2018 | Q2

June 30, 2018

Chief Executive Officer's Report

Brookfield Residential's results for the first six months of 2018 reflect a good spring selling season in the U.S., while balanced against the challenging market conditions in Canada. We continue to benefit in the U.S. from positive housing market fundamentals. In Canada, the Ontario market continues to adjust to the government initiatives put in place last year and Alberta continues to be impacted by the energy sector with both being affected by the recent changes to the Canadian mortgage rules. However, we believe there are a number of positives on the horizon in the Canadian housing market that will bring the market more into balance.

For the six months ended June 30, 2018, Brookfield Residential recorded income before income taxes of $65 million compared to $39 million in the same period of 2017. We continued to execute on our housing backlog and delivered 1,477 homes in the first half of 2018 compared to 1,314 homes in the previous year. Our backlog at June 30, 2018 consisted of 1,921 units with a value of $1.0 billion which provides us with a foundation to achieve our closings for the remainder of the year.

Market Overview

Our U.S. operations had a positive spring selling season despite the threat of continued interest rate increases, the potential impact of trade tariffs and labour cost increases. Most of our markets continue to be supported by consumer confidence, job growth, limited supply and pent-up demand. Net new home orders in our U.S. operations increased 27% and backlog units were up 39% for the six months ended June 30, 2018 when compared to the same period in 2017.

The Canadian housing market had a slow first half of 2018 where the local market environment, rising interest rates and the changes to the mortgage rules have had a material impact as homebuyers adjust to what they can now afford, thus affecting overall consumer confidence. In Alberta, the market continues to recover from a slow first quarter, the impact of the new mortgage rules and the economic uncertainty surrounding the energy industry due to pipeline approvals. We remain well positioned with our assets, however, as we continue to create value by seeking approvals and entitlements for our future communities in the Calgary market.

Our Ontario operations continue to be supported by positive long-term fundamentals including job growth, net in-migration and limited supply. However, the impact of the previously introduced government measures resulted in an increase in listings and a reduction or flattening of home prices in both the new and resale markets in certain sub-markets. There has been some recent stabilization as we have seen some month-over-month price appreciation in the resale market. Our focus remains on the execution of our backlog by working closely with our customers to limit the number of closing delays and cancellations. During the second quarter, we successfully closed 159 homes from our mid-rise condominium project in Aurora, Ontario. We continue to limit our community openings in 2018 so as not to compete with our backlog, which has reduced our net new home orders when compared to the previous year, and look to only bring communities to the market later in 2018 or in early 2019.

Mixed-Use Initiatives

Last quarter, we announced our strategy to grow our mixed-used platform with the acquisition of certain assets of OliverMcMillan Inc., a mixed-use developer based in San Diego, California. The integration of the mixed-use team to our traditional land and housing operations is progressing well and allows us to expand our footprint across North America. We intend to complement this skill set by exploring opportunities to leverage Brookfield Asset Management's resources and expertise in retail, office and hospitality to generate a 'best in class' mixed-use operational platform. With many municipalities focused on urban intensification, coupled with some of the disruptions in the retail sector, we believe these trends will afford us the opportunity to participate in a significant pipeline of redevelopment and other initiatives.

Our View Going Forward

Based on the results of the first six months of 2018, we anticipate that our income before taxes for 2018 will exceed 2017. We generally remain on track to achieve the overall targets in our previously provided limited guidance of closing 1,450 homes and 900 lots in Canada and 2,200 homes and 2,100 lots in the U.S. However, as a result of market conditions in Canada, we anticipate that Canada will be approximately 150 home closings less than the guidance stated above but will be offset by an increase in home closings in the U.S. as a result of the positive spring selling season. As in previous years, the nature and operating cycle of our business continues to lend itself to generating the highest proportion of the year's net income in the fourth quarter.

Alan Norris
Chairman & Chief Executive Officer
July 26, 2018

BROOKFIELD RESIDENTIAL PROPERTIES PORTFOLIO

Our business is focused on land development and single family and multi-family homebuilding in the markets in which we operate. Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at June 30, 2018 were $4.5 billion.

As of June 30, 2018, we controlled 88,952 single family lots (serviced lots and future lot equivalents) and 194 multi-family, industrial and commercial serviced parcel acres. Controlled lots and acres include those we directly own and our share of those owned by unconsolidated entities. Our controlled lots and acres provide a strong foundation for our future lot and acre sales and homebuilding business, as well as visibility on our future cash flow. The number of building lots and acre parcels we control in each of our primary markets as of June 30, 2018 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 6/30/2018		Total Acres	
	Owned	**Options**	**Owned**	**Options**	**6/30/2018**	**12/31/2017**	**Entitled**	**Unentitled**	**6/30/2018**	**12/31/2017**
Calgary	19,220	—	2,450	—	21,670	22,311	11,329	10,341	77	79
Edmonton	11,885	—	—	—	11,885	12,344	6,675	5,210	28	31
Ontario	7,278	—	1,100	—	8,378	8,230	1,862	6,516	—	—
Canada	38,383	—	3,550	—	41,933	42,885	19,866	22,067	105	110
Northern California	2,558	4,950	338	—	7,846	8,038	2,896	4,950	—	—
Southern California	7,495	—	1,491	1,001	9,987	9,460	7,887	2,100	—	—
Hawaii	136	—	16	—	152	175	152	—	3	—
California	10,189	4,950	1,845	1,001	17,985	17,673	10,935	7,050	3	—
Denver	8,178	—	—	—	8,178	8,274	8,178	—	15	10
Austin	11,639	207	—	—	11,846	12,143	11,846	—	30	—
Phoenix	689	—	3,648	—	4,337	5,450	3,717	620	14	1
Washington, D.C. Area	3,313	1,004	—	—	4,317	4,455	4,280	37	18	18
Other	356	—	—	—	356	—	356	—	9	—
Central and Eastern U.S.	24,175	1,211	3,648	—	29,034	30,322	28,377	657	86	29
Total	72,747	6,161	9,043	1,001	88,952	90,880	59,178	29,774	194	139
Entitled lots	53,456	1,211	4,511	—	59,178					
Unentitled lots	19,291	4,950	4,532	1,001	29,774					
Total June 30, 2018	72,747	6,161	9,043	1,001	88,952					
Total December 31, 2017	73,420	6,133	10,326	1,001		90,880				

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

BROOKFIELD RESIDENTIAL PROPERTIES INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- the current business environment and outlook, including statements regarding: economic and market conditions in the U.S. and Canadian housing markets; the impact of recent legislation enacted in Ontario to address affordability of housing; the impact of changes to Canadian mortgage rules affecting the ability of prospective homebuyers to qualify for mortgage financing; the impact of potential interest rate increases in the U.S. and Canada; the economic uncertainty surrounding the energy industry and pipeline approvals and the impact thereof on demand in our markets, particularly in Alberta; the effect of positive economic trends and stabilization in the U.S. on consumer confidence and the resulting impact on the housing market; our ability to meet our obligations under our North American unsecured credit facility; our costs to complete related to our letters of credit and performance bonds; our ability to grow our mixed-use development segment, including identifying other built forms that may meet the demands and requirements of our customers, identifying other mixed-use opportunities, and our ability to execute on our plans for a mixed-use operational platform and expected redevelopment opportunities resulting therefrom; home price growth rates and affordability levels generally; 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; reduction in our debt levels and the timing thereof; our expected unit and lot sales and the timing thereof; expectations for 2018 and beyond;
- possible or assumed future results, including our outlook and limited guidance for 2018 and any updates thereto, 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 continued expansion of our U.S. homebuilding operations, the impact of acquisitions on our operations in certain markets;
- the expected closing of transactions;
- the expected exercise of options contracts;
- the effect on our business of business acquisitions;
- business goals, strategy and growth plans;
- trends in home prices in our various markets and generally;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the homebuilding industry;
- the ability to generate sufficient cash flow from our assets to repay maturing bank indebtedness and project specific financings and take advantage of new opportunities;
- the ability to meet our covenants and re-pay interest payments on our unsecured senior notes and the requirement to make payments under our construction guarantees;
- the visibility of our future cash flow;
- social and environmental conditions, policies and risks;
- governmental 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 impact of credit rating agencies' rating on our business;
- the timing of the effect of interest rate changes on our cash flows;
- the effect of debt and leverage on our business and financial condition; and
- the effect on our business of existing lawsuits

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

Various factors, in addition to those discussed elsewhere in this interim report, that could affect the future results of Brookfield Residential and could cause actual results, 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, 2017.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis relates to the period ended June 30, 2018 and has been prepared with an effective date of July 26, 2018. It should be read in conjunction with the quarterly condensed consolidated financial statements and the related notes thereto included elsewhere in this interim report. All dollar amounts discussed herein are in U.S. dollars, unless otherwise stated. Amounts in Canadian dollars are identified as "C$." The condensed consolidated financial statements referenced herein have been prepared in accordance with generally accepted accounting principles in the United States of America ("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.

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 $285 billion of assets under management.

We currently focus on the following three operating segments: Canada, California and Central and Eastern U.S. 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 U.S. 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.

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

Mixed-use development is a growing focus of the Company. We have been developing commercial properties within our master-planned communities for decades. Seton, in Calgary, Alberta, is a prime example of adding value to a master plan through appropriate mixed-use planning and building on our own land. A shift in consumer behavior has resulted in further demand for infill/brownfield locations. With many municipalities also focused on urban intensification, we believe these trends will create a significant pipeline of redevelopment opportunities. In addition, our acquisition of OliverMcMillan Inc. ("OliverMcMillan") allows us to design and build leading-edge mixed-use developments in some of the most vibrant urban centers in the U.S. We believe Brookfield Residential, combined with OliverMcMillan, has the necessary entitlement and re-entitlement expertise to implement this strategic focus, including the determination of appropriate future uses for a site, including retail, office, for sale residential, and for rent residential.

RESULTS OF OPERATIONS

Key financial results and operating data for the three and six months ended June 30, 2018 compared to the three and six months ended June 30, 2017 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2018	**2017**	**2018**	**2017**
Key Financial Results[1]				
Housing revenue	$ 535	$ 383	$ 769	$ 690
Land revenue	54	60	95	92
Gross margin ($)	126	89	182	163
Gross margin (%)[2]	21%	20%	21%	21%
Income before income taxes	64	25	65	39
Income tax expense	(12)	(3)	(10)	(2)
Net income attributable to Brookfield Residential	50	22	53	37
Basic earnings per share	$ 0.38	$ 0.17	$ 0.41	$ 0.29
Diluted earnings per share	$ 0.38	$ 0.17	$ 0.41	$ 0.29
Key Operating Data				
Home closings for Brookfield Residential (units)	1,019	733	1,477	1,314
Home closings for unconsolidated entities (units)	2	2	3	3
Average home selling price for Brookfield Residential (per unit)	$ 525,000	$ 523,000	$ 521,000	$ 525,000
Average home selling price for unconsolidated entities (per unit)	$1,229,000	$1,484,000	$1,403,000	$1,321,000
Net new home orders for Brookfield Residential (units)	782	998	1,705	1,931
Net new home orders for unconsolidated entities (units)	3	3	4	4
Backlog for Brookfield Residential (units)	1,921	2,158	1,921	2,158
Backlog for unconsolidated entities (units)	2	2	2	2
Backlog value for Brookfield Residential	$ 1,038	$ 1,166	$ 1,038	$ 1,166
Backlog value for unconsolidated entities	$ 2	$ 2	$ 2	$ 2
Lot closings for Brookfield Residential (single family units)	367	597	631	806
Lot closings for unconsolidated entities (single family units)	96	84	122	183
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	1	8	10	9
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	—	—	16	1
Acre closings for Brookfield Residential (raw and partially finished)	19	230	19	254
Average lot selling price for Brookfield Residential (single family units)	$ 141,000	$ 94,000	$ 136,000	$ 102,000
Average lot selling price for unconsolidated entities (single family units)	$ 137,000	$ 139,000	$ 143,000	$ 114,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 775,000	$ 371,000	$ 769,000	$ 383,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ —	$ —	$ 350,000	$ 258,000
Average per acre selling price for Brookfield Residential (raw and partially finished)	$ 94,000	$ 3,000	$ 94,000	$ 22,000

(1) The Company applied ASC Topic 606 Revenue from Contracts with Customers, ("ASC Topic 606") with an initial application date of January 1, 2018. ASC Topic 606 was applied using the modified retrospective approach and therefore, the comparative information has not been adjusted and continues to be reported under ASC Topic 605 Revenue Recognition. For more information, refer to Note 2 "Changes in Accounting Policies" of the condensed consolidated financial statements.

(2) Gross margin percentage is a non-GAAP 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 percentage as presented may not be fully comparable to similarly-titled measures reported by our competitors. See the Non-GAAP 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 three and six months ended June 30, 2018 and 2017.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2018**	**2017**	**2018**	**2017**
Housing revenue				
Canada	$ 137	$ 122	$ 207	$ 235
California	278	177	378	317
Central and Eastern U.S	120	84	184	138
Total	$ 535	$ 383	$ 769	$ 690
Land revenue				
Canada	$ 26	$ 30	$ 54	$ 50
California	22	4	31	9
Central and Eastern U.S	6	26	10	33
Total	$ 54	$ 60	$ 95	$ 92
Housing gross margin				
Canada	$ 29	$ 23	$ 42	$ 46
California	55	32	71	59
Central and Eastern U.S	20	13	30	20
Total	$ 104	$ 68	$ 143	$ 125
Land gross margin				
Canada	$ 15	$ 15	$ 26	$ 29
California	7	2	12	4
Central and Eastern U.S	—	4	1	5
Total	$ 22	$ 21	$ 39	$ 38
Home closings (units)				
Canada	379	309	573	606
California	377	240	515	404
Central and Eastern U.S	263	184	389	304
	1,019	733	1,477	1,314
Unconsolidated Entities	2	2	3	3
Total	1,021	735	1,480	1,317
Average home selling price				
Canada	$ 362,000	$ 395,000	$ 361,000	$ 388,000
California	737,000	739,000	735,000	784,000
Central and Eastern U.S	458,000	457,000	472,000	454,000
	525,000	523,000	521,000	525,000
Unconsolidated Entities	1,229,000	1,484,000	1,403,000	1,321,000
Average	$ 527,000	$ 525,000	$ 522,000	$ 527,000
Active housing communities				
Canada			31	27
California			29	26
Central and Eastern U.S			29	26
			89	79
Unconsolidated Entities			1	1
Total			90	80

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Lot closings (single family units)				
Canada	166	212	325	343
California	129	20	176	20
Central and Eastern U.S	72	365	130	443
	367	597	631	806
Unconsolidated Entities	96	84	122	183
Total	463	681	753	989
Acre closings (multi-family, industrial and commercial)				
Canada	1	3	10	3
California	—	—	—	—
Central and Eastern U.S	—	5	—	6
	1	8	10	9
Unconsolidated Entities	—	—	16	1
Total	1	8	26	10
Acre closings (raw and partially finished)				
Canada	19	230	19	230
California	—	—	—	16
Central and Eastern U.S	—	—	—	8
Total	19	230	19	254
Average lot selling price (single family lots)				
Canada	$ 144,000	$ 131,000	$ 137,000	$ 138,000
California	172,000	212,000	177,000	217,000
Central and Eastern U.S	78,000	66,000	78,000	69,000
	141,000	94,000	136,000	102,000
Unconsolidated Entities	137,000	139,000	143,000	114,000
Average	$ 140,000	$ 100,000	$ 137,000	$ 104,000
Average per acre selling price (multi-family, industrial and commercial)				
Canada	$ 775,000	$ 559,000	$ 769,000	$ 559,000
California	—	—	—	—
Central and Eastern U.S	—	240,000	—	281,000
	775,000	371,000	769,000	383,000
Unconsolidated Entities	—	—	350,000	258,000
Average	$ 775,000	$ 371,000	$ 508,000	$ 373,000
Average per acre selling price (raw and partially finished)				
Canada	$ 94,000	$ 3,000	$ 94,000	$ 3,000
California	—	—	—	254,000
Central and Eastern U.S	—	—	—	95,000
Average	$ 94,000	$ 3,000	$ 94,000	$ 22,000
Active land communities				
Canada			12	11
California			6	6
Central and Eastern U.S			11	10
			29	27
Unconsolidated Entities			7	4
Total			36	31

(US$ millions)		As at June 30 2018		As at December 31 2017
Total assets				
Canada	$	1,143	$	1,177
California		1,351		1,254
Central and Eastern U.S		1,382		1,252
Corporate and other		587		555
Total	$	4,463	$	4,238

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

Three and Six Months Ended June 30, 2018 Compared with Three and Six Months Ended June 30, 2017

Net Income

Net income attributable to Brookfield Residential for the three and six months ended June 30, 2018 was $50 million and $53 million, respectively, compared to $22 million and $37 million for the same periods in 2017.

(US$ millions, except per share amounts)	Three Months Ended June 30 2018		Three Months Ended June 30 2017		Six Months Ended June 30 2018		Six Months Ended June 30 2017	
Net income attributable to Brookfield Residential	$	50	$	22	$	53	$	37
Basic earnings per share	$	0.38	$	0.17	$	0.41	$	0.29
Diluted earnings per share	$	0.38	$	0.17	$	0.41	$	0.29

The increase of $28 million in net income attributable to Brookfield Residential for the three months ended June 30, 2018, compared to the same period in 2017 was primarily the result of an increase in gross margin of $37 million mainly due to higher housing gross margins. Additionally, there was a decrease in interest expense of $5 million, an increase in other income of $10 million and an increase in equity earnings from unconsolidated entities of $2 million. This was partially offset by an increase in general and administrative expense of $5 million, an increase in sales and marketing expense of $9 million, an increase in share-based compensation of $1 million and an increase in income tax expense of $9 million. Additionally, there was an increase of $2 million of net income attributable to non-controlling interests.

The increase of $16 million in net income attributable to Brookfield Residential for the six months ended June 30, 2018, compared to the same period in 2017 was primarily the result of an increase in gross margin of $19 million mainly due to higher housing gross margins. Additionally, there was a decrease in interest expense of $8 million, an increase in other income of $17 million and an increase in equity earnings from unconsolidated entities of $6 million. This was partially offset by an increase in general and administrative expense of $12 million, an increase in sales and marketing expense of $10 million, an increase in share-based compensation expense of $2 million and an increase in income tax expense of $8 million. Additionally, there was an increase of $2 million of net income attributable to non-controlling interests.

A breakdown of the revenue and gross margin for the three and six months ended June 30, 2018 and 2017 is as follows:

(US$ millions, except percentages)	Three Months Ended June 30 2018		Three Months Ended June 30 2017		Six Months Ended June 30 2018		Six Months Ended June 30 2017	
Revenue								
Housing	$	535	$	383	$	769	$	690
Land		54		60		95		92
	$	589	$	443	$	864	$	782
Gross Margin								
Housing	$	104	$	68	$	143	$	125
Land		22		21		39		38
	$	126	$	89	$	182	$	163
Gross Margin (%)								
Housing		19%		18%		19%		18%
Land		41%		35%		41%		41%
		21%		20%		21%		21%

For the three months ended June 30, 2018, total revenue increased by $146 million and total gross margin increased by $37 million, when compared to the same period in 2017. The increase in total revenue was primarily the result of 286 additional home closings, as well as a slight increase in the average home selling price. This was partially offset by a decline in land revenue as a result of 230 fewer single family lot closings and seven fewer multi-family, industrial and commercial acre closings when compared to the same period in 2017. Total gross margin increased primarily as a result of higher housing margins and a slight increase in land margins, while total gross margin percentage increased due to product mix. Housing gross margins increased as a result of increased home closings across all of our operating segments, a slight increase in the average home selling price, as well as a higher gross margin percentage across all of our operating segments, due primarily to product mix.

For the six months ended June 30, 2018, total revenue increased by $82 million and total gross margin increased by $19 million when compared to the same period in 2017. The increase in total revenue was primarily the result of 163 additional home closings when compared to the same period in 2017. The increase in home closings was due to higher home closings in our California and Central and Eastern U.S. operating segments, partially offset by fewer closings in our Canadian segment. Additionally, housing revenue was impacted by a slight decrease in the average home selling price. The increase in total revenue was also impacted by an increase in the average single family lot selling price, as well as as an increase in both the multi-family, industrial and commercial and raw and partially finished acre selling prices when compared to the same period in 2017. This was partially offset by 175 fewer single family lot closings. Total gross margin increased primarily as a result of both higher housing and land gross margins, while total gross margin percentage remained consistent when compared to 2017.

Results of Operations – Housing

Housing revenue and gross margin were $535 million and $104 million, respectively, for the three months ended June 30, 2018, compared to $383 million and $68 million for the same period in 2017. The increase in revenue and gross margin was primarily the result of 286 additional home closings as well as a slight increase in the average home selling price primarily as a result of the mix of homes closed. Additionally, there was a 4% increase in the Canadian to U.S. dollar foreign exchange rate when compared to the same period in 2017. The increase in gross margin was also impacted by an increase in the gross margin percentage across all operating segments, primarily as a result of product mix. Revenues are also affected by the geographic mix of homes closed, local product mix and market conditions, which have an impact on the selling price per home.

Housing revenue and gross margin were $769 million and $143 million, respectively, for the six months ended June 30, 2018, compared to $690 million and $125 million for the same period in 2017. The increase in revenue and gross margin was primarily the result of 163 additional home closings, particularly in our California and Central and Eastern U.S. operating segments, partially offset by fewer home closings in our Canadian segment, as well as a 4% increase in the Canadian to U.S. dollar foreign exchange rate when compared to the same period in 2017. This was partially offset by a slight decrease in the average home selling price, due to product mix. The increase in gross margin percentage was primarily driven by higher gross margin percentages in our Central and Eastern U.S. segment, as well as a higher proportion of home closings from our California segment, which typically have a higher gross margin percentage. Revenues are also affected by the geographic mix of homes closed, 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 three and six months ended June 30, 2018 and 2017 is as follows:

Consolidated

	Three Months Ended June 30		**Six Months Ended June 30**	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Home closings	1,019	733	1,477	1,314
Revenue	$ 535	$ 383	$ 769	$ 690
Gross margin	$ 104	$ 68	$ 143	$ 125
Gross margin (%)	19%	18%	19%	18%
Average home selling price	$ 525,000	$ 523,000	$ 521,000	$ 525,000

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

Canada

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Home closings	379	309	573	606
Revenue	$ 137	$ 122	$ 207	$ 235
Gross margin	$ 29	$ 23	$ 42	$ 46
Gross margin (%)	21%	19%	20%	20%
Average home selling price	$ 362,000	$ 395,000	$ 361,000	$ 388,000

In Canada, housing revenue for the three months ended June 30, 2018 increased by $15 million when compared to the same period in 2017, primarily due to 70 additional home closings, partially offset by an 8% decrease in the average home selling price. The increase in home closings was primarily the result of higher closings in our Ontario market where 159 homes had closed in a mid-rise condominium project. The change in the average home selling price was primarily due to lower average selling prices in our Calgary and Ontario markets due to the mix of homes closed. This was partially offset by a 4% increase in the foreign exchange rate between the Canadian and U.S. dollar for the three months ended June 30, 2018 when compared to the same period in 2017. The average home selling price in Canadian dollars for the three months ended June 30, 2018 and 2017, was C$467,000 and C$531,000, respectively, representing a decrease of 12%. Gross margin increased $6 million and gross margin percentage increased 2% for the three months ended June 30, 2018 when compared to the same period in 2017 primarily as a result of higher home closings and the geographic mix of homes sold, with a higher proportion of home closings coming from the Ontario market, which typically have a higher gross margin percentage.

Housing revenue for the six months ended June 30, 2018 decreased by $28 million when compared to the same period in 2017, primarily due to 33 fewer home closings as well as a 7% decrease in the average home selling price. The decrease in home closings was primarily the result of fewer closings in our Edmonton market. The change in the average home selling price was primarily due to lower average selling prices in our Calgary and Ontario markets as a result of the mix of homes sold. This was partially offset by a 4% increase in the foreign exchange rate between the Canadian and U.S. dollar for the six months ended June 30, 2018 when compared to the same period in 2017. The average home selling price in Canadian dollars for the six months ended June 30, 2018 and 2017, was C$463,000 and C$517,000, respectively, representing a decrease of 10%. Gross margin decreased $4 million for the six months ended June 30, 2018 when compared to the same period in 2017 primarily as a result of fewer home closings and a decrease in average home selling prices. Gross margin percentage for the six months ended June 30, 2018 remained consistent when compared to the same period in 2017.

California

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Home closings	377	240	515	404
Revenue	$ 278	$ 177	$ 378	$ 317
Gross margin	$ 55	$ 32	$ 71	$ 59
Gross margin (%)	20%	18%	19%	19%
Average home selling price	$ 737,000	$ 739,000	$ 735,000	$ 784,000

Our California segment had housing revenue of $278 million for the three months ended June 30, 2018, an increase of $101 million when compared to the same period in 2017. The increase in revenue was primarily due to 137 additional home closings, partially offset by a slight decrease in the average home selling price for the three months ended June 30, 2018 when compared to the same period in 2017. The increase in home closings is primarily due to higher closings in our Southern California market. The decrease in the average home selling price is primarily the result of the mix of homes closed, with a lower proportion of home closings from the Bay Area, where the current product offerings have higher average home selling prices. Gross margin increased $23 million in the three months ended June 30, 2018 as a result of an increase in home closings when compared to the same period in 2017, while gross margin percentage increased 2% when compared to the same period in 2017, primarily as a result of the mix of homes sold within the operating segment.

Housing revenue in our California segment was $378 million for the six months ended June 30, 2018, an increase of $61 million when compared to the same period in 2017. The increase in revenue was primarily due to 111 additional home closings for the six months ended June 30, 2018, when compared to the same period in 2017, partially offset by a 6% decline in the average home selling price. The average home selling price decrease is primarily the result of the product mix of homes closed, as well as the geographic mix of homes closed across the segment where current active communities in Southern California have a lower average selling price compared to 2017. Gross margin increased $12 million as a result of a higher home closings, while gross margin percentage remained consistent when compared to the same period in 2017.

Central and Eastern U.S.

	Three Months Ended June 30		**Six Months Ended June 30**	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Home closings	263	184	389	304
Revenue	$ 120	$ 84	$ 184	$ 138
Gross margin	$ 20	$ 13	$ 30	$ 20
Gross margin (%)	17%	15%	16%	14%
Average home selling price	$ 458,000	$ 457,000	$ 472,000	$ 454,000

Central and Eastern U.S. housing revenue increased by $36 million for the three months ended June 30, 2018, when compared to the same period of 2017. The increase in revenue was primarily the result of 79 additional home closings, as well as a slight increase in the average home selling price for the three months ended June 30, 2018 , when compared to the same period in 2017. The increase in the number of homes closed was primarily due to higher home closings in our Denver and Austin markets. Gross margin and gross margin percentage increased $7 million and 2%, respectively, when compared to the same period in 2017 primarily as a result of higher closings, as well as a higher gross margin percentage in our Denver and Austin markets, primarily as a result of product mix.

Central and Eastern U.S. housing revenue increased by $46 million for the six months ended June 30, 2018 when compared to the same period of 2017. The increase in revenue was primarily the result of a 4% increase in the average home selling price and 85 additional home closings for the six months ended June 30, 2018, when compared to the same period in 2017. The increase in home closings was primarily due to higher home closings in our Denver and Austin markets, while the increase in the average home selling price was primarily due to the product mix of homes sold, particularly in our Denver and Washington D.C. markets. Gross margin and gross margin percentage increased $10 million and 2%, respectively, when compared to the same period in 2017 primarily as a result of product mix, an increase in the average home selling price and higher home closings.

Home Sales – Incentives

We grant our homebuyers sales incentives from time-to-time in order to promote sales of our homes. The type and amount of incentives will vary on a community-by-community and home-by-home basis. Incentives that impact the value of the home or the sales price paid, such as additional options, are reflected as a reduction to sales revenue. Incentives that we pay to an outside party, such as paying some or all of a homebuyer’s closing costs, are recorded as cost of sales. Incentives are recognized at the time title passes to the homebuyer and the sale is recognized. For the three and six months ended June 30, 2018, total incentives recognized as a percentage of gross revenues were 2% and 2%, respectively, compared to 4% and 4% for the same periods in 2017.

Our incentives on homes closed by operating segment for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30			
	2018		2017	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 2	1%	$ 3	2%
California	4	1%	7	4%
Central and Eastern U.S.	5	4%	5	5%
	$ 11	2%	$ 15	4%

	Six Months Ended June 30			
	2018		2017	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 3	2%	$ 6	3%
California	6	1%	13	4%
Central and Eastern U.S.	8	4%	8	6%
	$ 17	2%	$ 27	4%

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders, including our share of unconsolidated entities, for the three and six months ended June 30, 2018 totalled 785 units and 1,709 units, respectively, a decrease of 216 units and 226 units when compared to the same periods in 2017. For the three and six months ended June 30, 2018, the decrease in net new home orders was the result of fewer net new orders in our Canadian operating segment, partially offset by an increase in net new orders in our California and Central and Eastern U.S. operating segments. The decrease in net new orders in Canada is primarily due to lower orders in our Ontario market due to the timing of community openings as a result of market conditions. Net new orders in our Central and Eastern U.S. segment increased as a result of higher home sales in our Austin market while net new orders in California increased from higher net new orders in our Southern California market. The net new orders in our unconsolidated entities for the three and six months ended June 30, 2018 is consistent with the same period in 2017. Average monthly sales per community by reportable segment for the three and six months ended June 30, 2018 were: Canada – 2 and 2 units (2017 – 6 and 5 units); California – 4 and 4 units (2017 – 4 and 4 units); Central and Eastern U.S. – 3 and 4 units (2017 – 3 and 3 units); and unconsolidated entities – 1 and 1 unit (2017 – 1 and 1 unit). We were selling from 90 active housing communities, including our share of unconsolidated entities, at June 30, 2018 compared to 80 at June 30, 2017.

The net new home orders for the three and six months ended June 30, 2018 and 2017 by our three operating segments were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(Units)	2018	2017	2018	2017
Canada	190	479	344	856
California	312	301	652	602
Central and Eastern U.S.	280	218	709	473
	782	998	1,705	1,931
Unconsolidated entities	3	3	4	4
	785	1,001	1,709	1,935

The overall cancellation rates for the three and six months ended June 30, 2018 were 11% and 9%, respectively, compared to 8% and 8% in 2017. The increase in the cancellation rate for the three and six months ended June 30, 2018 was primarily driven by a higher number of cancellations in our Ontario market. The cancellation rates for the three and six months ended June 30, 2018 and 2017 by our three operating segments were as follows:

	Three Months Ended June 30			
	2018		2017	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	14	7%	7	1%
California	37	11%	42	12%
Central and Eastern U.S.	46	14%	34	13%
	97	11%	83	8%
Unconsolidated entities	—	—%	—	—%
	97	11%	83	8%

	Six Months Ended June 30			
	2018		2017	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	25	7%	9	1%
California	67	9%	75	11%
Central and Eastern U.S.	86	11%	86	15%
	178	9%	170	8%
Unconsolidated entities	1	22%	—	—%
	179	9%	170	8%

Home Sales – Backlog

Our backlog, which represents the number of new homes subject to sales contracts, as at June 30, 2018 and 2017 by operating segment, was as follows:

	As at June 30			
	2018		2017	
(US$ millions, except unit activity)	**Units**	**Value**	**Units**	**Value**
Canada	720	$ 331	1,296	$ 609
California	552	400	452	358
Central and Eastern U.S.	649	307	410	199
	1,921	1,038	2,158	1166
Unconsolidated entities	2	2	2	2
Total	1,923	$ 1,040	2,160	$ 1,168

We expect all of our backlog to close in 2018 and 2019, subject to future cancellations. The units in our backlog decreased compared to the prior period primarily due to lower net new home orders in our Canadian operating segment for the six months ended June 30, 2018, compared to the same period in 2017. Our units in backlog in our Canadian operations decreased compared to 2017 due to fewer backlog units in our Ontario market. Our California operations units in backlog increased as a result of an 8% increase in net new home orders, driven by higher net new orders in Southern California, partially offset by a decrease in the Bay Area for the six months ended June 30, 2018, compared to the same period in 2017. The increase of 239 units in the Central and Eastern U.S. segment was primarily due to a 50% increase in net new orders, which led to higher backlog units, particularly in our Austin and Washington D.C. markets for the six months ended June 30, 2018 compared to the same period in 2017. Total backlog value decreased as at June 30, 2018 compared to the same period in 2017 primarily as a result of fewer backlog units.

Results of Operations – Land

Land revenue totalled $54 million for the three months ended June 30, 2018, a decrease of $6 million when compared to the same period in 2017, and land gross margin totalled $22 million, an increase of $1 million compared to the same period in 2017. The decrease in land revenue was primarily due to 230 fewer single family lot closings and seven fewer multi-family, industrial and commercial acre sales. This was partially offset by an increase in the average single family lot selling price as well as an increase in the average selling price for both multi-family, industrial, and commercial and raw and partially finished acre sales. Gross margin increased slightly when compared to the same period in 2017 while gross margin percentage increased as a result of the mix of land sold for the three months ended June 30, 2018 primarily due to an increase in the land gross margin percentage in our Canadian segment. Our land revenue may vary significantly from period to period due to the nature and timing of land sales. Revenues are also affected by local product mix and market conditions, which have an impact on the selling price per lot.

Land revenue totalled $95 million for the six months ended June 30, 2018, an increase of $3 million when compared to the same period in 2017, and land gross margin totalled $39 million, an increase of $1 million compared to the same period in 2017. The increase in land revenue for the six months ended June 30, 2018 was primarily due to an increase in the average selling price for single family lot closings, as well as an increase in the average selling price for both multi-family, industrial, and commercial as well as raw and partially finished acre sales. This was partially offset by 175 fewer single family lot closings when compared to the same period in 2017. Gross margin increased slightly while the gross margin percentage remained consistent with the same period in 2017. Our land revenue may vary significantly from period to period due to the nature and timing of land sales. Revenues are also affected by local product mix and market conditions, which have an impact on the selling price per lot. A breakdown of our results from land operations for the three and six months ended June 30, 2018 and 2017 is as follows:

Consolidated

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended June 30 2018	Three Months Ended June 30 2017	Six Months Ended June 30 2018	Six Months Ended June 30 2017
Lot closings (single family units)	367	597	631	806
Acre closings (multi-family, industrial and commercial)	1	8	10	9
Acre closings (raw and partially finished)	19	230	19	254
Revenue	$ 54	$ 60	$ 95	$ 92
Gross margin	$ 22	$ 21	$ 39	$ 38
Gross margin (%)	41%	35%	41%	41%
Average lot selling price (single family units)	$ 141,000	$ 94,000	$ 136,000	$ 102,000
Average per acre selling price (multi-family, industrial and commercial)	$ 775,000	$ 371,000	$ 769,000	$ 383,000
Average per acre selling price (raw and partially finished)	$ 94,000	$ 3,000	$ 94,000	$ 22,000

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

Canada

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended June 30 2018	Three Months Ended June 30 2017	Six Months Ended June 30 2018	Six Months Ended June 30 2017
Lot closings (single family units)	166	212	325	343
Acre closings (multi-family, industrial and commercial)	1	3	10	3
Acre closings (raw and partially finished)	19	230	19	230
Revenue	$ 26	$ 30	$ 54	$ 50
Gross margin	$ 15	$ 15	$ 26	$ 29
Gross margin (%)	58%	50%	48%	58%
Average lot selling price (single family units)	$ 144,000	$ 131,000	$ 137,000	$ 138,000
Average per acre selling price (multi-family, industrial and commercial)	$ 775,000	$ 559,000	$ 769,000	$ 559,000
Average per acre selling price (raw and partially finished)	$ 94,000	$ 3,000	$ 94,000	$ 3,000

Land revenue in Canada for the three months ended June 30, 2018 was $26 million, a decrease of $4 million when compared to the same period in 2017. The decrease was primarily the result of 46 fewer single family lots closed and two fewer multi-family, industrial and commercial acre sales. This was partially offset by a 10% increase in the average lot selling price and an increase in the average per acre selling price for both multi-family, industrial and commercial and raw and partially finished parcels. Gross margin remained consistent when compared to 2017 primarily as a result of fewer lot closings offset by an increase in the average lot selling prices, primarily in our Edmonton market due to the mix of communities where the land was sold. Gross margin percentage increased 8% when compared to 2017, primarily due to the mix of land sold. Additionally, there was a 4% increase in the Canadian to U.S. dollar foreign exchange rate which resulted in a favorable translated average lot selling price for 2018 compared to 2017. When comparing the average single family lot selling price in Canadian dollars for the three months ended June 30, 2018 to the same period in 2017, the average lot selling price was C$186,000 compared to C$176,000.

Land revenue in Canada for the six months ended June 30, 2018 was $54 million, an increase of $4 million when compared to the same period in 2017. The increase was primarily the result of seven additional multi-family, industrial and commercial acres sold as well as an increase in the average selling price for multi-family, industrial and commercial acres. This was partially offset by 18 fewer single family lots closed, as well as a slight decrease in the average lot selling price. Gross margin decreased $3 million when compared to 2017 primarily as a result of fewer single family lot closings as well as a 10% decrease in the gross margin percentage, due to the geographic mix of communities where the land was sold. This was partially offset by a 4% increase in the Canadian to U.S. dollar foreign exchange rate which resulted in a favorable translated average lot selling price for 2018 compared to 2017. When comparing the average single family lot selling price in Canadian dollars for the three months ended June 30, 2018 to the same period in 2017, the average lot selling price was C$175,000 compared to C$184,000.

California

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Lot closings (single family units)	129	20	176	20
Acre closings (raw and partially finished)	—	—	—	16
Revenue	$ 22	$ 4	$ 31	$ 9
Gross margin	$ 7	$ 2	$ 12	$ 4
Gross margin (%)	32%	50%	39%	44%
Average lot selling price (single family units)	$ 172,000	$ 212,000	$ 177,000	$ 217,000
Average per acre selling price (raw and partially finished)	$ —	$ —	$ —	$ 254,000

Land revenue in California for the three months ended June 30, 2018 increased by $18 million and gross margin increased $5 million when compared to the same period in 2017. This was primarily due to 109 additional single family lot closings for the three months ended June 30, 2018 compared to the same period in 2017, partially offset by a decrease in the average lot selling price, due to the mix of land sold. Gross margin percentage decreased as a result of a change in the geographic mix of land sold.

Land revenue in California for the six months ended June 30, 2018 increased by $22 million and gross margin increased $8 million when compared to the same period in 2017. This was primarily due to 156 additional single family lot closings, partially offset by 16 fewer raw and partially finished acre sales, as well as a decrease in the average single family lot selling price. Gross margin percentage decreased 5% as a result of a change in the mix of land sold as well as a geographic mix of land sold within the segment.

Central and Eastern U.S.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Lot closings (single family units)	72	365	130	443
Acre closings (multi-family, industrial and commercial)	—	5	—	6
Acre closings (raw and partially finished)	—	—	—	8
Revenue	$ 6	$ 26	$ 10	$ 33
Gross margin	$ —	$ 4	$ 1	$ 5
Gross margin (%)	—%	15%	10%	15%
Average lot selling price (single family units)	$ 78,000	$ 66,000	$ 78,000	$ 69,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ 240,000	$ —	$ 281,000
Average per acre selling price (raw and partially finished)	$ —	$ —	$ —	$ 95,000

For the three months ended June 30, 2018, Central and Eastern U.S. land revenue and gross margin decreased by $20 million and $4 million, respectively. The decrease in revenue and gross margin was primarily a result of 293 fewer single family lot closings. The decrease in lot closings was primarily due to a bulk lot sale in our Phoenix market in 2017 with no such sale occurring in 2018. This was partially offset by an increase in the average lot selling price, primarily as a result of a change in the geographic mix of lots sold within the segment. Gross margin percentage decreased as a result of the mix of lots sold within the segment during the three months ended June 30, 2018, when compared to the same period in 2017.

For the six months ended June 30, 2018, Central and Eastern U.S. land revenue and gross margin decreased by $23 million and $4 million, respectively. The decrease in revenue and gross margin was a result of 313 fewer single family lot closings, six fewer multi-family, industrial and commercial acre sales, as well as eight fewer raw and partially finished acre sales. This was partially offset by a 13% increase in the average lot selling price, primarily as a result of a change in the geographic mix of lots sold within the segment. Gross margin percentage decreased as a result of the mix of lots sold within the segment during the three months ended June 30, 2018, when compared to the same period in 2017.

Equity in Earnings from Unconsolidated Entities

Equity in earnings from unconsolidated entities for the three and six months ended June 30, 2018 totalled $4 million and $9 million, respectively, compared to $1 million and $3 million, respectively, for the same periods in 2017. 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:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Home closings	2	2	3	3
Revenue	$ 2	$ 3	$ 4	$ 4
Gross margin	$ 1	$ 1	$ 1	$ 1
Gross margin (%)	50%	33%	25%	25%
Average home selling price	$1,229,000	$1,484,000	$1,403,000	$1,321,000

Housing revenue within unconsolidated entities decreased $1 million and gross margin remained consistent for the three months ended June 30, 2018 compared to the same period in 2017. The decrease in revenue was due to the product mix of homes closed, with an 17% decrease in the average selling price in 2018 when compared to the same period in 2017.

Housing revenue and gross margin within unconsolidated entities remained consistent for the six months ended June 30, 2018 compared to the same period in 2017. This was due to consistent product mix and number of homes closed when compared to the same period in 2017.

Land

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

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Lot closings (single family units)	96	84	122	183
Acre closings (multi-family, industrial and commercial)	—	—	16	1
Revenue	$ 14	$ 12	$ 23	$ 21
Gross margin	$ 4	$ 2	$ 8	$ 4
Gross margin (%)	29%	17%	35%	19%
Average lot selling price (single family units)	$ 137,000	$ 139,000	$ 143,000	$ 114,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ —	$ 350,000	$ 258,000

Land revenue within unconsolidated entities increased $2 million for the three months ended June 30, 2018 compared to the same period in 2017. This was primarily the result 12 additional single family lot closings, combined with the recognition of a forfeited non-refundable deposit on a large parcel of land. This was partially offset by a slight decrease in the average selling price for single family lot closings for the three months ended June 30, 2018 compared to the same period in 2017.

Land revenue within unconsolidated entities increased $2 million for the six months ended June 30, 2018 compared to the same period in 2017. This was primarily the result of a 25% increase in the average lot selling price and 15 additional multi-family, industrial and commercial acre sales with higher average selling prices. This was partially offset by 61 fewer single family lot closings, primarily from our joint ventures in the Phoenix market, for the six months ended June 30, 2018 compared to the same period in 2017.

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three and six months ended June 30, 2018 and 2017 are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2018**	**2017**	**2018**	**2017**
General and administrative expense	$ 36	$ 31	$ 73	$ 61
Sales and marketing expense	31	22	50	40
Share-based compensation	4	3	8	6
	$ 71	$ 56	$ 131	$ 107

The selling, general and administrative expense was $71 million for the three months ended June 30, 2018, an increase of $15 million when compared to the same period in 2017. General and administrative expense increased $5 million for the three months ended June 30, 2018 due to higher salaries and benefits costs, primarily from an increase in headcount arising from the acquisition of OliverMcMillan, taking on the management of our joint venture in the Phoenix market and from a 4% increase in the foreign exchange rate between the Canadian and U.S. dollar when compared to 2017. Additionally, our general and administrative expense was also impacted by a re-classification of joint venture management fee income into other income, as well as increased transaction costs relating to the acquisition of OliverMcMillan in the first quarter of 2018. For the three months ended June 30, 2017, there was $2 million of joint venture management fee income that was included as an offset to general and administrative expense. For more information refer to Note 2 "Changes in Accounting Policies" and Note 7 "Business Combinations" of the condensed consolidated financial statements. Sales and marketing expense for the three months ended June 30, 2018 increased $9 million when compared to the same period in 2017, primarily due to higher housing activity. Share-based compensation increased $1 million during the three months ended June 30, 2018 compared to 2017, as a result of the change in the fair value and vesting of our share-based compensation liabilities.

The selling, general and administrative expense was $131 million for the six months ended June 30, 2018, an increase of $24 million when compared to the same period in 2017. General and administrative expense increased $12 million for the six months ended June 30, 2018 due to higher salaries and benefits costs, primarily from an increase in headcount arising from the acquisition of OliverMcMillan, taking on the management of our joint venture in the Phoenix market and from a 4% increase in the foreign exchange rate between the Canadian and U.S. dollar when compared to 2017. Additionally, our general and administrative expense was also impacted by a re-classification of joint venture management fee income into other income, as well as increased transaction costs relating to the acquisition of OliverMcMillan in the first quarter of 2018. For the six months ended June 30, 2017, there was $4 million of joint venture management fee income that was included as an offset to general and administrative expense. For more information refer to Note 2 "Changes in Accounting Policies" and Note 7 "Business Combinations" of the condensed consolidated financial statements. Sales and marketing expense for the six months ended June 30, 2018 increased $10 million when compared to the same period in 2017, primarily due to higher housing activity. Share-based compensation increased $2 million during the six months ended June 30, 2018 compared to 2017, as a result of the change in the fair value and vesting of our share-based compensation liabilities.

Other (Income) / Expense

The components of other (income) / expense for the three and six months ended June 30, 2018 and 2017 are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	2018	2017	2018	2017
Investment income	$ (9)	$ (4)	$ (17)	(9)
Joint venture management fee income	(5)	—	(9)	—
Other	(2)	(2)	(2)	(2)
	$ (16)	$ (6)	$ (28)	$ (11)

For the three months ended June 30, 2018, other income increased $10 million when compared to the same period in 2017. This was primarily the result of a $4 million increase in interest revenue earned on our loan receivables and a $5 million increase due to joint venture management fee income, which was reclassified from general and administrative expense in 2018. The comparative period was not restated. For more information refer to Note 2 "Changes in Accounting Policies" of the condensed consolidated financial statements.

For the six months ended June 30, 2018, other income increased $17 million compared to the same period in 2017. This was primarily the result of a $8 million increase in interest revenue earned on our loan receivables and a $9 million increase due to joint venture management fee income, which was reclassified from general and administrative expense in 2018. The comparative period was not restated. For more information refer to Note 2 "Changes in Accounting Policies" of the condensed consolidated financial statements.

Income Tax Expense

Income tax expense for the three and six months ended June 30, 2018 was $12 million and $10 million, respectively, compared to $3 million and $2 million, for the same periods in 2017. The components of current and deferred income tax expense are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	2018	2017	2018	2017
Current income tax expense	$ 7	$ —	$ 8	$ —
Deferred income tax expense	5	3	2	2
	$ 12	$ 3	$ 10	$ 2

The income tax provision for the three and six months ended June 30, 2018 reflects the impact of the Tax Cuts and Jobs Act, which was enacted into law on December 22, 2017. For the three and six months ended June 30, 2018, current income tax expense increased $7 million and $8 million, respectively, when compared to the same periods in 2017. This was primarily due to the increase in income before taxes in our U.S. operations when compared to the same periods in 2017 and a decrease in withholding tax refund of $1 million received in the period ended June 30, 2017, with no such refund received for the current period.

For the three and six months ended June 30, 2018, deferred income tax expense increased $2 million and $nil, respectively, when compared to the same periods in 2017. The increase for the three months ended June 30, 2018 was primarily due to the increase in income before taxes in our Canadian operations when compared to the same period in 2017.

Foreign Exchange Translation

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

Assets and liabilities of subsidiaries or equity accounted investees having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at June 30, 2018, the rate of exchange was C$1.3135 equivalent to US$1 (December 31, 2017 – C$1.2574 equivalent to US$1). Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the three months ended June 30, 2018, the average rate of exchange was C$1.2905 equivalent to US$1 (June 30, 2017 – C$1.3443 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 condensed consolidated statements of operations as other income / (expense), except for those related to monetary liabilities qualifying as hedges of the Company’s investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

The financial results of our Canadian operations are translated into U.S. dollars for financial reporting purposes. Foreign currency translation gains and losses are recorded as the exchange rate between the two currencies fluctuates. These gains and losses are included in OCI and accumulated OCI. The translation of our Canadian operations resulted in a loss of $15 million and $36 million, respectively, for the three and six months ended June 30, 2018, compared to a gain of $22 million and $29 million, respectively, in the same periods of 2017.

QUARTERLY OPERATING AND FINANCIAL DATA [(1)]

	2018		2017				2016	
(US$ millions, except unit activity and per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Quarterly Operating Data								
Home closings (units)	1,019	458	1,168	692	733	581	1,214	788
Lot closings (single family units)	367	264	1,076	467	597	209	1,347	325
Acre closings (multi-family, industrial and commercial)	1	9	59	15	8	1	16	6
Acre closings (raw and partially finished)	19	—	61	313	230	24	1,994	—
Net new home orders (units)	782	923	679	716	998	933	855	816
Backlog (units at end of period)	1,921	2,158	1,693	2,182	2,158	1,893	1,541	1,900
Backlog value	$ 1,038	$ 1,182	$ 928	$1,198	$1,166	$ 969	$ 783	$ 977
Quarterly Financial Data[(1)]								
Revenue	$ 589	$ 274	$ 818	$ 451	$ 443	$ 338	$ 853	$ 421
Direct cost of sales	(463)	(218)	(610)	(349)	(354)	(264)	(646)	(330)
Gross margin	126	56	208	102	89	74	207	91
Gain on commercial assets held for sale	—	—	—	—	—	—	14	—
Selling, general and administrative expense	(71)	(60)	(74)	(56)	(56)	(51)	(57)	(52)
Interest expense	(9)	(12)	(13)	(15)	(14)	(15)	(12)	(14)
Equity in earnings from unconsolidated entities	4	5	7	5	1	2	(1)	5
Other income	14	12	8	7	5	4	3	1
Income before income taxes	64	1	136	43	25	14	154	31
Income tax (expense) / recovery	(12)	2	(42)	(8)	(3)	2	(46)	(6)
Net income	52	3	94	35	22	16	108	25
Net income attributable to non-controlling interest	2	—	—	—	—	—	—	—
Net income attributable to Brookfield Residential	$ 50	$ 3	$ 94	$ 35	$ 22	$ 16	$ 108	$ 25
Foreign currency translation	(15)	(21)	(8)	32	22	7	(18)	(12)
Comprehensive income / (loss)	$ 35	$ (18)	$ 86	$ 67	$ 44	$ 23	$ 90	$ 13
Basic	$ 0.38	$ 0.02	$ 0.72	$ 0.27	$ 0.17	$ 0.12	$ 0.94	$ 0.22
Diluted	$ 0.38	$ 0.02	$ 0.72	$ 0.27	$ 0.17	$ 0.12	$ 0.94	$ 0.22

(1) *The Company applied ASC Topic 606 Revenue from Contracts with Customers, ("ASC Topic 606") with an initial application date of January 1, 2018. ASC Topic 606 was applied using the modified retrospective approach and therefore, the comparative information has not been adjusted and continues to be reported under ASC Topic 605 Revenue Recognition. For more information, refer to Note 2 "Changes in Accounting Policies" of the condensed consolidated financial statements.*

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

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's condensed consolidated balance sheets as at June 30, 2018 and December 31, 2017:

	As at	
(US$ millions)	**June 30 2018**	**December 31 2017**
Land and housing inventory	$ 3,094	$ 2,998
Investments in unconsolidated entities	394	313
Commercial properties	37	38
Receivables and other assets	430	413
Held-to-maturity investment	300	300
Cash and restricted cash	128	108
Deferred income tax assets	64	68
Goodwill	16	—
	$ 4,463	$ 4,238
Notes payable	$ 1,625	$ 1,632
Bank indebtedness and other financings	229	31
Accounts payable and other liabilities	576	561
Total equity	2,033	2,014
	$ 4,463	$ 4,238

Assets

Our assets as at June 30, 2018 totalled $4.5 billion. Our land and housing inventory and investments in unconsolidated entities are our most significant assets with a combined book value of $3.5 billion, or approximately 78% of our total assets. The land and housing assets increased when compared to December 31, 2017 due to acquisitions of $110 million, land development and home construction activity, partially offset by sales activity. Our land and housing assets include land under development and land held for development, finished lots ready for construction, homes completed and under construction and model homes.

A summary of our lots owned, excluding unconsolidated entities, and their stage of development as at June 30, 2018 compared with December 31, 2017 follows:

	As at			
	June 30, 2018		**December 31, 2017**	
(US$ millions, except units)	**Units**	**Book Value**	**Units**	**Book Value**
Land held for development (lot equivalents)	68,374	$ 1,465	70,389	$ 1,448
Land under development and finished lots (single family units)	7,842	775	7,192	833
Housing units, including models	2,692	753	1,972	631
	78,908	$ 2,993	79,553	$ 2,912
Multi-family, industrial and commercial parcels (acres)	169	$ 101	139	$ 86

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at June 30 2018	As at December 31 2017
6.50% 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)	190	199
6.375% unsecured senior notes due May 15, 2025 (d)	350	350
	$ 1,640	$ 1,649
Transaction costs (e)	(15)	(17)
	$ 1,625	$ 1,632

(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 6.50%. 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 as at June 30, 2018. Our actual fixed charge coverage and indebtedness to consolidated net tangible worth ratio as at June 30, 2018 are reflected in the table below:

	Covenant	Actual as at June 30 2018
Minimum fixed charge coverage	2.0 to 1	3.1 to 1
Maximum indebtedness to consolidated net tangible worth	2.25 to 1	0.93 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings as at June 30, 2018 were $229 million, an increase of $198 million from December 31, 2017. The increase was primarily the result of 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 June 30, 2018, the weighted average interest rate on our bank indebtedness and other financings was 4.2% (December 31, 2017 – 3.9%).

The debt maturing in 2018 and onwards is expected to either be refinanced or repaid from home and/or lot closings over this period. Additionally, as at June 30, 2018, we had bank indebtedness capacity of $417 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	
	June 30 2018	**December 31 2017**
Bank indebtedness (a)	$ 192	$ —
Secured VTB mortgages (b)	17	31
Project-specific financings (c)	24	—
	233	31
Transaction costs (a)	(4)	—
	$ 229	$ 31

(a) Bank indebtedness

(i) On March 8, 2018, the Company and Brookfield Residential US Corporation, a wholly owned subsidiary of the Company, entered into a three-year North American senior unsecured credit facility with various lenders, to replace its previously held Canadian secured credit facilities and its U.S. unsecured revolving credit facility. Brookfield Residential US Corporation and the Company are co-borrowers. The facility allows the Company to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

As at June 30, 2018, the total borrowings outstanding under the North American unsecured credit facility were $192 million (December 31, 2017 - $nil).

For U.S. dollar denominated borrowings, interest is charged on the facility at a rate equal to, at the borrower's option, either the adjusted LIBOR plus an applicable rate between 1.75% and 2.25% per annum or an alternative base rate ("ABR") plus an applicable rate between 0.75% and 1.25% per annum. For Canadian dollar denominated borrowings, interest is charged on the facility at a rate equal to either the Canadian dollar offered rate ("CDOR") plus an applicable rate between 1.75% and 2.25% per annum or the Canadian prime rate plus an applicable rate between 0.75% and 1.25% per annum.

The facility contains certain restrictive covenants including limitations on liens, dividends and other distributions, investments in subsidiaries and joint ventures that are not party to the loan. The facility requires the Company to maintain a minimum consolidated tangible net worth of $1,177 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at June 30, 2018, the Company was 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 covenants:

(US$ millions, except percentages)	**Covenant**	**Actual as at June 30 2018**
Minimum tangible net worth	$ 1,177	$ 2,017
Maximum net debt to capitalization	65%	47%

The transaction costs are costs related to the issuance of the Company's facility, and are amortized using the effective interest rate method over the life of the facility.

(ii) On March 8, 2018, the Company had repaid and extinguished its secured Canadian credit facilities, which were previously outstanding as of December 31, 2017.

The Company has extinguished its four secured Canadian credit facilities, with various Canadian banks, which had no outstanding borrowings as of December 31, 2017. These facilities had allowed the Company to borrow up to approximately C$505 million (US$402 million) as of December 31, 2017. The facilities were previously secured by 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 Residential (Ontario) LP, both wholly owned subsidiaries of the Company.

(iii) On March 8, 2018, the Company repaid and extinguished its U.S. unsecured revolving credit facility with various lenders, which had no outstanding borrowings as of December 31, 2017. Brookfield Residential US Corporation, a wholly-owned subsidiary of the Company, as borrower, and the Company, as the parent company to the borrower, had borrowings allowable up to $275 million.

(b) Secured VTB mortgages

Six secured VTB mortgages (December 31, 2017 – four secured VTB mortgages) in the amount of $13 million (December 31, 2017 – $12 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Residential (Ontario) LP. This debt is repayable in Canadian dollars of C$17 million (December 31, 2017 – C$15 million). The interest rate on this debt ranges from fixed rates of 2.2% to 6% and the debt is secured by related land. As at June 30, 2018, these borrowings are not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2017 – six secured VTB mortgages) in the amount of $4 million (December 31, 2017 – $19 million) relate to raw land held for development by various wholly-owned U.S. subsidiaries of the Company. The interest rate on the debt ranges from fixed rates of 0% to 6% and the debt is secured by related land. As at June 30, 2018, these borrowings are not subject to any financial covenants.

(c) Project-specific financings

The Company has one outstanding project-specific financing totalling $24 million (C$32 million) (December 31, 2017 - $nil). The financing has an interest rate of Canadian prime plus 0.50%, matures in 2019, and is secured by the land and housing inventory assets of our Alberta operations and a general charge over the property of Brookfield Residential (Alberta) LP, a wholly owned-subsidiary of the Company. This debt is repayable in Canadian dollars of C$32 million (December 31, 2017 - C$nil). This borrowing includes a minimum debt to equity covenant of no greater than 1.50 to 1, for Brookfield Residential (Alberta) LP. At June 30, 2018 we were in compliance with our covenants related to the project-specific financing. The following table reflects the debt to equity ratio covenant:

	Covenant	**Actual as at June 30 2018**
Maximum debt to equity ratio	1.50 to 1	0.35 to 1

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 June 30, 2018 and December 31, 2017 was as follows:

	As at	
(US$ millions, except percentages)	**June 30 2018**	**December 31 2017**
Bank indebtedness and other financings	$ 229	$ 31
Notes payable	1,625	1,632
Total interest bearing debt	1,854	1,663
Less: cash	(121)	(105)
	1,733	1,558
Total equity	2,033	2,014
Total capitalization	$ 3,766	$ 3,572
Net debt to total capitalization	46%	44%

Credit Ratings

Our access to financing depends on, among other things, suitable market conditions and the maintenance of suitable long-term credit ratings. Our credit ratings may be adversely affected by various factors, including increased debt levels, decreased earnings, declines in our customer demand, increased competition, a further deterioration in general economic and business conditions and adverse publicity. Any downgrades in our credit rating may impede our access to capital markets or raise our borrowing rates. We are currently rated by two credit rating agencies, Moody's and Standard & Poor's ("S&P"). We are committed to maintaining these ratings and improving them further over time. Our credit ratings at June 30, 2018 and at the date of this report were as follows:

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

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 June 30, 2018, we had cash and cash equivalents, including restricted cash, of $128 million, compared to $108 million at December 31, 2017.

The net cash flows for the six months ended June 30, 2018 and 2017 were as follows:

	Six Months Ended June 30	
(US$ millions)	2018	2017
Cash flows used in operating activities	$ (118)	$ (130)
Cash flows used in investing activities	(64)	(8)
Cash flows provided by financing activities	205	81
Effect of foreign exchange rates on cash	(3)	3
	$ 20	$ (54)

Cash Flow Used in Operating Activities

Cash flows used in operating activities during the six months ended June 30, 2018 totalled $118 million, compared to $130 million for the same period in 2017. During the six months ended June 30, 2018, cash used in operating activities was impacted by our net income, an increase in land and housing inventory due to strategic land purchases, development activity and construction of homes, an increase in receivables and other assets and an increase in accounts payable and other liabilities. Acquisitions for the six months ended June 30, 2018 totalled $110 million, consisting of $20 million in Canada, $72 million in California and $18 million in Central and Eastern U.S. During the six months ended June 30, 2017, cash used in operating activities was impacted by our net income, an increase in land and housing inventory due to strategic land purchases and development activity, an increase in receivables and other assets, and a decrease in accounts payable and other liabilities. Acquisitions for the six months ended June 30, 2017 totalled $126 million, consisting of $36 million in Canada, $60 million in California and $30 million in Central and Eastern U.S.

Cash Flow Used in Investing Activities

During the six months ended June 30, 2018, cash flows used in investing activities totalled $64 million compared to $8 million for the same period in 2017. During the six months ended June 30, 2018, we invested $75 million in unconsolidated entities primarily as a result of the OliverMcMillan acquisition as well as in our joint ventures in Southern California, and had an increase in commercial properties of $1 million. This was partially offset by dividend income from our held-to-maturity investment, a decrease in loan receivables and distributions from unconsolidated entities. During the six months ended June 30, 2017, we invested $16 million in unconsolidated entities, primarily in our California and Phoenix joint ventures, and increased commercial properties. This was partially offset by distributions from unconsolidated entities, as well as an increase in dividend income from our held-to-maturity investment.

Cash Flow Provided by Financing Activities

Cash flows provided by our financing activities for the six months ended June 30, 2018 totalled $205 million, compared to $81 million in the same period in 2017. The cash provided by our financing activities during the six months ended June 30, 2018 was primarily from borrowings under bank indebtedness of $192 million, net borrowings under project-specific and other financings of $11 million and net contributions from non-controlling interest of $2 million. For the six months ended June 30, 2017, there were borrowings under bank indebtedness of $101 million and net distributions from non-controlling interest of $3 million, which was partially offset by net repayments under project-specific and other financings of $23 million.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at June 30, 2018 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]	$ 1,640	$ —	$ 600	$ 690	$ 350
Interest on notes payable	450	103	188	114	45
Secured VTB mortgages[2][3]	17	6	9	2	—
Bank indebtedness[2][3]	192	192	—	—	—
Accounts payable and other liabilities[4]	576	576	—	—	—
Operating lease obligations[5]	63	5	18	15	25
Purchase agreements[6]	63	35	27	1	—

(1) Amounts are included on the condensed consolidated balance sheets and exclude transaction costs. See Note 11 to the condensed consolidated financial statements for additional information regarding unsecured senior notes payable.

(2) Amounts are included on the condensed consolidated balance sheets. See Note 12 to the condensed consolidated financial statements for additional information regarding bank indebtedness and other financings and related matters.

(3) Amounts do not include interest due to the floating nature of the interest on our debt. See Note 12 to the condensed consolidated financial statements for additional information regarding our floating rate debt.

(4) Amounts are included on the condensed consolidated balance sheets. See Note 13 to the condensed consolidated financial statements for additional information regarding accounts payable and other liabilities.

(5) Amounts relate to non-cancellable operating leases involving office space, design centres and model homes. See Note 19 to the condensed consolidated financial statements for additional information regarding lease agreements.

(6) See Note 19 to the condensed consolidated financial statements for additional information regarding purchase agreements.

Shareholders' Equity

At July 26, 2018, 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 July 26, 2018, 11,581,886 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the three and six months ended June 30, 2018.

Off-Balance Sheet Arrangements

In the ordinary course of business, and where market conditions permit, we enter into land and lot option contracts and invest in unconsolidated entities to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time until options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of June 30, 2018, we had $93 million of primarily non-refundable option deposits and advanced costs. The total remaining exercise price of these options was $104 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 4 "Land and Housing Inventory" to our condensed consolidated financial statements included elsewhere in this interim report, we have consolidated $44 million of these option contracts where we consider the Company holds the majority economic interest in the assets held under the options.

We also own 9,043 lots and control under option 1,001 lots through our proportionate share of unconsolidated entities. As of June 30, 2018, our investment in unconsolidated entities totaled $394 million. We have provided varying levels of guarantees of debt in our unconsolidated entities. As of June 30, 2018, we had recourse guarantees of $22 million with respect to debt in our unconsolidated entities. During the six months ended June 30, 2018, we did not make any loan re-margin repayments on the debt in our unconsolidated entities. Please refer to Note 5 "Investments in Unconsolidated Entities" to our condensed consolidated financial statements included later in this interim report for additional information about our investments in unconsolidated entities.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of June 30, 2018, we had $71 million in letters of credit outstanding and $664 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds at June 30, 2018 are $41 million and $237 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. The Company's significant related party transactions as at and for the three and six months ended June 30, 2018 and 2017 were as follows:

- During the six months ended June 30, 2018, the Company paid $0.2 million to Brookfield Asset Management Inc. for Canadian tax credits (six months ended June 30, 2017 - $7 million). These transactions were recorded at the exchange amount.
- During the three and six months ended June 30, 2018, the Company received $4 million and $8 million of dividends, respectively, from the preferred shares of Brookfield BPY Holdings Inc. (2017 - $4 million and $8 million, respectively). These transactions were recorded at the exchange amount.

Non-GAAP Measures

Gross margin percentage on land and home sales are non-GAAP measures and are defined by the Company as gross margin of land and homes over respective revenues of land and homes. Management finds gross margin percentage to be an important and useful measurement, as the Company uses it to evaluate its performance and believes it is a widely accepted financial measure by users of its financial statements in analyzing its operating results. Gross margin percentage also provides comparability to similar calculations by its peers in the homebuilding industry. Additionally, gross margin percentage is important to the Company's management because it assists its management in making strategic decisions regarding its construction pace, product mix and product pricing based upon the profitability generated on homes and land actually delivered during previous periods. However, gross margin percentage as presented may not be fully comparable to similarly titled measures reported by other companies because not all companies calculate this metric in an identical manner.

This measure is not intended to represent GAAP gross margin percentage and it should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

		(Unaudited)	
		As at	
	Note	**June 30 2018**	**December 31 2017**
Assets			
Land and housing inventory	4	$ 3,093,911	$ 2,998,024
Investments in unconsolidated entities	5	393,440	312,857
Commercial properties	6	37,058	37,958
Held-to-maturity investment	8	300,000	300,000
Receivables and other assets	9	430,129	413,228
Restricted cash	10	6,690	3,351
Cash and cash equivalents		121,192	104,504
Deferred income tax assets	14	64,373	68,363
Goodwill	7	16,479	—
Total assets		$ 4,463,272	$ 4,238,285
Liabilities and Equity			
Notes payable	11	$ 1,625,044	$ 1,631,584
Bank indebtedness and other financings	12	229,493	31,407
Accounts payable and other liabilities	13	575,718	560,821
Total liabilities		2,430,255	2,223,812
Common Shares – 129,756,910 shares outstanding (December 31, 2017 – 129,756,910 shares outstanding)	16	626,594	626,594
Additional paid-in-capital		367,433	367,433
Retained earnings		1,114,622	1,063,623
Non-controlling interest	15	58,028	54,216
Accumulated other comprehensive loss		(133,660)	(97,393)
Total equity		2,033,017	2,014,473
Total liabilities and equity		$ 4,463,272	$ 4,238,285
Commitments, contingent liabilities and other	19		
Guarantees	20		

See accompanying notes to the condensed consolidated financial statements

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

		(Unaudited)			
		Three Months Ended June 30		**Six Months Ended June 30**	
	Note	**2018**	**2017**	**2018**	**2017**
Revenue					
Housing		$ 535,373	$ 383,242	$ 769,055	$ 689,937
Land		54,209	59,932	94,974	91,551
Total revenue		589,582	443,174	864,029	781,488
Direct Cost of Sales					
Housing		(431,208)	(315,597)	(625,882)	(565,313)
Land		(32,212)	(38,461)	(56,030)	(53,100)
Total direct cost of sales		(463,420)	(354,058)	(681,912)	(618,413)
Gross margin		126,162	89,116	182,117	163,075
Selling, general and administrative expense		(71,242)	(56,223)	(131,025)	(107,229)
Interest expense		(9,134)	(14,347)	(21,112)	(28,910)
Equity in earnings from unconsolidated entities	5	3,447	1,203	8,657	2,733
Other income		15,757	6,421	28,623	11,285
Depreciation		(1,073)	(987)	(2,112)	(1,969)
Income Before Income Taxes		63,917	25,183	65,148	38,985
Current income tax (expense) / recovery	14	(6,998)	(418)	(8,321)	356
Deferred income tax expense	14	(5,195)	(2,771)	(1,728)	(1,863)
Net Income		51,724	21,994	55,099	37,478
Other Comprehensive (Loss) / Income					
Unrealized foreign exchange (loss) / gain on:					
Translation of the net investment in Canadian subsidiaries		(18,609)	27,248	(44,767)	35,795
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		3,475	(5,200)	8,500	(6,925)
Comprehensive Income		$ 36,590	$ 44,042	$ 18,832	$ 66,348
Net Income / (Loss) Attributable To:					
Consolidated		$ 51,724	$ 21,994	$ 55,099	$ 37,478
Non-controlling interest	15	1,787	(93)	2,167	(182)
Brookfield Residential		$ 49,937	$ 22,087	$ 52,932	$ 37,660
Comprehensive Income / (Loss) Attributable To:					
Consolidated		$ 36,590	$ 44,042	$ 18,832	$ 66,348
Non-controlling interest	15	1,787	(93)	2,167	(182)
Brookfield Residential		$ 34,803	$ 44,135	$ 16,665	$ 66,530
Common Shareholders Earnings Per Share					
Basic	18	$ 0.38	$ 0.17	$ 0.41	$ 0.29
Diluted	18	$ 0.38	$ 0.17	$ 0.41	$ 0.29
Weighted Average Common Shares Outstanding *(in thousands)*					
Basic	18	129,757	129,757	129,757	129,757
Diluted	18	129,767	129,757	129,767	129,757

See accompanying notes to the condensed consolidated financial statements

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

		(Unaudited)	
		Six Months Ended June 30	
	Note	**2018**	**2017**
Common Shares	16		
Opening balance		$ 626,594	$ 626,594
Ending balance		626,594	626,594
Additional Paid-in-Capital			
Opening balance		367,433	367,433
Ending balance		367,433	367,433
Retained Earnings			
Opening balance		1,063,623	897,451
Adjustment due to adoption of ASC Topic 606	2	(1,933)	—
Adjusted opening balance		1,061,690	897,451
Net income attributable to Brookfield Residential		52,932	37,660
Ending balance		1,114,622	935,111
Accumulated Other Comprehensive Loss			
Opening balance		(97,393)	(150,415)
Other comprehensive (loss) / income		(36,267)	28,870
Ending balance		(133,660)	(121,545)
Total Brookfield Residential Equity		$ 1,974,989	$ 1,807,593
Non-Controlling Interest	15		
Opening balance		$ 54,216	$ 43,387
Acquisitions		—	7,587
Net income / (loss) attributable to non-controlling interest		2,167	(182)
Contributions		1,645	2,863
Ending balance		$ 58,028	$ 53,655
Total Equity		$ 2,033,017	$ 1,861,248

See accompanying notes to the condensed consolidated financial statements

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

	(Unaudited)	
	Six Months Ended June 30	
Cash Flows Provided by / (Used in) Operating Activities	**2018**	**2017**
Net income	$ 55,099	$ 37,478
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities	(7,975)	(2,113)
Deferred income tax expense	1,728	1,863
Share-based compensation costs	7,583	5,507
Depreciation	2,112	1,969
Amortization of non-cash interest	2,342	1,796
Dividend income on held-to-maturity investment	(8,460)	(8,456)
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(48,798)	(34,281)
Increase in land and housing inventory	(126,207)	(116,367)
Increase / (decrease) in accounts payable and other liabilities	4,469	(17,238)
Net cash used in operating activities	(118,107)	(129,842)
Cash Flows Provided by / (Used in) Investing Activities		
Investments in unconsolidated entities	(74,758)	(16,241)
Distributions from unconsolidated entities	2,415	868
Increase in commercial properties	(927)	(1,112)
Dividend income on held-to-maturity investment	8,460	8,456
Decrease in loan receivable	1,082	—
Net cash used in investing activities	(63,728)	(8,029)
Cash Flows Provided by / (Used in) Financing Activities		
Drawings under project-specific and other financings	29,577	14,966
Repayments under project-specific and other financings	(18,567)	(37,570)
Drawings on bank indebtedness	192,000	100,943
Net contributions from non-controlling interest	1,645	2,863
Net cash provided by financing activities	204,655	81,202
Effect of foreign exchange rates on cash and cash equivalents	(2,793)	2,491
Change in cash and cash equivalents	20,027	(54,178)
Cash and cash equivalents at beginning of period	107,855	99,119
Cash and cash equivalents at end of period	$ 127,882	$ 44,941
Supplemental Cash Flow Information		
Cash interest paid	$ 55,192	$ 53,134
Cash taxes paid	$ 26,352	$ 31,602

See accompanying notes to the condensed consolidated financial statements

Note 1. Significant Accounting Policies

(a) Basis of Presentation

Brookfield Residential Properties Inc. (the "Company" or "Brookfield Residential") was incorporated in Ontario, Canada and is a wholly-owned subsidiary of Brookfield Asset Management Inc. and has been developing land and building homes for over 50 years.

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

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

(b) Revenue Recognition

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

Land sales are recognized when title passes to the purchaser upon closing, all material conditions of the sales contract have been met and a significant cash down payment or appropriate security is received and collectability is 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, revenue will either be recognized at a point in time or as the performance obligation is satisfied.

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

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

(i) *Land Sales:* The land operations of the Company principally generate revenue from developing land for its own communities and selling lots to other homebuilders and third parties. The Company's duration of land contracts vary; however, the typical length of a contract is less than one year. Revenues from land sales are recognized at a point in time when the Company's performance obligations are achieved. Performance obligations are satisfied when title has transferred and all material conditions of the sales contract have been met. Generally, all elements of the transaction price are allocated to one performance obligation. Certain components of the transaction price that are considered constrained at the time the performance obligation is satisfied are recognized when it is determined that it is likely that a significant reversal in the amount of cumulative revenue recognized will not occur. Certain contracts may have a significant financing component in the form of a vendor take back ("VTB") mortgage receivable. These amounts are recognized as receivables, see Note 9 "Receivables and Other Assets" for more detailed information. Certain contracts may have a component of variable consideration, in the form of profit participation. When a contract includes profit participation, the Company will receive consideration from the builder who purchased the land, as a percentage of the ultimate sale of the home. Profit participation is determined to be constrained at the time the revenue contract is recognized. The Company will reassess and recognize profit participation at the end of each reporting period. See Note 3 "Revenue from Contracts with Customers" for recognized and constrained profit participation.

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

(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 2018 generally assume recent sales activity and normalized sales rates beyond 2018. 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 condensed consolidated statement of operations in the period incurred.

(d) Commercial Properties

Commercial properties include any properties that are currently leased out by Brookfield Residential and produce leasing revenue for the Company. Acquisitions of operating commercial properties are accounted for utilizing the acquisition method of accounting. Estimates of future cash flows and other valuation techniques are used to allocate the purchase price of acquired property between land, buildings and improvements, equipment, debt, liabilities assumed and identifiable intangible assets and liabilities, if applicable. Expenditures for significant betterments and improvements are capitalized. Maintenance and repairs are charged to expense when incurred. Construction and improvement costs incurred in connection with the development of new properties or the redevelopment of existing properties are capitalized. After initial recognition, commercial properties are carried at the cost basis less accumulated depreciation. Real estate taxes and interest costs incurred during development periods are capitalized. Capitalized interest costs are based on qualified expenditures and interest rates in place during the development period. Capitalized real estate taxes and interest costs are amortized over lives which are consistent with the developed assets.

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

Depreciation of commercial property is recorded over the estimated useful life using the straight-line method.

(e) Loans and notes receivable

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

(f) 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.

(g) 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.

(h) 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, variable consideration, 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.

(i) 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.

(j) 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.

(k) 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 twenty years in Canada before the expiry of non-capital losses, and taking into consideration that a portion of the deferred tax asset is composed of deductible temporary differences that are not subject to an expiry period until realized under tax law.

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

(l) 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 17 "Share-Based Compensation" for further discussion.

(m) 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 condensed 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.

(n) 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.

(o) Advertising Costs

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

(p) 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.

(q) 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 4 "Land and Housing Inventory" and Note 5 "Investments in Unconsolidated Entities" for further discussion on the consolidation of land option contracts and unconsolidated entities.

(r) 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.

(s) Held-to-Maturity Investment

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.

(t) 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.

(u) 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.

(v) Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update ("ASU") 2016-02 *Leases* ("ASU 2016-02"). 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 condensed consolidated financial statements.

In January 2018, the FASB issued ASU 2018-01 *Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842* ("ASU 2018-01"). ASU 2018-01 amends the new leasing standard, ASU 2016-02, to provide a transition practical expedient for existing or expired land easements that were previously not accounted for in accordance with ASC 840. The practical expedient allows entities to elect not to assess whether those land easements are leases in accordance with ASC 842 when transitioning to the new standard. ASU 2018-02 is effective for the same calendar periods as ASU 2016-02. The Company is currently evaluating the impact of the adoption of ASU 2018-01 on the condensed consolidated financial statements.

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

Note 2. Change in Accounting Policies

ASC Topic 606 "Revenue from Contracts with Customers"

The Company applied ASC Topic 606 *Revenue from Contracts with Customers*, ("ASC Topic 606") with an initial application date of January 1, 2018. As a result, the Company has changed its accounting policy for revenue recognition as detailed below. The Company has applied the practical expedient in paragraph 606-10-50-14 of ASC Topic 606 and has not disclosed remaining performance obligations where performance obligations are part of contracts that have an original expected duration of one year or less. Consideration from contracts with customers does not include any estimated amounts of variable consideration that are constrained. The Company has also applied the practical expedient in paragraph 606-10-32-18 of ASC Topic 606 and has not assessed whether a contract has a significant financing component if the Company expects, at contract inception, that the period between payment by the customer and the transfer of the promised goods or services to the customer will be one year or less.

The Company applied ASC Topic 606 using the modified retrospective approach, under the cumulative effect method by recognizing the cumulative effect of initially applying ASC Topic 606 as an adjustment to the opening balance of retained earnings at January 1, 2018. Therefore, the comparative information has not been adjusted and continues to be reported under ASC Topic 605 *Revenue Recognition*. The details of the significant changes are disclosed below.

Under ASC Topic 606 revenue is recognized based on the satisfaction of performance obligations. In applying ASC Topic 606, the Company has evaluated its contracts to determine the related performance obligation and when to recognize revenue as the performance obligations are satisfied. While this change did not impact the timing of recognizing revenue on the majority of the Company's revenue contracts, it did have an effect on select land sale contracts. This has resulted in a quantitative impact to the Company's condensed consolidated financial statements.

ASC Topic 606 also provided additional clarity that resulted in reclassification to or from revenue, cost of sales, selling, general and administrative expense and other income.

The following tables summarize the quantitative impact of the adoption of ASC Topic 606 on the Company's condensed consolidated financial statements:

Condensed Consolidated Balance Sheet

	As at June 30, 2018		
	As Reported	**Balances without ASC 606**	**Effect of Change Increase / (Decrease)**
Land and housing inventory (a)(b)	$ 3,093,911	$ 3,106,199	$ (12,288)
Investment in unconsolidated entities (a)	393,440	391,947	1,493
Receivables and other assets (a)(b)	430,129	415,427	14,702
Deferred income tax asset (a)	64,373	63,658	715
Accounts payable and other liabilities (a)	575,718	582,273	(6,555)
Retained earnings (a)(c)	2,033,017	2,031,084	1,933

(a) The impact is due to the deferral of revenue previously recognized in 2017, as under ASC Topic 606, the performance obligation is not met.

(b) The impact is due to the reclassification of capitalized sales and marketing expenditures from land and housing inventory to property, plant and equipment, which is included in receivables and other assets.

(c) The impact to retained earnings has been detailed below in the "Condensed Consolidated Statement of Equity".

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

Condensed Consolidated Statement of Operations

	Three Months Ended June 30, 2018		
	As Reported	**Balances without ASC 606**	**Effect of Change Increase / (Decrease)**
Revenue (a)	$ 589,582	$ 586,711	$ 2,871
Cost of sales (b)	(463,420)	(466,017)	2,597
Selling, general and administrative expense (b)(c)	(71,242)	(63,151)	(8,091)
Other income (a)(c)	15,757	13,134	2,623
Other expense and equity earnings (d)	(6,760)	(6,760)	—
Income before income taxes	$ 63,917	$ 63,917	$ —

	Six Months Ended June 30, 2018		
	As Reported	**Balances without ASC 606**	**Effect of Change Increase / (Decrease)**
Revenue (a)	$ 864,029	$ 860,479	$ 3,550
Cost of sales (b)	(681,912)	(685,815)	3,903
Selling, general and administrative expense (b)(c)	(131,025)	(118,304)	(12,721)
Other income (a)(c)	28,623	23,355	5,268
Other expense and equity earnings (d)	(14,567)	(14,567)	—
Income before income taxes	$ 65,148	$ 65,148	$ —

(a) The impact is due to the reclassification of forfeited deposits from other income to revenue.

(b) The impact is due to the reclassification of the amortization of capitalized sales and marketing expenditures from cost of sales to selling, general and administrative expense.

(c) The impact is due to the reclassification of income from joint venture management fee income from selling, general and administrative expense to other income. When looking at the comparative period, selling, general and administrative expense for the three and six months ended June 30, 2017, included $2.1 million and $3.8 million, respectively, of joint venture management fee income that was offset against the expense. Excluding joint venture management fee income, selling, general and administrative expense for the three and six months ended June 30, 2017, was $58.3 million and $111.0 million, respectively.

(d) Other expenses and equity earnings include interest expense, equity earnings from unconsolidated entities, and depreciation, which were not impacted by the implementation of ASC Topic 606.

Condensed Consolidated Statement of Equity

	As at January 1, 2018						
	Common Shares	**Additional Paid-in-Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Total Brookfield Residential Equity**	**Non-Controlling Interest**	**Total Equity**
Balance at Jan 1, 2018, as previously reported	$ 626,594	$ 367,433	$ 1,063,623	$ (97,393)	$ 1,960,257	$ 54,216	$ 2,014,473
Impact of change in accounting policy (a)	—	—	(1,933)	—	(1,933)	—	(1,933)
Adjusted Balance at Jan 1, 2018	$ 626,594	$ 367,433	$ 1,061,690	$ (97,393)	$ 1,958,324	$ 54,216	$ 2,012,540

(a) The impact of the change in accounting policy, resulted in the deferral of revenue and related costs previously recognized.

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

ASC Topic 805 "Business Combinations"

The Company applied ASC Topic 805 *Business Combinations*, ("ASC Topic 805") with a date of the initial application of January 1, 2018. As a result, the Company has changed its accounting policy for recognition of a business combination, and has applied this policy in recognizing the acquisition of OliverMcMillan. Refer to Note 7 "Business Combinations".

Note 3. Revenue from Contracts with Customers

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

For the six months ended June 30, 2018, the Company recognized $1.5 million in revenue from performance obligations satisfied in prior periods. This cumulative catch-up adjustment resulted from a change in transaction price related to variable consideration that was constrained in previous periods. For amounts not recognized due to constraints, the Company has determined the amounts cannot be reliably estimated due to the following factors outside of the Company's control: economic volatility, period of time between the lot sale and the ultimate home closing, fluctuations and difficult prediction of profits and pricing of the ultimate home closing.

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

Note 4. Land and Housing Inventory

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

The following summarizes the components of land and housing inventory:

	As at	
	June 30 2018	**December 31 2017**
Land held for development	$ 1,464,635	$ 1,447,583
Land under development	876,033	918,748
Housing inventory	648,699	528,627
Model homes	104,544	103,066
	$ 3,093,911	$ 2,998,024

The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 Property, Plant and Equipment and ASC Topic 820 Fair Value Measurements and Disclosures. For the three and six months ended June 30, 2018 and 2017, no impairment charges were recognized.

The locations of the projects reviewed in 2018 are as follows:	**Number of Projects**
Canada	41
California	48
Central and Eastern U.S.	34
	123
Unconsolidated entities	18
Total	141

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

The Company capitalizes interest which is expensed as housing units and building lots are sold. Interest capitalized and expensed during the three and six months ended June 30, 2018 and 2017 was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2018	**2017**	**2018**	**2017**
Interest capitalized, beginning of the period	$ 190,542	$ 179,374	$ 180,650	$ 175,590
Interest capitalized	20,615	11,794	36,764	24,356
Interest expensed to cost of sales	(13,640)	(10,452)	(19,897)	(19,230)
Interest capitalized, end of the period	$ 197,517	$ 180,716	$ 197,517	$ 180,716

In the ordinary course of business, the Company has entered into a number of option contracts to acquire land or lots in the future in accordance with specific terms and conditions. As such, the Company has advanced deposits to secure these rights. The Company is required by ASC Topic 810 *Consolidation* to qualitatively assess whether it is the primary beneficiary of these options based on whether it has the power to control the significant activities of the VIE and an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The Company has evaluated its option contracts in accordance with this guidance and determined that, for those entities considered to be VIEs, it is the primary beneficiary of options with an aggregate exercise price of $44.2 million (December 31, 2017 – $45.2 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 $44.2 million (December 31, 2017 – $45.2 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 $93.4 million (December 31, 2017 – $90.5 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 $103.9 million (December 31, 2017 – $104.9 million), including the non-refundable deposits and other entitlement costs identified above. The number of lots in which the Company has obtained an option to purchase, excluding those already consolidated and those held through investment in unconsolidated entities, and their respective dates of expiry and aggregate exercise prices follow:

Years of Expiry	Number of Lots	Total Exercise Price
2018	136	$ 4,043
2019	2,927	47,829
2020	1,315	12,711
2021	114	9,762
2022	550	2,948
Thereafter	1,119	26,646
	6,161	$ 103,939

The Company holds agreements for a further 2,765 acres (December 31, 2017 – 2,765 acres) of longer-term land, with non-refundable deposits and other entitlement costs of $6.8 million (December 31, 2017 – $6.8 million), which is included in land and housing inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of $56.6 million (December 31, 2017 – $56.6 million). However, given that the Company is in the initial stage of land entitlement, the Company has concluded at this time that the level of uncertainty in entitling these properties does not warrant including them in the above totals.

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

Note 5. 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 June 30, 2018, the Company was involved with 15 unconsolidated entities (December 31, 2017 – 13 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities includes $17.2 million (December 31, 2017 – $30.4 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 1,001 lots (December 31, 2017 – 1,001 lots) under option. The Company's share of the total exercise price of these options is $36.8 million (December 31, 2017 – $58.3 million). Summarized financial information on a 100% basis for the combined unconsolidated entities follows:

	As at	
	June 30 2018	December 31 2017
Assets		
Land and housing inventory	$ 965,097	$ 556,779
Investments in unconsolidated entities	140,550	147,996
Other assets	106,702	63,548
	$ 1,212,349	$ 768,323
Liabilities and Equity		
Bank indebtedness and other financings	$ 97,483	$ 78,168
Accounts payable and other liabilities	203,796	73,628
Brookfield Residential's interest	393,440	312,857
Others' interest	517,630	303,670
	$ 1,212,349	$ 768,323

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Revenue and Expenses				
Revenue	$ 40,464	$ 44,988	$ 65,211	$ 68,396
Direct cost of sales	(28,238)	(40,727)	(43,081)	(60,595)
Other income / (expense)	1,642	(374)	1,705	(867)
Net income	$ 13,868	$ 3,887	$ 23,835	$ 6,934
Brookfield Residential's share of net income	$ 3,447	$ 1,203	$ 8,657	$ 2,733

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

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

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt of its unconsolidated entities. At June 30, 2018, the Company had recourse guarantees of $21.6 million (December 31, 2017 – $34.4 million) with respect to debt of its unconsolidated entities.

Note 6. Commercial Properties

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

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

	As at	
	June 30 2018	**December 31 2017**
Commercial properties	$ 38,334	$ 38,897
Less: accumulated depreciation	(1,276)	(939)
	$ 37,058	$ 37,958

Note 7. Business Combinations

On January 31, 2018, the Company acquired various assets of OliverMcMillan Inc. ("OliverMcMillan"), a mixed-use developer, for an aggregate purchase consideration of $39.5 million. The purchase of OliverMcMillan allows the Company to expand its presence in the mixed-use market and infill business.

The acquisition was accounted for as a business combination under the provisions of ASC Topic 805 *Business Combinations* which, among other things, requires assets acquired and liabilities assumed to be measured at their acquisition date fair values. Provisional fair value estimates have been made in the first quarter of 2018 for assets acquired and liabilities assumed and the measurement process will be finalized by the first quarter of 2019.

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

	Estimated Fair Value at Acquisition Date
Assets	
Land and housing inventory	$ 4,979
Investments in unconsolidated entities	15,234
Receivables and other assets	3,129
Total assets acquired	$ 23,342
Liabilities	
Accounts payable and other liabilities	$ 350
Total liabilities acquired	$ 350
Net assets acquired	$ 22,992
Total consideration (a)	$ 39,471
Goodwill (b)	$ 16,479

(a) The company paid $14.1 million of the total consideration in cash and had consideration payable outstanding of $25.4 million upon acquisition.

(b) Goodwill represents the residual asset value of the net assets acquired less the total consideration. The total amount of goodwill that is expected to be deductible for tax purposes is $20.8 million.

The following table presents the revenue and loss of OliverMcMillan that are included in the condensed consolidated statements of operations from the acquisition date of January 31, 2018 through June 30, 2018:

Revenue	$	—
Net loss	$	(4,584)

The following table presents supplemental pro forma information as if the acquisition of OliverMcMillan occurred on January 1, 2018. The pro forma consolidated results do not purport to project the future results of the combined Company nor do they reflect the expected realization of any cost savings associated with the OliverMcMillan acquisition.

	Six Months Ended June 30, 2018
Total revenues	$ —
Net loss attributable to Brookfield Residential	$ (5,483)

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

Note 8. Held-to-Maturity Investment

	As at	
	June 30 2018	**December 31 2017**
Brookfield BPY Holdings Inc. Class B Junior Preferred Shares ("preferred shares")	$ 300,000	$ 300,000
	$ 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 three and six months ended June 30, 2018, $4.3 million and $8.5 million, respectively, of dividends were recorded in the statement of operations as other income (2017 - $4.3 million and $8.5 million, respectively).

Note 9. Receivables and Other Assets

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

	As at	
	June 30 2018	**December 31 2017**
Receivables (a)	$ 340,690	$ 361,796
Other assets (b)	89,439	51,432
	$ 430,129	$ 413,228

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

	As at	
	June 30 2018	**December 31 2017**
Loan receivables (i)	$ 110,918	$ 112,000
Real estate receivables (ii)	94,925	99,074
Development recovery receivables (iii)	67,048	67,651
Sundry receivables (iv)	38,143	34,655
Proceeds and escrow receivables (v)	21,382	43,555
Refundable deposits	8,274	4,861
	$ 340,690	$ 361,796

(i) The Company entered into an agreement in 2017 to provide financing of $112.0 million in the form of a senior secured term loan that is secured by the underlying land to which it relates. The loan bears interest at 13% and matures in 2021. During the three and six months ended June 30, 2018, $nil and $1.1 million of principal was collected (2017 - $nil).

(ii) Real estate receivables include vendor take back (“VTB”) mortgage receivables. The VTB collection terms range from five to 18 months and bear interest at Canadian prime plus 2.0% or a fixed interest rate of 0.0% to 6.0% (December 31, 2017 – Canadian prime plus 2.0% or a fixed interest rate of 0.5% to 6.0%, whichever is greater).

(iii) The Company has entered into development and cost sharing arrangements for the recovery of development expenditures with certain metropolitan districts and developers whereby the Company has undertaken to put in place the infrastructure for certain communities. These receivables will be collected over the development life of the community and bear interest rates ranging from U.S. prime plus 0.5% to a fixed rate of 6.0% (December 31, 2017 – U.S. prime plus 0.5% to a fixed rate of 6.0%).

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

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

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

As at June 30, 2018, allowances for doubtful accounts were $nil (December 31, 2017 - $nil).

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

	As at	
	June 30 2018	**December 31 2017**
Non-refundable earnest funds and investigation fees (i)	$ 37,100	$ 26,358
Capitalized sales and marketing costs (ii)	22,136	—
Capital assets (iii)	14,193	13,865
Prepaid expenses	11,752	9,292
Other	4,258	1,917
	$ 89,439	$ 51,432

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

(ii) Capitalized sales and marketing costs are recorded at cost less accumulated amortization. Capitalized sales and marketing costs are amortized over unit closings and are included in sales and marketing expense on the condensed consolidated statement of operations. Included in capitalized sales and marketing is accumulated amortization of $12.1 million (December 31, 2017 – $23.3 million of capitalized sales and marketing was included in land and housing inventory, which was net of $6.3 million of accumulated amortization).

(iii) Capital assets are recorded at cost less accumulated depreciation. The Company provides for depreciation using the straight-line method. Leasehold improvements are depreciated over the term of the lease and equipment is depreciated over three to five years. Included in capital assets is accumulated depreciation of $20.0 million (December 31, 2017 – $19.1 million).

Note 10. Restricted Cash

At June 30, 2018, the Company has restricted cash consisting of (i) $5.4 million (December 31, 2017 – $0.1 million) relating to cash collateralization of development letters of credit and (ii) $1.3 million (December 31, 2017 – $3.3 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.

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

Note 11. Notes Payable

	As at	
	June 30 2018	**December 31 2017**
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)	190,325	198,825
6.375% unsecured senior notes due May 15, 2025 (d)	350,000	350,000
	1,640,325	1,648,825
Transaction costs (e)	(15,281)	(17,241)
	$ 1,625,044	$ 1,631,584

(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.

On or after December 14th of the year noted in the below table, 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.

On or after July 1st of the year noted in the below table, 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.

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

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

	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.

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

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

(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.

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 covenants as at June 30, 2018.

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

Note 12. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	June 30 2018	December 31 2017
Bank indebtedness (a)	$ 192,000	$ —
Secured VTB mortgages (b)	17,083	31,407
Project-specific financings (c)	24,098	—
	233,181	31,407
Transaction costs (a)	(3,688)	—
	$ 229,493	$ 31,407

(a) Bank indebtedness

(i) On March 8, 2018, the Company and Brookfield Residential US Corporation, a wholly owned subsidiary of the Company, entered into a three-year North American senior unsecured credit facility with various lenders, to replace its previously held Canadian secured credit facilities and its U.S. unsecured revolving credit facility. Brookfield Residential US Corporation and the Company are co-borrowers. The facility allows the Company to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

As at June 30, 2018, the total borrowings outstanding under the North American unsecured credit facility were $192.0 million (December 31, 2017 - $nil).

For U.S. dollar denominated borrowings, interest is charged on the facility at a rate equal to, at the borrower's option, either an adjusted LIBOR plus an applicable rate between 1.75% and 2.25% per annum or the alternative base rate ("ABR") plus an applicable rate between 0.75% and 1.25% per annum. For Canadian dollar denominated borrowings, interest is charged on the facility at a rate equal to either the Canadian dollar offered rate ("CDOR") plus an applicable rate between 1.75% and 2.25% per annum or the Canadian prime rate plus an applicable rate between 0.75% and 1.25% per annum.

The facility contains certain restrictive covenants including limitations on liens, dividends and other distributions, investments in subsidiaries and joint ventures that are not party to the loan. The facility requires the Company to maintain a minimum consolidated tangible net worth of $1,177 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at June 30, 2018, the Company was in compliance with all of our covenants relating to this facility.

The transaction costs are costs related to the issuance of the Company's facility, and are amortized using the effective interest rate method over the life of the facility.

(ii) On March 8, 2018, the Company had repaid and extinguished its Canadian credit facilities, which were previously outstanding as of December 31, 2017.

The Company has extinguished its four Canadian credit facilities, with various Canadian banks, which had no outstanding borrowings as of December 31, 2017. These facilities had allowed the Company to borrow up to approximately C$505.0 million (US$401.6 million) as of December 31, 2017. The facilities were previously secured by the land and housing inventory assets of the Alberta and Ontario operations and had a general charge over the property of Brookfield Residential (Alberta) LP and Brookfield Residential (Ontario) LP, both wholly owned subsidiaries of the Company.

(iii) On March 8, 2018, the Company repaid and extinguished its U.S. unsecured revolving credit facility with various lenders, which had no outstanding borrowings as of December 31, 2017. Brookfield Residential US Corporation, a wholly-owned subsidiary of the Company, as borrower, and the Company, as the parent company to the borrower, had borrowings allowable up to $275.0 million.

(b) Secured VTB mortgages

The Company has eight secured VTB mortgages (December 31, 2017 – 10 secured VTB mortgages) in the amount of $17.1 million (December 31, 2017 – $31.4 million). Secured VTB mortgages are repayable as follows: 2018 – $6.4 million; 2019 – $0.8 million; 2020 – $7.6 million, 2021 – $0.8 million and thereafter – $1.5 million.

Six secured VTB mortgages (December 31, 2017 – four secured VTB mortgages) in the amount of $12.9 million (December 31, 2017 – $12.2 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Residential (Ontario) LP. This debt is repayable in Canadian dollars of C$16.9 million (December 31, 2017 – C$15.3 million). The interest rates on the debt range from fixed rates of 2.2% to 6.0% and the debt is secured by the related land. As at June 30, 2018, these borrowings are not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2017 – six secured VTB mortgages) in the amount of $4.2 million (December 31, 2017 – $19.2 million) relate to raw land held for development by various wholly-owned U.S. subsidiaries 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 June 30, 2018, these borrowings are not subject to any financial covenants.

(c) Project-specific financings

At June 30, 2018, the Company has $24.1 million (C$31.7 million) project-specific financings (December 31, 2017 - $nil). The financing has an interest rate of Canadian prime plus 0.50%, matures in 2019, and is secured by the land and housing inventory assets of the Company's Alberta operations and a general charge over the property of Brookfield Residential (Alberta) LP, a wholly owned-subsidiary of the Company. This debt is repayable in Canadian dollars of C$31.7 million (December 31, 2017 - C$nil). This borrowing includes a minimum debt to equity covenant of no greater than 1.50 to 1. The Company was in compliance with these covenants as at June 30, 2018.

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

Note 13. Accounts Payable and Other Liabilities

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

	As at	
	June 30 2018	December 31 2017
Accounts payable (a)	$ 340,589	$ 409,513
Other liabilities (b)	235,129	151,308
	$ 575,718	$ 560,821

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

	As at	
	June 30 2018	December 31 2017
Trade payables and other accruals	$ 150,427	$ 147,597
Development costs payable (i)	78,970	99,296
Customer deposits	52,187	58,524
Interest on notes payable	21,075	21,196
Accrued and deferred compensation	20,378	46,243
Current income taxes payable	9,331	27,339
Real estate payables	8,221	9,318
	$ 340,589	$ 409,513

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

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

	As at	
	June 30 2018	December 31 2017
Deferred revenue (i)	$ 72,480	$ 21,772
Share-based compensation (Note 17)	66,678	59,095
Consolidated land option contracts (ii)	44,246	45,211
Other (iii)	28,542	4,367
Warranty costs (Note 19 (a))	23,183	20,863
	$ 235,129	$ 151,308

(i) The amount of deferred revenue recognized as revenue in the three and six months ended June 30, 2018 was $12.1 million and $14.5 million, respectively (2017 - $nil).

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

(iii) Included in other is $23.9 million for the remainder of the purchase price for the acquisition of various assets of OliverMcMillan.

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

Note 14. Income Taxes

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the six months ended June 30, 2018 and 2017 is as follows:

	Six Months Ended June 30	
	2018	**2017**
Statutory rate	27.0%	27.0%
Non-temporary differences	3.8	4.3
Rate difference from statutory rate	(11.0)	(19.7)
Withholding tax	—	(2.0)
Non-taxable preferred share dividend	(3.6)	(5.7)
Other	(0.2)	(0.1)
Effective tax rate	16.0%	3.8%

The Company currently operates in thirteen 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 16.0% for the six months ended June 30, 2018 (June 30, 2017 – 3.8%). The increase in the effective tax rate when compared to the same period in 2017 is primarily due to an increase in non-deductible share-based compensation costs, a decrease in withholding tax refunds, and the impact of rate differences from the Company's Canadian statutory rate due to the geographic mix of income earned.

The provision for income taxes for the three and six months ended June 30, 2018 and 2017 is set forth below:

	Three Months Ended June 30		Six Months Ended June 30	
	2018	**2017**	**2018**	**2017**
Current				
Canada	$ —	$ —	$ —	$ 799
U.S.	(6,658)	(31)	(6,678)	(56)
International	(340)	(387)	(1,643)	(387)
Current income tax (expense) / recovery	(6,998)	(418)	(8,321)	356
Deferred				
Canada	(3,043)	(1,689)	(1,714)	(1,457)
U.S.	(2,152)	(1,082)	(14)	(406)
Deferred income tax expense	(5,195)	(2,771)	(1,728)	(1,863)
Total income tax expense	$ (12,193)	$ (3,189)	$ (10,049)	$ (1,507)

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

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

	As at	
Net deferred tax assets / (liabilities)	**June 30 2018**	**December 31 2017**
Differences relating to land and housing inventory	$ (2,452)	$ (3,451)
Compensation deductible for tax purposes when paid	9,026	10,416
Operating loss carry-forwards	54,363	58,358
Impact of foreign exchange	24,323	19,687
Other	3,436	3,040
Net deferred tax assets before valuation allowance	88,696	88,050
Cumulative valuation allowance	(24,323)	(19,687)
Net deferred tax assets	$ 64,373	$ 68,363

The Company had Canadian federal non-capital loss carryforwards of approximately $197.4 million (C$259.2 million) as at June 30, 2018 (December 31, 2017 – $211.2 million (C$265.5 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 2038. At June 30, 2018, the Company has U.S. state loss carryforwards of approximately $27.2 million (December 31, 2017 – $28.9 million) that may be carried forward up to 20 years and expire between 2030 and 2032.

On December 22, 2017, new legislation commonly known as the “Tax Cuts and Jobs Act” (“TCJA”) was enacted in the U.S. The TCJA made comprehensive reforms to the U.S. tax code, which among other things, reduced the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. This resulted in a re-measurement of the Company’s deferred taxes in the period in which the new legislation was enacted and a reduction in the Company’s deferred tax asset in the U.S of $3.5 million in the fourth quarter of 2017.

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 June 30, 2018, the Company considered all available and objectively verifiable positive and negative evidence. The component of the valuation allowance remaining of $24.3 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 concluded 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, will be realized in the future.

Undistributed earnings of the Company's non-Canadian affiliates as of June 30, 2018 were considered to be permanently reinvested. A determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable.

Note 15. Non-Controlling Interest

Non-controlling interest includes third-party investments in consolidated entities of $58.0 million at June 30, 2018 (December 31, 2017 – $54.2 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 condensed consolidated statements of operations have been adjusted to include the net income / (loss) attributable to non-controlling interest, which for the three and six months ended June 30, 2018 was income of $1.8 million and $2.2 million, respectively (2017 – loss of $0.1 million and $0.2 million, respectively).

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

Note 16. Equity

Common Shares

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

There were no Common Shares issued during the six months ended June 30, 2018 and year ended December 31, 2017.

	For the Period Ended	
	June 30 2018	**December 31 2017**
Common Shares issued, beginning of the period	129,756,910	129,756,910
Common Shares issued	—	—
Common Shares issued and outstanding, end of the period	129,756,910	129,756,910

The Company had no Non-Voting Class B Common Shares issued and outstanding as at June 30, 2018 and December 31, 2017.

Note 17. 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 three and six months ended June 30, 2018, there were no options granted to eligible employees (three and six months ended June 30, 2017 - no options granted). The significant weighted average assumptions relating to the valuation of the Company's options outstanding during the six months ended June 30, 2018 and 2017 are as follows:

	June 30 2018	**June 30 2017**
Dividend yield	—%	—%
Volatility rate	30.61%	34.16%
Risk-free interest rate	2.23%	2.15%
Expected option life (years)	5.7	6.2

The liability of $35.9 million (December 31, 2017 - $28.3 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 three and six months ended June 30, 2018 was $3.8 million and $7.6 million, respectively (2017 - $2.7 million and $5.5 million, respectively).

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

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 six months ended June 30, 2018 and 2017:

	June 30, 2018		June 30, 2017	
	Shares	**Weighted Average Per Share Exercise Price**	**Shares**	**Weighted Average Per Share Exercise Price**
Outstanding, beginning of the period	11,581,886	$ 22.15	9,321,886	$ 22.38
Granted	—	—	—	—
Exercised	—	—	—	—
Cancelled	—	—	—	—
Outstanding, end of the period	11,581,886	22.15	9,321,886	22.38
Options exercisable, end of the period	4,849,131	$ 22.59	3,014,754	$ 22.72

A summary of the status of the Company's unvested options for the six months ended June 30, 2018 and June 30, 2017 are as follows:

	June 30, 2018		June 30, 2017	
	Shares	**Weighted Average Fair Value Per Option**	**Shares**	**Weighted Average Fair Value Per Option**
Unvested options outstanding, beginning of the period	7,961,132	$ 6.84	7,545,509	$ 5.91
Granted	—	—	—	—
Vested	(1,228,377)	5.73	(1,238,377)	5.53
Cancelled	—	—	—	—
Unvested options outstanding, end of the period	6,732,755	$ 7.05	6,307,132	$ 5.99

At June 30, 2018, there was $40.6 million (June 30, 2017 - $38.5 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 3.1 years (June 30, 2017 - 3.1 years).

(b) Deferred Share Unit Plan

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

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 June 30, 2018 and December 31, 2017:

	For the Period Ended	
	June 30 2018	**December 31 2017**
Outstanding, beginning of the period	1,448,638	1,448,638
Granted and reinvested	—	—
Redeemed	—	—
Outstanding, end of the period	1,448,638	1,448,638
Deferred share units vested	1,448,638	1,448,638

The liability of $30.8 million (December 31, 2017 – $30.8 million) relating to the DSUP is included in accounts payable and other liabilities. There is no financial statement impact relating to the DSUP for the three and six months ended June 30, 2018 and 2017 which has been included in selling, general and administrative expense.

Note 18. Earnings Per Share

Basic and diluted earnings per share for the three and six months ended June 30, 2018 and 2017 were calculated as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Numerator:				
Net income attributable to Brookfield Residential	$ 49,937	$ 22,087	$ 52,932	$ 37,660
Denominator (in '000s of shares):				
Basic weighted average shares outstanding	129,757	129,757	129,757	129,757
Diluted weighted average shares outstanding	129,767	129,757	129,767	129,757
Basic earnings per share	$ 0.38	$ 0.17	$ 0.41	$ 0.29
Diluted earnings per share	$ 0.38	$ 0.17	$ 0.41	$ 0.29

Note 19. Commitments, Contingent Liabilities and Other

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

The following table reflects the changes in the Company's estimated warranty liability for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30	
	2018	2017
Balance, beginning of the period	$ 20,862	$ 23,217
Payments and other adjustments made during the period	(4,318)	(4,142)
Warranties issued during the period	6,739	3,882
Adjustments made for pre-existing warranties	(100)	(23)
Balance, end of the period	$ 23,183	$ 22,934

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

Years of Expiry	
2018	$ 5,496
2019	9,216
2020	8,454
2021	7,301
2022	7,228
Thereafter	25,211
	$ 62,906

(c) As at June 30, 2018, $17.3 million (December 31, 2017 - $17.9 million) of the amount held in other assets related to land purchase obligations. The total amount owing on these obligations is $63.2 million (December 31, 2017 - $33.1 million).

Note 20. Guarantees

In the ordinary course of business, the Company has provided construction guarantees in the form of letters of credit and performance bonds. As at June 30, 2018, these guarantees amounted to $735.1 million (December 31, 2017 – $646.3 million) and have not been recognized in the condensed consolidated financial statements. However, the proportionate development costs that relate to lots that have been sold are accrued in accounts payable and other liabilities. Such guarantees are required by the municipalities in which the Company operates before construction permission is granted.

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

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

Note 21. 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.

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 three and six months ended June 30, 2018, an unrealized pre-tax gain of 3.5 million and $8.5 million, respectively (2017 – loss of $5.2 million and $6.9 million, respectively), was recorded in other comprehensive income for the effective portion of hedges of net investments in foreign operations.

Fair Value Hierarchy

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

As at June 30, 2018, 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, 2017 – $nil).

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":

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

	June 30, 2018			December 31, 2017		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Loan receivables	$ 110,918	$ —	$ —	$ 112,000	$ —	$ —
Restricted cash	6,690	—	—	3,351	—	—
Cash and cash equivalents	121,192	—	—	104,504	—	—
	$ 238,800	$ —	$ —	$ 219,855	$ —	$ —
Financial liabilities						
Accounts payable and other liabilities	$ —	$ —	$ —	$ —	$ —	$ —
	$ —	$ —	$ —	$ —	$ —	$ —

Note 22. Managing Risks

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

(a) Market Risk

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

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

Interest Rate Risk

The Company is exposed to financial risk that arises from fluctuations in interest rates. The interest-bearing assets and liabilities of the Company are at floating rates and, accordingly, their fair values approximate their carrying value. The Company would be negatively impacted on balance, if interest rates were to increase. Based on net debt levels as at June 30, 2018, a 1% change in interest rates would have a $2.2 million impact on the Company's cash flows.

The fair value of debt with fixed interest rates is determined by discounting contractual principal and interest payments at estimated current market interest rates determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at June 30, 2018, the fair value of all outstanding debt exceeded its book value by $4.3 million (December 31, 2017 – fair value of all outstanding debt exceeded its book value by $63.8 million).

Currency Exchange Rate Risk

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

The Company holds financial instruments to hedge the net investment in foreign operations whose functional and reporting currencies are other than the U.S. dollar. A 1% increase in the U.S. dollar would result in a $2.5 million gain on these hedging instruments as at June 30, 2018 (December 31, 2017 – $2.5 million gain). See Note 21 "Fair Value Measurements" for additional disclosure.

Other Price Risk

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

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

(b) Credit Risk

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

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

(c) Liquidity Risk

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

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

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

A summary of the Company's contractual obligations and purchase agreements as at June 30, 2018 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]	$ 1,640,325	$ —	$ 600,000	$ 690,325	$ 350,000
Interest on notes payable	449,787	103,595	187,690	113,877	44,625
Secured VTB mortgages[2][3]	17,083	6,358	8,406	2,319	—
Bank indebtedness[2][3]	192,000	192,000	—	—	—
Accounts payable and other liabilities[4]	575,718	575,718	—	—	—
Operating lease obligations[5]	62,906	5,496	17,670	14,529	25,211
Purchase agreements[6]	63,245	35,367	27,016	862	—

(1) Amounts are included on the condensed consolidated balance sheets and exclude transaction costs. See Note 11 for additional information regarding notes payable.

(2) Amounts are included on the condensed consolidated balance sheets. See Note 12 for additional information regarding bank indebtedness and other financings and related matters.

(3) Amounts do not include interest due to the floating nature of the interest on the debt. See Note 12 for additional information regarding floating rate debt.

(4) Amounts are included on the condensed consolidated balance sheets. See Note 13 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 19 for additional information regarding lease agreements.

(6) See Note 19 for additional information regarding purchase agreements.

Note 23. Segmented Information

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

The Company is a land developer and residential homebuilder. The Company is organized and manages its business based on the geographical areas in which it operates. Each of the Company's operating segments specializes in lot entitlement and development and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of other risk factors.

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

Earnings performance is measured using income before income taxes. The accounting policies of the segments are the same as those referred to in Note 1 "Significant Accounting Policies."

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

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

	Three Months Ended June 30, 2018				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 163,590	$ 299,867	$ 126,125	$ —	$ 589,582
Direct cost of sales	(119,730)	(238,477)	(105,213)	—	(463,420)
	43,860	61,390	20,912	—	126,162
Equity in earnings	718	1,423	1,306	—	3,447
Expenses	(16,070)	(21,444)	(17,491)	(10,687)	(65,692)
Income / (loss) before income taxes	$ 28,508	$ 41,369	$ 4,727	$ (10,687)	$ 63,917

	Three Months Ended June 30, 2017				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 152,466	$ 181,483	$ 109,225	$ —	$ 443,174
Direct cost of sales	(114,379)	(146,991)	(92,688)	—	(354,058)
	38,087	34,492	16,537	—	89,116
Equity in earnings	62	897	244	—	1,203
Expenses	(15,514)	(17,177)	(16,466)	(15,979)	(65,136)
Income / (loss) before income taxes	$ 22,635	$ 18,212	$ 315	$ (15,979)	$ 25,183

	Six Months Ended June 30, 2018				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 260,499	$ 409,675	$ 193,855	$ —	$ 864,029
Direct cost of sales	(192,373)	(326,571)	(162,968)	—	(681,912)
	68,126	83,104	30,887	—	182,117
Equity in earnings	651	2,161	5,845	—	8,657
Expenses	(29,423)	(35,968)	(34,043)	(26,192)	(125,626)
Income / (loss) before income taxes	$ 39,354	$ 49,297	$ 2,689	$ (26,192)	$ 65,148

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

	Six Months Ended June 30, 2017				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 285,004	$ 325,603	$ 170,881	$ —	$ 781,488
Direct cost of sales	(210,155)	(262,457)	(145,801)	—	(618,413)
	74,849	63,146	25,080	—	163,075
Equity in earnings	(56)	1,291	1,498	—	2,733
Expenses	(28,402)	(31,793)	(31,086)	(35,542)	(126,823)
Income / (loss) before income taxes	$ 46,391	$ 32,644	$ (4,508)	$ (35,542)	$ 38,985

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

	As at June 30, 2018				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 458,853	$ 447,889	$ 557,893	$ —	$ 1,464,635
Land under development	229,145	261,836	385,052	—	876,033
Housing inventory	168,992	302,816	176,891	—	648,699
Model homes	20,832	59,925	23,787	—	104,544
Total land and housing inventory	877,822	1,072,466	1,143,623	—	3,093,911
Commercial properties	32,496	—	4,562	—	37,058
Investments in unconsolidated entities	54,511	226,096	112,833	—	393,440
Held-to-maturity investment	—	—	—	300,000	300,000
Goodwill	—	—	—	16,479	16,479
Other assets (1)	178,693	52,098	120,894	270,699	622,384
Total assets	$ 1,143,522	$ 1,350,660	$ 1,381,912	$ 587,178	$ 4,463,272

	As at December 31, 2017				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 510,564	$ 403,416	$ 533,603	$ —	$ 1,447,583
Land under development	213,758	352,959	352,031	—	918,748
Housing inventory	171,113	200,076	157,438	—	528,627
Model homes	15,751	61,926	25,389	—	103,066
Total land and housing inventory	911,186	1,018,377	1,068,461	—	2,998,024
Commercial properties	33,390	—	4,568	—	37,958
Investments in unconsolidated entities	54,800	187,269	70,788	—	312,857
Held-to-maturity investment	—	—	—	300,000	300,000
Other assets (1)	178,135	48,836	107,823	254,652	589,446
Total assets	$ 1,177,511	$ 1,254,482	$ 1,251,640	$ 554,652	$ 4,238,285

(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 24. 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. The Company’s significant related party transactions as at and for the three and six months ended June 30, 2018 and 2017 were as follows:

- During the six months ended June 30, 2018, the Company paid $0.2 million (six months ended June 30, 2017 - $6.5 million) to Brookfield Asset Management Inc. for Canadian tax credits. These transactions were recorded at the exchange amount.
- During the three and six months ended June 30, 2018, the Company received $4.3 million and $8.5 million, respectively, of dividends from the preferred shares of Brookfield BPY Holdings Inc. (2017 - $4.3 million and $8.5 million, respectively). These transactions were recorded at the exchange amount.

Note 25. Subsequent Events

The Company performed an evaluation of subsequent events through July 26, 2018, which is the date these condensed consolidated financial statements were approved, and has determined that there are no subsequent events that require disclosure in these condensed 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 homebuilding operations. We also participate in select, strategic real estate opportunities, including infill projects, mixed-use developments, and joint ventures. We are the flagship North American residential property company of Brookfield Asset Management Inc., a leading global alternative asset manager with approximately $285 billion of assets under management. Further information is available at BrookfieldResidential.com or Brookfield.com or contact:

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BONDHOLDER INQUIRIES

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