subject to various assessments for schools, parks and other open spaces, new or improved streets and highways, adequate water and sewage facilities and other local services, and may be required to include low and moderate income housing. The costs of these services can be substantial, and if developers are required to fund some or all of the costs, our expenses would increase. These assessments may also raise the price that homebuyers must pay for our homes, which could reduce our sales. In addition, expanded energy efficiency regulation may be implemented in Canada or the United States, which, even if phased in over time, could significantly increase our costs of building homes and the prices of our homes, which could increase our expenses and reduce our sales. Furthermore, municipalities may restrict or place moratoriums on the availability of utilities such as water and sewage facilities.

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

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

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

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

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

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

We depend on the continued availability of and satisfactory performance by subcontractors for the construction of our homes. In addition, the difficult operating environment over the last six years in the United States has resulted in the failure of some subcontractors' businesses and may result in further failures. Furthermore, restrictions on immigration can create a shortage of skilled labor.

We are party to a collective bargaining agreement with the Universal Workers Union L.I.U.N.A. Local 183 pursuant to which we are required to use union members in connection with construction projects undertaken in Simcoe County, an area north of Toronto. The agreement expires on April 30, 2016, subject to automatic renewal every three years. Although we believe our relations with the union to be good, we may be affected in the future by strikes, work stoppages or other labor disputes. Any such events could have a material adverse effect on our business and results of operations. Moreover, our non-union laborers may become subject to labor union organizing efforts. If any current non-union laborers were to unionize, we would incur increased risk of work stoppages and possibly higher labor costs.

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

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

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

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

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

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

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

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

Land developers and homebuilders are subject to risks related to:

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

Any of these issues could cause delays and increase our costs, which could have an adverse effect on our business and results of operations. In particular, the cost of petroleum products fluctuates and may increase as a result of geopolitical events or accidents. This could result in higher prices for any product utilizing petrochemicals, increased building material delivery costs and higher land development costs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Adverse weather conditions and natural and man-made disasters such as hurricanes, tornadoes, storms, earthquakes, floods, droughts, fires, snow, blizzards and other environmental conditions, as well as terrorist attacks, riots, cyber-security incidents and electrical outages, can have a significant effect on our ability to develop and market our communities. These adverse conditions can cause physical damage to work in progress and new homes, delays and increased costs in the construction of new homes and disruptions and suspensions of our operations, whether caused directly or by disrupting or suspending operations of those upon whom we rely in our operations. These conditions can mutually cause or aggravate each other, and their incidence and severity are unpredictable. Cyber incidents can result from deliberate attacks or unintentional events. These incidents can include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data or causing operational disruption. The result of these incidents could include, but are not limited to, disrupted operations, misstated financial data, liability for stolen assets or information, increased cyber-security protection costs, litigation and reputational damage adversely affecting our business and results of operations.

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

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

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

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

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

If we are not able to retain our executive officers, our business and results of operations could be adversely affected.

We do not have employment agreements with any of our executive officers, which could affect our ability to retain their services. Should we lose the services of one or all of our executive officers and they cannot be adequately replaced, our ability to accomplish the objectives set forth in our business plan could be adversely affected, which would adversely affect our business and results of operations.

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

As of February 9, 2016, Brookfield Asset Management beneficially owned or controlled or directed, directly or indirectly, 100% of our outstanding common shares. Our relationship with Brookfield Asset Management and its affiliates includes an unsecured revolving credit facility with a subsidiary of Brookfield Asset Management and the purchase of Canadian tax credits from Brookfield Asset Management for the year ended December 31, 2015. Additionally, we have the right to use the names "Brookfield" and "Brookfield Residential" pursuant to a license agreement between Brookfield Office Properties and Brookfield Global Asset Management Limited, a subsidiary of Brookfield Asset Management. These and other arrangements with affiliates may not be on terms at least as favorable to us as those that could be negotiated with third parties, despite procedural protections to simulate arm's length negotiations, such as the prior approval of related party transactions by our independent directors. Conversely, the terms of our agreements with affiliates could be more favorable to us than would be available from a third party. In such event, should we be required to replace these arrangements, we might not be able to obtain terms as least at favorable as those with affiliates.

Risks Related to Financing and Liquidity

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

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

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

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

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

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

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

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

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

We have businesses with earnings in both the United States and Canada. Our financial results are reported in U.S. dollars. Changes in the U.S. dollar/Canadian dollar exchange rate will affect the value of the reported earnings and the value of those assets and liabilities denominated in foreign currencies. For example, an increase in the value of the U.S. dollar compared to the Canadian dollar would reduce our Canadian dollar-denominated revenue when reported in U.S. dollars, as has occurred at the end of 2015 and into 2016, and vice versa. Our results of operations and financial condition may be adversely affected by such exchange rate fluctuations.

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

In the United States, unlike in Canada, significant expenses for purposes of owning a home, including mortgage interest expense and real estate taxes, generally are deductible expenses for an individual's U.S. federal and, in some cases, state income taxes, subject to various limitations under current tax law and policy. If the U.S. federal government or a state government changes its income tax laws, eliminating or substantially modifying these income tax deductions, the after-tax cost of owning a new home would increase for many potential purchasers of our homes. Increases in property tax rates by local governmental authorities, as experienced in response to reduced federal, state and provincial funding, can adversely affect the ability of potential purchasers of our homes to obtain financing or their desire to purchase new homes. In addition, increases in sales and other taxes could discourage potential homebuyers from purchasing one of our homes.

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

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

We have a significant amount of debt. As of December 31, 2015, the total principal amount of our debt outstanding was $1,775 million and we also had $5 million of guarantees of obligations of unconsolidated joint ventures. We also had $546 million in undrawn commitments under our Canadian and U.S. credit facilities as of that date.

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

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

- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a competitive disadvantage to less leveraged competitors; and
- increasing our cost of borrowing.

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

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

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

A significant amount of our existing borrowings consist of secured and unsecured credit facilities and vendor take back mortgages, each of which bears interest at variable rates. Several of our secured credit facilities bear interest at rates ranging from Canadian prime plus 0.50% to 1.15%. Our unsecured credit facility bears interest at either the adjusted LIBOR plus the applicable rate between 1.875% and 2.25% per annum or the alternate base rate plus the applicable rate between 0.875% and 1.25% per annum. Several of our vendor take back mortgages bear interest at rates ranging from prime plus 1.0% to 6.0%. This significant amount of variable interest rate debt exposes us to interest rate risk. As of December 31, 2015, a 1% change up or down in interest rates could have either a negative or positive effect of approximately $1 million on our cash flows. If interest rates increase under the terms of these credit facilities or mortgages, our debt service obligations will increase even though the amount of our borrowings will remain the same, which could have a material adverse effect on our net income and our ability to make timely interest payments on our debt.

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

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

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

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

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

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

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

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

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

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

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

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

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

Brookfield Asset Management beneficially owns, or controls or directs, directly or indirectly 100% of our outstanding common shares. Accordingly, Brookfield Asset Management has the ability to control our policies and operations. The interests of Brookfield Asset Management may not in all cases be aligned with our creditors' interests. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of Brookfield Asset Management might conflict with our creditors' interests. In addition, Brookfield Asset Management may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in its judgment, could enhance its equity investment, even though such transactions might involve risks to holders of the notes. Furthermore, Brookfield Asset Management may in the future own businesses that directly or indirectly compete with us. Brookfield Asset Management also may pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us.

Management’s Responsibility for Financial Reporting

Management of Brookfield Residential Properties Inc. (“Brookfield Residential”) is responsible for the integrity and fair presentation of the financial information, including the consolidated financial statements and management’s discussion and analysis and review, contained in this annual report. To fulfill this responsibility, the Company maintains a system of internal controls to ensure that its reporting practices and accounting and administrative procedures are appropriate and provide assurance that relevant and reliable information is produced. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) and include some amounts based on management’s best estimates and careful judgment in the circumstances. The consolidated financial statements include the accounts of Brookfield Residential and all of its subsidiaries (collectively, the “Company”). The financial information of the Company included in the Company’s Annual Report is consistent with that in the consolidated financial statements.

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

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

/s/ Alan Norris

Alan Norris
President and Chief Executive Officer

/s/ Thomas Lui

Thomas Lui
Vice President and Chief Financial Officer

Calgary, Canada
February 9, 2016

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated financial statements of Brookfield Residential Properties Inc.(the "Company"), which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, and the consolidated statements of operations, equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Brookfield Residential Properties Inc. as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Calgary, Canada
February 9, 2016

CONSOLIDATED FINANCIAL STATEMENTS

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

	Note	As at December 31 2015	As at December 31 2014
Assets			
Land and housing inventory	2	$ 2,738,504	$ 2,521,628
Investments in unconsolidated entities	3	339,182	238,402
Receivables and other assets	6	326,913	362,791
Restricted cash	7	4,266	5,339
Cash and cash equivalents		100,329	190,479
Deferred income tax assets	11	81,940	71,261
Total assets		$ 3,591,134	$ 3,389,900
Liabilities and Equity			
Notes payable	8	$ 1,630,675	$ 1,100,000
Bank indebtedness and other financings	9	144,265	208,257
Accounts payable and other liabilities	10	464,782	462,585
Total liabilities		2,239,722	1,770,842
Other interest in consolidated subsidiaries	12	—	—
Preferred Shares – nil shares outstanding (December 31, 2014 – nil shares outstanding)	13	—	—
Common Shares – 113,900,674 shares outstanding (December 31, 2014 – 115,421,243 shares outstanding)	13	326,594	329,474
Additional paid-in-capital		399,035	423,893
Retained earnings		751,249	868,336
Non-controlling interest	12	43,719	38,438
Accumulated other comprehensive loss		(169,185)	(41,083)
Total equity		1,351,412	1,619,058
Total liabilities and equity		$ 3,591,134	$ 3,389,900
Commitments, contingent liabilities and other	16		
Guarantees	17		

See accompanying notes to the consolidated financial statements

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

	Note	Years Ended December 31 2015	2014
Revenue			
Housing		$ 1,248,562	$ 1,136,268
Land		342,270	339,588
Total revenue		1,590,832	1,475,856
Direct Cost of Sales			
Housing		(972,697)	(863,210)
Land		(201,327)	(167,464)
Total direct cost of sales		(1,174,024)	(1,030,674)
Gain on commercial assets held for sale	4	—	32,927
Selling, general and administrative expense		(217,901)	(192,272)
Interest expense		(62,270)	(62,379)
Equity in earnings from unconsolidated entities	3	12,470	26,409
Other income		7,916	23,644
Depreciation		(3,986)	(4,509)
Income Before Income Taxes		153,037	269,002
Current income tax expense	11	(9,843)	(12,532)
Deferred income tax (expense) / recovery	11	(31,401)	19,542
Net Income		111,793	276,012
Other Comprehensive (Loss) / Income			
Unrealized foreign exchange (loss) / gain on:			
Translation of the net investment in Canadian subsidiaries		(155,977)	(70,923)
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		27,875	—
Comprehensive (Loss) / Income		$ (16,309)	$ 205,089
Net Income / (Loss) Attributable To:			
Consolidated		$ 111,793	$ 276,012
Non-controlling interest and other interest in consolidated subsidiaries	12	(414)	2,354
Brookfield Residential		$ 112,207	$ 273,658
Comprehensive (Loss) / Income Attributable To:			
Consolidated		$ (16,309)	$ 205,089
Non-controlling interest and other interest in consolidated subsidiaries	12	(414)	2,354
Brookfield Residential		$ (15,895)	$ 202,735
Common Shareholders Earnings Per Share			
Basic	15	$ 0.98	$ 2.35
Diluted	15	$ 0.98	$ 2.33
Weighted Average Common Shares Outstanding *(in thousands)*			
Basic	15	114,201	116,358
Diluted	15	114,201	117,344

See accompanying notes to the consolidated financial statements

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

	Years Ended December 31	
Preferred Shares *(Note 13)*	**2015**	**2014**
Opening balance	$ —	$ 1,600
Conversion of Preferred Shares into Common Shares	—	(1,600)
Ending balance	—	—
Common Shares *(Note 13)*		
Opening balance	329,474	332,511
Issuance of Common Shares	—	423
Settlement of escrowed stock plan	4,212	—
Conversion of Preferred Shares into Common Shares	—	1,600
Common Shares repurchased for cancellation	(7,092)	(5,060)
Ending balance	326,594	329,474
Additional Paid-in-Capital		
Opening balance	423,893	415,377
Share-based compensation costs	2,167	8,653
Settlement of share-based compensation awards	(27,025)	(137)
Ending balance	399,035	423,893
Retained Earnings		
Opening balance	868,336	625,482
Net income attributable to Brookfield Residential	112,207	273,658
Common Shares repurchased for cancellation	(52,420)	(30,743)
Dividends on Common Shares and Preferred Shares	(176,623)	(61)
Other	(251)	—
Ending balance	751,249	868,336
Accumulated Other Comprehensive (Loss) / Income		
Opening balance	(41,083)	29,840
Other comprehensive loss	(128,102)	(70,923)
Ending balance	(169,185)	(41,083)
Total Brookfield Residential Equity	$ 1,307,693	$ 1,580,620
Non-Controlling Interest (Note 12)		
Opening balance	$ 38,438	$ 35,047
Acquisition	2,126	—
Net loss attributable to non-controlling interest	(414)	(508)
Contributions	3,569	3,899
Ending balance	$ 43,719	$ 38,438
Total Equity	$ 1,351,412	$ 1,619,058

See accompanying notes to the consolidated financial statements

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

	Years Ended December 31	
Cash Flows Provided by / (Used in) Operating Activities	**2015**	**2014**
Net income	$ 111,793	$ 276,012
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities	(5,811)	(8,091)
Deferred income tax expense / (recovery)	31,401	(19,542)
Share-based compensation costs	39,455	9,904
Depreciation	3,986	4,509
Amortization of non-cash vendor take back (“VTB”) interest	224	316
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(32,506)	(47,992)
Increase in land and housing inventory	(307,150)	(198,279)
Decrease in commercial assets held for sale	—	45,956
(Decrease) / increase in accounts payable and other liabilities	(15,605)	25,670
Net cash (used in) / provided by operating activities	(174,213)	88,463
Cash Flows Provided by / (Used in) Investing Activities		
Investments in unconsolidated entities	(106,112)	(36,263)
Distributions from unconsolidated entities	7,933	8,172
Change in restricted cash	1,073	2,814
Net cash used in investing activities	(97,106)	(25,277)
Cash Flows Provided by / (Used in) Financing Activities		
Drawings under project-specific and other financings	61,972	13,666
Repayments under project-specific and other financings	(36,668)	(91,960)
Drawings on bank indebtedness	10,194	—
Repayments on bank indebtedness	(116,939)	(38,592)
Drawings under unsecured senior notes payable	558,550	—
Net distributions from non-controlling interest and other interest in consolidated subsidiaries	4,854	2,025
Repurchase from non-controlling interest and other interest in consolidated subsidiaries	—	(36,996)
Purchase of Common Shares for restricted stock and share unit plan	—	(1,251)
Settlement of share-based compensation awards	(46,072)	287
Repurchase of Common Shares for cancellation	(59,512)	(35,803)
Dividends paid to common and preferred shareholders	(176,623)	(61)
Net cash provided by / (used in) by financing activities	199,756	(188,685)
Effect of foreign exchange rates on cash and cash equivalents	(18,587)	(3,757)
Change in cash and cash equivalents	(90,150)	(129,256)
Cash and cash equivalents at beginning of year	190,479	319,735
Cash and cash equivalents at end of year	$ 100,329	$ 190,479
Supplemental Cash Flow Information		
Cash interest paid	$ 97,174	$ 84,593
Cash taxes paid	$ 104,665	$ 35,875

See accompanying notes to the consolidated financial statements

Note 1. Significant Accounting Policies

(a) Basis of Presentation

Brookfield Residential Properties Inc. (the "Company" or "Brookfield Residential") was incorporated in Ontario, Canada and is a wholly-owned subsidiary of Brookfield Asset Management Inc. and has been developing land and building homes for over 50 years. On March 13, 2015, Brookfield Asset Management Inc. and Brookfield Residential completed the closing of the going private transaction, pursuant to which 1927726 Ontario Inc., a wholly-owned subsidiary of Brookfield Asset Management Inc., acquired all of the issued and outstanding Common Shares of Brookfield Residential that Brookfield Asset Management Inc. did not already own by way of a plan of arrangement ("Privatization Transaction").

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

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

(b) Revenue Recognition

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 are reviewed for recoverability on a regular basis; the Company assesses these assets no less than quarterly for recoverability and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Indicators of impairment include, but are not limited to: significant decreases in local housing market values and selling prices of comparable homes; significant decreases in gross margins and sales absorption rates; accumulation of costs in excess of budget; actual or projected operating or cash flow losses; and current expectations that a real estate asset will more likely than not be sold before its previously estimated useful life. For communities where the current competitive and market dynamics indicate that these factors may be other than temporary, which may call into question the recoverability of the Company's investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analysis and a quantitative analysis reflecting market and asset specific information.

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

Recoverability is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. To arrive at the estimated fair value of land and housing inventory, the Company estimates the 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 2016 generally assume recent sales activity and normalized sales rates beyond 2016. 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 analysis. Assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. Because the projected cash flows used to evaluate the fair value of inventory are significantly impacted by changes in market conditions including reduced sales prices, a change in sales prices or changes in absorption estimates based on current market conditions and management's assumptions relative to future results could lead to additional impairments in certain communities during any given period.

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

(ii) Capitalized costs: In addition to direct land acquisitions, land development and improvement costs and home construction costs, costs also include interest, real estate taxes and direct overhead related to development and construction, which are capitalized to inventory during the 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 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; 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 and deferred share unit grants in accordance with ASC Topic 718 *Compensation-Stock Compensation*.

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

The Company records the deferred share units as a liability and they are disclosed in accounts payable and other liabilities.

See Note 14 "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 by the weighted average number of Common Shares outstanding for the period. Diluted earnings per share is calculated by dividing net income attributable to Brookfield Residential for the period by the average number of Common Shares outstanding including all potentially dilutive issuable Non-Voting Class B Common Shares under the option plan.

(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 Additional Paid-In Capital.

(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, 2017. For all other entities, the amendments in ASU 2014-09 are effective for fiscal years beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 31, 2019. Early adoption is 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 consolidated financial statements. The Company does not plan to early adopt ASU 2014-09.

In February 2015, the FASB Issued ASU 2015-02 "Consolidation" ("ASU 2015-02"). ASU 2015-02 provides amendments to respond to stakeholders' concerns about the current accounting for consolidation of certain legal entities and indicates that a reporting entity must determine whether it has a variable interest in the entity being evaluated for consolidation. The current standard provides six criteria that must be evaluated to assess whether fees paid by a legal entity to a decision maker or a service provider represent a variable interest in the legal entity. If a reporting entity concludes that fees represent a variable interest in a VIE, then the entity must evaluate whether its variable interest or interests represent a controlling financial interest in the VIE. A variable interest that is a controlling financial interest in a VIE results in consolidation of the legal entity. The amendments in ASU 2015-02 eliminate three of the six conditions for evaluating whether a fee paid to a decision maker or a service provider represents a variable interest. The amendments in ASU 2015-02 are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in ASU 2015-02 are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impact of the adoption of ASU 2015-02 on the consolidated financial statements. The Company does not plan to early adopt ASU 2015-02.

In April 2015, the FASB issued ASU 2015-03, "Interest - Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 indicates that an entity should report debt issuance costs in the balance sheet as a direct reduction from the face amount of the note rather than as an asset. The amortization of debt issuance costs is reported as interest expense. ASU 2015-03 is effective for public entities for annual and interim periods beginning after December 15, 2015. Early adoption is permitted and companies would need to apply the new guidance retrospectively to all prior periods. The Company believes the adoption of ASU 2015-03 will not have a material effect on the consolidated financial statements. The Company does not plan to adopt ASU 2015-03.

Note 2. Land and Housing Inventory

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

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

The following summarizes the components of land and housing inventory:

	As at	
	December 31 2015	December 31 2014
Land held for development	$ 1,384,961	$ 1,446,054
Land under development	721,056	718,309
Housing inventory	545,682	303,857
Model homes	86,805	53,408
	$ 2,738,504	$ 2,521,628

The Company capitalizes interest which is expensed as housing units and building lots are sold. Interest capitalized and expensed in the years ended December 31, 2015 and 2014 was as follows:

	Years Ended December 31	
	2015	2014
Interest capitalized, beginning of year	$ 163,787	$ 174,923
Interest capitalized	42,408	23,743
Interest expensed to cost of sales	(33,157)	(34,879)
Interest capitalized, end of year	$ 173,038	$ 163,787

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 $35.6 million (December 31, 2014 – $29.3 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 $35.6 million (December 31, 2014 – $29.3 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 $81.1 million (December 31, 2014 – $72.1 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 $131.1 million (December 31, 2014 – $104.9 million), including the non-refundable deposits and other entitlement costs identified above. The number of lots in which the Company has obtained an option to purchase, excluding those already consolidated and those held through investment in unconsolidated entities, and their respective dates of expiry and aggregate exercise prices follow:

Years of Expiry	Number of Lots	Total Exercise Price
2016	1,755	$ 61,866
2017	473	17,102
2018	472	8,113
2019	3,300	36,800
2020	—	—
Thereafter	450	7,218
	6,450	$ 131,099

The Company holds agreements for a further 2,817 acres (December 31, 2014 – 4,878 acres) of longer-term land, with non-refundable deposits and other entitlement costs of $6.0 million (December 31, 2014 – $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 $56.9 million (December 31, 2014 – $59.1 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.

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

Note 3. Investments in Unconsolidated Entities

As part of its operations, the Company participates in joint ventures and partnerships to explore opportunities while minimizing risk. As of December 31, 2015, the Company was involved with 17 unconsolidated entities (December 31, 2014 – 16 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities includes $28.9 million (December 31, 2014 – $27.2 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 1,522 lots (December 31, 2014 – 1,545 lots) under option. The Company's share of the total exercise price of these options is $64.9 million (December 31, 2014 – $71.4 million). Summarized financial information on a 100% basis for the combined unconsolidated entities follows:

	As at	
	December 31 2015	December 31 2014
Assets		
Land and housing inventory	$ 631,478	$ 598,213
Investments in unconsolidated entities	147,127	8,953
Other assets	65,771	57,905
	$ 844,376	$ 665,071
Liabilities and Equity		
Bank indebtedness and other financings	$ 118,462	$ 143,257
Accounts payable and other liabilities	46,530	50,457
Brookfield Residential's interest	339,182	238,402
Others' interest	340,202	232,955
	$ 844,376	$ 665,071

	Years Ended December 31	
	2015	2014
Revenue and Expenses		
Revenue	$ 134,869	$ 230,908
Direct cost of sales	(109,073)	(165,160)
Other expense	(5,450)	(11,552)
Net income	$ 20,346	$ 54,196
Brookfield Residential's share of net income	$ 12,470	$ 26,409

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 December 31, 2015, the Company had completion guarantees of $nil (December 31, 2014 – $9.2 million) and recourse guarantees of $5.4 million (December 31, 2014 – $1.0 million) with respect to debt of its unconsolidated entities.

Note 4. Commercial Assets Held for Sale

There were no sales of commercial properties for year ended December 31, 2015. The commercial properties previously presented as held for sale were sold during the year ended December 31, 2014 for a gain of $32.9 million.

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

Note 5. Business Combinations

(a) Grand Haven Homes L.P.

On February 27, 2015, the Company acquired all of the membership interests of Grand Haven Homes L.P. ("Grand Haven Homes"), an established homebuilder in Austin, Texas for an aggregate purchase consideration of $36.3 million, which was paid in cash. The purchase of Grand Haven Homes allows the Company to expand its presence in the Austin market by starting its homebuilding operations with an established homebuilder.

The acquisition was accounted for as a business combination under the provisions of ASC Topic 805 *Business Combinations* which, among other things, required assets acquired and liabilities assumed to be measured at their acquisition date fair values. Provisional fair value estimates have been made in the first quarter of 2015 for assets acquired and liabilities assumed and the measurement process will be finalized by the first quarter of 2016.

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

	Estimated Fair Value at Acquisition Date
Assets	
Land and housing inventory	$ 72,496
Receivables and other assets	404
Cash and cash equivalents	1,282
Total assets acquired	$ 74,182
Liabilities	
Bank indebtedness and other financings	$ 34,273
Accounts payable and other liabilities	3,597
Total liabilities acquired	$ 37,870
Net assets acquired	$ 36,312
Total consideration	36,312
Goodwill	—

The following table presents the revenue and earnings of Grand Haven Homes that are included in the consolidated statements of operations from the acquisition date of February 27, 2015 through December 31, 2015:

Revenue	$ 64,763
Net income	$ 6,579

The following table presents supplemental pro forma information as if the acquisition of Grand Haven Homes occurred on January 1, 2015. The pro forma consolidated results do not purport to project the future results of the Company combined nor do they reflect the expected realization of any cost savings associated with the Grand Haven Homes acquisition.

	Year Ended December 31, 2015
Total revenues	$ 1,600,893
Net income attributable to Brookfield Residential	$ 113,381

(b) ALBI Homes

On November 2, 2015 the Company purchased the assets of ALBI Homes ("ALBI") , an established luxury homebuilder in Calgary, Alberta for an aggregate purchase consideration of $31.0 million (C$40.5 million). The purchase of ALBI allows the Company to broaden its presence in the Calgary market by expanding its homebuilding operations with an established luxury homebuilder.

The acquisition was accounted for as a business combination under the provisions of ASC Topic 805 *Business Combinations* which, among other things, required assets acquired and liabilities assumed to be measured at their acquisition date fair values. Provisional fair value estimates have been made in the fourth quarter of 2015 for assets acquired and liabilities assumed and the measurement process will be finalized by the fourth quarter of 2016.

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

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

		Estimated Fair Value at Acquisition Date
Assets		
Land and housing inventory	$	62,132
Investments in unconsolidated entities		3,353
Receivables and other assets		5,754
Cash and cash equivalents		61
Total assets acquired	$	71,300
Liabilities		
Bank indebtedness and other financings	$	5,041
Accounts payable and other liabilities		35,301
Total liabilities acquired	$	40,342
Net assets acquired	$	30,958
Total consideration		30,958
Goodwill		—

The bank indebtedness and other financings assumed as part of the acquisition were repaid on closing date.

The following table presents the revenue and earnings of ALBI that is included in the consolidated statements of operations from the acquisition date of November 2, 2015 through December 31, 2015:

Revenue	$	5,567
Net loss	$	(335)

The following table presents supplemental pro forma information as if the acquisition of ALBI occurred on January 1, 2015. The pro forma consolidated results do not purport to project the future results of the Company combined nor do they reflect the expected realization of any cost savings associated with the ALBI acquisition.

		Year Ended December 31, 2015
Total revenues	$	1,682,291
Net income attributable to Brookfield Residential	$	118,583

Note 6. Receivables and Other Assets

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

	As at			
		December 31 2015		December 31 2014
Receivables	$	267,909	$	293,354
Other assets		59,004		69,437
	$	326,913	$	362,791

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

The components of receivables are summarized as follows:

	As at	
	December 31 2015	**December 31 2014**
Real estate receivables (a)	$ 137,062	$ 178,833
Development recovery receivables (b)	81,353	65,348
Sundry receivables (c)	25,421	18,220
Proceeds and escrow receivables (d)	19,102	17,413
Refundable deposits	4,971	9,340
Due from related party (e)	—	4,200
	$ 267,909	$ 293,354

(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 prime plus 2.0% to prime plus 3.0% or a fixed interest rate of 0.5% to 8.0%, whichever is greater (December 31, 2014 – Canadian prime plus 2.0% to prime plus 3.0% or a fixed interest rate of 1.0% to 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, 2014 – U.S. prime plus 0.5% to a fixed rate of 6.0%).

(c) Sundry receivables are comprised of lot interest receivables and miscellaneous amounts.

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

(e) Receivables due from Brookfield Asset Management. See Note 21 "Related Party Transactions".

As at December 31, 2015 and December 31, 2014, allowances for doubtful accounts were $1.5 million and $1.5 million, respectively.

The components of other assets are summarized as follows:

	As at	
	December 31 2015	**December 31 2014**
Transaction costs (a)	$ 24,939	$ 18,254
Non-refundable earnest funds and investigation fees (b)	14,197	20,405
Capital assets (c)	13,468	12,587
Prepaid expenses	3,720	4,290
Other	2,680	1,432
Swap contracts (Note 18)	—	12,469
	$ 59,004	$ 69,437

(a) The transaction costs are costs related to the issuance of the Company's notes payable and the revolving credit facility (refer to Note 8 "Notes Payable" and Note 9 "Bank Indebtedness and Other Financings"). These costs are amortized using the effective interest rate method over the life of the related debt instrument.

(b) 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.

(c) 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 $15.9 million (December 31, 2014 – $14.8 million).

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

Note 7. Restricted Cash

At December 31, 2015, the Company has restricted cash consisting of (i) $0.7 million (December 31, 2014 – $1.6 million) relating to cash collateralization of development letters of credit and (ii) $3.5 million (December 31, 2014 – $3.7 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 8. Notes Payable

	As at	
	December 31 2015	**December 31 2014**
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
6.125% unsecured senior notes due May 15, 2023 (c)	180,675	—
6.375% unsecured senior notes due May 15, 2025 (d)	350,000	—
	$ 1,630,675	$ 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.

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

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%

(c) On May 12, 2015, the Company issued a private placement of C$250.0 million (US$180.7 million) of unsecured senior notes. The notes have an eight-year term, are due May 15, 2023, and bear a fixed interest rate of 6.125%. The notes require semi-annual interest payments on May 15 and November 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 May 12, 2015 include an optional redemption under which, at any time prior to May 15, 2018, 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 May 15, 2018, 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 May 15, 2018, 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
2018	104.59%
2019	103.06%
2020	101.53%
2021 and thereafter	100.00%

(d) On May 12, 2015, the Company issued a private placement of $350.0 million of unsecured senior notes. The notes have a ten-year term, are due May 15, 2025, and bear a fixed interest rate of 6.375%. The notes require semi-annual interest payments on May 15 and November 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 May 12, 2015 include an optional redemption under which, at any time prior to May 15, 2018, Brookfield Residential may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 106.375% 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 May 15, 2020, 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 May 15, 2020, 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:

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

	Notes Redemption Price
2020	103.19%
2021	102.13%
2022	101.06%
2023 and thereafter	100.00%

All unsecured senior notes include covenants that, among others, place limitations on incurring additional indebtedness and restricted payments. Under the limitation on additional indebtedness, Brookfield Residential is permitted to incur specified categories of indebtedness but is prohibited from incurring further indebtedness if it does not satisfy either 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 December 31, 2015.

The transaction costs related to the notes payable are within other assets (refer to Note 6 “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 senior notes payable, the derivatives are not accounted for separately.

Note 9. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	December 31 2015	December 31 2014
Bank indebtedness (a)	$ 71,117	$ 151,874
Secured VTB mortgages (b)	73,148	56,383
Due to affiliates (c)	—	—
	$ 144,265	$ 208,257

(a) Bank indebtedness

(i) The Company has six secured credit facilities (December 31, 2014 – four secured credit facilities) with various Canadian banks with outstanding amounts totalling $71.1 million at December 31, 2015 (December 31, 2014 – $151.9 million). The secured facilities are repayable in Canadian dollars in the amount of C$98.4 million at December 31, 2015 (December 31, 2014 – C$176.4 million). These facilities allow the Company to borrow up to approximately C$565.0 million (US$408.3 million) as at December 31, 2015 (December 31, 2014 – C$565.0 million (US$486.4 million)). The credit facilities bear interest between Canadian prime plus 0.5% to 1.15% for any amounts drawn. The 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, which are denominated in Canadian dollars, include a minimum tangible net worth requirement of C$370.0 million and a debt to equity covenant of no greater than 1.75 to 1.

The Brookfield Homes (Ontario) Limited facilities, which are denominated in Canadian dollars, include a minimum net worth requirement of C$75.0 million and a debt to equity covenant of no greater than 1.75 to 1.

As at December 31, 2015, the Company was in compliance with all financial covenants related to bank indebtedness.

(ii) 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 $275.0 million unsecured Revolving Credit Facility with various lenders. 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 $1,023.1 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at December 31, 2015, 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 December 31, 2015 (December 31, 2014 – no borrowings outstanding). The transaction costs and administrative and upfront fees related to the Revolving Credit Facility are within receivables and other assets (refer to Note 6 “Receivables and Other Assets”).

(iii) As a result of the acquisition of Grand Haven Homes during the three months ended March 31, 2015, the Company assumed seven secured credit facilities with various banks, with outstanding amounts totalling $32.3 million. These facilities allowed the Company to borrow up to approximately $100.0 million as at March 31, 2015. The credit facilities had interest at various rates between 3.0% and 30-day LIBOR plus 4.0% for amounts drawn. The secured facilities were secured by the various land and housing assets of Grand Haven Homes. During the year ended December 31, 2015, all seven secured credit facilities were repaid in full and terminated.

(b) Secured VTB mortgages

The Company has 21 secured VTB mortgages (December 31, 2014 – 24 secured VTB mortgages) in the amount of $73.1 million (December 31, 2014 – $56.4 million). Secured VTB mortgages mature as follows: 2016 – $27.1 million; 2017 – $20.4 million; 2018 – $20.7 million, 2019 – $0.7 million and thereafter – $4.2 million.

A total of 16 secured VTB mortgages (December 31, 2014 – 23 secured VTB mortgages) in the amount of $43.3 million (December 31, 2014 – $55.9 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$60.0 million (December 31, 2014 – C$64.9 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 the related lands. As at December 31, 2015, these borrowings are not subject to financial covenants.

Three secured VTB mortgages (December 31, 2014 – one secured VTB mortgage) in the amount of $3.0 million (December 31, 2014 – $0.5 million) relate to raw land held for development by Brookfield Residential (US) LLC, a wholly-owned subsidiary of the Company. The interest rate on this debt ranges from fixed rates of 5.0% and 6.0% and the debt is secured by related lands. As at December 31, 2015, this borrowing is not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2014 - nil) in the amount of $26.8 million (December 31, 2014 - $nil) relate to land held for development by Brookfield Homes Holdings LLC, a wholly-owned subsidiary of the Company. The interest rate on this debt is fixed at 2% and the debt is secured by the related lands. As at December 31, 2015, these borrowings are not subject to any financial covenants.

(c) Due to Affiliates

There were no amounts due to affiliates at December 31, 2015 or December 31, 2014 on an unsecured revolving operating facility with a subsidiary of our sole shareholder, Brookfield Asset Management Inc. The operating facility is in principal not to exceed $300.0 million. This facility bears interest at LIBOR plus 4.5%. On December 31, 2015, the unsecured revolving operating facility matured and was not renewed.

At December 31, 2015, this revolving operating facility required Brookfield Residential US Corporation to maintain minimum total equity of $300.0 million and a consolidated net debt to capitalization ratio of no greater than 65%. At December 31, 2015, we were in compliance with all of our covenants related to this facility.

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

Note 10. Accounts Payable and Other Liabilities

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

	As at	
	December 31 2015	**December 31 2014**
Accounts payable	$ 359,113	$ 332,773
Other liabilities	105,669	129,812
	$ 464,782	$ 462,585

The components of accounts payable are summarized as follows:

	As at	
	December 31 2015	**December 31 2014**
Trade payables and other accruals	$ 161,451	$ 101,901
Development costs payable (a)	94,811	117,182
Customer deposits	42,553	38,428
Accrued and deferred compensation	39,512	49,745
Interest on notes payable	21,002	16,829
Current income taxes (receivable) / payable	(216)	8,688
	$ 359,113	$ 332,773

(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.

The components of other liabilities are summarized as follows:

	As at	
	December 31 2015	**December 31 2014**
Share-based compensation (Note 14)	$ 39,535	$ 31,142
Consolidated land option contracts (a)	35,586	29,344
Warranty costs (Note 16 (a))	20,074	16,738
Other	7,140	9,433
Due to related party (b)	2,000	38,824
Swap contracts (Note 18)	1,334	4,331
	$ 105,669	$ 129,812

(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) Promissory note due to a subsidiary of Brookfield Asset Management Inc. See Note 21 “Related Party Transactions”.

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

Note 11. Income Taxes

A reconciliation of the Company's effective tax rate from the Canadian federal statutory tax rate for the year ended December 31, 2015 and 2014 is as follows:

	Years Ended December 31	
	2015	**2014**
Statutory rate	26.0%	25.0 %
Non-temporary differences	2.6	1.0
Rate difference from statutory rate	1.6	3.1
Change in statutory tax rate	(4.5)	—
Change in valuation allowance	—	(31.6)
Withholding tax	3.2	—
Other	(2.1)	(0.1)
Effective tax rate	26.8%	(2.6)%

The Company currently operates in ten 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, the estimated effective tax rate for the Company is 26.8% for the year ended December 31, 2015 (December 31, 2014 – (2.6)%). The change in the effective tax rate, compared with the same period during 2014, primarily relates to withholding taxes of $5.0 million paid in the year on distributions made from U.S operations and the partial release of the valuation allowance in 2014, offset by the effect of a 2015 change in the corporate tax rate for the Company's operations in Alberta. The provision for income taxes for the years ended December 31, 2015 and 2014 is set forth below:

	Years Ended December 31	
	2015	**2014**
Current		
Canada	$ (4,700)	$ (9,744)
U.S.	(5,131)	(2,733)
International	(12)	(55)
Total current tax expense	(9,843)	(12,532)
Deferred		
Canada	(9,790)	(28,939)
U.S.	(21,611)	48,481
International	—	—
Total deferred tax (expense) / recovery	(31,401)	19,542
Total income tax (expense) / recovery	$ (41,244)	$ 7,010

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

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 assets / (liabilities)	**December 31 2015**	**December 31 2014**
Differences relating to land and housing inventory	$ (9,105)	$ (19,207)
Compensation deductible for tax purposes when paid	11,095	12,739
Differences related to derivative instruments	520	(1,076)
Operating loss carry-forwards	73,678	74,817
Impact of foreign exchange	29,596	11,343
Other	5,752	3,988
Net deferred tax assets before valuation allowance	111,536	82,604
Cumulative valuation allowance	(29,596)	(11,343)
Net deferred tax assets	$ 81,940	$ 71,261

The Company has Canadian and U.S. federal non-capital loss carryforwards of approximately $267.9 million and $nil, respectively, as at December 31, 2015 (December 31, 2014 – $181.1 million and $75.8 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 2032 and 2035. The Company also has state loss carryforwards of approximately $48.4 million (December 31, 2014 – $123.8 million) that may be carried forward up to 20 years, depending on the tax jurisdiction, which expire between 2028 and 2032.

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

Prior to the quarter ended September 30, 2014, the Company established a valuation allowance against its deferred tax assets with respect to its U.S. operations due to the weight of negative evidence at that time. At September 30, 2014, the Company determined that the valuation allowance against substantially all of its U.S. federal and state deferred tax assets was no longer required. Accordingly, the Company reversed a substantial portion of its valuation allowance against its U.S. deferred tax asset, with the remaining portion of the valuation allowance reversed in the fourth quarter of 2014, resulting in an overall income tax recovery of $45.1 million at the end of the year for the U.S. operations.

The principal positive evidence that led to the reversal of the valuation allowance with respect to the Company's U.S. operations, for the year ended December 31, 2014, included (i) the emergence from a three-year cumulative loss in the third quarter of 2014, (ii) the significant positive income generated during 2013 and 2014, including 6 quarters of pre-tax income, (iii) continued improvements in 2014 over recent years in key operating metrics, including U.S. revenues, gross margin and backlog, (iv) forecasted future profitability of the Company's U.S. operations which support the absorption of substantially all of its U.S. federal and state net operating losses in less than five years, (v) 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 and (vi) 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.

In evaluating the need for a valuation allowance against the Company's deferred tax assets at December 31, 2015, the Company considered all available and objectively verifiable positive and negative evidence. Consistent with the above process, the Company concludes it is more-likely-than-not that all of its U.S. deferred tax asset would be realized in the future. The component of the valuation allowance remaining of $29.6 million relates to the unrealized foreign exchange capital losses in Canada that have not met the more-likely-than not realization threshold. The 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, other than the deferred tax asset related to unrealized foreign exchange capital losses, can be realized.

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

Note 12. Other Interest in Consolidated Subsidiaries and Non-Controlling Interest

(a) Other Interest in Consolidated Subsidiaries

Other interest in consolidated subsidiaries included ownership interests of certain business unit presidents. During the year ended December 31, 2014, the Company repurchased the remaining minority interest of the business unit presidents for cash of $37.0 million, which was net of the deposit accounts owed by the business unit presidents. The purchase price was based on the estimated value of the business unit's net assets.

The following table reflects the change in the Company's other interest in consolidated subsidiaries for the years ended December 31, 2015 and December 31, 2014:

	For the Years Ended	
	December 31 2015	December 31 2014
Other interest in consolidated subsidiaries, beginning of year	$ —	$ 36,641
Net income attributable to other interest in consolidated subsidiaries	—	1,758
Adjustment to fair value of other interest in consolidated subsidiaries	—	1,118
Distributions to other interest in consolidated subsidiaries	—	(2,000)
Repurchase of other interest in consolidated subsidiaries	—	(37,517)
Other interest in consolidated subsidiaries, end of year	$ —	$ —

(b) Non-Controlling Interest

Non-controlling interest includes third-party investments in consolidated entities of $43.7 million at December 31, 2015 (December 31, 2014 – $38.4 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 statements of operations have been adjusted to include the net income / (loss) attributable to non-controlling interest, which for the year ended December 31, 2015 was a loss of $0.4 million (2014 – loss of $0.5 million).

Note 13. Equity

(a) Preferred Shares

Preferred Shares issued and outstanding changed as follows during the year ended December 31, 2015 and the year ended December 31, 2014:

	For the Years Ended	
	December 31 2015	December 31 2014
Preferred Shares outstanding, beginning of year	—	64,061
Conversion of Preferred Shares into Common Shares	—	(64,061)
Preferred Shares outstanding, end of year	—	—

(b) Common Shares

The authorized Common Share capital of the Company consists of an unlimited number of voting Common Shares and Non-Voting Class B Common Shares. During the year ended December 31, 2015, 2,454,095 Common Shares of Brookfield Residential were purchased for $24.25 per common share for cancellation by Brookfield Residential pursuant to the Privatization Transaction for total consideration of $59.5 million. Of this amount, $7.1 million was charged to share capital and $52.4 million to retained earnings.

Prior to the Privatization Transaction, on May 1, 2014, Brookfield Residential announced a TSX-approved normal course issuer bid ("NCIB") for a portion of the Company's Common Shares. The NCIB was made in accordance with the requirements of the TSX and NYSE and Rules 10b-18 and 10b5-1 of the United States Securities and Exchange Act of 1934, as amended. The Company was authorized to repurchase for cancellation up to 2,000,000 Common Shares. During the year ended December 31, 2015, the Company did not repurchase any Common Shares under the NCIB.

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

During the year ended December 31, 2014, the Company purchased 1,811,303 Common Shares for total consideration of $35.8 million. Of this amount, $5.1 million was charged to share capital and $30.7 million to retained earnings.

Common Shares issued changed as follows during the years ended December 31, 2015 and December 31, 2014:

	For the Years Ended	
	December 31 2015	**December 31 2014**
Common Shares issued, beginning of year	117,421,243	119,026,076
Issuance of Common Shares upon exercise of options	—	31,473
Conversion of Preferred Shares into Common Shares	—	174,997
Common Shares repurchased	(2,454,095)	(1,811,303)
Common Shares issued upon settlement of the escrowed stock plan	933,526	—
Common Shares cancelled upon settlement of the escrowed stock plan	(2,000,000)	—
Common Shares issued and outstanding, end of year	113,900,674	117,421,243

The Company had no Non-Voting Class B Common Shares issued and outstanding as at December 31, 2015 and December 31, 2014.

Note 14. Share-Based Compensation

(a) Management Share Option Plan

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

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

During the year ended December 31, 2015, Brookfield Residential granted a total of 9,180,340 new options to eligible employees that vest evenly over five years. The significant weighted average assumptions relating to the valuation of the Company's options granted during the year ended December 31, 2015 are as follows:

	December 31 2015
Dividend yield	—
Volatility rate	35.15%
Risk-free interest rate	1.96%
Expected option life (years)	7.5

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

The total compensation cost recognized in selling, general and administrative expense relating to the Company's options during the year ended December 31, 2015 was $8.5 million. The following tables set out the number of Non-Voting Class B Common Shares that employees of the Company may acquire under options granted under the Company's Management Share Option Plan for the year ended December 31, 2015:

	December 31, 2015	
	Shares	Weighted Average Per Share Exercise Price
Outstanding, beginning of year	—	$ —
Granted	9,180,340	22.56
Exercised	—	—
Cancelled	(298,454)	22.96
Outstanding, end of period	8,881,886	$ 22.55
Options exercisable, end of year	—	$ —

At December 31, 2015, the aggregate intrinsic value of options currently exercisable is $nil and the aggregate intrinsic value of options outstanding is $nil.

A summary of the status of the Company's unvested options for the year ended December 31, 2015 is as follows:

	December 31, 2015	
	Shares	Weighted Average Fair Value Per Option
Unvested options outstanding, beginning of year	—	$ —
Granted	9,180,340	8.47
Vested	—	—
Cancelled	(298,454)	9.07
Unvested options outstanding, end of year	8,881,886	$ 8.48

At December 31, 2015, there was $66.8 million of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 4.5 years.

(b) Management Share Option Plan and Escrowed Stock Plan

Options that were previously issued under the Company's Management Share Option Plan vested over a period of up to five years, expired 10 years after the grant date, and were settled through issuance of Brookfield Residential's publicly traded Common Shares. The exercise price was the volume-weighted average trading price for Brookfield Residential Common Shares on the New York Stock Exchange for the five business days preceding the effective grant date.

Brookfield Residential granted 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 was estimated at the grant date using the Black-Scholes option-pricing model. The fair value of the Company's stock option awards was expensed over the vesting period of the stock options. Expected volatility was based on historical volatility of Brookfield Residential's Common Shares. The risk-free rate for periods within the contractual life of the option award was 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 used historical Brookfield Residential data to estimate option exercises and forfeitures within its valuation model. The expected term of option awards granted was derived from historical exercise experience under the Company's option plan and represented the period of time that option awards granted were expected to be outstanding.

During the year ended December 31, 2015, as part of the Privatization Transaction, all of the outstanding options under the Company's Management Share Option Plan were cancelled and cash settled for $46.1 million. In accordance with ASC 718 *Compensation – Stock Compensation,* all unvested options at the time the Privatization Transaction closed were fully vested and expensed into Additional Paid-in-Capital. Options were then cash settled with any difference between the options' fair value and cash settlement value recognized as additional share based compensation expense.

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

The total compensation cost recognized in selling, general and administrative expense relating to normal course vesting of the Company's options during the year ended December 31, 2015 was an expense of $2.2 million (2014 – $9.5 million). The total compensation cost relating to the accelerated vesting and settlement of options as a result of the Privatization Transaction during the year ended December 31, 2015 was an expense of $24.0 million (2014 – $nil) and was also recognized in selling, general and administrative expense. The following tables set out the number of Common Shares that employees of the Company could have acquired under options granted under the Company's option plan and escrowed stock plan for the years ended December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Shares	Weighted Average Per Share Exercise Price	Shares	Weighted Average Per Share Exercise Price
Outstanding, beginning of year	6,505,639	$ 13.80	5,720,989	$ 12.61
Granted	—	—	912,500	21.66
Exercised	—	—	(31,473)	9.84
Cancelled	—	—	(96,377)	19.22
Settled	(6,505,639)	13.80	—	—
Outstanding, end of year	—	$ —	6,505,639	$ 13.80
Options exercisable, end of year	—	$ —	2,704,560	$ 10.96

At December 31, 2015, the aggregate intrinsic value of options currently exercisable is $nil (December 31, 2014 – $35.4 million) and the aggregate intrinsic value of options outstanding is $nil (December 31, 2014 – $66.8 million).

A summary of the status of the Company's unvested options and escrowed stock included in equity for the years ended December 31, 2015 and 2014 is as follows:

	December 31, 2015		December 31, 2014	
	Shares	Weighted Average Fair Value Per Option	Shares	Weighted Average Fair Value Per Option
Unvested options outstanding, beginning of year	3,801,078	$ 6.99	4,199,877	$ 6.13
Granted	—	—	912,500	9.49
Vested	—	—	(1,253,473)	5.61
Cancelled	—	—	(57,826)	13.64
Settled	(3,801,078)	6.99	—	—
Unvested options outstanding, end of year	—	$ —	3,801,078	$ 6.99

At December 31, 2015, there was $nil (December 31, 2014 – $11.8 million) of unrecognized expense related to unvested options.

The Company's Board of Directors approved an escrowed stock plan on September 16, 2011, which allowed 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 with 75% of the escrowed shares granted to the executive. Awards under the escrowed stock plan were granted and would not vest until five years after the date of grant and would ultimately be received in the form of Common Shares. The escrowed shares vested on and were to 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 were to be acquired by the Company in exchange for issuance of Common Shares from treasury of the Company.

As a result of the Privatization Transaction, all awards under the escrowed stock plan were vested and immediately settled. In accordance with the escrowed plan, the private company was immediately wound up into Brookfield Residential and the Common Shares held by the private company were cancelled and 933,526 new Common Shares under Brookfield

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

Residential were issued where the value of the Common Shares being issued was equal to the value of the escrowed shares being acquired. The value of the escrowed shares was 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.

(c) 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 had a Senior Operating Management Deferred Share Unit Plan ("MDSUP"), under which certain senior operating management employees received a portion of their annual compensation in the form of deferred share units. During the three months ended March 31, 2015, all MDSUP units were redeemed and settled in cash.

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 December 31, 2015 and December 31, 2014:

	For the Years Ended	
	December 31 2015	**December 31 2014**
Outstanding, beginning of year	1,636,447	1,624,893
Granted and reinvested	81,960	20,314
Redeemed	(204,670)	(8,760)
Outstanding, end of year	1,513,737	1,636,447
Deferred share units vested	1,215,821	1,096,418

Of the 1,513,737 (December 31, 2014 – 1,620,003) units outstanding under the DSUP, 297,916 (December 31, 2014 – 540,029) units vest over the next five years. As of December 31, 2015, there are nil units (December 31, 2014 – 16,444 units) outstanding under the MDSUP.

The liability of $31.0 million (December 31, 2014 – $31.1 million) relating to the DSUP is included in accounts payable and other liabilities. The financial statement impact relating to the DSUP and MDSUP for the year ended December 31, 2015 was an expense of $4.8 million (2014 – expense of $8.0 million) which has been included in selling, general and administrative expense.

(d) Restricted Stock Plan and Restricted Share Unit Plan

Previously, Restricted Stock and Restricted Share Units were granted to certain senior executives at the Company. Restricted share units were notional units that represented 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 vested equally over a period of three years, except those issued in lieu of a participant's cash bonus, which vested immediately. Holders of restricted stock were entitled to vote and to receive associated dividends while holders of restricted share units were not entitled to vote or receive dividends until units were vested. Funds used to purchase shares on the open market were recorded in paid-in-capital and compensation expense for the restricted stock and share unit plans were charged against income over the vesting period. As a result of the Privatization Transaction, the restricted stock plan was dissolved with holders of restricted share units having their holdings settled in Common Shares. The total compensation cost recognized in selling, general and administrative expense relating to normal vesting of the Company's restricted stock and share unit plans during the year ended December 31, 2015 was an expense of $0.1 million (2014 – expense of $0.4 million). The unrecognized expense of $0.8 million at the time the Privatization Transaction was closed was fully recognized and expensed as part of selling, general and administrative expense for the year ended December 31, 2015.

At December 31, 2015, there was $nil (2014 – $0.9 million) of unrecognized expense related to unvested units.

The following table sets out changes in and the number of units that are outstanding under both plans for the year ended December 31, 2015 and 2014:

	December 31, 2015		December 31, 2014	
	Shares	Weighted Average Fair Value Per Unit	Shares	Weighted Average Fair Value Per unit
Unvested units outstanding, beginning of year	57,500	$ 21.75	—	$ —
Granted	—	—	57,500	21.75
Vested	—	—	—	—
Settled	(57,500)	21.75	—	—
Unvested units outstanding, end of year	—	$ —	57,500	$ 21.75

Note 15. Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2015 and 2014 were calculated as follows:

	Years Ended December 31	
	2015	2014
Numerator:		
Net income attributable to Brookfield Residential	$ 112,207	$ 273,658
Less: Preferred Share dividends	—	(61)
Net income attributable to common shareholders	$ 112,207	$ 273,597
Denominator (in ‘000s of shares):		
Basic weighted average shares outstanding	114,201	116,358
Net effect of convertible Preferred Shares	—	—
Net effect of share options assumed to be exercised	—	986
Diluted weighted average shares outstanding	114,201	117,344
Basic earnings per share	$ 0.98	$ 2.35
Diluted earnings per share	$ 0.98	$ 2.33

Note 16. 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.

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

The following table reflects the changes in the Company's estimated warranty liability for the years ended December 31, 2015 and 2014:

	Years Ended December 31	
	2015	**2014**
Balance, beginning of year	$ 16,738	$ 13,134
Payments and other adjustments made during the year	(4,734)	(5,293)
Warranties issued during the year	9,928	9,155
Adjustments made for pre-existing warranties	(1,858)	(258)
Balance, end of year	$ 20,074	$ 16,738

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

Years of Expiry	
2016	$ 7,939
2017	7,304
2018	6,603
2019	5,137
2020	4,224
Thereafter	13,967
	$ 45,174

(c) As at December 31, 2015, $5.6 million (December 31, 2014 - $2.5 million) of the amount held in other assets related to land purchase obligations. The total amount owing on these obligations is $89.9 million (December 31, 2014 - $69.6 million).

Note 17. Guarantees

(a) The Company has provided financial guarantees for municipal bonds which, as at December 31, 2015, amounted to $8.8 million (December 31, 2014 – $10.4 million), which have not been recognized in the 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 December 31, 2015, these guarantees amounted to $434.9 million (December 31, 2014 – $364.9 million) and have not been recognized in the consolidated financial statements. However, the proportionate development costs that relate to lots that have been sold are accrued in accounts payable and other liabilities. Such guarantees are required by the municipalities in which the Company operates before construction permission is granted.

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.

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

Note 18. 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 year ended December 31, 2015, 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 2016 generally assume recent sales activity and normalized sales rates beyond 2016. 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 years ended December 31, 2015 and 2014, no impairment charges were recognized.

The locations of the projects reviewed are as follows:

	Number of Projects
Canada	51
California	49
Central and Eastern U.S.	34
	134
Unconsolidated entities	17
Total	151

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 the year ended December 31, 2015, unrealized pre-tax gains of $27.9

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

million (2014 – $nil), were 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 December 31, 2015, all of the Company's financial assets and liabilities, except for its interest rate swap contract, 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 $nil (December 31, 2014 – $12.5 million) of financial assets based on management's best estimates and $1.3 million (December 31, 2014 – $4.3 million) of financial liabilities which are measured at fair value using valuation inputs based on 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":

	December 31, 2015			December 31, 2014		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Receivables and other assets (a)	$ —	$ —	$ —	$ —	$ —	$ 12,469
Restricted cash	4,266	—	—	5,339	—	—
Cash and cash equivalents	100,329	—	—	190,479	—	—
	$ 104,595	$ —	$ —	$ 195,818	$ —	$ 12,469
Financial liabilities						
Accounts payable and other liabilities (b)	—	$ 1,334	—	—	4,331	—
	$ —	$ 1,334	$ —	$ —	$ 4,331	$ —

(a) During the year ended December 31, 2015, the equity swaps were settled as a result of the Privatization Transaction. Previously, the fair value measurements for the equity swap contracts were determined using the intrinsic valuation technique. At December 31, 2014, inputs used in the calculation were the notional amount ($16.20), share price ($24.06) 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 swap) fair value measurements:

	For the Years Ended	
	December 31 2015	**December 31 2014**
Balance, beginning of year	$ 12,469	$ 12,676
Total gains / (losses) for the period included in earnings (or changes in net assets)	301	(207)
Settlement	(12,770)	—
Balance, end of year	$ —	$ 12,469

Note 19. Managing Risks

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

(a) Market Risk

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

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

Interest Rate Risk

The Company is exposed to financial risk that arises from fluctuations in interest rates. 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 December 31, 2015, the Company had one interest rate swap contract outstanding totalling $30.0 million at a rate of 5.1% per annum. The contract expires in 2016. At December 31, 2015, the fair market value of the contract was a liability of $1.3 million (December 31, 2014 – liability of $4.3 million) and was included in accounts payable and other liabilities. During the year ended December 31, 2015, the Company settled an interest rate swap contract. This resulted in a gain of $0.2 million which has been recognized in other income on the consolidated financial statements. Based on net debt levels as of December 31, 2015, a 1% change in interest rates would have either a negative or positive effect of approximately $0.6 million on the Company's cash flows. Expense of $0.3 million was recognized during the year ended December 31, 2015 (2014 – expense of $0.3 million) and was included in other income. The interest rate swap is 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 18 "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 December 31, 2015, the fair value of debt exceeded the book value of all outstanding debt by $57.8 million (December 31, 2014 – fair value of debt exceeded book value by $42.3 million).

Currency Exchange Rate Risk

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

The Company holds financial instruments to hedge the net investment in foreign operations whose functional and reporting currencies are other than the U.S. dollar. A 1% increase in the U.S. dollar would increase the value of these hedging instruments by $2.5 million as at December 31, 2015 (December 31, 2014 – $nil). See Note 18 "Fair Value Measurements" for additional disclosure.

Other Price Risk

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

To hedge against future deferred share unit payments, the Company had previously 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 were to mature in September 2016. During the year ended December 31, 2015, the equity swaps were settled as a result of the Privatization Transaction for cash proceeds of $12.8 million. Income of $0.3 million was recognized related to the total return swaps during the year ended December 31, 2015, (2014 – expense of $0.2 million), and was included in selling, general and administrative expense. The fair market value of the total return swaps at December 31, 2014 that was included in accounts receivables and other assets was $12.5 million. The total return swaps were recorded at fair market value through the consolidated statements of operations because hedge accounting was not applied. The Company holds financial instruments to hedge the net investment in foreign operations whose functional and reporting currencies are other than the U.S. dollar.

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

(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 December 31, 2015 is as follows:

	Payment Due by Period				
	Total	**Less than 1 Year**	**1 – 3 Years**	**3 – 5 Years**	**More than 5 Years**
Notes payable[1]	$ 1,630,675	$ —	$ —	$ 600,000	$ 1,030,675
Interest on notes payable	707,350	103,405	206,810	206,810	190,325
Secured VTB mortgages[2][3]	73,148	27,140	41,073	3,663	1,272
Bank indebtedness[2][3]	71,117	27,363	43,754	—	—
Accounts payable and other liabilities[4]	464,782	464,782	—	—	—
Operating lease obligations[5]	45,174	7,939	13,907	9,361	13,967
Purchase agreements[6]	89,932	51,847	27,216	10,869	—

(1) Amounts are included on the consolidated balance sheets. See Note 8 for additional information regarding notes payable.

(2) Amounts are included on the consolidated balance sheets. See Note 9 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 9 for additional information regarding floating rate debt.

(4) Amounts are included on the consolidated balance sheets. See Note 10 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 16 for additional information regarding purchase agreements.

Note 20. Segmented Information

As determined under ASC Topic 280 *Segment Reporting*, the Company has the following operating 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 operating 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.

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

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 the Company.

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

	Year Ended December 31, 2015				
	Canada	**California**	**Central and Eastern U.S.**	**Corporate and Other**	**Total**
Revenues	$ 627,532	$ 660,404	$ 302,896	$ —	$ 1,590,832
Direct cost of sales	(419,600)	(498,075)	(256,349)	—	(1,174,024)
	207,932	162,329	46,547	—	416,808
Gain on commercial assets held for sale	—	—	—	—	—
Equity in earnings	(479)	10,789	2,160	—	12,470
Expenses	(63,849)	(37,842)	(51,654)	(122,896)	(276,241)
Income / (loss) before income taxes	$ 143,604	$ 135,276	$ (2,947)	$ (122,896)	$ 153,037

	Year Ended December 31, 2014				
	Canada	**California**	**Central and Eastern U.S.**	**Corporate and Other**	**Total**
Revenues	$ 769,122	$ 501,411	$ 205,323	$ —	$ 1,475,856
Direct cost of sales	(502,420)	(355,278)	(172,976)	—	(1,030,674)
	266,702	146,133	32,347	—	445,182
Gain on commercial assets held for sale	31,549	1,378	—	—	32,927
Equity in earnings	(495)	7,862	19,042	—	26,409
Expenses	(68,758)	(25,710)	(37,272)	(103,776)	(235,516)
Income / (loss) before income taxes	$ 228,998	$ 129,663	$ 14,117	$ (103,776)	$ 269,002

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

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

	As at December 31, 2015				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 537,850	$ 418,386	$ 428,725	$ —	$ 1,384,961
Land under development	227,006	277,527	216,523	—	721,056
Housing inventory	130,637	243,414	171,631	—	545,682
Model homes	17,580	50,004	19,221	—	86,805
Total land and housing inventory	913,073	989,331	836,100	—	2,738,504
Investments in unconsolidated entities	44,484	220,229	74,469	—	339,182
Other assets (1)	110,128	66,450	105,473	231,397	513,448
Total assets	$ 1,067,685	$ 1,276,010	$ 1,016,042	$ 231,397	$ 3,591,134

	As at December 31, 2014				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 624,459	$ 379,076	$ 442,519	$ —	$ 1,446,054
Land under development	207,650	343,507	167,152	—	718,309
Housing inventory	96,382	133,930	73,545	—	303,857
Model homes	14,369	34,891	4,148	—	53,408
Total land and housing inventory	942,860	891,404	687,364	—	2,521,628
Investments in unconsolidated entities	41,925	122,316	74,161	—	238,402
Other assets (1)	200,106	48,655	84,535	296,574	629,870
Total assets	$ 1,184,891	$ 1,062,375	$ 846,060	$ 296,574	$ 3,389,900

(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 21. Related Party Transactions

Related parties include the directors, executive officers, director nominees or 5% shareholders, and their respective immediate family members. There are agreements among the Company's affiliates to which it 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 years ended December 31, 2015 and 2014 were as follows:

- On March 13, 2015, Brookfield Asset Management Inc. and Brookfield Residential closed the Privatization Transaction, under which 1927726 Ontario Inc., a wholly-owned subsidiary of Brookfield Asset Management Inc. acquired the approximately 30.6% of common shares of Brookfield Residential not already owned by Brookfield Asset Management Inc. and its affiliates.
- During the year ended December 31, 2015, the Company paid a dividend to the common shareholder after the Privatization Transaction of $176.6 million.
- During the year ended December 31, 2015, the Company purchased the tax attributes of two subsidiaries of Brookfield Asset Management Inc. for cash consideration of $53.1 million. These transactions were recorded at the exchange amount.
- During the year ended December 31, 2015, the Company paid $8.4 million (2014 - $10.3 million) to Brookfield Asset Management Inc. for Canadian tax credits. The transactions were recorded at the exchange amount.

- In 2014, the Company purchased the tax attributes of a subsidiary of Brookfield Asset Management Inc. in consideration for a $29.0 million non-interest bearing promissory note. During the year ended December 31, 2015, $24.2 million of this note was repaid. These transactions were recorded at the exchange amount.
- In 2013, the Company purchased the tax attributes of a subsidiary of Brookfield Asset Management Inc. in consideration for a $33.3 million non-interest bearing promissory note, of which $21.8 million was repaid during the year ended December 31, 2014. During the year ended December 31, 2015, the remaining balance of this note was repaid. These transactions were recorded at the exchange amount.
- At December 31, 2014, the Company had a receivable of $4.2 million from Brookfield Asset Management Inc., included in receivables and other assets, related to certain Privatization Transaction costs incurred by Brookfield Residential that were recoverable from Brookfield Asset Management Inc. During the year ended December 31, 2015, the receivable was collected. The costs were recorded at the exchange amount.

CORPORATE INFORMATION

CORPORATE PROFILE

Brookfield Residential Properties is a leading land developer and homebuilder in North America. We entitle and develop land to create master-planned communities, build and sell lots to third-party builders, and operate our own home building division. We also participate in select, strategic real estate opportunities, including infill projects, mixed-use developments, and joint ventures. We are the flagship North American residential property company of Brookfield Asset Management, a leading global alternative asset manager with over $225 billion of assets under management.

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BONDHOLDER INQUIRIES

Brookfield Residential welcomes inquiries from bondholders, analysts, media representatives and other interested parties. Questions relating to bondholder relations or media inquiries can be directed to Thomas Lui, Vice President & Chief Financial Officer, at (403) 231-8938 or via e-mail at thomas.lui@brookfieldrp.com.