Brookfield Residential

2016 | ANNUAL REPORT

December 31, 2016

President & Chief Executive Officer's Report

As we reflect on our many accomplishments in 2016, Brookfield Residential continued to deliver strong results across its various markets throughout North America. As anticipated, a significant amount of closings occurred in the fourth quarter where a high proportion of the year's income was achieved. For the year ended December 31, 2016, our income before income taxes was $198 million, a 29% increase when compared to 2015.

Operational and financial highlights for the year, including our share of unconsolidated entities:

- Achieved previously provided guidance in Canada and the U.S. for lot and home closings
- Home closings of 3,198 homes, increased 17% when compared to 2015
- Net new home orders of 3,400, increased 16% when compared to 2015
- Strong backlog with 1,542 units valued at $784 million, an increase of 15% and 37%, respectively when compared to 2015
- Single-family lot closings of 2,835 lots, a decrease of 3% when compared to 2015
- Sale of our Auburn Bay commercial asset in Calgary for a pre-tax gain of $14 million
- As a result of the fourth quarter's cash flow, ended the year with $94 million of cash while paying down our U.S. and Canadian credit facilities
- Net debt to total capitalization was reduced to 47% (compared to 55% in 2015) as a result of fourth quarter earnings and cash flow combined with a $300 million Common Share issuance

Strategic Initiative with Brookfield Asset Management Inc.

During the fourth quarter, we announced that we had issued $300 million of Brookfield Residential Common Shares to Brookfield Investment Corporation, a wholly-owned subsidiary of Brookfield Asset Management Inc. as consideration for the purchase of $300 million Class B Junior Preferred Shares of Brookfield BPY Holdings Inc.

Company Initiatives and Achievements

Brookfield Residential was announced as a 2017 Aon Best Employer in Canada and the U.S. The Aon Best Employer program recognizes employer excellence worldwide, and this is the first year that we have been awarded this prestigious award. Our people are our greatest assets so the fact that the ranking is based on employees' feedback make this recognition even more special. The recognition is a testament to our ongoing commitment to cultivate a workplace that is open, inspiring and supportive.

We continue to look for innovative ways to build the best places for people to call home. We are advancing on the smart home technology front and have been piloting some initiatives so that we can offer our homebuyers a unique new home-design experience. We continue to collaborate with Apple in select Southern California communities and recently launched the Brookfield Residential Smart Home powered by Amazon Alexa at our Avendale community in our Washington D.C. market.

Our View Going Forward

In the U.S., the housing market has continued to improve at a steady pace and we believe that there is still pent-up demand for homes. With recent improvement in employment numbers, the quality of jobs created and increased consumer confidence, this should facilitate the continued return of the first-time homebuyer and overall improved demand in the housing market.

In Canada, the recent changes to mortgage rules aiming to ensure Canadians are taking on manageable levels of debt have had minimal impact on our business. The Greater Toronto Area continues to see high demand for homes, driven by an overall lack of supply. In this market, we currently have all homes under contract necessary to achieve our projected 2017 closings. Going forward, collaborative work needs to be done to change the regulatory environment and pace of approvals so there is more product in the market to address the supply deficit and the resultant affordability challenges.

In Alberta, the market continues to be impacted by the layoffs in the energy sector over the past two years, however we have maintained consistent levels of home closings in both Calgary and Edmonton when compared to 2015, and we continue to see good traffic and net new home orders throughout our communities, particularly in the affordable and higher end product. With the recent stabilization of oil prices and political support for the approval of key pipelines, we believe that this will bring some confidence back into the Alberta market.

We anticipate that in 2017, our homebuilding operations will achieve similar growth rates when compared to the past two years as we believe current market conditions will continue in both the U.S. and Canada. We remain on track to reduce our land inventory to an 8-to-10 year supply by getting our operations to approximately 5,000 homes and 5,000 lots being absorbed per year. For instance, in 2016, we absorbed approximately 7,800 lot equivalents, through home closings, lot and acre parcel sales. As previously mentioned, we plan to use the additional cash flow provided by this strategy to service debt, develop existing assets and take advantage of new opportunities as they arise.

We extend our sincere thanks to all our Brookfield Residential team members, building trade, joint venture and lending partners for your contributions in 2016. We look forward to building on our relationships in 2017 for continued overall success.

Alan Norris
President & Chief Executive Officer
February 7, 2017

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, 2016 were $4.0 billion.

As of December 31, 2016, we controlled 98,156 single family lots (serviced lots and future lot equivalents) and 122 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, 2016 is as follows:

	Single Family Housing & Land Under and Held for Development[1]								Multi-Family, Industrial & Commercial Parcels Under Development	
	Housing & Land		Unconsolidated Entities		Total Lots		Status of Lots 12/31/2016		Total Acres	
	Owned	Options	Owned	Options	12/31/2016	12/31/2015	Entitled	Unentitled	12/31/2016	12/31/2015
Calgary	22,934	—	2,552	—	25,486	26,242	5,740	19,746	62	79
Edmonton	13,565	—	—	—	13,565	14,180	6,553	7,012	25	30
Ontario	9,006	—	1,100	—	10,106	10,329	2,519	7,587	—	—
Canada	45,505	—	3,652	—	49,157	50,751	14,812	34,345	87	109
Northern California	3,185	4,950	440	—	8,575	9,023	3,625	4,950	—	—
Southern California	7,377	—	1,469	1,328	10,174	12,052	8,054	2,120	—	—
Hawaii	166	—	26	—	192	221	192	—	—	—
California	10,728	4,950	1,935	1,328	18,941	21,296	11,871	7,070	—	—
Denver	8,674	—	—	—	8,674	9,108	8,674	—	10	10
Austin	12,394	335	—	—	12,729	13,501	12,729	—	—	—
Phoenix	690	—	4,035	—	4,725	4,995	4,725	—	2	3
Washington, D.C. Area	2,161	1,004	765	—	3,930	4,083	3,893	37	23	17
Central and Eastern U.S.	23,919	1,339	4,800	—	30,058	31,687	30,021	37	35	30
Total	80,152	6,289	10,387	1,328	98,156	103,734	56,704	41,452	122	139
Entitled lots	48,311	1,339	7,054	—	56,704					
Unentitled lots	31,841	4,950	3,333	1,328	41,452					
Total December 31, 2016	80,152	6,289	10,387	1,328	98,156					
Total December 31, 2015	85,889	6,450	9,873	1,522		103,734				

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

BROOKFIELD RESIDENTIAL PROPERTIES INC.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This 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 effect of positive job numbers and the quality of jobs created, first-time buyer demand, and increasing consumer confidence on continued recovery of the housing market; the impact of changes to mortgage lending rules in Canada on the Canadian housing market and in the U.S. on the U.S. housing market; the stability of interest rates into the foreseeable future; our ability to benefit from continued improvement in the U.S. housing market and growth in our U.S. operations; recovery in the housing market and the pace thereof; forecasts regarding our land supply; our expected unit and lot sales and the timing thereof; expectations for 2017 and beyond; reduction in our debt levels and the timing thereof; the impact of energy and commodity prices and the approval of key pipelines 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, including our outlook and limited guidance for 2017, how we intend to use additional cash flow, the operative cycle of our business and expected timing of income and expected performance and features of our projects;
- 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 conditions, 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 and market opportunities;
- 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, 2016.

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, 2016 and has been prepared with an effective date of February 7, 2017. 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, and conduct our own homebuilding operations. 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 Inc., a leading global alternative asset manager with approximately $250 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, 2016 compared to the year ended December 31, 2015 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Years Ended December 31 2016	2015
Key Financial Results		
Housing revenue	$ 1,604	$ 1,249
Land revenue	299	342
Gross margin[1] ($)	429	417
Gross margin[1] (%)	23%	26%
Income before income taxes	198	153
Income tax expense	(52)	(41)
Net income attributable to Brookfield Residential	146	112
Basic earnings per share	$ 1.27	$ 0.98
Diluted earnings per share	$ 1.27	$ 0.98
Key Operating Data		
Home closings for Brookfield Residential (units)	3,193	2,656
Home closings for unconsolidated entities (units)	5	73
Average home selling price for Brookfield Residential (per unit)	$ 502,000	$ 470,000
Average home selling price for unconsolidated entities (per unit)	$ 1,592,000	$ 563,000
Net new home orders for Brookfield Residential (units)	3,394	2,890
Net new home orders for unconsolidated entities (units)	6	40
Backlog for Brookfield Residential (units)	1,541	1,340
Backlog for unconsolidated entities (units)	1	—
Backlog value for Brookfield Residential	$ 783	$ 573
Backlog value for unconsolidated entities	$ 1	$ —
Lot closings for Brookfield Residential (single family units)	2,403	2,760
Lot closings for unconsolidated entities (single family units)	432	176
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	26	35
Acre closings for Brookfield Residential (raw and partially finished parcels)	2,082	31
Average lot selling price for Brookfield Residential (single family units)	$ 89,000	$ 115,000
Average lot selling price for unconsolidated entities (single family units)	$ 87,000	$ 96,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 545,000	$ 667,000
Average per acre selling price for Brookfield Residential (raw and partially finished parcels)	$ 22,000	$ 66,000

(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 29.

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, 2016 and 2015.

(US$ millions, except unit activity and average selling price)	Years Ended December 31 2016	2015
Housing revenue		
Canada	$ 563	$ 497
California	717	505
Central and Eastern U.S	324	247
Total	$ 1,604	$ 1,249
Land revenue		
Canada	$ 87	$ 131
California	156	155
Central and Eastern U.S	56	56
Total	$ 299	$ 342
Housing gross margin		
Canada	$ 121	$ 116
California	147	127
Central and Eastern U.S	51	33
Total	$ 319	$ 276
Land gross margin		
Canada	$ 49	$ 91
California	43	36
Central and Eastern U.S	18	14
Total	$ 110	$ 141
Home closings (units)		
Canada	1,531	1,513
California	948	602
Central and Eastern U.S	714	541
	3,193	2,656
Unconsolidated Entities	5	73
Total	3,198	2,729
Average home selling price		
Canada	$ 368,000	$ 328,000
California	756,000	839,000
Central and Eastern U.S	454,000	457,000
	502,000	470,000
Unconsolidated Entities	1,592,000	563,000
Average	$ 504,000	$ 473,000
Active housing communities		
Canada	31	19
California	32	29
Central and Eastern U.S	22	20
	85	68
Unconsolidated Entities	1	—
Total	86	68

	Years Ended December 31	
	2016	2015
Lot closings (single family units)		
Canada	632	800
California	983	1,197
Central and Eastern U.S	788	763
	2,403	2,760
Unconsolidated Entities	432	176
Total	2,835	2,936
Acre closings (multi-family, industrial and commercial)		
Canada	9	33
California	—	—
Central and Eastern U.S	17	2
	26	35
Acre closings (raw and partially finished parcels)		
Canada	180	—
California	1,902	—
Central and Eastern U.S	—	31
	2,082	31
Average lot selling price (single family units)		
Canada	$ 122,000	$ 136,000
California	87,000	130,000
Central and Eastern U.S	65,000	69,000
	89,000	115,000
Unconsolidated Entities	87,000	96,000
Average	$ 89,000	$ 114,000
Average per acre selling price (multi-family, industrial and commercial)		
Canada	$ 985,000	$ 677,000
California	—	—
Central and Eastern U.S	312,000	503,000
	$ 545,000	$ 667,000
Average per acre selling price (raw and partially finished parcels)		
Canada	$ 4,000	$ —
California	24,000	—
Central and Eastern U.S	—	66,000
	$ 22,000	$ 66,000
Active land communities		
Canada	12	10
California	5	6
Central and Eastern U.S	12	12
	29	28
Unconsolidated Entities	2	3
Total	31	31

(US$ millions)	As at December 31 2016	As at December 31 2015
Total assets		
Canada	$ 1,112	$ 1,068
California	1,257	1,276
Central and Eastern U.S	1,133	1,016
Corporate and other	455	206
Total	$ 3,957	$ 3,566

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, 2016 Compared with Year Ended December 31, 2015

Net Income

Net income attributable to Brookfield Residential for the year ended December 31, 2016 was $146 million compared to $112 million for the year ended December 31, 2015.

(US$ millions, except per share amounts)	Years Ended December 31 2016	Years Ended December 31 2015
Net income attributable to Brookfield Residential	$ 146	$ 112
Basic earnings per share	$ 1.27	$ 0.98
Diluted earnings per share	$ 1.27	$ 0.98

The increase of $34 million in net income for the year ended December 31, 2016, compared to the same period in 2015 was primarily the result of a gain on the sale of commercial assets for $14 million, as well as a $12 million increase in gross margin, as a result of higher housing gross margins. Additionally, there was a $10 million decrease in normal-course share-based compensation, a $9 million decrease in interest expense and $26 million of share-based compensation and legal costs incurred on the Privatization Transaction that occurred in 2015. This was partially offset by an increase in income tax expense of $11 million, a $5 million increase in general and administrative expense, an $18 million increase in sales and marketing expense and a $3 million decrease in equity earnings from unconsolidated entities.

A breakdown of the revenue and gross margin for the years ended December 31, 2016 and 2015 is as follows:

(US$ millions, except percentages)	Years Ended December 31 2016	Years Ended December 31 2015
Revenue		
Housing	$ 1,604	$ 1,249
Land	299	342
	$ 1,903	$ 1,591
Gross Margin		
Housing	$ 319	$ 276
Land	110	141
	$ 429	$ 417
Gross Margin (%)		
Housing	20%	22%
Land	37%	41%
	23%	26%

For the year ended December 31, 2016, total revenue increased by $312 million and total gross margin increased by $12 million when compared to the same period in 2015. The increase in total revenue was primarily the result of higher activity in our housing operations with 537 additional home closings when compared to the same period in 2015, as well as a 7% increase in the average home selling price due to the mix of homes closed. This was partially offset by a decrease in land revenue of $43 million primarily due to 357 fewer single family lots closings, as well as a 23% decrease in the average lot selling price, due to the mix of lots sold amongst the operating segments. The increase in gross margin was due primarily to higher activity in our housing operations, partially offset by a lower overall gross margin percentage.

The housing gross margin percentage decreased primarily due to a lower gross margin percentage from the mix of homes closed in our Canadian and California markets combined with the impact of purchase price allocation of the Grand Haven and ALBI Homes acquisitions in 2015. Land gross margins decreased as a result of lower activity, as well as a decrease in the land gross margin percentage, due to the geographic mix of land sold.

Results of Operations – Housing

Housing revenue and gross margin were $1,604 million and $319 million, respectively, for the year ended December 31, 2016, compared to $1,249 million and $276 million for the same period in 2015. The increase in revenue was the result of 537 additional home closings as well as a 7% increase in average home selling prices. Gross margin increased $43 million as a result of higher activity, partially offset by a lower gross margin percentage, primarily from the mix of homes closed in our California and Canadian markets. 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, 2016 and 2015 is as follows:

Consolidated

	Years Ended December 31	
(US$ millions, except unit activity and average selling price)	**2016**	**2015**
Home closings	3,193	2,656
Revenue	$ 1,604	$ 1,249
Gross margin	$ 319	$ 276
Average home selling price	$ 502,000	$ 470,000

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)	**2016**	**2015**
Home closings	1,531	1,513
Revenue	$ 563	$ 497
Gross margin	$ 121	$ 116
Average home selling price	$ 368,000	$ 328,000

Housing revenue for the year ended December 31, 2016 increased by $66 million when compared to the same period in 2015. This resulted from an 12% increase in the average home selling price, as well as an increase of 18 home closings for the year ended December 31, 2016 compared to the same period in 2015. The increase in the average home selling price was primarily attributable to a higher proportion of closings from ALBI Homes, a luxury homebuilder in Calgary acquired by the Company at the end of 2015 and increased closings from Ontario, which typically have a higher average selling price. This was partially offset by a 4% decline in the foreign exchange rate between the Canadian and U.S. dollar for the year ended December 31, 2016 when compared to the same period in 2015. When comparing the average home selling price in Canadian dollars for the year ended December 31, 2016 to 2015, the average home selling price was C$487,000 compared to C$425,000 in the same period in 2015. Gross margin increased by $5 million for the year ended December 31, 2016 when compared to the same period in 2015, primarily due to an increase in activity, partially offset by a decrease in the housing gross margin percentage. The decrease in the gross margin percentage was primarily due to the purchase price allocation on homes closed from the ALBI Homes acquisition, product mix in the Calgary market, as well as higher incentives offered in the Calgary and Edmonton markets.

California

(US$ millions, except unit activity and average selling price)	Years Ended December 31 2016	2015
Home closings	948	602
Revenue	$ 717	$ 505
Gross margin	$ 147	$ 127
Average home selling price	$ 756,000	$ 839,000

Housing revenue in our California segment was $717 million for the year ended December 31, 2016, an increase of $212 million when compared to the same period in 2015. The increase in revenue was due to a 57% increase in home closings, partially offset by a 10% decrease in the average home selling price for the year ended December 31, 2016 compared to the same period in 2015, which was primarily driven by product mix. Gross margin increased $20 million when compared to the same period in 2015, primarily as a result of higher home closings, partially offset by a decline in the housing gross margin percentage and the average home selling price as a result of product mix.

Central and Eastern U.S.

(US$ millions, except unit activity and average selling price)	Years Ended December 31 2016	2015
Home closings	714	541
Revenue	$ 324	$ 247
Gross margin	$ 51	$ 33
Average home selling price	$ 454,000	$ 457,000

The Central and Eastern U.S. housing revenue increased by $77 million for the year ended December 31, 2016 when compared to the same period of 2015 as a result of 173 additional home closings, with increased activity across all markets in the segment. This was partially offset by a slight decline in the average home selling price. Gross margin increased by $18 million when compared to the same period in 2015 due to higher home closings and an increase in the housing gross margin percentage as a result of product mix of the homes closed in different communities across the operating segment when compared to 2015.

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, 2016, total incentives recognized as a percentage of gross revenues were consistent with 2015.

Our incentives on homes closed by operating segment for the years ended December 31, 2016 and 2015 were as follows:

	Years Ended December 31			
	2016		2015	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 18	3%	$ 13	3%
California	16	2%	5	1%
Central and Eastern U.S.	19	6%	15	6%
	$ 53	3%	$ 33	3%

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, 2016 totalled 3,400 units, an increase of 470 units or 16% when compared to the same period in 2015. For the year ended December 31, 2016, the increase in net new home orders was a result of higher net new orders across all operating segments. The decrease in unconsolidated entities is a result of fewer active housing communities open throughout the year when

compared to the same period in 2015. Average monthly sales per community by reportable segment for the year ended December 31, 2016 were: Canada – 5 units (2015 – 7 units); California – 3 units (2015 – 2 units); Central and Eastern U.S. – 3 units (2015 – 3 units); and unconsolidated entities – <1 unit (2015 – 1 unit). We were selling from 86 active housing communities, including our share of unconsolidated entities, at December 31, 2016 compared to 68 at December 31, 2015.

The net new home orders for the years ended December 31, 2016 and 2015 by our three operating segments were as follows:

	Years Ended December 31	
(Units)	**2016**	**2015**
Canada	1,664	1,655
California	1,004	655
Central and Eastern U.S.	726	580
	3,394	2,890
Unconsolidated entities	6	40
	3,400	2,930

The cancellation rates for the years ended December 31, 2016 and 2015 by our three operating segments were as follows:

	Years Ended December 31			
	2016		**2015**	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	25	1%	10	1%
California	136	12%	92	12%
Central and Eastern U.S.	140	16%	149	20%
	301	8%	251	8%
Unconsolidated entities	—	—%	6	13%
	301	8%	257	8%

Home Sales – Backlog

Our backlog, which represents the number of new homes subject to sales contracts, as at December 31, 2016 and 2015 by operating segment, were as follows:

	As at December 31			
	2016		**2015**	
(US$ millions, except unit activity)	**Units**	**Value**	**Units**	**Value**
Canada	1,046	$ 477	913	$ 338
California	254	192	198	127
Central and Eastern U.S.	241	114	229	108
	1,541	783	1,340	573
Unconsolidated entities	1	1	—	—
Total	1,542	$ 784	1,340	$ 573

We expect all of our backlog to close in 2017 or 2018, subject to future cancellations. The units in our backlog increased compared to the prior period primarily due to higher net new home orders for the year ended December 31, 2016. Our Canadian segment increased 133 units at December 31, 2016, when compared to the same period in 2015, mainly due to higher units in backlog in the Calgary and Toronto markets, partially offset by fewer units in our Edmonton market as a result of lower net new orders. Our California and Central and Eastern U.S. operations had an increase of 56 units and 12 units in backlog, respectively, primarily due to an increase in net new home orders in all of our U.S. markets for the year ended December 31, 2016 compared to 2015. Total backlog value increased compared to the same period in 2015 primarily as a result of higher backlog units across all segments as well as product mix in the Canadian and California segments.

Results of Operations – Land

Land revenue totalled $299 million for the year ended December 31, 2016, a decrease of $43 million when compared to the same period in 2015, and land gross margin decreased $31 million to $110 million. The decrease in land revenue was primarily due to 357 fewer single family lots closed and 9 fewer multi-family, industrial and commercial acre sales in 2016 when compared to the same period in 2015. Additionally, there was a 23% decrease in the average single family lot selling price resulting from the geographic mix of lots sold, as well as a decrease in the average selling price for both multi-family, industrial and commercial and raw and partially finished acre sales. This was partially offset by 2,051 additional raw and partially finished acre sales when compared to the same period in 2015. Revenues are also affected by local product mix and market conditions, which have an impact on the selling price per lot. Gross margin decreased for the year ended December 31, 2016 primarily due to lower activity and the mix of lots sold with 168 fewer single family lot closings from the Canadian segment, which typically have higher average selling prices and gross margins. Additionally, there was a 4% decline in the Canadian to U.S. dollar foreign exchange rate for the year ended December 31, 2016, which resulted in lower translated Canadian results compared to the same period in 2015. This was partially offset by a higher land gross margin percentage in the California and Central and Eastern U.S. segments.

A breakdown of our results from land operations for the years ended December 31, 2016 and 2015 is as follows:

Consolidated

	Years Ended December 31	
(US$ millions, except unit activity and average selling price)	**2016**	**2015**
Lot closings (single family units)	2,403	2,760
Acre sales (multi-family, industrial and commercial)	26	35
Acre sales (raw and partially finished parcels)	2,082	31
Revenue	$ 299	$ 342
Gross margin	$ 110	$ 141
Average lot selling price (single family units)	$ 89,000	$ 115,000
Average per acre selling price (multi-family, industrial and commercial)	$ 545,000	$ 667,000
Average per acre selling price (raw and partially finished parcels)	$ 22,000	$ 66,000

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

Canada

	Years Ended December 31	
(US$ millions, except unit activity and average selling price)	**2016**	**2015**
Lot closings (single family units)	632	800
Acre sales (multi-family, industrial and commercial)	9	33
Acre sales (raw and partially finished parcels)	180	—
Revenue	$ 87	$ 131
Gross margin	$ 49	$ 91
Average lot selling price (single family units)	$ 122,000	$ 136,000
Average per acre selling price (multi-family, industrial and commercial)	$ 985,000	$ 677,000
Average per acre selling price (raw and partially finished parcels)	$ 4,000	$ —

Land revenue in Canada for the year ended December 31, 2016 was $87 million, a decrease of $44 million when compared to the same period in 2015. The decrease in revenue was primarily the result of 168 fewer single family lots closed and 24 fewer multi-family, industrial and commercial acre sales in 2016 when compared to the same period in 2015, mainly due to market conditions in Alberta as a result of depressed energy prices, as well as a slight decrease in the average single family lot selling price. This was partially offset by an increase in the average per acre selling price for multi-family, industrial and commercial parcels as a result of product mix, as well as 180 raw and partially finished acre sales, where there were no sales in 2015. Gross margin decreased $42 million to $49 million when compared to 2015 primarily as a result of fewer single family lot closings in 2016.

California

(US$ millions, except unit activity and average selling price)	Years Ended December 31 2016	2015
Lot closings (single family units)	983	1,197
Acre sales (raw and partially finished parcels)	1,902	—
Revenue	$ 156	$ 155
Gross margin	$ 43	$ 36
Average lot selling price (single family units)	$ 87,000	$ 130,000
Average per acre selling price (raw and partially finished parcels)	$ 24,000	$ —

Land revenue in California for the year ended December 31, 2016 increased by $1 million when compared to the same period in 2015. This was primarily the result of a bulk raw and partially finished acre sale in Southern California, with no comparable sales in 2015. This was partially offset by 214 fewer single lot closings in the year ended December 31, 2016 compared to 2015, as well as a 33% decline in the average lot selling price due to the mix of lots sold. Gross margin increased $7 million when compared to the same period in 2015 as a result of an increase in the gross margin percentage, as well as from profit participation revenue and a Community Finance District recovery recognized on previously sold land. This was partially offset by fewer single family lot closings and a decrease in the average lot selling price.

Central and Eastern U.S.

(US$ millions, except unit activity and average selling price)	Years Ended December 31 2016	2015
Lot closings (single family units)	788	763
Acre sales (multi-family, industrial and commercial)	17	2
Acre sales (raw and partially finished)	—	31
Revenue	$ 56	$ 56
Gross margin	$ 18	$ 14
Average lot selling price (single family units)	$ 65,000	$ 69,000
Average per acre selling price (multi-family, industrial and commercial)	$ 312,000	$ 503,000
Average per acre selling price (raw and partially finished)	$ —	$ 66,000

For the year ended December 31, 2016, Central and Eastern U.S. land revenue remained consistent and gross margin increased $4 million, when compared to the same period in 2015. The increase in gross margin was due to 25 additional single family lots closed in 2016 as compared to 2015, as well as an increase in the gross margin percentage, partially due to the mix of lots sold and a metropolitan district recovery recognized on previously sold land. This was partially offset by a slight decrease in the average lot selling price as well as no raw and partially finished acre sales compared to 31 acres sold in 2015.

Equity in Earnings from Unconsolidated Entities

Equity in earnings from unconsolidated entities for the year ended December 31, 2016 totalled $9 million, compared to $12 million for the same period in 2015. 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 2016	2015
Home closings	5	73
Revenue	$ 7	$ 41
Gross margin	$ 2	$ 9
Average home selling price	$ 1,592,000	$ 563,000

Housing revenue within unconsolidated entities decreased $34 million and gross margin decreased $7 million for the year ended December 31, 2016 compared to the same period in 2015. The decrease in revenue is the result of 68 fewer home closings, partially offset by an increase in the average home selling price due to the geographic mix of homes sold amongst our unconsolidated entities in 2016 when compared to 2015. The decrease in home closings was a result of the close out of two housing communities within our Southern California joint ventures during 2015.

Land

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

	Years Ended December 31	
(US$ millions, except unit activity and average selling price)	**2016**	**2015**
Lot closings (single family units)	432	176
Revenue	$ 38	$ 17
Gross margin	$ 11	$ 8
Average lot selling price (single family units)	$ 87,000	$ 96,000

Land revenue within unconsolidated entities increased $21 million and gross margin increased $3 million for the year ended December 31, 2016 compared to the same period in 2015. This was the result of 256 additional single family lot closings, primarily from our Phoenix and Southern California joint ventures. This was partially offset by a decrease in the average lot selling price, which was attributable to the mix of land sold amongst the unconsolidated entities.

Gain on Commercial Assets Held for Sale

The components of the gain on commercial assets held for sale for the years ended December 31, 2016 and 2015 are summarized as follows:

	Years Ended December 31	
(US$ millions, except unit activity)	**2016**	**2015**
Square Feet	83,923	—
Proceeds	$ 37	$ —
Gain on commercial assets held for sale	$ 14	$ —

Income was generated from the sale of a commercial income producing property that was sold during the year ended December 31, 2016. The 83,923 square foot commercial property at Auburn Bay in Calgary, Alberta was sold for proceeds of $37 million and a gain of $14 million. There were no such sales of commercial assets in 2015.

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the years ended December 31, 2016 and 2015 are summarized as follows:

	Years Ended December 31	
(US$ millions)	**2016**	**2015**
General and administrative expense	$ 120	$ 115
Sales and marketing expense	82	64
Share-based compensation	5	39
	$ 207	$ 218

The selling, general and administrative expense was $207 million for the year ended December 31, 2016, a decrease of $11 million when compared to the same period in 2015. General and administrative expense increased $5 million primarily due to an increase in compensation costs and incentives resulting from higher headcount and profitability from additional housing activity when compared to the year ended December 31, 2016. Sales and marketing expense for the year ended December 31, 2016 increased $18 million, when compared to the same period in 2015, due to higher home closings. Share-based compensation decreased $34 million compared to 2015, primarily 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 2015. Additionally, there was a decrease of $10 million in share-based compensation costs resulting from the change in fair value of our share-based compensation liabilities in 2016 compared to the year ended December 31, 2015.

Other (Income) / Expense

The components of other (income) / expense for the years ended December 31, 2016 and 2015 are summarized as follows:

(US$ millions)	Years Ended December 31	
	2016	2015
Privatization Transaction costs	$ —	$ 2
Interest income	(4)	(4)
Other	(6)	(6)
	$ (10)	$ (8)

For the year ended December 31, 2016, other income increased $2 million compared to the same period in 2015. This was primarily the result of $2 million of legal and professional fees, which were related to the Privatization Transaction that occurred in 2015. Included in interest income for the year ended December 31, 2016 was interest earned on our held-to-maturity investments.

Income Tax Expense

Income tax expense was $52 million for the year ended December 31, 2016, compared to $41 million for the same period in 2015. The components of income tax expense are summarized as follows:

(US$ millions)	Years Ended December 31	
	2016	2015
Current income tax expense	48	$ 10
Deferred income tax expense	4	31
	$ 52	$ 41

For the year ended December 31, 2016, current income tax expense increased $38 million primarily due to the increase in income taxes paid in our U.S. and Ontario operations as a result of higher earnings in these jurisdictions compared with the same period in 2015 combined with the decrease in losses available for these operations in 2016. This was partially offset by an increase in federal energy tax credits and the domestic production activities deduction recognized in the U.S. during the year. For the year ended December 31, 2016, deferred income tax expense decreased $27 million primarily due to the full utilization of available losses for the U.S. in 2015 and Ontario operations in the fourth quarter of 2016, 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, 2016, the rate of exchange was C$1.3443 equivalent to US$1 (December 31, 2015 – C$1.3837 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, 2016, the average rate of exchange was C$1.3236 equivalent to US$1 (December 31, 2015 – C$1.2768 equivalent to US$1). The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI"). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the consolidated statements of operations as other income / (expense), except for those related to monetary liabilities qualifying as hedges of the Company's investment in foreign operations or certain

intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

The financial results of our Canadian operations are translated into U.S. dollars for financial reporting purposes. Foreign currency translation gains and losses are recorded as the exchange rate between the two currencies fluctuates. These gains and losses are included in OCI and accumulated OCI. The translation of our Canadian operations resulted in a gain of $19 million for the year ended December 31, 2016, compared to a loss of $128 million in the same period of 2015.

QUARTERLY OPERATING AND FINANCIAL DATA

(US$ millions, except unit activity and per share amounts)	2016				2015			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Quarterly Operating Data								
Home closings (units)	1,214	788	675	516	991	684	543	438
Lot closings (single family units)	1,347	325	454	277	1,316	441	568	435
Acre closings (multi-family, industrial and commercial)	16	6	—	4	12	—	3	20
Acre closings (raw and partially finished)	1,994	—	8	80	23	—	8	—
Net new home orders (units)	855	816	922	801	703	612	857	718
Backlog (units at end of period)	1,541	1,900	1,872	1,625	1,340	1,581	1,654	1,339
Backlog value	$ 783	$ 977	$ 930	$ 751	$ 573	$ 682	$ 776	$ 629
Quarterly Financial Data								
Revenue	$ 853	$ 421	$ 363	$ 267	$ 609	$ 394	$ 311	$ 277
Direct cost of sales	(646)	(330)	(284)	(214)	(446)	(288)	(237)	(203)
Gross margin	207	91	79	53	163	106	74	74
Gain on commercial assets held for sale	14	—	—	—	—	—	—	—
Selling, general and administrative expense	(57)	(52)	(52)	(45)	(55)	(48)	(47)	(68)
Interest expense	(12)	(14)	(14)	(14)	(13)	(17)	(18)	(15)
Equity in earnings from unconsolidated entities	(1)	5	3	2	4	3	3	3
Other income / (expense)	3	1	—	1	3	2	1	(2)
Income / (loss) before taxes	154	31	16	(3)	102	46	13	(8)
Income tax (expense) / recovery	(46)	(6)	(3)	3	(31)	(11)	5	(5)
Net income / (loss)	108	25	13	—	71	35	18	(13)
Net income attributable to non-controlling interest	—	—	—	—	—	—	—	—
Net income / (loss) attributable to Brookfield Residential	$ 108	$ 25	$ 13	$ —	$ 71	$ 35	$ 18	$ (13)
Foreign currency translation	(18)	(12)	5	43	(27)	(40)	9	(69)
Comprehensive income / (loss)	$ 90	$ 13	$ 18	$ 43	$ 44	$ (5)	$ 27	$ (82)
Earnings / (loss) per common share attributable to Brookfield Residential								
Basic	$ 0.94	$ 0.22	$ 0.11	$ 0.00	$ 0.63	$ 0.31	$ 0.16	$(0.11)
Diluted	$ 0.94	$ 0.22	$ 0.11	$ 0.00	$ 0.63	$ 0.31	$ 0.16	$(0.11)

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, 2016 compared to the three months ended December 31, 2015 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Three Months Ended December 31 2016	Three Months Ended December 31 2015
Key Financial Results		
Total revenue	$ 853	$ 609
Housing revenue	674	449
Land revenue	179	160
Gross margin[1] ($)	207	163
Gross margin[1] (%)	24%	27%
Income before income taxes	154	102
Income tax expense	(46)	(31)
Net income attributable to Brookfield Residential	108	71
Basic earnings per share	$ 0.94	$ 0.63
Diluted earnings per share	$ 0.94	$ 0.63
Key Operating Data		
Home closings for Brookfield Residential (units)	1,214	991
Home closings for unconsolidated entities (units)	—	22
Average home selling price for Brookfield Residential (per unit)	$ 556,000	$ 453,000
Average home selling price for unconsolidated entities (per unit)	$ —	$ 565,000
Net new home orders for Brookfield Residential (units)	855	703
Net new home orders for unconsolidated entities (units)	1	—
Backlog for Brookfield Residential (units)	1,541	1,340
Backlog for unconsolidated entities (units)	1	—
Backlog value for Brookfield Residential	$ 783	$ 573
Backlog value for unconsolidated entities	$ 1	$ —
Lot closings for Brookfield Residential (single family units)	1,347	1,316
Lot closings for unconsolidated entities (single family units)	118	26
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	16	12
Acre closings for Brookfield Residential (raw and partially finished parcels)	1,994	23
Average lot selling price for Brookfield Residential (single family units)	$ 84,000	$ 112,000
Average lot selling price for unconsolidated entities (single family units)	$ 103,000	$ 136,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 297,000	$ 942,000
Average per acre selling price for Brookfield Residential (raw and partially finished parcels)	$ 19,000	$ 33,000

(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 29.

Net income attributable to Brookfield Residential for the three months ended December 31, 2016 increased $37 million to $108 million from $71 million in the same period of 2015.

For the three months ended December 31, 2016, total revenue increased $244 million and gross margin increased $44 million, when compared to the same period in 2015. The increase in total revenue was the result of higher home and single family lot closings, an increase in the average home selling price, as well as higher raw and partially finished acre sales. This was partially offset by lower average selling prices for single family lots and raw and partially finished acre sales. The increase in total gross margin was primarily a result of higher housing gross margins, due to increased activity and a higher gross margin percentage. This was partially offset by a decrease in land margins 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. Additionally, there was a low margin bulk raw and partially finished acre sale in California during the three months ended December 31, 2016.

For the three months ended December 31, 2016, housing revenue was $674 million compared to $449 million for the same period in 2015. Housing gross margin for the same period in 2016 was $156 million, a $63 million increase compared to the prior year. The increase in housing revenue was primarily due to 223 additional home closings as well as a 23% increase in the average home selling price as a result of product mix. The increase in gross margin was primarily a result of increased activity and a higher gross margin percentage in all three operating segments, due to product mix.

Housing gross margin in the Canadian segment increased $15 million when compared to 2015 primarily as a result of an increase in the average home selling price and an increase in the housing gross margin percentage. The increase in the average home selling price was due to a higher proportion of homes closed in the Ontario market, which also have higher gross margin percentages. Additionally, the average selling price increased as a result of a higher proportion of home closings from ALBI homes. This was partially offset by 23 fewer home closings. The California operations housing gross margin increased $42 million due to 196 additional home closings as well as a 9% increase in the average home selling price due to mix of homes sold. Central and Eastern U.S. housing gross margin dollars increased $5 million due to 50 additional home closings partially offset by a 3% decline in the average home selling price as a result of product mix.

Land revenue for the three months ended December 31, 2016 was $179 million, a $19 million increase compared to 2015. The increase in revenue compared to 2015 was mainly the result of 31 additional single family closings and 1,971 additional raw and partially finished acre sales, partially offset by a 25% decrease in the average single family lot selling price. The decrease in the average lot selling price was due to primarily to 81 fewer lot closings in Canada, which typically have higher average selling prices, as well as a decrease in the average lot selling price in the Central and Eastern U.S. segment, due to the geographic mix of land sold.

Land gross margin was $51 million, a $19 million decrease compared to the same period in 2015. Land gross margin in Canada decreased $24 million due to fewer single family lot closings and lower average selling prices. This was partially offset by an $1 million increase in the California land gross margin due to a slight increase in the average single family lot selling price, partially offset by fewer single family lot sales as well as lower gross margins on the raw and partially finished acre sale. Central and Eastern U.S. land gross margin increased $4 million due to an increase of 219 single family lot closings, partially offset by a decrease in the average single family lot selling price. The increase in lot closings was primarily due to higher lot closings in both the Austin and Denver markets compared to 2015, which was partially offset by fewer closings in the Washington, D.C. market. The decrease in the average lot selling price was due to the geographic mix of land sold within the operating segment.

For the three months ended December 31, 2016, equity in earnings from unconsolidated entities decreased $5 million when compared to the same period in 2015. The decrease in equity in earnings was primarily due to fewer home closings due to the close out of several joint venture housing communities in 2015. This was partially offset by an increase in single family lot closings, which resulted from increased activity in both our Phoenix and California joint ventures.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's consolidated balance sheets as at December 31, 2016 and December 31, 2015:

(US$ millions)	As at December 31 2016	As at December 31 2015
Land and housing inventory	$ 2,848	$ 2,739
Investments in unconsolidated entities	344	339
Commercial properties	33	—
Commercial assets held for sale	—	—
Receivables and other assets	253	302
Held-to-maturity investments	300	—
Cash and restricted cash	99	104
Deferred income tax assets	80	82
	$ 3,957	$ 3,566
Notes payable	$ 1,615	$ 1,606
Bank indebtedness and other financings	58	144
Accounts payable and other liabilities	500	465
Total equity	1,784	1,351
	$ 3,957	$ 3,566

Assets

Our assets as at December 31, 2016 totalled $4.0 billion. Our land and housing inventory and investments in unconsolidated entities are our most significant assets with a combined book value of $3.2 billion, or approximately 81% of our total assets. The land and housing assets increased when compared to December 31, 2015 due to acquisitions of $250 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, 2016 compared with December 31, 2015 follows:

	As at December 31, 2016		As at December 31, 2015	
(US$ millions, except units)	Units	Book Value	Units	Book Value
Land held for development (lot equivalents)	77,797	$ 1,359	83,850	$ 1,385
Land under development and finished lots (single family units)	6,784	856	6,567	653
Housing units, including models	1,860	580	1,922	632
	86,441	$ 2,795	92,339	$ 2,670
Multi-family, industrial and commercial parcels (acres)	120	$ 53	136	$ 69

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at December 31 2016	As at December 31 2015
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)	186	181
6.375% unsecured senior notes due May 15, 2025 (d)	350	350
	$ 1,636	$ 1,631
Transaction costs (e)	(21)	(25)
	$ 1,615	$ 1,606

(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 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.

(e) The transaction costs are costs related to the issuance of the Company's notes payable and are amortized using the effective interest rate method over the life of the related debt instrument.

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, 2016. Our actual fixed charge coverage and indebtedness to consolidated net tangible worth ratio as at December 31, 2016 are reflected in the table below:

	Covenant	Actual as at December 31 2016
Minimum fixed charge coverage	2.0 to 1	2.84 to 1
Maximum indebtedness to consolidated net tangible worth	2.25 to 1	0.97 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings as at December 31, 2016 were $58 million, an decrease of $86 million from December 31, 2015. The decrease was primarily the result of repayments made on both our Canadian and U.S. bank facilities, partially offset by borrowings to fund development activity and land acquisitions. 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, 2016, the weighted average interest rate on our bank indebtedness and other financings was 4.2% (December 31, 2015 – 3.6%).

The debt maturing in 2017 and onwards is expected to either be refinanced or repaid from home and/or lot closings over this period. Additionally, as at December 31, 2016, we had bank indebtedness capacity of $610 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:

	As at	
(US$ millions)	**December 31 2016**	**December 31 2015**
Secured vendor take back ("VTB") mortgages (a)	$ 51	$ 73
Project-specific financings (b)	5	9
Bank indebtedness (c)	2	62
Due to affiliates (d)	—	—
	$ 58	$ 144

(a) VTB mortgages

A total of 13 secured VTB mortgages (December 31, 2015 – 16 secured VTB mortgages) in the amount of $37 million (December 31, 2015 – $43 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$50 million (December 31, 2015 – C$60 million). The interest rate on this debt ranges from prime plus 1.0% to prime plus 2.0% to fixed rates ranging from 2.21% to 6.0% and the debt is secured by related land. As at December 31, 2016, these borrowings are not subject to financial covenants.

Five secured VTB mortgages (December 31, 2015 – Five secured VTB mortgages) in the amount of $14 million (December 31, 2015 – $30 million) relate to raw land held for development by Brookfield Homes Holdings LLC., a wholly-owned subsidiary of the Company. The interest rate on the debt ranges from fixed rates of 0.0% to 6.0% and the debt is secured by related land. As at December 31, 2016, these borrowings are not subject to any financial covenants.

(b) Project-specific financings

Project-specific financings totalling $5 million (December 31, 2015 - $9 million) have a floating interest rate of prime plus 0.75%, mature in 2017 and are secured by the land assets of Brookfield Homes (Ontario) Limited to which the borrowings relate. This debt is repayable in Canadian dollars of C$7 million (December 31, 2015 - C$13 million). As at December 31, 2016 these borrowings are not subject to any financial covenants.

(c) Bank indebtedness

(i) The Company has four secured credit facilities (December 31, 2015 – four secured credit facilities) with various Canadian banks with outstanding amounts totalling $2 million at December 31, 2016 (December 31, 2015 – $62 million). The secured facilities are repayable in Canadian dollars in the amount of C$3 million at December 31, 2016 (December 31, 2015 – C$85 million). These facilities allow the Company to borrow up to approximately C$565 million (US$420 million) as at December 31, 2016 (December 31, 2015 – C$565 million (US$430 million)). The credit facilities bear interest between Canadian prime plus 0.50% to 0.75% 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, 2016, 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 2016
Minimum tangible net worth	C$ 370	C$ 909
Maximum debt to equity	1.75 to 1	0.07 to 1

The one remaining Canadian dollar denominated facility requires 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, 2016, 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 2016
Minimum tangible net worth	C$ 75	C$ 240
Maximum debt to equity	1.75 to 1	1.05 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 1.88% and 2.25% per annum or the alternate base rate ("ABR") plus the applicable rate between 0.88% 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 $1,096 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at December 31, 2016, 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 2016
Minimum tangible net worth	$ 1,096	$ 1,784
Maximum net debt to capitalization	65%	48%

The Company had no borrowings outstanding under the Revolving Credit Facility at December 31, 2016 (December 31, 2015 – no borrowings outstanding).

(d) Due to affiliates

During the year ended December 31, 2016, the Company, entered into a $170 million deposit agreement with a subsidiary of Brookfield Asset Management Inc. The principal was repayable on demand. Interest was charged on the principal at a rate of one month LIBOR plus 0.55%. During the three months ended December 31, 2016, the deposit was repaid in full. As at December 31, 2016, there was no balance outstanding.

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, 2016 and December 31, 2015 is as follows:

(US$ millions)	As at December 31 2016	December 31 2015
Bank indebtedness and other financings	$ 58	$ 144
Notes payable	1,615	1,606
Total interest bearing debt	1,673	1,750
Less: cash	(94)	(100)
	1,579	1,650
Total equity	1,784	1,351
Total capitalization	$ 3,363	$ 3,001
Net debt to total capitalization	47%	55%

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, 2016 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, 2016, we had cash and cash equivalents of $94 million, compared to $100 million at December 31, 2015.

The net cash flows for the years ended December 31, 2016 and 2015 were as follows:

(US$ millions)	Years Ended December 31 2016	2015
Cash flows provided by / (used in) operating activities	$ 94	$ (174)
Cash flows used in investing activities	(8)	(97)
Cash flows used in financing activities	(92)	200
Effect of foreign exchange rates on cash	—	(19)
	$ (6)	$ (90)

Cash Flow Provided by / (Used in) Operating Activities

Cash flows provided by operating activities during the year ended December 31, 2016 totalled $94 million, compared to $174 million used in operating activities for the same period in 2015. During the year ended December 31, 2016, cash provided by operating activities was impacted by an increase in land and housing inventory due to strategic land purchases and development activity, a decrease in receivables and other assets, an increase in accounts payable and other liabilities and our net income. Acquisitions for the year ended December 31, 2016 totalled $250 million consisting of $35 million in Canada, $145 million in California and $70 million in Central and Eastern U.S. 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, an 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.

Cash Flow Used in Investing Activities

During the year ended December 31, 2016, cash flows used in investing activities totalled $8 million compared to $97 million for the same period in 2015. During the year ended December 31, 2016, we invested $79 million in unconsolidated entities, which was partially offset by distributions from unconsolidated entities of $44 million and a reduction in restricted cash balances of $1 million. Additionally, cash flows used in investing activities were impacted by an increase in commercial properties, net proceeds from the sale of commercial assets, as well as interest income from preferred shares. 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.

Cash Flow (Used in) / Provided by Financing Activities

Cash used in our financing activities for the year ended December 31, 2016 was $92 million, compared to $200 million provided by financing activities in the same period in 2015. The cash used in our financing activities during the year ended December 31, 2016 was primarily from net repayments under project-specific and other financings of $29 million as well as net repayments under bank indebtedness of $62 million. This was in contrast to 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 during the year ended December 31, 2015.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at December 31, 2016 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]	$ 1,636	$ —	$ —	$ 600	$ 1,036
Interest on notes payable	603	103	207	168	125
Secured VTB mortgages[2][3]	51	27	18	6	—
Bank indebtedness[2][3]	2	1	1	—	—
Project-specific financing[2][3]	5	5	—	—	—
Accounts payable and other liabilities[4]	500	500	—	—	—
Operating lease obligations[5]	61	8	14	13	26
Purchase agreements[6]	65	49	15	1	—

(1) Amounts are included on the consolidated balance sheets and exclude transaction costs. See Note 9 to the consolidated financial statements for additional information regarding unsecured senior notes payable.

(2) Amounts are included on the consolidated balance sheets. See Note 10 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 10 to the consolidated financial statements for additional information regarding our floating rate debt.

(4) Amounts are included on the consolidated balance sheets. See Note 11 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. See Note 17 to the consolidated financial statements for additional information regarding lease agreements.

(6) See Note 17 to the consolidated financial statements for additional information regarding purchase agreements.

Shareholders’ Equity

At February 7, 2017, 129,756,910 Common Shares in the capital of the Company were issued and outstanding. In addition, Brookfield Residential has a stock option plan under which key officers and employees are granted options to purchase Non-Voting Class B Common Shares or settle the options in cash at the option of the holder. Each option granted can be exercised for one Non-Voting Class B Common Share or settled in cash for the fair value of one Common Share at the date of exercise. At February 7, 2017, 9,321,886 options were outstanding under the stock option plan.

During the year ended December 31, 2016, the Company issued 15,856,236 Common Shares in exchange for the purchase of Class B Junior Preferred Shares of Brookfield BPY Holdings Inc. ("preferred shares"). See Note 7 to the consolidated financial statements for additional information regarding the preferred shares.

During the year ended December 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.

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, 2016, we had $85 million of primarily non-refundable option deposits and advanced costs. The total remaining exercise price of these options was $122 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 $43 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 10,387 lots and control under option 1,328 lots through our proportionate share of unconsolidated entities. As of December 31, 2016, our investment in unconsolidated entities totaled $344 million. We have provided varying levels of guarantees of debt in our unconsolidated entities. As of December 31, 2016, we had recourse guarantees of $53 million with respect to debt in our unconsolidated entities. During the year ended December 31, 2016, 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, 2016, we had $63 million in letters of credit outstanding and $470 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds at December 31, 2016 are $30 million and $192 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 at and for the years ended December 31, 2016 and 2015 were as follows:

- During the year ended December 31, 2016, the Company acquired a 23.75% undivided interest in a joint venture in Ontario from a subsidiary of our sole shareholder, Brookfield Asset Management Inc. for cash consideration of $36 million. Brookfield Asset Management Inc. indirectly controlled the 23.75% undivided interest in the joint venture prior to the transaction and continues to control the undivided interest in the joint venture subsequent to the transaction through its interests in the Company. As a result of this continuing common control, there is insufficient substance to justify a change in the measurement of the undivided interest in the joint venture. Accordingly, the Company has reflected the transaction in its balance sheet and statement of operations using the carrying values prior to the transaction. Differences between the carrying amount of the consideration given and the carrying amount of the

undivided interest transferred has been recorded directly in additional paid-in-capital. The undivided interest in the joint venture agreement is accounted for in accordance with the equity method as an investment in unconsolidated entities.

- During the year ended December 31, 2016, the Company announced the purchase of $300 million of preferred shares of Brookfield BPY Holdings Inc. from a subsidiary of Brookfield Asset Management Inc. in exchange for Common Shares of the Company. During the year ended December 31, 2016, the Company received $1 million of dividends from the preferred shares (year ended December 31, 2015- $nil). The transactions were recorded at the exchange amount.
- During the year ended December 31, 2016, the Company entered into a $170 million deposit agreement with a subsidiary of Brookfield Asset Management Inc. The principal was repayable on demand and interest was charged on the principal at a rate of one month LIBOR plus 0.55%. During the year ended December 31, 2016, the entire balance was repaid and interest of $1 million was incurred and paid relating to this deposit.
- During the year ended December 31, 2016, the Company paid $0.3 million (2015 - $8 million) to Brookfield Asset Management Inc. for Canadian tax credits. The transactions were recorded at the exchange amount.
- 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 $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.
- 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, 2016, the remaining balance of this note was repaid (December 31, 2015 - $24 million 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 and income tax rates and brackets in the United States), and any adverse changes in tax laws;
- the level of household debt affecting our customer base;
- the cost and availability of labor, materials and supplies;
- the Canadian, 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 2016, 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 and low wage growth, which led some homebuyers to cancel or fail to honor their home sales contracts altogether. We cannot predict whether recovery in the housing market will continue and improve these conditions. 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. 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 declined to their lowest level in more than a decade in the latter part of 2015, and while oil prices rose in 2016, they still remain at historically low levels. 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.

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

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

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

Virtually all of the purchasers of our homes finance their acquisitions through mortgage financing. The Federal Reserve Bank of the United States increased interest rates in December 2015 for the first time since 2006 and increased interest rates again in December 2016. 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 five 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 began to enforce new rules regarding the origination of mortgages, including criteria for “qualified mortgages”. In December 2016, U.S. regulations regarding "risk retention" for securitizations, including securitizations of residential mortgages, went into effect. Other new regulations are forthcoming as required to be implemented pursuant to the U.S. Dodd-Frank Act of 2010. These new regulations could increase the difficulty of obtaining mortgage financing and result in higher mortgage interest rates, further discouraging new home purchases.

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

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. 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 seven 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 expired on April 30, 2016 and is presently in the process of being renewed. 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.

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

These investments involve risks and are highly illiquid. We currently operate through a number of unconsolidated homebuilding and land development joint ventures with independent third parties in which we do not have a controlling interest. At December 31, 2016, we had invested an aggregate of $344 million in these joint ventures. In addition, as part of our strategy, we intend to continue to evaluate additional joint venture opportunities.

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

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

Our joint ventures typically obtain secured acquisition, development and construction financing. Historically, we and our joint ventures partners provided varying levels of guarantees of debt or other obligations of our unconsolidated joint ventures. These guarantees include construction completion guarantees, repayment guarantees and environmental indemnities. We accrue for guarantees we determine are probable and reasonably estimable, but we do not record a liability for the contingent aspects of any guarantees that we determine are reasonably possible but not probable. As of December 31, 2016, we had no outstanding repayment guarantees related to our joint ventures.

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

results of operations and financial condition.

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

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

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

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

If insurance is unavailable to us or is unavailable on acceptable terms, or if our insurance is not adequate to cover business interruptions or losses resulting from these conditions, our business and results of operations will be 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 Inc., and other affiliates may be on terms more or less favorable than those that could be obtained from third parties.

As of February 7, 2017, Brookfield Asset Management Inc. beneficially owned or controlled or directed, directly or indirectly, 100% of our outstanding Common Shares. Our relationship with Brookfield Asset Management Inc. and its affiliates includes certain related party transactions. See Note 22 to the consolidated financial statements for additional information on related party transactions. Additionally, we have the right to use the names "Brookfield" and "Brookfield Residential" pursuant to a license agreement between Brookfield Office Properties and Brookfield Global Asset Management Limited, a subsidiary of Brookfield Asset Management Inc. 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 occurred several times in 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, 2016, the total principal amount of our debt outstanding was $1.7 billion and we also had $53.4 million of guarantees of obligations of unconsolidated joint ventures. We also had $610.0 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, some 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 0.75%. Our unsecured credit facility bears interest at either the adjusted

LIBOR plus the applicable rate between 1.88% and 2.25% per annum or the alternate base rate plus the applicable rate between 0.88% and 1.25% per annum. Several of our vendor take back mortgages bear interest at rates ranging from prime plus 1.0% to 2.0%. This significant amount of variable interest rate debt exposes us to interest rate risk. As of December 31, 2016, a 1% change up or down in interest rates could have either a negative or positive effect of approximately $13.9 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 Inc., may have interests as an equity holder that may conflict with the interests of creditors.

Brookfield Asset Management Inc. beneficially owns, or controls or directs, directly or indirectly 100% of our outstanding Common Shares. Accordingly, Brookfield Asset Management Inc. has the ability to control our policies and operations. The interests of Brookfield Asset Management Inc. 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 Inc. might conflict with our creditors' interests. In addition, Brookfield Asset Management Inc. 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 Inc. may in the future own businesses that directly or indirectly compete with us. Brookfield Asset Management Inc. 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
Senior Vice President and Chief Financial Officer

Calgary, Canada
February 7, 2017

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated financial statements of Brookfield Residential Properties Inc., which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, and the consolidated statements of operations, consolidated statements of equity and consolidated statements of 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, 2016 and 2015, and the results of its operations 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
February 13, 2017
Calgary, Alberta

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 2016	As at December 31 2015
Assets			
Land and housing inventory	2	$ 2,848,230	$ 2,738,504
Investments in unconsolidated entities	3	343,543	339,182
Commercial properties	4	32,880	—
Commercial assets held for sale	5	—	—
Receivables and other assets	6	253,283	301,974
Held-to-maturity investments	7	300,000	—
Restricted cash	8	4,932	4,266
Cash and cash equivalents		94,187	100,329
Deferred income tax assets	12	79,580	81,940
Total assets		$ 3,956,635	$ 3,566,195
Liabilities and Equity			
Notes payable	9	$ 1,615,205	$ 1,605,736
Bank indebtedness and other financings	10	57,442	144,265
Accounts payable and other liabilities	11	499,538	464,782
Total liabilities		2,172,185	2,214,783
Common Shares – 129,756,910 shares outstanding (December 31, 2015 – 113,900,674 shares outstanding)	14	626,594	326,594
Additional paid-in-capital	14	367,433	399,035
Retained earnings		897,451	751,249
Non-controlling interest	13	43,387	43,719
Accumulated other comprehensive loss		(150,415)	(169,185)
Total equity		1,784,450	1,351,412
Total liabilities and equity		$ 3,956,635	$ 3,566,195
Commitments, contingent liabilities and other	17		
Guarantees	18		

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 2016	2015
Revenue			
Housing		$ 1,603,924	$ 1,248,562
Land		299,482	342,270
Total revenue		1,903,406	1,590,832
Direct Cost of Sales			
Housing		(1,284,582)	(972,697)
Land		(189,197)	(201,327)
Total direct cost of sales		(1,473,779)	(1,174,024)
Gain on commercial assets held for sale	5	14,048	—
Selling, general and administrative expense		(206,902)	(217,901)
Interest expense		(53,498)	(62,270)
Equity in earnings from unconsolidated entities	3	9,161	12,470
Other income		9,544	7,916
Depreciation		(3,629)	(3,986)
Income Before Income Taxes		198,351	153,037
Current income tax expense	12	(48,223)	(9,843)
Deferred income tax expense	12	(4,258)	(31,401)
Net income		145,870	111,793
Other Comprehensive Income / (Loss)			
Unrealized foreign exchange gain / (loss) on:			
Translation of the net investment in Canadian subsidiaries		24,070	(155,977)
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		(5,300)	27,875
Comprehensive Income / (Loss)		$ 164,640	$ (16,309)
Net Income / (Loss) Attributable To:			
Consolidated		$ 145,870	$ 111,793
Non-controlling interest	13	(332)	(414)
Brookfield Residential		$ 146,202	$ 112,207
Comprehensive Income / (Loss) Attributable To:			
Consolidated		$ 164,640	$ (16,309)
Non-controlling interest	13	(332)	(414)
Brookfield Residential		$ 164,972	$ (15,895)
Common Shareholders Earnings Per Share			
Basic	16	$ 1.27	$ 0.98
Diluted	16	$ 1.27	$ 0.98
Weighted Average Common Shares Outstanding *(in thousands)*			
Basic	16	115,157	114,201
Diluted	16	115,157	114,201

See accompanying notes to the consolidated financial statements

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

	Note	Years Ended December 31 2016	2015
Common Shares	14		
Opening balance		$ 326,594	$ 329,474
Issuance of Common Shares	7	300,000	—
Settlement of escrowed stock plan		—	4,212
Common Shares repurchased for cancellation		—	(7,092)
Ending balance		626,594	326,594
Additional Paid-in-Capital			
Opening balance		399,035	423,893
Share-based compensation costs		—	2,167
Fair value adjustment on common control acquisition	14	(31,602)	—
Settlement of share-based compensation awards		—	(27,025)
Ending balance		367,433	399,035
Retained Earnings			
Opening balance		751,249	868,336
Net income attributable to Brookfield Residential		146,202	112,207
Common Shares repurchased for cancellation		—	(52,420)
Dividends on Common Shares		—	(176,623)
Other		—	(251)
Ending balance		897,451	751,249
Accumulated Other Comprehensive Loss			
Opening balance		(169,185)	(41,083)
Other comprehensive income / (loss)		18,770	(128,102)
Ending balance		(150,415)	(169,185)
Total Brookfield Residential Equity		$ 1,741,063	$ 1,307,693
Non-Controlling Interest	13		
Opening balance		$ 43,719	$ 38,438
Acquisitions		—	2,126
Net loss attributable to non-controlling interest		(332)	(414)
Contributions		—	3,569
Ending balance		$ 43,387	$ 43,719
Total Equity		$ 1,784,450	$ 1,351,412

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	**2016**	**2015**
Net income	$ 145,870	$ 111,793
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities	(2,939)	(5,811)
Deferred income tax expense	4,258	31,401
Share-based compensation costs	5,434	39,455
Depreciation	3,629	3,986
Amortization of non-cash interest	3,417	224
Gain on commercial assets held for sale	(14,048)	—
Interest income on held-to-maturity investments	(1,422)	—
Changes in operating assets and liabilities:		
Decrease / (increase) in receivables and other assets	49,319	(32,506)
Increase in land and housing inventory	(127,127)	(307,150)
Increase / (decrease) in accounts payable and other liabilities	27,207	(15,605)
Net cash provided by / (used in) operating activities	93,598	(174,213)
Cash Flows Provided by / (Used in) Investing Activities		
Investments in unconsolidated entities	(79,341)	(106,112)
Distributions from unconsolidated entities	43,838	7,933
Increase in commercial properties	(2,169)	—
Increase in commercial assets held for sale	(8,290)	—
Change in restricted cash	(666)	1,073
Interest income on held-to-maturity investments	1,422	—
Proceeds on commercial assets held for sale	37,020	—
Net cash used in investing activities	(8,186)	(97,106)
Cash Flows Provided by / (Used in) Financing Activities		
Drawings under project-specific and other financings	21,450	61,972
Repayments under project-specific and other financings	(50,580)	(36,668)
Drawings on bank indebtedness	—	10,194
Repayments on bank indebtedness	(62,325)	(116,939)
Drawings under unsecured senior notes payable	—	558,550
Net distributions from non-controlling interest	—	4,854
Settlement of share-based compensation awards	—	(46,072)
Repurchase of Common Shares for cancellation	—	(59,512)
Dividends paid to common shareholders	—	(176,623)
Net cash (used in) / provided by financing activities	(91,455)	199,756
Effect of foreign exchange rates on cash and cash equivalents	(99)	(18,587)
Change in cash and cash equivalents	(6,142)	(90,150)
Cash and cash equivalents at beginning of year	100,329	190,479
Cash and cash equivalents at end of year	$ 94,187	$ 100,329
Supplemental Cash Flow Information		
Cash interest paid	$ 109,230	$ 97,174
Cash taxes paid	$ 20,656	$ 104,665

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 2017 generally assume recent sales activity and normalized sales rates beyond 2017. 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 15 "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 ("VIE") in accordance with ASC Topic 810 *Consolidation*. The decision to consolidate a VIE begins with establishing that a VIE exists. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investor lacks one of three characteristics associated with owning a controlling financial interest. Those characteristics are 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) Derivative Financial Instruments and Risk Management Activities

The Company accounts for its derivative and hedging activities in accordance with ASC Topic 815 *Derivatives and Hedging*, which requires the Company to recognize all derivative instruments at their fair values as either assets or liabilities on its balance sheet. The accounting for changes in fair value (i.e. gains or losses) of a derivative instrument depends on whether the Company has designated it, and whether it qualifies, as part of a hedging relationship and on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation. For 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.

(r) Held-to-Maturity Investments

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

(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) Common Control Transactions

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

(u) Changes in Accounting Policies

On January 1, 2016, the Company early adopted Accounting Standard Update ("ASU") 2015-03, "Interest - Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability. The new guidance has been applied retrospectively, as required by ASU 2015-03. See Note 9 "Notes Payable" for further discussion.

On January 1, 2016, the Company early adopted ASU 2015-02, "Consolidation" ("ASU 2015-02"), which requires the consolidation analysis of certain legal entities to take place against amended consolidation criteria. 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 and requires certain limited liability partnerships to be evaluated under the Variable Interest Entity model. The new guidance has been applied prospectively, as required by ASU 2015-02. The amended criteria did not have a material impact on the Company's consolidated financial statements.

(v) Recent Accounting Pronouncements

In May 2014, the FASB issued 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.

In February 2016, the FASB issued ASU 2016-02, ‘‘Leases’’. ASU 2016-02, codified in ASC 842, amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and makes targeted changes to lessor accounting. The new standard is effective for calendar periods beginning on January 1, 2019, for public business entities and January 1, 2020, for all other entities. Early adoption of ASU 2016-02 is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments" (“ASU 2016-15”). ASU 2016-15 reduces the existing diversity in practice in financial reporting across all industries by clarifying certain existing principles in ASC 230, "Statement of Cash Flows", including providing additional guidance on how and what an entity should consider in determining the classification of certain cash flows. ASU 2016-15 is effective for public entities for annual and interim periods beginning after December 15, 2018. For all other entities, the amendments in ASU 2016-15 are effective for fiscal years beginning after December 15, 2019. The adoption of ASU 2016-15 is not expected to have a material effect on the Company’s consolidated financial statements.

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 model homes.

The following summarizes the components of land and housing inventory:

	As at	
	December 31 2016	**December 31 2015**
Land held for development	$ 1,358,924	$ 1,384,961
Land under development	908,906	721,056
Housing inventory	467,172	545,682
Model homes	113,228	86,805
	$ 2,848,230	$ 2,738,504

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, 2016 and 2015 was as follows:

	Years Ended December 31	
	2016	**2015**
Interest capitalized, beginning of year	$ 173,038	$ 163,787
Interest capitalized	54,240	42,408
Interest expensed to cost of sales	(51,688)	(33,157)
Interest capitalized, end of year	$ 175,590	$ 173,038

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 $42.8 million (December 31, 2015 – $35.6 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 $42.8 million (December 31, 2015 – $35.6 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 $84.6 million (December 31, 2015 – $81.1 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 $121.8 million (December 31, 2015 – $131.1 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**
2017	184	$ 13,864
2018	876	25,404
2019	3,322	39,274
2020	—	1,418
2021	—	2,890
Thereafter	1,907	38,961
	6,289	$ 121,811

The Company holds agreements for a further 2,817 acres (December 31, 2015 – 2,817 acres) of longer-term land, with non-refundable deposits and other entitlement costs of $6.5 million (December 31, 2015 – $6.0 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, 2015 – $56.9 million). However, given that the Company is in the initial stage of land entitlement, the Company has concluded at this time that the level of uncertainty in entitling these properties does not warrant including them in the above totals.

Note 3. Investments in Unconsolidated Entities

As part of its operations, the Company participates in joint ventures and partnerships to explore opportunities while minimizing risk. As of December 31, 2016, the Company was involved with 14 unconsolidated entities (December 31, 2015 – 17 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities includes $26.6 million (December 31, 2015 – $28.9 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 1,328 lots (December 31, 2015 – 1,522 lots) under option. The Company's share of the total exercise price of these options is $59.1 million (December 31, 2015 – $64.9 million). Summarized financial information on a 100% basis for the combined unconsolidated entities follows:

	As at	
	December 31 2016	December 31 2015
Assets		
Land and housing inventory	$ 682,421	$ 631,478
Investments in unconsolidated entities	124,377	147,127
Other assets	56,928	65,771
	$ 863,726	$ 844,376
Liabilities and Equity		
Bank indebtedness and other financings	$ 96,199	$ 118,462
Accounts payable and other liabilities	51,037	46,530
Brookfield Residential's interest	343,543	339,182
Others' interest	372,947	340,202
	$ 863,726	$ 844,376

	Years Ended December 31	
	2016	2015
Revenue and Expenses		
Revenue	$ 88,520	$ 134,869
Direct cost of sales	(75,070)	(109,073)
Other income	13,525	(5,450)
Net income	$ 26,975	$ 20,346
Brookfield Residential's share of net income	$ 9,161	$ 12,470

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, 2016, the Company had recourse guarantees of $53.4 million (December 31, 2015 – $5.4 million) with respect to debt of its unconsolidated entities.

Note 4. Commercial Properties

Commercial properties include any properties that are currently leased out by the Company and produce leasing revenue for the Company. Commercial property assets are stated at cost, less accumulated depreciation. The Company's components of commercial properties consist of the following:

	As At	
	December 31 2016	**December 31 2015**
Commercial Properties	$ 33,046	$ —
Less: accumulated depreciation	(166)	—
	$ 32,880	$ —

Note 5. Commercial Assets Held for Sale

Assets classified as held for sale consist of the following:

	As at	
	December 31 2016	**December 31 2015**
Assets		
Commercial Properties	$ —	$ —
Assets held for sale	$ —	$ —

As required in ASC Topic 360, assets were recorded at carrying value as the fair value less costs to sell exceeds the carrying amount of the assets to be disposed. These assets were reported in the Canadian operating segment. The commercial properties previously presented as held for sale were sold during the year ended December 31, 2016 for a gain of $14.0 million (December 31, 2015 - $nil).

Note 6. Receivables and Other Assets

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

	As at	
	December 31 2016	**December 31 2015**
Receivables	$ 218,328	$ 267,909
Other assets	34,955	34,065
	$ 253,283	$ 301,974

The components of receivables are summarized as follows:

	As at	
	December 31 2016	**December 31 2015**
Development recovery receivables (a)	$ 90,506	$ 81,353
Real estate receivables (b)	61,980	137,062
Proceeds and escrow receivables (c)	27,634	19,102
Sundry receivables (d)	28,315	25,421
Refundable deposits	9,893	4,971
	$ 218,328	$ 267,909

(a) 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 1.0% to a fixed rate of 6.0% (December 31, 2015 – U.S. prime plus 0.5% to a fixed rate of 6.0%).

(b) Real estate receivables include vendor take back ("VTB") mortgage receivables. The VTB collection terms range from six months to eighteen months and bear interest at Canadian prime plus 3.0% or a fixed interest rate of 0.5% to 6.0%, whichever is greater (December 31, 2015 – Canadian prime plus 2.0% to prime plus 3.0% or a fixed interest rate of 0.5% to 6.0%, whichever is greater).

(c) 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.

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

As at December 31, 2016, allowances for doubtful accounts were $nil (December 31, 2015 - $1.5 million).

The components of other assets are summarized as follows:

	As at	
	December 31 2016	**December 31 2015**
Non-refundable earnest funds and investigation fees (a)	$ 14,788	$ 14,197
Capital assets (b)	13,938	13,468
Prepaid expenses	3,681	3,720
Other	2,548	2,680
	$ 34,955	$ 34,065

(a) 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.

(b) Capital assets are recorded at cost less accumulated depreciation. The Company provides for depreciation using the straight-line method. Leasehold improvements are depreciated over the term of the lease and equipment is depreciated over three to five years. Included in capital assets is accumulated depreciation of $16.7 million (December 31, 2015 – $15.9 million).

Note 7. Held-to-Maturity Investments

	As At	
	December 31 2016	**December 31 2015**
Brookfield BPY Holdings Inc. Class B Junior Preferred Shares ("preferred shares")	$ 300,000	$ —
	$ 300,000	$ —

During the year ended December 31, 2016, the Company entered into an agreement with a subsidiary of Brookfield Asset Management Inc. to purchase $300.0 million of preferred shares in exchange for Common Shares of the Company. The preferred shares entitle their holders to receive a cumulative preferential dividend equal to 5.75% of their redemption value until the fifth anniversary of their issuance, after which the preferred shares will entitle their holders to receive a cumulative preferential dividend equal to 5.00% plus the prevailing yield for the 5-year U.S. Treasury Notes. The preferred shares are redeemable at any time and must be redeemed on the tenth anniversary of their issuance. The preferred shares have a right of retraction after the fifth anniversary of the issuance.

During the year ended December 31, 2016, $1.4 million of dividends were recorded in the statement of operations as other income (December 31, 2015 - $nil).

Note 8. Restricted Cash

At December 31, 2016, the Company has restricted cash consisting of (i) $0.6 million (December 31, 2015 – $0.7 million) relating to cash collateralization of development letters of credit and (ii) $4.3 million (December 31, 2015 – $3.5 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 9. Notes Payable

	As at	
	December 31 2016	**December 31 2015**
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)	185,975	180,675
6.375% unsecured senior notes due May 15, 2025 (d)	350,000	350,000
	1,635,975	1,630,675
Transaction costs (e)	(20,770)	(24,939)
	$ 1,615,205	$ 1,605,736

(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 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
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.

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

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

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

(c) On May 12, 2015, the Company issued a private placement of C$250.0 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:

	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, 2016.

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.

(e) The transaction costs are costs related to the issuance of the Company's notes payable and are amortized using the effective interest rate method over the life of the related debt instrument.

Note 10. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	December 31 2016	December 31 2015
Secured VTB mortgages (a)	$ 50,330	$ 73,148
Project-specific financings (b)	4,959	9,407
Bank indebtedness (c)	2,153	61,710
Due to affiliates (d)	—	—
	$ 57,442	$ 144,265

(a) Secured VTB mortgages

The Company has 18 secured VTB mortgages (December 31, 2015 – 21 secured VTB mortgages) in the amount of $50.3 million (December 31, 2015 – $73.1 million). Secured VTB mortgages are repayable as follows: 2017 – $27.3 million; 2018 – $15.4 million; 2019 – $3.0 million, 2020 – $0.7 million and thereafter – $3.9 million.

A total of 13 secured VTB mortgages (December 31, 2015 – 16 secured VTB mortgages) in the amount of $36.9 million (December 31, 2015 – $43.3 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$49.6 million (December 31, 2015 – C$60.0 million). The interest rate on this debt ranges from prime plus 1.0% to prime plus 2.0% to fixed rates ranging from 2.21% to 6.0% and the debt is secured by the related land. As at December 31, 2016, these borrowings are not subject to financial covenants.

Five secured VTB mortgages (December 31, 2015 – Five secured VTB mortgages) in the amount of $13.4 million (December 31, 2015 – $29.8 million) relate to raw land held for development by Brookfield Homes Holdings LLC., a wholly-owned subsidiary of the Company. The interest rate on the debt ranges from fixed rates of 0.0% to 6.0% and the debt is secured by related land. As at December 31, 2016, these borrowings are not subject to any financial covenants.

(b) Project-specific financings

Project-specific financings totalling $5.0 million (December 31, 2015 - $9.4 million) have a floating interest rate of prime plus 0.75% to 1.15%, mature in 2017 and are secured by the land assets of Brookfield Homes (Ontario) Limited to which the borrowings relate. This debt is repayable in Canadian dollars of C$6.7 million (December 31, 2015 - C$13.0 million). As at December 31, 2016, these borrowings are not subject to any financial covenants.

(c) Bank indebtedness

(i) The Company has four secured credit facilities (December 31, 2015 – four secured credit facilities) with various Canadian banks with outstanding amounts totalling $2.2 million at December 31, 2016 (December 31, 2015 – $61.7 million). The secured facilities are repayable in Canadian dollars in the amount of C$2.9 million at December 31, 2016 (December 31, 2015 – C$85.4 million). These facilities allow the Company to borrow up to approximately C$565.0 million (US$420.3 million) as at December 31, 2016 (December 31, 2015 – C$565.0 million (US$430.4 million)). The credit facilities bear interest between Canadian prime plus 0.50% to 0.75% 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 facility, which is denominated in Canadian dollars, includes 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, 2016, 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 1.88% and 2.25% per annum or the alternate base rate ("ABR") plus the applicable rate between 0.88% 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 $1,096.0 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at December 31, 2016, the Company and Brookfield Residential US Corporation were in compliance with these financial covenants.

The Company had no borrowings outstanding under the Revolving Credit Facility at December 31, 2016 (December 31, 2015 – no borrowings outstanding).

(d) Due to affiliates

During the year ended December 31, 2016, the Company, entered into a $170.0 million deposit agreement with a subsidiary of Brookfield Asset Management Inc. The principal was repayable on demand. Interest was charged on the principal at a rate of one month LIBOR plus 0.55%. During the three months ended December 31, 2016, the deposit was repaid in full. As at December 31, 2016, there was no balance outstanding.

Note 11. Accounts Payable and Other Liabilities

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

	As at	
	December 31 2016	December 31 2015
Accounts payable	$ 378,119	$ 359,113
Other liabilities	121,419	105,669
	$ 499,538	$ 464,782

The components of accounts payable are summarized as follows:

	As at	
	December 31 2016	December 31 2015
Trade payables and other accruals	$ 149,098	$ 135,001
Development costs payable (a)	76,016	94,811
Customer deposits	48,588	42,553
Accrued and deferred compensation	42,556	39,512
Current income taxes payable / (receivable)	29,546	(216)
Interest on notes payable	21,042	21,002
Real estate payables	11,273	26,450
	$ 378,119	$ 359,113

(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 2016	**December 31 2015**
Share-based compensation (Note 15)	$ 43,475	$ 39,535
Consolidated land option contracts (a)	42,778	35,586
Warranty costs (Note 17 (a))	23,217	20,074
Other	11,949	7,140
Swap contracts (Note 19)	—	1,334
Due to related party (b)	—	2,000
	$ 121,419	$ 105,669

(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 22 "Related Party Transactions".

Note 12. Income Taxes

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the year ended December 31, 2016 and 2015 is as follows:

	Years Ended December 31	
	2016	**2015**
Statutory rate	27.0%	26.0%
Non-temporary differences	(0.1)	2.6
Rate difference from statutory rate	(2.0)	1.6
Change in statutory tax rate	—	(4.5)
Withholding tax	1.9	3.2
Other	(0.3)	(2.1)
Effective tax rate	26.5%	26.8%

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 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 26.5% for the year ended December 31, 2016 (2015 – 26.8%). The change in the effective tax rate, compared with the same period during 2015, primarily relates to a decrease in withholding taxes paid in the year on distributions made from our U.S operations of $1.2 million, a decrease in income tax expense of $2.1 million due to non-deductible share based compensation costs, combined with an increase in income tax recovery of $3.5 million relating to U.S. domestic production activities deduction and federal energy tax credits, partially offset by a $6.9 million tax recovery recognized in the second quarter of 2015 as a result of a change in the Alberta corporate tax rate.

The provision for income taxes for the years ended December 31, 2016 and 2015 is set forth below:

	Years Ended December 31	
	2016	**2015**
Current		
Canada	$ (10,464)	$ (4,700)
U.S.	(37,770)	(5,131)
International	11	(12)
Current income tax (expense) / recovery	(48,223)	(9,843)
Deferred		
Canada	(4,612)	(9,790)
U.S.	354	(21,611)
International	—	—
Total deferred tax (expense) / recovery	(4,258)	(31,401)
Total income tax (expense) / recovery	$ (52,481)	$ (41,244)

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 2016**	**December 31 2015**
Differences relating to land and housing inventory	$ (2,273)	$ (9,105)
Compensation deductible for tax purposes when paid	10,230	11,095
Differences related to derivative instruments	—	520
Operating loss carry-forwards	67,038	73,678
Impact of foreign exchange	26,706	29,596
Other	4,585	5,752
Net deferred tax assets before valuation allowance	106,286	111,536
Cumulative valuation allowance	(26,706)	(29,596)
Net deferred tax assets	$ 79,580	$ 81,940

The Company has Canadian federal non-capital loss carryforwards of approximately $243.7 million (C$327.5 million) as at December 31, 2016 (December 31, 2015 – $267.9 million (C$362.7 million)). Federal non-capital loss carryforwards attributable to Canada may be carried forward up to 20 years to offset future taxable income and expire between 2032 and 2036. At December 31, 2016, the Company has no U.S. federal net operating loss carryforwards.The Company has U.S. state loss carryforwards of approximately $37.3 million (December 31, 2015 – $48.4 million) that may be carried forward up to 20 years, depending on the tax jurisdiction, which expire between 2029 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 assets by tax jurisdiction to determine if a valuation allowance is required. In making such determinations, the Company considers all available positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies and recent financial operations. This evaluation considers, among other factors, the nature, frequency and severity of cumulative losses, actual earnings, forecasts of future operating results, the duration of statutory carryforward periods, the Company's experience with loss carryforwards not expiring and the outlook of the housing industry and the broader economy.

In evaluating the need for a valuation allowance against the Company's deferred tax assets at December 31, 2016, the Company considered all available and objectively verifiable positive and negative evidence. The component of the valuation allowance remaining of $26.7 million relates to the unrealized foreign exchange capital losses in Canada that have not met the more-likely-than not realization threshold. Consistent with the above process, the Company concludes

it is more-likely-than-not that all of its U.S. and Canadian deferred tax assets, other than the Canadian deferred tax asset related to unrealized foreign exchange capital losses, would be realized in the future.

Undistributed earnings of the Company's non-Canadian affiliates as of December 31, 2016 were considered to be permanently reinvested. A determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable.

Note 13. Non-Controlling Interest

Non-controlling interest includes third-party investments in consolidated entities of $43.4 million at December 31, 2016 (December 31, 2015 – $43.7 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, 2016 was a loss of $0.3 million, (2015 – loss of $0.4 million).

Note 14. Equity

Common Shares

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

Common Shares issued changed as follows during the year ended December 31, 2016 and year ended December 31, 2015:

	For the Years Ended	
	December 31 2016	December 31 2015
Common Shares issued, beginning of year	113,900,674	117,421,243
Common Shares issued	15,856,236	—
Common Shares repurchased	—	(2,454,095)
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	129,756,910	113,900,674

During the year ended December 31, 2016, the Company issued 15,856,236 of Common Shares in exchange for the purchase of preferred shares of Brookfield BPY Holdings Inc. See Note 7 for additional information regarding the preferred shares.

The Company had no Non-Voting Class B Common Shares issued and outstanding as at December 31, 2016 and December 31, 2015.

During the year ended December 31, 2015, 2,454,095 Common Shares 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.

Additional paid-in-capital

During the year ended December 31, 2016, the Company acquired a 23.75% undivided interest in a joint venture in Ontario from a subsidiary of our sole shareholder, Brookfield Asset Management Inc. for cash consideration of $35.8 million. Brookfield Asset Management Inc. indirectly controlled the 23.75% undivided interest in the joint venture prior to the transaction and continues to control the undivided interest in the joint venture subsequent to the transaction through its interests in the Company. As a result of this continuing common control, there is insufficient substance to justify a change in the measurement of the undivided interest in the joint venture. Accordingly, the Company has reflected the transaction in its consolidated balance sheet and statement of operations using the carrying values prior to the transaction. The difference between the consideration paid and the carrying amount of the undivided interest transferred was $31.6 million and has been recorded in equity as a reduction to additional paid-in-capital. The undivided interest in the joint venture agreement is accounted for in accordance with the equity method as an investment in unconsolidated entities.

Note 15. 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 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, 2016, Brookfield Residential granted a total of 440,000 new options to eligible employees that vest evenly over five years (2015 - 9,180,340 options). The significant weighted average assumptions relating to the valuation of the Company's options outstanding during the year ended December 31, 2016 and 2015 are as follows:

	December 31 2016	December 31 2015
Dividend yield	—%	—%
Volatility rate	34.16%	35.15%
Risk-free interest rate	2.15%	1.96%
Expected option life (years)	6.2	7.5

The liability of $16.1 million (December 31, 2015 - $8.5 million) relating to stock options is included in accounts payable and other liabilities. 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, 2016 was $7.6 million (2015 - $10.7 million).

The following tables set out the number of Non-Voting Class B Common Shares that employees of the Company may acquire under options granted under the Company's Management Share Option Plan for the years ended December 31, 2016 and 2015:

	December 31, 2016		December 31, 2015	
	Shares	Weighted Average Per Share Exercise Price	Shares	Weighted Average Per Share Exercise Price
Outstanding, beginning of year	8,881,886	$ 22.55	6,505,639	$ 13.80
Granted	440,000	18.92	9,180,340	22.56
Settled	—	—	(6,505,639)	13.80
Canceled	—	$ —	(298,454)	$ 22.96
Outstanding, end of year	9,321,886	$ 22.38	8,881,886	$ 22.55
Options exercisable, end of year	1,776,377	$ 22.55	—	$ —

A summary of the status of the Company's unvested options for the years ended December 31, 2016 and 2015 is as follows:

	December 31, 2016		December 31, 2015	
	Shares	Weighted Average Fair Value Per Option	Shares	Weighted Average Fair Value Per Option
Unvested options outstanding, beginning of year	8,881,886	$ 8.48	3,801,078	$ 6.99
Granted	440,000	7.81	9,180,340	8.47
Vested	(1,776,377)	5.80	—	—
Settled	—	—	(3,801,078)	6.99
Canceled	—	$ —	(298,454)	$ 9.07
Unvested options outstanding, end of year	7,545,509	$ 5.91	8,881,886	$ 8.48

At December 31, 2016, there was $44.6 million (2015 - $66.8 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 3.6 years (2015 - 4.5 years).

During the year ended December 31, 2015, as part of the Privatization Transaction, all of the options that were outstanding at March 13, 2015 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.

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 and was recognized in selling, general and administrative expense.

(b) Escrowed Stock Plan

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 Inc. 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 in 2015, 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 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 at December 31, 2016 and December 31, 2015:

	For the Years Ended	
	December 31 2016	December 31 2015
Outstanding, beginning of year	1,513,737	1,636,447
Granted and reinvested	—	81,960
Redeemed	(65,099)	(204,670)
Outstanding, end of year	1,448,638	1,513,737
Deferred share units vested	1,445,659	1,215,821

Of the 1,448,638 (December 31, 2015 – 1,513,737) units outstanding under the DSUP, 2,979 (December 31, 2015 – 297,916) units vest over the next three years.

The liability of $27.4 million (December 31, 2015 – $31.0 million) relating to the DSUP is included in accounts payable and other liabilities. The financial statement impact relating to the DSUP for the year ended December 31, 2016 was a recovery of $2.2 million (2015 – expense of $4.8 million) which has been included in selling, general and administrative expense.

(d) Restricted Stock Plan and Restricted Share Unit Plan

Prior to the Privatization Transaction, 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 additional 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. 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.

Note 16. Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2016 and 2015 were calculated as follows:

	Years Ended December 31	
	2016	2015
Numerator:		
Net income attributable to Brookfield Residential	$ 146,202	$ 112,207
Denominator (in '000s of shares):		
Basic weighted average shares outstanding	115,157	114,201
Diluted weighted average shares outstanding	115,157	114,201
Basic earnings per share	$ 1.27	$ 0.98
Diluted earnings per share	$ 1.27	$ 0.98

Note 17. Commitments, Contingent Liabilities and Other

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

The following table reflects the changes in the Company's estimated warranty liability for the years ended December 31, 2016 and 2015:

	Years Ended December 31	
	2016	**2015**
Balance, beginning of year	$ 20,074	$ 16,738
Payments and other adjustments made during the year	(7,093)	(4,734)
Warranties issued during the year	12,143	9,928
Adjustments made for pre-existing warranties	(1,907)	(1,858)
Balance, end of year	$ 23,217	$ 20,074

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

Years of Expiry	
2017	$ 7,946
2018	7,386
2019	6,802
2020	6,705
2021	5,817
Thereafter	25,921
	$ 60,577

(c) As at December 31, 2016, $11.3 million (December 31, 2015 - $5.6 million) of the amount held in other assets related to land purchase obligations. The total amount owing on these obligations is $64.6 million (December 31, 2015 - $89.9 million).

Note 18. Guarantees

(a) The Company has provided financial guarantees for municipal bonds which, as at December 31, 2016, amounted to $7.9 million (December 31, 2015 – $8.8 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, 2016, these guarantees amounted to $533.0 million (December 31, 2015 – $434.9 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 historically has not been required to make any payments under these construction guarantees.

Note 19. 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, 2016, 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 2017 generally assume recent sales activity and normalized sales rates beyond 2017. 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, 2016 and 2015, no impairment charges were recognized.

The locations of the projects reviewed are as follows:	**Number of Projects**
Canada	46
California	50
Central and Eastern U.S.	35
	131
Unconsolidated entities	17
Total	148

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, 2016, an unrealized pre-tax loss of $5.3 million (2015 – gain $27.9 million), was recorded in other comprehensive income for the effective portion of hedges of net investments in foreign operations.

Fair Value Hierarchy

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

As at December 31, 2016, all of the Company's financial assets and liabilities are recorded at their carrying value as it approximates fair value due to their short term nature. Assets and liabilities measured at fair value on a recurring basis are $nil (December 31, 2015 – $1.3 million).

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, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Restricted cash	$ 4,932	$ —	$ —	$ 4,266	$ —	$ —
Cash and cash equivalents	94,187	—	—	100,329	—	—
	$ 99,119	$ —	$ —	$ 104,595	$ —	$ —
Financial liabilities						
Accounts payable and other liabilities (a)	$ —	$ —	$ —	$ —	$ 1,334	$ —
	$ —	$ —	$ —	$ —	$ 1,334	$ —

(a) During the year ended December 31, 2016, the Company settled an interest rate swap contract. This resulted in a loss of $0.1 million which has been recognized in other income on the consolidated statement of operations. The fair value measurements for the interest rate swap contracts were previously 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.

Note 20. 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. During the year ended December 31, 2016, the Company settled an interest rate swap contract. This resulted in a loss of $0.1 million which has been recognized in other income on the consolidated statement of operations. Based on net debt levels as at December 31, 2016, a 1% change in interest rates would have either a negative or positive effect of approximately $13.9 million on the Company's cash flows. All interest rate swaps are recorded at fair market value and fluctuations in fair market value are presented in the consolidated statement of operations as hedge accounting has not been applied. Refer to Note 19 "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, 2016, the fair value of all outstanding debt exceeded its fair value by $16.2 million (December 31, 2015 – book value of debt exceeded fair value by $96.7 million).

Currency Exchange Rate Risk

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

The Company holds financial instruments to hedge the net investment in foreign operations whose functional and reporting currencies are other than the U.S. dollar. A 1% increase in the U.S. dollar would increase the value of these hedging instruments by $2.5 million as at December 31, 2016 (December 31, 2015 – $2.5 million). See Note 19 "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. 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, and was included in selling, general and administrative expense. The total return swaps were recorded at fair market value through the consolidated statements of operations because hedge accounting was not applied.

(b) Credit Risk

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations. The Company's exposure to credit risk in respect of financial instruments relates primarily to counterparty obligations regarding derivative contracts and receivables.

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, 2016 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]	$ 1,635,975	$ —	$ —	$ 600,000	$ 1,035,975
Interest on notes payable	603,447	103,328	206,657	167,657	125,805
Secured VTB mortgages[2][3]	50,330	27,318	18,390	4,622	—
Bank indebtedness[2][3]	2,153	1,155	998	—	—
Project-specific financings[2][3]	4,959	4,959	—	—	—
Accounts payable and other liabilities[4]	499,538	499,538	—	—	—
Operating lease obligations[5]	60,577	7,946	14,188	12,522	25,921
Purchase agreements[6]	64,564	48,742	15,307	515	—

(1) Amounts are included on the consolidated balance sheets and exclude transaction costs. See Note 9 for additional information regarding notes payable.

(2) Amounts are included on the consolidated balance sheets. See Note 10 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 10 for additional information regarding floating rate debt.

(4) Amounts are included on the consolidated balance sheets. See Note 11 for additional information regarding accounts payable and other liabilities.

(5) Amounts relate to non-cancellable operating leases involving office space, design centres and model homes. See Note 17 for additional information regarding lease agreements.

(6) See Note 17 for additional information regarding purchase agreements.

Note 21. 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. 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, 2016				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 649,820	$ 873,160	$ 380,426	$ —	$ 1,903,406
Direct cost of sales	(479,660)	(682,844)	(311,275)	—	(1,473,779)
	170,160	190,316	69,151	—	429,627
Gain on commercial assets held for sale	14,048	—	—	—	14,048
Equity in earnings	(513)	5,900	3,774	—	9,161
Expenses	(66,322)	(61,841)	(51,928)	(74,394)	(254,485)
Income / (loss) before income taxes	$ 117,373	$ 134,375	$ 20,997	$ (74,394)	$ 198,351

	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
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

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

	As at December 31, 2016				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 518,472	$ 386,246	$ 454,206	$ —	$ 1,358,924
Land under development	215,958	379,531	313,417	—	908,906
Housing inventory	165,896	145,161	156,115	—	467,172
Model homes	18,116	69,394	25,718	—	113,228
Total land and housing inventory	918,442	980,332	949,456	—	2,848,230
Commercial properties	28,805	—	4,075	—	32,880
Investments in unconsolidated entities	50,810	215,783	76,950	—	343,543
Held-to-Maturity Investments	—	—	—	300,000	300,000
Other assets [1]	113,622	60,972	102,156	155,232	431,982
Total assets	$ 1,111,679	$ 1,257,087	$ 1,132,637	$ 455,232	$ 3,956,635

	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	206,458	488,509
Total assets	$ 1,067,685	$ 1,276,010	$ 1,016,042	$ 206,458	$ 3,566,195

(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 22. 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 at and for the years ended December 31, 2016 and 2015 were as follows:

- During the year ended December 31, 2016, the Company, acquired a 23.75% undivided interest in a joint venture in Ontario from a subsidiary of our sole shareholder, Brookfield Asset Management Inc. for cash consideration of $35.8 million. Brookfield Asset Management Inc. indirectly controlled the 23.75% undivided interest in the joint venture prior to the transaction and continues to control the undivided interest in the joint venture subsequent to the transaction through its interests in the Company. As a result of this continuing common control, there is insufficient substance to justify a change in the measurement of the undivided interest in the joint venture. Accordingly, the Company has reflected the transaction in its consolidated balance sheet and statement of operations using the carrying values prior to the transaction. Differences between the carrying amount of the consideration given and the carrying amount of the undivided interest transferred has been recorded directly in additional paid-in-capital. The undivided interest in the joint venture agreement is accounted for in accordance with the equity method as an investment in unconsolidated entities.
- During the year ended December 31, 2016, the Company announced the purchase $300.0 million of preferred shares of Brookfield BPY Holdings Inc. from a subsidiary of Brookfield Asset Management Inc. in exchange for Common Shares of the Company. During the year ended December 31, 2016, the Company received $1.4 million of dividends from the preferred shares (year ended December 31, 2015 - $nil). The transactions were recorded at the exchange amount.
- During the year ended December 31, 2016 the Company, entered into a $170.0 million deposit agreement with a subsidiary of Brookfield Asset Management Inc. The principal was repayable on demand and interest was charged on the principal at a rate of one month LIBOR plus 0.55%. During the year ended December 31, 2016, the entire balance was repaid and interest of $0.9 million was incurred and paid relating to this deposit.
- During the year ended December 31, 2016, the Company paid $0.3 million (2015 - $8.4 million) to Brookfield Asset Management Inc. for Canadian tax credits. The transactions were recorded at the exchange amount.
- 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.
- 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, 2016, the remaining balance of this note was repaid (year ended December 31, 2015 - $24.2 million 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.

Note 23. Subsequent Events

The Company performed an evaluation of subsequent events through February 7, 2017, which is the date these consolidated financial statements were approved, and has determined that there are no subsequent events that require disclosure in these consolidated financial statements.

CORPORATE INFORMATION

CORPORATE PROFILE

Brookfield Residential Properties Inc. is a leading land developer and homebuilder in North America. We entitle and develop land to create master-planned communities, build and sell lots to third-party builders, and conduct our own home building operations. We also participate in select, strategic real estate opportunities, including infill projects, mixed-use developments, and joint ventures. We are the flagship North American residential property company of Brookfield Asset Management Inc., a leading global alternative asset manager with approximately $250 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, Senior Vice President & Chief Financial Officer, at (403) 231-8938 or via e-mail at thomas.lui@brookfieldrp.com.