2018 | Q3

September 30, 2018

Chief Executive Officer's Report

Brookfield Residential saw good results for the third quarter of 2018, despite continued challenges in the Canadian market. The U.S. market continued to see improved results over the previous year given positive housing market fundamentals, which resulted in a 17% increase in net new home orders and a 28% increase in home closings when compared to 2017. However, we have recently seen some slowdown in traffic and home sales, particularly in our California markets, as a result of affordability concerns. In Canada, we have continued to see a slowdown in net new orders as homebuyers adapt to changes made by the government to the mortgage rules. We continue to focus on the execution of our backlog in Ontario and Alberta as well as sales strategies going forward, as home closings have remained relatively flat compared to 2017.

For the nine months ended September 30, 2018, Brookfield Residential recorded income before income taxes of $121 million compared to $82 million in the same period of 2017. We remain focused on the continued execution of our housing backlog with the delivery of 2,304 homes at the end of the third quarter of 2018 with a backlog at September 30, 2018 consisting of 1,738 units with a value of $955 million.

Market Overview

The U.S. macroeconomic environment continues to benefit from low unemployment rates, limited supply and pent-up demand. However, with rising interest rates and increased cost pressures leading to house price escalation, our U.S. operations have seen some slowdown of homebuyer traffic in recent months as consumer confidence is affected by concerns around affordability. We continue to monitor these trends in each of our markets.

In Canada, rising interest rates, recent changes to the mortgage rules as well as the Ontario specific measures put in place in previous years continue to impact home buying behaviours. This has consumers adjusting to the type of home they can afford and as a result, are delaying home buying decisions. These changes, combined with the economic uncertainty surrounding the Alberta energy industry largely due to delayed regulatory approval of pipelines have resulted in slower than expected activity throughout 2018. Our focus remains on the execution of our backlog by working closely with our customers to limit the number of closing delays and cancellations, while continuing to adjust our sales programs for 2019.

Mixed-Use Initiatives Update

Brookfield Residential continued to expand our mixed-use platform during the third quarter of 2018 with the purchase of the remaining 90% interest we did not already own in Fifth + Broadway, a large mixed-use development project located in Nashville, Tennessee. Once completed, this project will have over 1,000,000 square feet of best-in-class residential, office and retail space. We initially acquired an interest in this asset as part of the OliverMcMillan Inc. acquisition in the first quarter of 2018. Construction on the office, residential and retail spaces have begun and completion is expected in 2020.

Our View Going Forward

As the fourth quarter historically has provided us with the greatest contribution of activity in the year, we anticipate that 2018 will be no different. However, with an operational focus to spread out closings throughout the year, the slower than anticipated Canadian housing market and the recent affordability concerns in the U.S., we expect the fourth quarter of 2018 to represent slightly below half of the year's activity. As a result, we anticipate that we will achieve previously provided guidance for lot closings in both the U.S. (2,100 lots) and Canada (900 lots). In relation to home closings, we expect our home closings in Canada to decline to approximately 1,250 homes while the U.S. is expected to make up a portion of the shortfall with approximately 2,300 homes.

Alan Norris
Chairman & Chief Executive Officer
October 30, 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 September 30, 2018 were $4.7 billion.

As of September 30, 2018, we controlled 88,837 single family lots (serviced lots and future lot equivalents) and 191 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 September 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 9/30/2018		Total Acres	
	Owned	Options	Owned	Options	9/30/2018	12/31/2017	Entitled	Unentitled	9/30/2018	12/31/2017
Calgary	18,937	—	2,442	—	21,379	22,311	11,038	10,341	82	79
Edmonton	11,705	—	—	—	11,705	12,344	6,495	5,210	29	31
Ontario	7,256	—	1,100	—	8,356	8,230	1,823	6,533	—	—
Canada	37,898	—	3,542	—	41,440	42,885	19,356	22,084	111	110
Northern California	2,721	4,950	263	—	7,934	8,038	2,984	4,950	—	—
Southern California	7,435	—	1,468	1,001	9,904	9,460	7,804	2,100	—	—
Hawaii	152	—	—	—	152	175	152	—	3	—
California	10,308	4,950	1,731	1,001	17,990	17,673	10,940	7,050	3	—
Denver	7,991	—	—	—	7,991	8,274	7,991	—	15	10
Austin	12,374	222	—	—	12,596	12,143	12,596	—	30	—
Phoenix	689	—	3,550	—	4,239	5,450	3,619	620	14	1
Washington, D.C. Area	3,236	1,004	—	—	4,240	4,455	4,203	37	15	18
Other	341	—	—	—	341	—	341	—	3	—
Central and Eastern U.S.	24,631	1,226	3,550	—	29,407	30,322	28,750	657	77	29
Total	72,837	6,176	8,823	1,001	88,837	90,880	59,046	29,791	191	139
Entitled lots	53,546	1,226	4,274	—	59,046					
Unentitled lots	19,291	4,950	4,549	1,001	29,791					
Total September 30, 2018	72,837	6,176	8,823	1,001	88,837					
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; 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; expected project completion times, including the construction timeline of our Fifth + Broadway mixed-use development project in Nashville, Tennessee; 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 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 strategic expansion of our business 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 rates 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 impact of changes to U.S. tax legislation;
- 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 September 30, 2018 and has been prepared with an effective date of October 30, 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, hospitality, for sale residential, and for rent residential.

RESULTS OF OPERATIONS

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

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Three Months Ended September 30		Nine months ended September 30	
	2018	**2017**	**2018**	**2017**
Key Financial Results[1]				
Housing revenue	$ 429	$ 384	$ 1,198	$ 1,074
Land revenue	73	67	168	159
Gross margin ($)	114	102	296	265
Gross margin (%)[2]	23%	23%	22%	21%
Income before income taxes	56	43	121	82
Income tax expense	(8)	(8)	(18)	(9)
Net income attributable to Brookfield Residential	44	35	97	73
Basic earnings per share	$ 0.34	$ 0.27	$ 0.75	$ 0.56
Diluted earnings per share	$ 0.34	$ 0.27	$ 0.75	$ 0.56
Key Operating Data				
Home closings for Brookfield Residential (units)	827	692	2,304	2,006
Home closings for unconsolidated entities (units)	1	2	4	5
Average home selling price for Brookfield Residential (per unit)	$ 518,000	$ 555,000	$ 520,000	$ 535,000
Average home selling price for unconsolidated entities (per unit)	$1,103,000	$1,058,000	$1,328,000	$1,216,000
Net new home orders for Brookfield Residential (units)	644	716	2,349	2,647
Net new home orders for unconsolidated entities (units)	(1)	3	3	7
Backlog for Brookfield Residential (units)	1,738	2,182	1,738	2,182
Backlog for unconsolidated entities (units)	—	3	—	3
Backlog value for Brookfield Residential	$ 955	$ 1,198	$ 955	$ 1,198
Backlog value for unconsolidated entities	$ —	$ 3	$ —	$ 3
Lot closings for Brookfield Residential (single family units)	552	467	1,183	1,273
Lot closings for unconsolidated entities (single family units)	193	91	315	275
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	42	15	52	24
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	—	33	16	34
Acre closings for Brookfield Residential (raw and partially finished)	—	313	19	567
Average lot selling price for Brookfield Residential (single family units)	$ 106,000	$ 99,000	$ 122,000	$ 101,000
Average lot selling price for unconsolidated entities (single family units)	$ 111,000	$ 43,000	$ 124,000	$ 90,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 349,000	$1,269,000	$ 424,000	$ 921,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ —	$ 257,000	$ 350,000	$ 257,000
Average per acre selling price for Brookfield Residential (raw and partially finished)	$ —	$ 4,000	$ 94,000	$ 12,000

(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 "Change 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 30.

Segmented Information

We operate in three operating segments within North America: Canada, California and Central and Eastern U.S. Each of the Company's segments specializes in land entitlement and development and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of risk factors. The following table summarizes information relating to revenues, gross margin and assets by operating segment for the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity and average selling price)	**2018**	**2017**	**2018**	**2017**
Housing revenue				
Canada	$ 108	$ 100	$ 314	$ 335
California	202	200	581	517
Central and Eastern U.S	119	84	303	222
Total	$ 429	$ 384	$ 1,198	$ 1,074
Land revenue				
Canada	$ 36	$ 45	$ 90	$ 95
California	18	4	49	13
Central and Eastern U.S	19	18	29	51
Total	$ 73	$ 67	$ 168	$ 159
Housing gross margin				
Canada	$ 20	$ 18	$ 63	$ 64
California	45	40	115	99
Central and Eastern U.S	23	16	53	36
Total	$ 88	$ 74	$ 231	$ 199
Land gross margin				
Canada	$ 17	$ 22	$ 43	$ 50
California	6	3	18	8
Central and Eastern U.S	3	3	4	8
Total	$ 26	$ 28	$ 65	$ 66
Home closings (units)				
Canada	283	269	856	875
California	284	247	799	651
Central and Eastern U.S	260	176	649	480
	827	692	2,304	2,006
Unconsolidated entities	1	2	4	5
Total	828	694	2,308	2,011
Average home selling price				
Canada	$ 380,000	$ 372,000	$ 367,000	$ 383,000
California	711,000	808,000	727,000	793,000
Central and Eastern U.S	458,000	480,000	467,000	463,000
	518,000	555,000	520,000	535,000
Unconsolidated entities	1,103,000	1,058,000	1,328,000	1,216,000
Average	$ 519,000	$ 557,000	$ 521,000	$ 537,000
Active housing communities				
Canada			31	27
California			27	26
Central and Eastern U.S			29	27
			87	80
Unconsolidated entities			—	1
Total			87	81

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
Lot closings (single family units)				
Canada	213	163	538	506
California	129	29	305	49
Central and Eastern U.S	210	275	340	718
	552	467	1,183	1,273
Unconsolidated entities	193	91	315	275
Total	745	558	1,498	1,548
Acre closings (multi-family, industrial and commercial)				
Canada	16	15	26	18
California	24	—	24	—
Central and Eastern U.S	2	—	2	6
	42	15	52	24
Unconsolidated entities	—	33	16	34
Total	42	48	68	58
Acre closings (raw and partially finished)				
Canada	—	313	19	543
California	—	—	—	16
Central and Eastern U.S	—	—	—	8
Total	—	313	19	567
Average lot selling price (single family lots)				
Canada	$ 116,000	$ 153,000	$ 129,000	$ 143,000
California	125,000	103,000	155,000	150,000
Central and Eastern U.S	85,000	67,000	82,000	68,000
	106,000	99,000	122,000	101,000
Unconsolidated entities	111,000	43,000	124,000	90,000
Average	$ 108,000	$ 90,000	$ 122,000	$ 99,000
Average per acre selling price (multi-family, industrial and commercial)				
Canada	$ 720,000	$1,269,000	$ 725,000	$1,132,000
California	94,000	—	94,000	—
Central and Eastern U.S	495,000	—	495,000	281,000
	349,000	1,269,000	424,000	921,000
Unconsolidated entities	—	257,000	350,000	257,000
Average	$ 349,000	$ 568,000	$ 407,000	$ 533,000
Average per acre selling price (raw and partially finished)				
Canada	$ —	$ 4,000	$ 94,000	$ 4,000
California	—	—	—	254,000
Central and Eastern U.S	—	—	—	95,000
Average	$ —	$ 4,000	$ 94,000	$ 12,000
Active land communities				
Canada			12	11
California			5	6
Central and Eastern U.S			11	10
			28	27
Unconsolidated entities			6	5
Total			34	32

(US$ millions)	As at September 30 2018	As at December 31 2017
Total assets		
Canada	$ 1,178	$ 1,177
California	1,406	1,254
Central and Eastern U.S	1,582	1,252
Corporate and other	575	555
Total	$ 4,741	$ 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 Nine Months Ended September 30, 2018 Compared with Three and Nine Months Ended September 30, 2017

Net Income

Net income attributable to Brookfield Residential for the three and nine months ended September 30, 2018 was $44 million and $97 million, respectively, compared to $35 million and $73 million for the same periods in 2017.

(US$ millions, except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Net income attributable to Brookfield Residential	$ 44	$ 35	$ 97	$ 73
Basic earnings per share	$ 0.34	$ 0.27	$ 0.75	$ 0.56
Diluted earnings per share	$ 0.34	$ 0.27	$ 0.75	$ 0.56

The increase of $9 million in net income attributable to Brookfield Residential for the three months ended September 30, 2018, compared to the same period in 2017 was primarily the result of an increase in gross margin of $12 million due to higher housing gross margins. Additionally, there was a decrease in interest expense of $7 million and an increase in other income of $11 million. This was partially offset by an increase in general and administrative expense of $8 million, an increase in sales and marketing expense of $7 million, an increase in share-based compensation of $1 million, a decrease in equity earnings from unconsolidated entities of $1 million and an increase in income tax expense of $1 million. Additionally, there was an increase of $3 million of net income attributable to non-controlling interests.

The increase of $24 million in net income attributable to Brookfield Residential for the nine months ended September 30, 2018, compared to the same period in 2017 was primarily the result of an increase in gross margin of $31 million mainly from higher housing gross margins. Additionally, there was a decrease in interest expense of $15 million, an increase in other income of $28 million and an increase in equity earnings from unconsolidated entities of $5 million. This was partially offset by an increase in general and administrative expense of $20 million, an increase in sales and marketing expense of $17 million, an increase in share-based compensation expense of $3 million and an increase in income tax expense of $9 million. Additionally, there was an increase of $6 million of net income attributable to non-controlling interests.

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

(US$ millions, except percentages)	Three Months Ended September 30		Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
Revenue				
Housing	$ 429	$ 384	$ 1,198	$ 1,074
Land	73	67	168	159
	$ 502	$ 451	$ 1,366	$ 1,233
Gross Margin				
Housing	$ 88	$ 74	$ 231	$ 199
Land	26	28	65	66
	$ 114	$ 102	$ 296	$ 265
Gross Margin (%)				
Housing	21%	19%	19%	19%
Land	36%	42%	39%	42%
	23%	23%	22%	21%

For the three months ended September 30, 2018, total revenue increased by $51 million and total gross margin increased by $12 million, when compared to the same period in 2017. The increase in total revenue was primarily the result of 135 additional home closings, partially offset by a 7% decrease in the average home selling price. There was also a $6 million increase in land revenue as a result of 85 additional single family lot closings and 27 additional multi-family, industrial and commercial acre closings when compared to the same period in 2017. Total gross margin increased as a result of higher housing gross margins partially offset by a slight decrease in land margins. Total gross margin percentage remained consistent with 2017. Housing gross margins increased as a result of increased home closings across all of our operating segments, as well as a higher gross margin percentage across our Canadian and California segments, due primarily to product mix. Land gross margins decreased as a result of a lower gross margin percentage due to the geographic mix of land sold.

For the nine months ended September 30, 2018, total revenue increased by $133 million and total gross margin increased by $31 million when compared to the same period in 2017. The increase in total revenue was primarily the result of 298 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. The increase in total revenue was also impacted by an increase in the average single family lot selling price, as well as an increase in raw and partially finished acre selling prices when compared to the same period in 2017. This was partially offset by 90 fewer single family lot closings and lower average home selling prices. Total gross margin increased as a result of higher housing margins, while total gross margin percentage was slightly higher than 2017 due to the mix of homes and land sold.

Results of Operations – Housing

Housing revenue and gross margin were $429 million and $88 million, respectively, for the three months ended September 30, 2018, compared to $384 million and $74 million for the same period in 2017. The increase in revenue and gross margin was primarily the result of 135 additional home closings. This was partially offset by a 7% decrease in the average home selling price primarily as a result of the mix of homes closed and a 4% decrease 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 from our California and Canadian operating segments, primarily as a result of the geographic and product mix of homes sold. Revenues are also affected by the mix of homes closed and market conditions, which have an impact on the selling price per home.

Housing revenue and gross margin were $1,198 million and $231 million, respectively, for the nine months ended September 30, 2018, compared to $1,074 million and $199 million for the same period in 2017. The increase in revenue and gross margin was primarily the result of 298 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. Additionally, there was a 3% decrease in the average home selling price, due to product mix. The gross margin percentage across all of our operating segments when compared to 2017 remained relatively consistent. 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 nine months ended September 30, 2018 and 2017 is as follows:

Consolidated

	Three Months Ended September 30		**Nine Months Ended September 30**	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Home closings	827	692	2,304	2,006
Revenue	$ 429	$ 384	$ 1,198	$ 1,074
Gross margin	$ 88	$ 74	$ 231	$ 199
Gross margin (%)	21%	19%	19%	19%
Average home selling price	$ 518,000	$ 555,000	$ 520,000	$ 535,000

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

Canada

	Three Months Ended September 30		**Nine Months Ended September 30**	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Home closings	283	269	856	875
Revenue	$ 108	$ 100	$ 314	$ 335
Gross margin	$ 20	$ 18	$ 63	$ 64
Gross margin (%)	19%	18%	20%	19%
Average home selling price	$ 380,000	$ 372,000	$ 367,000	$ 383,000

In Canada, housing revenue for the three months ended September 30, 2018 increased by $8 million when compared to the same period in 2017, primarily due to 14 additional home closings and a 2% increase in the average home selling price. The increase in home closings was primarily the result of higher closings in our Calgary market from the continued execution of our backlog and the increase in the average home selling price was due to product mix in the Ontario market. This was partially offset by a 4% decrease in the foreign exchange rate between the Canadian and U.S. dollar for the three months ended September 30, 2018 when compared to the same period in 2017. The average home selling price in Canadian dollars for the three months ended September 30, 2018 and 2017, was C$497,000 and C$466,000, respectively, representing a 7% increase from the mix of homes closed. Gross margin increased $2 million and gross margin percentage increased 1% for the three months ended September 30, 2018 when compared to the same period in 2017 primarily as a result of higher home closings and the mix of homes closed within the Ontario market had higher gross margin percentages.

Housing revenue for the nine months ended September 30, 2018 decreased by $21 million when compared to the same period in 2017, primarily due a 4% decrease in the average home selling price and 19 fewer home closings. The decrease in home closings was primarily the result of fewer closings from our Edmonton market. The change in the average home selling price was primarily due to lower average selling prices across all of our markets as a result of the mix of homes closed. The average home selling price in Canadian dollars for the nine months ended September 30, 2018 and 2017, was C$474,000 and C$502,000, respectively, representing a decrease of 6%. Gross margin decreased $1 million for the nine months ended September 30, 2018 when compared to the same period in 2017 primarily as a result of a decrease in average home selling prices. Gross margin percentage for the nine months ended September 30, 2018 increased 1% when compared to 2017 due to a higher gross margin percentage in our Ontario market due to the mix of homes closed.

California

	Three Months Ended September 30		**Nine Months Ended September 30**	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Home closings	284	247	799	651
Revenue	$ 202	$ 200	$ 581	$ 517
Gross margin	$ 45	$ 40	$ 115	$ 99
Gross margin (%)	22%	20%	20%	19%
Average home selling price	$ 711,000	$ 808,000	$ 727,000	$ 793,000

Our California segment had housing revenue of $202 million for the three months ended September 30, 2018, an increase of $2 million when compared to the same period in 2017. The increase in revenue was primarily due to 37 additional home closings, partially offset by a 12% decrease in the average home selling price for the three months ended September 30, 2018 when compared to the same period in 2017. The increase in home closings was from higher closings in our Southern California market. The decrease in the average home selling price is primarily the result of the mix of homes sold in both our Southern and Northern California markets. Gross margin increased $5 million in the three months ended September 30, 2018 as a result of the increase in home closings when compared to the same period in 2017. 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 for the nine months ended September 30, 2018 was $581 million, an increase of $64 million when compared to the same period in 2017. The increase in revenue was primarily due to 148 additional home closings, partially offset by an 8% decrease in the average home selling price. The average home selling price decrease is due to product and geographic mix of homes closed across the segment where current active communities in Southern California have a lower average selling price when compared to 2017. Gross margin increased $16 million primarily as a result of higher home closings and gross margin percentage increased 1% as a result of product mix when compared to 2017.

Central and Eastern U.S.

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Home closings	260	176	649	480
Revenue	$ 119	$ 84	$ 303	$ 222
Gross margin	$ 23	$ 16	$ 53	$ 36
Gross margin (%)	19%	19%	17%	16%
Average home selling price	$ 458,000	$ 480,000	$ 467,000	$ 463,000

Central and Eastern U.S. housing revenue for the three months ended September 30, 2018 increased by $35 million when compared to the same period of 2017. The increase in revenue was primarily the result of 84 additional home closings, partially offset by a 5% decrease in the average home selling price. The increase in the number of homes closed was primarily due to higher home closings in our Austin and Washington D.C. markets. The decrease in the average home selling price is a result of the geographic mix of homes sold within the segment. Gross margin increased $7 million when compared to the same period in 2017 primarily as a result of higher closings while gross margin percentage remained consistent with 2017.

Central and Eastern U.S. housing revenue increased by $81 million for the nine months ended September 30, 2018 when compared to the same period of 2017. The increase in revenue was primarily the result of 169 additional home closings and a 1% increase in the average home selling price. The increase in home closings was primarily due to higher home closings across all markets in the segment, 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 $17 million and 1%, 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 nine months ended September 30, 2018, total incentives recognized as a percentage of gross revenues were 2% and 2%, respectively, compared to 2% and 3% for the same periods in 2017.

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

	Three Months Ended September 30			
	2018		2017	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 2	2%	$ 3	3%
California	4	2%	3	2%
Central and Eastern U.S.	4	4%	4	4%
	$ 10	2%	$ 10	2%

	Nine Months Ended September 30			
	2018		2017	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 6	2%	$ 9	3%
California	9	2%	17	3%
Central and Eastern U.S.	13	4%	12	5%
	$ 28	2%	$ 38	3%

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders, including our share of unconsolidated entities, for the three and nine months ended September 30, 2018 totalled 643 units and 2,352 units, respectively, a decrease of 76 units and 302 units when compared to the same periods in 2017. For the three and nine months ended September 30, 2018, the decrease in net new home orders was the result of fewer net new orders in our Canadian and California operating segments, partially offset by an increase in net new orders in our Central and Eastern U.S. operating segment. The decrease in net new orders in our Canadian segment is primarily due to lower home orders in our Edmonton and Ontario markets as a result of market conditions. Net new orders in our California segment decreased as a result of lower net new orders in Southern California. Net new orders in our Central and Eastern U.S. segment increased mainly due to higher net new orders in the Denver and Washington D.C. markets. Average monthly sales per community by reportable segment for the three and nine months ended September 30, 2018 were: Canada – 2 and 2 units (2017 – 3 and 4 units); California – 3 and 4 units (2017 – 4 and 4 units); Central and Eastern U.S. – 3 and 4 units (2017 – 2 and 3 units); and Unconsolidated Entities – nil and nil units (2017 – 1 and 1 unit). We were selling from 87 active housing communities, including our share of unconsolidated entities, at September 30, 2018 compared to 81 at September 30, 2017.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Units)	2018	2017	2018	2017
Canada	191	239	535	1,095
California	232	297	884	899
Central and Eastern U.S.	221	180	930	653
	644	716	2,349	2,647
Unconsolidated entities	(1)	3	3	7
	643	719	2,352	2,654

The overall cancellation rates for the three and nine months ended September 30, 2018 were 15% and 11%, respectively, compared to 11% and 9% in 2017. The increase in the cancellation rate for the three and nine months ended September 30, 2018 was primarily driven by a higher number of cancellations in our Ontario and Southern California markets. The cancellation rates for the three and nine months ended September 30, 2018 and 2017 by our three operating segments were as follows:

	Three Months Ended September 30			
	2018		2017	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	11	5 %	9	4%
California	52	18 %	34	10%
Central and Eastern U.S.	47	18 %	46	20%
	110	15 %	89	11%
Unconsolidated entities	1	(100)%	—	—%
	111	15 %	89	11%

	Nine Months Ended September 30			
	2018		2017	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	36	6%	18	2%
California	119	12%	109	11%
Central and Eastern U.S.	133	13%	132	17%
	288	11%	259	9%
Unconsolidated entities	1	29%	—	—%
	289	11%	259	9%

Home Sales – Backlog

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

	As at September 30			
	2018		2017	
(US$ millions, except unit activity)	**Units**	**Value**	**Units**	**Value**
Canada	628	$ 295	1,266	$ 616
California	500	364	502	382
Central and Eastern U.S.	610	296	414	200
	1,738	955	2,182	1198
Unconsolidated entities	—	—	3	3
Total	1,738	$ 955	2,185	$ 1,201

We expect all of our backlog to close in 2018, 2019 or 2020, 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 segment for the nine months ended September 30, 2018, compared to the same period in 2017. Our units in backlog in our Canadian segment decreased compared to 2017 primarily due to fewer backlog units in our Ontario market and our Alberta markets as a result of market conditions. Our California segment units in backlog decreased as a result of a 2% decrease in net new home orders, driven by lower net new orders in Southern California. The increase of 196 units in the Central and Eastern U.S. segment was primarily due to a 42% increase in net new orders, which led to higher backlog units, particularly in our Austin and Washington D.C. markets. Total backlog value decreased as at September 30, 2018 compared to the same period in 2017 primarily as a result of fewer backlog units as well as product mix of homes in backlog.

Results of Operations – Land

Land revenue totalled $73 million for the three months ended September 30, 2018, an increase of $6 million when compared to the same period in 2017 and land gross margin totalled $26 million, a decrease of $2 million compared to the same period in 2017. The increase in revenue was primarily due to 85 additional single family lot closings, a 7% increase in the single family lot selling price and 27 additional multi-family, industrial and commercial acre sales. This was partially offset by 313 raw and partially finished acre sales in 2017 compared to none in 2018 and a decrease in the average selling price for multi-family, industrial, and commercial acre sales. Gross margin decreased by $2 million when compared to the same period in 2017, while gross margin percentage decreased by 6% as a result of the mix of land sold for the three months ended September 30, 2018 primarily due to a decrease in land gross margin percentage in our California 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 $168 million for the nine months ended September 30, 2018, an increase of $9 million when compared to the same period in 2017, and land gross margin totalled $65 million, a decrease of $1 million compared to the same period in 2017. The increase in land revenue was primarily due to a 21% increase in the average selling price for single family lot closings, partially offset by 90 fewer single family lot closings and a decrease in the average selling price for multi-family, industrial and commercial acre closings. Gross margin decreased by $1 million due to lower land activity while the gross margin percentage decreased 3% when compared to the same period in 2017 as a result of the mix of land sold. 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 nine months ended September 30, 2018 and 2017 is as follows:

Consolidated

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Lot closings (single family units)	552	467	1,183	1,273
Acre closings (multi-family, industrial and commercial)	42	15	52	24
Acre closings (raw and partially finished)	—	313	19	567
Revenue	$ 73	$ 67	$ 168	$ 159
Gross margin	$ 26	$ 28	$ 65	$ 66
Gross margin (%)	36%	42%	39%	42%
Average lot selling price (single family units)	$ 106,000	$ 99,000	$ 122,000	$ 101,000
Average per acre selling price (multi-family, industrial and commercial)	$ 349,000	$1,269,000	$ 424,000	$ 921,000
Average per acre selling price (raw and partially finished)	$ —	$ 4,000	$ 94,000	$ 12,000

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 September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Lot closings (single family units)	213	163	538	506
Acre closings (multi-family, industrial and commercial)	16	15	26	18
Acre closings (raw and partially finished)	—	313	19	543
Revenue	$ 36	$ 45	$ 90	$ 95
Gross margin	$ 17	$ 22	$ 43	$ 50
Gross margin (%)	47%	49%	48%	53%
Average lot selling price (single family units)	$ 116,000	$ 153,000	$ 129,000	$ 143,000
Average per acre selling price (multi-family, industrial and commercial)	$ 720,000	$ 1,269,000	$ 725,000	$1,132,000
Average per acre selling price (raw and partially finished)	$ —	$ 4,000	$ 94,000	$ 4,000

Land revenue in Canada for the three months ended September 30, 2018 was $36 million, a decrease of $9 million when compared to the same period in 2017. The decrease was primarily the result of a 24% decrease in the average single family lot selling price as a result of the mix of land sold, a decrease in the average multi-family, industrial and commercial acre selling price and a 4% decrease in the Canadian to U.S. dollar foreign exchange rate. The decrease was also impacted by having 313 raw and partially finished acre sales in the three months ended September 30, 2017 compared to none in the same period of 2018. This was partially offset by 50 additional single family lots closed. Gross margin decreased $5 million when compared to 2017 primarily as a result of lower average selling prices, primarily in our Alberta markets due to the mix of communities where the land was sold while gross margin percentage decreased 2% primarily due to the mix of land sold. When comparing the average single family lot selling price in Canadian dollars for the three months ended September 30, 2018 to the same period in 2017, the average lot selling price was C$152,000 compared to C$192,000.

Land revenue in Canada for the nine months ended September 30, 2018 was $90 million, a decrease of $5 million when compared to the same period in 2017. The decrease was primarily the result of a 10% decrease in the average single family lot selling price and 524 fewer raw and partially finished acre sales. There were also lower average single family lot selling prices and multi-family, industrial and commercial acre selling prices as a result of the geographic mix of land sold. This was partially offset by 32 additional single family lot closings and eight additional multi-family, industrial and commercial acre sales. Gross margin decreased $7 million when compared to 2017 primarily as a result of lower single-family lot and multi-family, commercial and industrial average selling prices as well as a 5% decrease in the gross margin percentage, due to the mix of communities where the land was sold.

California

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Lot closings (single family units)	129	29	305	49
Acre closings (multi-family, industrial and commercial)	24	—	24	—
Acre closings (raw and partially finished)	—	—	—	16
Revenue	$ 18	$ 4	$ 49	$ 13
Gross margin	$ 6	$ 3	$ 18	$ 8
Gross margin (%)	33%	75%	37%	62%
Average lot selling price (single family units)	$ 125,000	$ 103,000	$ 155,000	$ 150,000
Average per acre selling price (multi-family, industrial and commercial)	$ 94,000	$ —	$ 94,000	$ —
Average per acre selling price (raw and partially finished)	$ —	$ —	$ —	$ 254,000

Land revenue in California for the three months ended September 30, 2018 increased by $14 million and gross margin increased $3 million when compared to the same period in 2017. This was primarily due to 100 additional single family lot closings and a 21% increase in the average lot selling price due to the mix of land sold where the activity was primarily from our Southern California market. Gross margin percentage decreased as a result of a change in the mix of land sold when compared to the same period in 2017.

Land revenue in California for the nine months ended September 30, 2018 increased by $36 million and gross margin increased $10 million when compared to the same period in 2017. This was primarily due to 256 additional single family lot closings with slightly higher average selling prices and 24 additional multi-family, industrial and commercial acre sales, partially offset by 16 fewer raw and partially finished acre sales in 2017 compared to none in 2018. Gross margin percentage decreased 25% as a result of a change in the mix of land sold.

Central and Eastern U.S.

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Lot closings (single family units)	210	275	340	718
Acre closings (multi-family, industrial and commercial)	2	—	2	6
Acre closings (raw and partially finished)	—	—	—	8
Revenue	$ 19	$ 18	$ 29	$ 51
Gross margin	$ 3	$ 3	$ 4	$ 8
Gross margin (%)	16%	17%	14%	16%
Average lot selling price (single family units)	$ 85,000	$ 67,000	$ 82,000	$ 68,000
Average per acre selling price (multi-family, industrial and commercial)	$ 495,000	$ —	$ 495,000	$ 281,000
Average per acre selling price (raw and partially finished)	$ —	$ —	$ —	$ 95,000

For the three months ended September 30, 2018, Central and Eastern U.S. land revenue increased by $1 million and gross margin remained consistent with the same period in 2017. The increase in revenue was primarily a result of a 27% increase in the average single family lot selling price, partially offset by 65 fewer single family lot closings. The increase in the average single family lot selling price was due to the geographic mix of land sold, while 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. Gross margin percentage decreased 1% as a result of the mix of single family lots sold within the segment.

For the nine months ended September 30, 2018, Central and Eastern U.S. land revenue and gross margin decreased by $22 million and $4 million, respectively when compared to 2017. The decrease in revenue and gross margin was a result of 378 fewer single family lot closings, four fewer multi-family, industrial and commercial acre sales, as well as eight raw and partially finished acre sales in 2017 compared to none in 2018. This was partially offset by a 21% 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 nine months ended September 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 nine months ended September 30, 2018 totalled $4 million and $13 million, respectively, compared to $5 million and $8 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 September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Home closings	1	2	4	5
Revenue	$ 1	$ 2	$ 5	$ 6
Gross margin	$ —	$ —	$ 1	$ 1
Gross margin (%)	—%	—%	20%	17%
Average home selling price	$ 1,103,000	$1,058,000	$1,328,000	$1,216,000

Housing revenue within unconsolidated entities decreased $1 million and gross margin remained consistent for the three months ended September 30, 2018 compared to the same period in 2017. The decrease in revenue was due to the product mix of one fewer home closing with a slightly higher average selling price when compared to the same period in 2017. During the three months ended September 30, 2018, we acquired the remaining 50% of our housing joint venture in Hawaii and it is now a wholly-owned subsidiary.

Housing revenue within unconsolidated entities decreased $1 million for the nine months ended September 30, 2018 compared to the same period in 2017 due to product mix and one fewer home closing. Gross margin remained consistent with 2017.

Land

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

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2018**	**2017**	**2018**	**2017**
Lot closings (single family units)	193	91	315	275
Acre closings (multi-family, industrial and commercial)	—	33	16	34
Revenue	$ 21	$ 12	$ 44	$ 33
Gross margin	$ 4	$ 6	$ 12	$ 9
Gross margin (%)	19%	50%	27%	27%
Average lot selling price (single family units)	$ 111,000	$ 43,000	$ 124,000	$ 90,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ 257,000	$ 350,000	$ 257,000

Land revenue within unconsolidated entities increased $9 million for the three months ended September 30, 2018 when compared to the same period in 2017. This was primarily the result 102 additional single family lot closings and an increase in the average selling price for single family lot closings for the three months ended September 30, 2018 compared to the same period in 2017. The increase in average selling price of the single family lots is due to geographic mix where the lot closings were primarily from our California joint ventures.

Land revenue within unconsolidated entities increased $11 million for the nine months ended September 30, 2018 compared to the same period in 2017. This was primarily the result of 40 additional single family lot closings and a 38% increase in the average lot selling price. This was partially offset by 18 fewer multi-family, industrial and commercial acre sales.

Selling, General and Administrative Expense

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

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions)	**2018**	**2017**	**2018**	**2017**
General and administrative expense	$ 40	$ 32	$ 114	$ 94
Sales and marketing expense	28	21	78	61
Share-based compensation	4	3	11	8
	$ 72	$ 56	$ 203	$ 163

Selling, general and administrative expense was $72 million for the three months ended September 30, 2018, an increase of $16 million when compared to the same period in 2017. General and administrative expense increased $8 million for the three months ended September 30, 2018 due to higher salaries and benefits costs, primarily from an increase in headcount arising from the acquisition of OliverMcMillan in the first quarter of 2018 and taking on the management of one of our joint ventures in the Phoenix market, partially offset by a 4% decrease 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. For the three months ended September 30, 2017, there was $1.8 million of joint venture management fee income that was included as an offset to general and administrative expense. Sales and marketing expense increased $7 million when compared to the same period in 2017, primarily due to higher housing activity and from a reclassification of the amortization of capitalized sales and marketing costs that was previously classified as cost of sales. For more information relating to the reclassification changes, refer to Note 2 "Change in Accounting Policies" of the condensed consolidated financial statements. Share-based compensation increased $1 million during the three months ended September 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 $203 million for the nine months ended September 30, 2018, an increase of $40 million when compared to the same period in 2017. General and administrative expense increased $20 million for the nine months ended September 30, 2018 due to higher salaries and benefits costs, primarily from an increase in headcount arising from the acquisition of OliverMcMillan and taking on the management of one of our joint ventures in the Phoenix market. 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 nine months ended September 30, 2017, there was $5.6 million of joint venture management fee income that was included as an offset to general and administrative expense. Sales and marketing expense for the nine months ended September 30, 2018 increased $17 million when compared to the same period in 2017, primarily due to higher housing activity and from a reclassification of the amortization of capitalized sales and marketing costs that was previously classified as cost of sales. For more information relating to reclassification changes, refer to Note 2 "Change in Accounting Policies" of the condensed consolidated financial statements. Share-based compensation increased $3 million during the nine months ended September 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 nine months ended September 30, 2018 and 2017 are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions)	**2018**	**2017**	**2018**	**2017**
Investment income	$ (9)	$ (5)	$ (26)	(14)
Joint venture management fee income	(3)	—	(11)	—
Other	(7)	(3)	(10)	(5)
	$ (19)	$ (8)	$ (47)	$ (19)

For the three months ended September 30, 2018, other income increased $11 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 $3 million increase due to joint venture management fee income, which was reclassified from general and administrative expense in 2018. For more information refer to Note 2 "Change in Accounting Policies" of the condensed consolidated financial statements. Additionally, other income increased by $4 million as a result of promote income earned on mixed-use assets.

For the nine months ended September 30, 2018, other income increased $28 million compared to the same period in 2017. This was primarily the result of a $12 million increase in interest revenue earned on our loan receivables and a $11 million increase due to joint venture management fee income, which was reclassified from general and administrative expense in 2018. For more information refer to Note 2 "Change in Accounting Policies" of the condensed consolidated financial statements. Additionally, other income increased primarily as a result of promote income earned on mixed-use assets.

Income Tax Expense / (Recovery)

Income tax expense for the three and nine months ended September 30, 2018 was $8 million and $18 million, respectively, compared to $8 million and $9 million, for the same periods in 2017. The components of current and deferred income tax expense are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions)	**2018**	**2017**	**2018**	**2017**
Current income tax expense	$ 9	$ 7	$ 18	$ 6
Deferred income tax (recovery) / expense	(1)	1	—	3
	$ 8	$ 8	$ 18	$ 9

The income tax provision for the three and nine months ended September 30, 2018 reflects the impact of the Tax Cuts and Jobs Act ("TCJA"), which was enacted into law on December 22, 2017. For the three months ended September 30, 2018, total income tax expense remained consistent compared to 2017 due to a decrease in total income tax expense as a result of the reduction in the U.S. federal corporate income tax rate under TCJA and the favorable net impact of federal energy tax credits, offset by an increase in income tax expense due to the increase in the Company's overall net income when compared to the same period in 2017.

For the nine months ended September 30, 2018, the increase in income tax expense is primarily due to the increase in the Company's overall net income when compared to the same period in 2017 and a decrease in withholding tax refund received in the period ended September 30, 2017, with no such refund received for the current period, partially offset by a decrease in income tax expense as a result of the reduced U.S. federal corporate income tax rate.

Foreign Exchange Translation

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

Assets and liabilities of subsidiaries or equity accounted investees having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at September 30, 2018, the rate of exchange was C$1.2912 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 September 30, 2018, the average rate of exchange was C$1.3069 equivalent to US$1 (September 30, 2017 – C$1.2532 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 gain of $14 million and loss of $22 million, respectively, for the three and nine months ended September 30, 2018, compared to a gain of $32 million and $61 million, respectively, in the same periods of 2017.

QUARTERLY OPERATING AND FINANCIAL DATA [1]

(US$ millions, except unit activity and per share amounts)	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4
Quarterly Operating Data								
Home closings (units)	827	1,019	458	1,168	692	733	581	1,214
Lot closings (single family units)	552	367	264	1,076	467	597	209	1,347
Acre closings (multi-family, industrial and commercial)	42	1	9	59	15	8	1	16
Acre closings (raw and partially finished)	—	19	—	61	313	230	24	1,994
Net new home orders (units)	644	782	923	679	716	998	933	855
Backlog (units at end of period)	1,738	1,921	2,158	1,693	2,182	2,158	1,893	1,541
Backlog value	$ 955	$1,038	$ 1,182	$ 928	$ 1,198	$ 1,166	$ 969	$ 783
Quarterly Financial Data[1]								
Revenue	$ 502	$ 589	$ 274	$ 818	$ 451	$ 443	$ 338	$ 853
Direct cost of sales	(388)	(463)	(218)	(610)	(349)	(354)	(264)	(646)
Gross margin	114	126	56	208	102	89	74	207
Gain on commercial assets held for sale	—	—	—	—	—	—	—	14
Selling, general and administrative expense	(72)	(71)	(60)	(74)	(56)	(56)	(51)	(57)
Interest expense	(8)	(9)	(12)	(13)	(15)	(14)	(15)	(12)
Equity in earnings from unconsolidated	4	4	5	7	5	1	2	(1)
Other income	18	14	12	8	7	5	4	3
Income before income taxes	56	64	1	136	43	25	14	154
Income tax (expense) / recovery	(8)	(12)	2	(42)	(8)	(3)	2	(46)
Net income	48	52	3	94	35	22	16	108
Net income attributable to non-controlling interest	4	2	—	—	—	—	—	—
Net income attributable to Brookfield Residential	$ 44	$ 50	$ 3	$ 94	$ 35	$ 22	$ 16	$ 108
Foreign currency translation	14	(15)	(21)	(8)	32	22	7	(18)
Comprehensive income / (loss)	$ 58	$ 35	$ (18)	$ 86	$ 67	$ 44	$ 23	$ 90
Basic	$ 0.34	$ 0.38	$ 0.02	$ 0.72	$ 0.27	$ 0.17	$0.12	$ 0.94
Diluted	$ 0.34	$ 0.38	$ 0.02	$ 0.72	$ 0.27	$ 0.17	$0.12	$ 0.94

(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 "Change 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 September 30, 2018 and December 31, 2017:

	As at			
(US$ millions)		September 30 2018		December 31 2017
Land and housing inventory	$	3,256	$	2,998
Investments in unconsolidated entities		356		313
Commercial properties		222		38
Receivables and other assets		439		413
Held-to-maturity investment		300		300
Cash and restricted cash		85		108
Deferred income tax assets		67		68
Goodwill		16		—
	$	4,741	$	4,238
Notes payable	$	1,629	$	1,632
Bank indebtedness and other financings		369		31
Accounts payable and other liabilities		652		561
Total equity		2,091		2,014
	$	4,741	$	4,238

Assets

Our assets as at September 30, 2018 totalled $4.7 billion. Our land and housing inventory and investments in unconsolidated entities are our most significant assets with a combined book value of $3.6 billion, or approximately 76% of our total assets. The land and housing assets increased when compared to December 31, 2017 due to land acquisitions of $241 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 September 30, 2018 compared with December 31, 2017 follows:

	As at					
	September 30, 2018			December 31, 2017		
(US$ millions, except units)	Units	Book Value		Units	Book Value	
Land held for development (lot equivalents)	67,812	$	1,456	70,389	$	1,448
Land under development and finished lots (single family units)	8,559		878	7,192		833
Housing units, including models	2,641		826	1,972		631
	79,012	$	3,160	79,553	$	2,912
Multi-family, industrial and commercial parcels (acres)	173	$	96	139	$	86

Notes Payable

Notes payable consist of the following:

	As at	
(US$ millions)	**September 30 2018**	**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)	194	199
6.375% unsecured senior notes due May 15, 2025 (d)	350	350
	$ 1,644	$ 1,649
Transaction costs (e)	(15)	(17)
	$ 1,629	$ 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 September 30, 2018. Our actual fixed charge coverage and indebtedness to consolidated net tangible worth ratio as at September 30, 2018 are reflected in the table below:

	Covenant	**Actual as at September 30 2018**
Minimum fixed charge coverage	2.0 to 1	3.08 to 1
Maximum indebtedness to consolidated net tangible worth	2.25 to 1	0.97 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings as at September 30, 2018 were $369 million, an increase of $338 million from December 31, 2017. The increase was primarily the result of borrowings to fund development activity, land acquisitions as well as mixed-use acquisitions and development. Our bank indebtedness and other financings represent construction and development loans and facilities that are used to fund the operations of our communities as land is developed and homes are constructed. As of September 30, 2018, the weighted average interest rate on our bank indebtedness and other financings was 4.1% (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 September 30, 2018, we had bank indebtedness capacity of $292 million that was available to complete land development and construction activities. The “Cash Flow” section below discusses future available capital resources should proceeds from our future home and/or lot closings not be sufficient to repay our debt obligations.

Bank indebtedness and other financings consists of the following:

(US$ millions)	As at	
	September 30 2018	**December 31 2017**
Bank indebtedness (a)	$ 311	$ —
Secured vendor take back ("VTB") mortgages (b)	38	31
Project-specific financings (c)	23	—
	372	31
Transaction costs (a)	(3)	—
	$ 369	$ 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 September 30, 2018, the total borrowings outstanding under the North American unsecured credit facility were $311 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 $1,206 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at September 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 September 30 2018**
Minimum tangible net worth	$ 1,206	$ 2,074
Maximum net debt to capitalization	65%	49%

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

Eight secured VTB mortgages (December 31, 2017 – four secured VTB mortgages) in the amount of $31 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$40 million (December 31, 2017 – C$15 million). The interest rate on this debt ranges from fixed rates of 2.2% to 6.0% and variable rates of prime plus 2% and the debt is secured by related land. As at September 30, 2018, these borrowings are not subject to any financial covenants.

Three secured VTB mortgages (December 31, 2017 – six secured VTB mortgages) in the amount of $7 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 September 30, 2018, these borrowings are not subject to any financial covenants.

(c) Project-specific financings

The Company has $23 million (C$30 million) of project-specific financings (December 31, 2017 - $nil). The financing has an interest rate of Canadian prime plus 0.5%, matures in 2019, and is secured by certain land and housing inventory assets of the Company's Alberta operations and a general charge over the property of South Seton Limited Partnership, a consolidated subsidiary of the Company. This debt is repayable in Canadian dollars of C$30 million (December 31, 2017 - C$nil). This borrowing includes a minimum debt to equity covenant of no greater than 1.50 to 1, for South Seton Limited Partnership. At September 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 September 30 2018
Maximum debt to equity ratio	1.50 to 1	0.34 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 September 30, 2018 and December 31, 2017 was as follows:

	As at	
(US$ millions, except percentages)	September 30 2018	December 31 2017
Bank indebtedness and other financings	$ 369	$ 31
Notes payable	1,629	1,632
Total interest bearing debt	1,998	1,663
Less: cash	(83)	(105)
	1,915	1,558
Total equity	2,091	2,014
Total capitalization	$ 4,006	$ 3,572
Net debt to total capitalization	48%	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 but not limited to, 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 September 30, 2018 and at the date of this interim 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, home construction and mixed-use development. 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 September 30, 2018, we had cash and cash equivalents, including restricted cash, of $85 million, compared to $108 million at December 31, 2017.

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

	Nine Months Ended September 30	
(US$ millions)	2018	2017
Cash flows used in operating activities	$ (152)	$ (184)
Cash flows used in investing activities	(205)	(7)
Cash flows provided by financing activities	335	125
Effect of foreign exchange rates on cash	(1)	2
	$ (23)	$ (64)

Cash Flow Used in Operating Activities

Cash flows used in operating activities during the nine months ended September 30, 2018 totalled $152 million, compared to $184 million for the same period in 2017. During the nine months ended September 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 nine months ended September 30, 2018 totalled $241 million, consisting of $56 million in Canada, $158 million in California and $28 million in Central and Eastern U.S. During the nine months ended September 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, development and construction activity, an increase in receivables and other assets, and an increase in accounts payable and other liabilities. Acquisitions for the nine months ended September 30, 2017 totalled $192 million consisting of $52 million in Canada, $79 million in California and $61 million in Central and Eastern U.S.

Cash Flow Used in Investing Activities

During the nine months ended September 30, 2018, cash flows used in investing activities totalled $205 million compared to $7 million for the same period in 2017. During the nine months ended September 30, 2018, we invested $83 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 $154 million. The increase in commercial properties was largely due to the acquisition of the remaining 90% interest not already owned in a mixed-use development project as well as increased development of the project subsequent to acquisition. 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 nine months ended September 30, 2017, we invested $22 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 nine months ended September 30, 2018 totalled $335 million, compared to $125 million in the same period in 2017. The cash provided by our financing activities during the nine months ended September 30, 2018 was primarily from borrowings under bank indebtedness of $311 million, net borrowings under project-specific and other financings of $27 million and net distributions from non-controlling interest of $3 million. For the nine months ended September 30, 2017, there were net borrowings under bank indebtedness of $134 million and net contributions from non-controlling interest of $5 million, which was partially offset by net repayments under project-specific and other financings of $14 million.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at September 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]	$ 1,644	$ —	$ 600	$ 694	$ 350
Interest on notes payable	435	104	188	99	44
Secured VTB mortgages[2][3]	38	17	17	4	—
Bank indebtedness[2][3]	311	—	311	—	—
Accounts payable and other liabilities[4]	653	653	—	—	—
Operating lease obligations[5]	65	3	19	16	27
Purchase agreements and other obligations[6]	40	3	35	1	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 October 30, 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 October 30, 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 nine months ended September 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 September 30, 2018, we had $95 million of primarily non-refundable option deposits and advanced costs. The total remaining exercise price of these options was $109 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 8,823 lots and control under option 1,001 lots through our proportionate share of unconsolidated entities. As of September 30, 2018, our investment in unconsolidated entities totaled $356 million. We have provided varying levels of guarantees of debt in our unconsolidated entities. As of September 30, 2018, we had recourse guarantees of

$10 million with respect to debt in our unconsolidated entities. During the nine months ended September 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 September 30, 2018, we had $73 million in letters of credit outstanding and $651 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds at September 30, 2018 are $37 million and $225 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 nine months ended September 30, 2018 and 2017 were as follows:

- During the three and nine months ended September 30, 2018, the Company received $4 million and $13 million of dividends, respectively, from the preferred shares of Brookfield BPY Holdings Inc. (2017 - $4 million and $13 million, respectively). These transactions were recorded at the exchange amount.
- During the nine months ended September 30, 2018, the Company paid $0.2 million to Brookfield Asset Management Inc. for Canadian tax credits (nine months ended September 30, 2017 - $7 million). 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)

	Note	*(Unaudited)* As at September 30 2018	December 31 2017
Assets			
Land and housing inventory	4	$ 3,255,877	$ 2,998,024
Investments in unconsolidated entities	5	356,134	312,857
Commercial properties	6	221,566	37,958
Held-to-maturity investment	8	300,000	300,000
Receivables and other assets	9	439,771	413,228
Restricted cash	10	1,837	3,351
Cash and cash equivalents		82,961	104,504
Deferred income tax assets	14	66,757	68,363
Goodwill	7	16,479	—
Total assets		$ 4,741,382	$ 4,238,285
Liabilities and Equity			
Notes payable	11	$ 1,629,233	$ 1,631,584
Bank indebtedness and other financings	12	368,707	31,407
Accounts payable and other liabilities	13	652,886	560,821
Total liabilities		2,650,826	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		1,159,057	1,063,623
Non-controlling interest	15	56,940	54,216
Accumulated other comprehensive loss		(119,468)	(97,393)
Total equity		2,090,556	2,014,473
Total liabilities and equity		$ 4,741,382	$ 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 September 30		**Nine Months Ended September 30**	
	Note	**2018**	**2017**	**2018**	**2017**
Revenue					
Housing		$ 428,717	$ 384,130	$ 1,197,771	$ 1,074,067
Land		73,238	66,946	168,212	158,498
Total revenue		501,955	451,076	1,365,983	1,232,565
Direct Cost of Sales					
Housing		(340,895)	(310,176)	(966,777)	(875,489)
Land		(46,732)	(39,079)	(102,761)	(92,179)
Total direct cost of sales		(387,627)	(349,255)	(1,069,538)	(967,668)
Gross margin		114,328	101,821	296,445	264,897
Selling, general and administrative expense		(72,060)	(55,904)	(203,085)	(163,133)
Interest expense		(8,232)	(15,103)	(29,344)	(44,014)
Equity in earnings from unconsolidated entities	5	4,330	5,299	12,987	8,032
Other income		18,533	7,674	47,156	18,959
Depreciation		(1,034)	(1,066)	(3,146)	(3,035)
Income Before Income Taxes		55,865	42,721	121,013	81,706
Current income tax expense	14	(9,726)	(6,600)	(18,047)	(6,244)
Deferred income tax recovery / (expense)	14	1,377	(1,296)	(351)	(3,159)
Net Income		47,516	34,825	102,615	72,303
Other Comprehensive Income / (Loss)					
Unrealized foreign exchange gain / (loss) on:					
Translation of the net investment in Canadian subsidiaries		17,492	39,545	(27,275)	75,340
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		(3,300)	(7,575)	5,200	(14,500)
Comprehensive Income		$ 61,708	$ 66,795	$ 80,540	$ 133,143
Net Income / (Loss) Attributable To:					
Consolidated		$ 47,516	$ 34,825	$ 102,615	$ 72,303
Non-controlling interest	15	3,081	17	5,248	(165)
Brookfield Residential		$ 44,435	$ 34,808	$ 97,367	$ 72,468
Comprehensive Income / (Loss) Attributable To:					
Consolidated		$ 61,708	$ 66,795	$ 80,540	$ 133,143
Non-controlling interest	15	3,081	17	5,248	(165)
Brookfield Residential		$ 58,627	$ 66,778	$ 75,292	$ 133,308
Common Shareholders Earnings Per Share					
Basic	18	$ 0.34	$ 0.27	$ 0.75	$ 0.56
Diluted	18	$ 0.34	$ 0.27	$ 0.75	$ 0.56
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)

	Note	*(Unaudited)* Nine Months Ended September 30 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		97,367	72,468
Ending balance		1,159,057	969,919
Accumulated Other Comprehensive Loss			
Opening balance		(97,393)	(150,415)
Other comprehensive (loss) / income		(22,075)	60,840
Ending balance		(119,468)	(89,575)
Total Brookfield Residential Equity		$ 2,033,616	$ 1,874,371
Non-Controlling Interest	15		
Opening balance		$ 54,216	$ 43,387
Acquisitions		174	7,587
Net income / (loss) attributable to non-controlling interest		5,248	(165)
Contributions		(2,698)	5,318
Ending balance		$ 56,940	$ 56,127
Total Equity		$ 2,090,556	$ 1,930,498

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)	
	Nine Months Ended September 30	
Cash Flows Provided by / (Used in) Operating Activities	**2018**	**2017**
Net income	$ 102,615	$ 72,303
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities	(10,668)	(6,550)
Deferred income tax expense	351	3,159
Share-based compensation costs	11,437	8,276
Depreciation	3,146	3,035
Amortization of non-cash interest	3,246	2,645
Dividend income on held-to-maturity investment	(12,760)	(12,757)
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(55,573)	(41,791)
Increase in land and housing inventory	(269,862)	(214,896)
Increase in accounts payable and other liabilities	76,455	2,599
Net cash used in operating activities	(151,613)	(183,977)
Cash Flows Provided by / (Used in) Investing Activities		
Investments in unconsolidated entities	(82,769)	(21,679)
Distributions from unconsolidated entities	13,381	3,229
Increase in commercial properties	(154,434)	(1,717)
Dividend income on held-to-maturity investment	12,760	12,757
Decrease in loan receivable	5,569	—
Net cash used in investing activities	(205,493)	(7,410)
Cash Flows Provided by / (Used in) Financing Activities		
Drawings under project-specific and other financings	48,026	11,330
Repayments under project-specific and other financings	(21,007)	(25,506)
Drawings on bank indebtedness	311,000	138,936
Repayments on bank indebtedness	—	(5,105)
Net (distributions) / contributions from non-controlling interest	(2,524)	5,318
Net cash provided by financing activities	335,495	124,973
Effect of foreign exchange rates on cash and cash equivalents	(1,446)	1,643
Change in cash and cash equivalents	(23,057)	(64,771)
Cash and cash equivalents at beginning of period	107,855	96,454
Cash and cash equivalents at end of period	$ 84,798	$ 31,683
Supplemental Cash Flow Information		
Cash interest paid	$ 73,727	$ 69,767
Cash taxes paid	$ 37,627	$ 31,928

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, or are being developed to produce leasing revenue. 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. Completed 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 completed commercial properties are 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 build homes or 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 2018-01 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.

In July 2018, the FASB issued ASU 2018-11 *Leases (Topic 842): Targets Improvements* ("ASU 2018-11"). ASU 2018-11 provides entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU 2016-02; through providing elections to not recast the comparative periods presented when transitioning to ASC 842, and for lessors to elect not to separate lease and non-lease components when certain conditions are met. ASU 2018-11 is effective for the same calendar periods as ASU 2016-02. The Company is currently evaluating the impact of the adoption of ASU 2018-11 on the condensed consolidated financial statements.

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.

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

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 September 30, 2018		
	As Reported	**Balances without ASC 606**	**Effect of Change Increase / (Decrease)**
Land and housing inventory (a)(b)	$ 3,255,877	$ 3,268,408	$ (12,531)
Investment in unconsolidated entities (a)	356,134	354,641	1,493
Receivables and other assets (a)(b)	439,771	424,826	14,945
Deferred income tax asset (a)	66,757	66,042	715
Accounts payable and other liabilities (a)	652,886	659,441	(6,555)
Total equity (a)(c)	2,090,556	2,088,623	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".

Condensed Consolidated Statement of Operations

	Three months ended September 30, 2018		
	As Reported	**Balances without ASC 606**	**Effect of Change Increase / (Decrease)**
Revenue (a)	$ 501,955	$ 501,456	$ 499
Cost of sales (b)	(387,627)	(389,834)	2,207
Selling, general and administrative expense (b)(c)	(72,060)	(67,222)	(4,838)
Other income (a)(c)	18,533	16,401	2,132
Other expense and equity earnings (d)	(4,936)	(4,936)	—
Income before income taxes	$ 55,865	$ 55,865	$ —

	Nine Months Ended September 30, 2018		
	As Reported	**Balances without ASC 606**	**Effect of Change Increase / (Decrease)**
Revenue (a)	$ 1,365,983	$ 1,361,935	$ 4,048
Cost of sales (b)	(1,069,538)	(1,075,649)	6,111
Selling, general and administrative expense (b)(c)	(203,085)	(185,525)	(17,560)
Other income (a)(c)	47,156	39,755	7,401
Other expense and equity earnings (d)	(19,503)	(19,503)	—
Income before income taxes	$ 121,013	$ 121,013	$ —

(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 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 nine months ended September 30, 2017, included $1.8 million and $5.6 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 nine months ended September 30, 2017, was $57.8 million and $168.7 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.

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

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) One of the impacts of the change in accounting policy resulted in the deferral of revenue and related costs previously recognized.

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 Inc. 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 nine months ended September 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	
	September 30 2018	December 31 2017
Land held for development	$ 1,456,256	$ 1,447,583
Land under development	973,564	918,748
Housing inventory	718,084	528,627
Model homes	107,973	103,066
	$ 3,255,877	$ 2,998,024

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

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 nine months ended September 30, 2018 and 2017, no impairment charges were recognized.

The locations of the projects reviewed in 2018 are as follows:	Number of Projects
Canada	42
California	50
Central and Eastern U.S.	35
	127
Unconsolidated entities	15
Total	142

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Interest capitalized, beginning of the period	$ 197,517	$ 180,716	$ 180,650	$ 175,590
Interest capitalized	19,717	11,361	56,481	35,717
Interest expensed to cost of sales	(11,837)	(8,943)	(31,734)	(28,173)
Interest capitalized, end of the period	$ 205,397	$ 183,134	$ 205,397	$ 183,134

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 $43.5 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 $43.5 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 $94.6 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 $109.0 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	130	$ 3,092
2019	2,929	47,744
2020	1,328	24,311
2021	120	4,287
2022	550	2,948
Thereafter	1,119	26,646
	6,176	$ 109,028

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

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.

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 September 30, 2018, the Company was involved with 13 unconsolidated entities (December 31, 2017 – 13 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities includes $18.4 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 $36.3 million (December 31, 2017 – $58.3 million). Summarized financial information on a 100% basis for the combined unconsolidated entities follows:

	As at	
	September 30 2018	December 31 2017
Assets		
Land and housing inventory	$ 839,583	$ 556,779
Investments in unconsolidated entities	124,563	147,996
Other assets	86,400	63,548
	$ 1,050,546	$ 768,323
Liabilities and Equity		
Bank indebtedness and other financings	$ 85,821	$ 78,168
Accounts payable and other liabilities	143,219	73,628
Brookfield Residential's interest	356,134	312,857
Others' interest	465,372	303,670
	$ 1,050,546	$ 768,323

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Revenue and Expenses				
Revenue	$ 21,247	$ 38,233	$ 86,458	$ 106,629
Direct cost of sales	(14,825)	(26,832)	(57,906)	(87,427)
Other income / (expense)	2,951	(413)	4,655	(1,279)
Net income	$ 9,373	$ 10,988	$ 33,207	$ 17,923
Brookfield Residential's share of net income	$ 4,330	$ 5,299	$ 12,987	$ 8,032

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 September 30, 2018, the Company had recourse guarantees of $9.5 million (December 31, 2017 – $34.4 million) with respect to debt of its unconsolidated entities.

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

Note 6. Commercial Properties

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

	As at	
	September 30 2018	December 31 2017
Commercial properties	$ 223,057	$ 38,897
Less: accumulated depreciation	(1,491)	(939)
	$ 221,566	$ 37,958

Commercial properties consists of properties producing leasing revenue and properties under development. The balance consists of $37.6 million related to properties producing leasing revenue and $184.0 million related to properties under development.

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 September 30, 2018:

Revenue	$ —
Net loss	$ (6,778)

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

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.

	Nine Months Ended September 30, 2018
Total revenues	$ —
Net loss attributable to Brookfield Residential	$ (7,677)

Note 8. Held-to-Maturity Investment

	As at	
	September 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 nine months ended September 30, 2018, $4.3 million and $12.8 million, respectively, of dividends were recorded in the statement of operations as other income (2017 - $4.3 million and $12.8 million, respectively).

Note 9. Receivables and Other Assets

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

	As at	
	September 30 2018	December 31 2017
Receivables (a)	$ 351,723	$ 361,796
Other assets (b)	88,048	51,432
	$ 439,771	$ 413,228

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

	As at	
	September 30 2018	December 31 2017
Loan receivables (i)	$ 106,431	$ 112,000
Real estate receivables (ii)	97,286	99,074
Development recovery receivables (iii)	74,577	67,651
Sundry receivables (iv)	41,292	34,655
Proceeds and escrow receivables (v)	22,912	43,555
Refundable deposits	9,225	4,861
	$ 351,723	$ 361,796

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

(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 nine months ended September 30, 2018, $4.5 million and $5.6 million of principal was collected (2017 - $nil).

(ii) Real estate receivables include vendor take back ("VTB") mortgage receivables. The VTB collection terms range from three months to five years and bear interest at prime plus 2.0% or a fixed interest rate of 0.0% to 6% (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%)

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

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

	As at	
	September 30 2018	**December 31 2017**
Non-refundable earnest funds and investigation fees (i)	$ 35,739	$ 26,358
Capitalized sales and marketing costs (ii)	22,380	—
Capital assets (iii)	14,595	13,865
Prepaid expenses	10,987	9,292
Other	4,347	1,917
	$ 88,048	$ 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 selling, general and administrative expense on the condensed consolidated statement of operations. Included in capitalized sales and marketing is accumulated amortization of $14.2 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 $20.9 million (December 31, 2017 – $19.1 million).

Note 10. Restricted Cash

At September 30, 2018, the Company has restricted cash consisting of (i) $0.1 million (December 31, 2017 – $0.1 million) relating to cash collateralization of development letters of credit and (ii) $1.7 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	
	September 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)	193,625	198,825
6.375% unsecured senior notes due May 15, 2025 (d)	350,000	350,000
	1,643,625	1,648,825
Transaction costs (e)	(14,392)	(17,241)
	$ 1,629,233	$ 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
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 September 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	
	September 30 2018	December 31 2017
Bank indebtedness (a)	$ 311,000	$ —
Secured VTB mortgages (b)	37,749	31,407
Project-specific financings (c)	23,334	—
	372,083	31,407
Transaction costs (a)	(3,376)	—
	$ 368,707	$ 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 $675.0 million.

As at September 30, 2018, the total borrowings outstanding under the North American unsecured credit facility were $311.0 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 $1,206 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at September 30, 2018, the Company was in compliance with all of its 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 11 secured VTB mortgages (December 31, 2017 – 10 secured VTB mortgages) in the amount of $37.7 million (December 31, 2017 – $31.4 million). Secured VTB mortgages are repayable as follows: 2018 – $16.8 million; 2019 – $10.7 million; 2020 – $6.6 million, 2021 – $1.3 million and thereafter – $2.3 million.

Eight secured VTB mortgages (December 31, 2017 – four secured VTB mortgages) in the amount of $31.2 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$40.3 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 variable rates of prime plus 2% and the debt is secured by the related land. As at September 30, 2018, these borrowings are not subject to any financial covenants.

Three secured VTB mortgages (December 31, 2017 – six secured VTB mortgages) in the amount of $6.5 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 September 30, 2018, these borrowings are not subject to any financial covenants.

(c) Project-specific financings

At September 30, 2018, the Company has $23.3 million (C$30.1 million) of project-specific financings (December 31, 2017 - $nil). The financing has an interest rate of Canadian prime plus 0.5%, matures in 2019, and is secured by certain land and housing inventory assets of the Company's Alberta operations and a general charge over the property of South Seton Limited Partnership, a consolidated subsidiary of the Company. This debt is repayable in Canadian dollars of

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

C$30.1 million (December 31, 2017 - C$nil). This borrowing includes a minimum debt to equity covenant for South Seton Limited Partnership of no greater than 1.50 to 1. The Company was in compliance with these covenants as at September 30, 2018.

Note 13. Accounts Payable and Other Liabilities

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

	As at	
	September 30 2018	**December 31 2017**
Accounts payable (a)	$ 381,871	$ 409,513
Other liabilities (b)	271,015	151,308
	$ 652,886	$ 560,821

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

	As at	
	September 30 2018	**December 31 2017**
Trade payables and other accruals	$ 171,902	$ 147,597
Development costs payable (i)	80,673	99,296
Customer deposits	53,516	58,524
Interest on notes payable	32,026	21,196
Accrued and deferred compensation	29,041	46,243
Current income taxes payable	7,749	27,339
Real estate payables	6,964	9,318
	$ 381,871	$ 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	
	September 30 2018	**December 31 2017**
Share-based compensation (Note 17)	70,533	59,095
Deferred revenue (i)	70,300	21,772
Other (ii)	61,222	4,367
Consolidated land option contracts (iii)	43,523	45,211
Warranty costs (Note 19 (a))	25,437	20,863
	$ 271,015	$ 151,308

(i) The amount of deferred revenue recognized as revenue in the three and nine months ended September 30, 2018 was $3.6 million and $18.1 million, respectively (2017 - $nil and $0.1 million, respectively).

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

(iii) 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.”

(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 nine months ended September 30, 2018 and 2017 is as follows:

	Nine Months Ended September 30	
	2018	**2017**
Statutory rate	27.0%	27.0%
Non-temporary differences	3.1	2.2
Rate difference from statutory rate	(9.9)	(11.1)
Withholding tax	—	(1.0)
Non-taxable preferred share dividend	(2.9)	(4.1)
Other	(1.4)	(1.6)
Effective tax rate	15.9%	11.4%

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 15.9% for the nine months ended September 30, 2018 (September 30, 2017 – 11.4%). The effective tax rate for the nine months ended September 30, 2018 reflects the impact of the Tax Cuts and Jobs Act ("TCJA"), which was enacted into law on December 22, 2017 as well as the Bipartisan Budget Act of 2018, which was enacted into law on February 9, 2018. 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 and eliminated the domestic production activities deduction for tax years beginning after December 31, 2017. The Bipartisan Budget Act of 2018 included a retroactive single year extension of the energy efficient home credit that had previously expired on December 31, 2016 to include homes sold in the 2017 calendar year. The increase in the 2018 effective tax rate when compared to the same period in 2017 is primarily due to the elimination of the domestic production activities deduction, 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, partially offset by the reduction of the U.S. corporate income tax rate.

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

	Three Months Ended September 30		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Current				
Canada	$ (189)	$ 160	$ (189)	$ 959
U.S.	(9,017)	(6,760)	(15,695)	(6,816)
International	(520)	—	(2,163)	(387)
Current income tax expense	(9,726)	(6,600)	(18,047)	(6,244)
Deferred				
Canada	(1,547)	(134)	(3,261)	(1,591)
U.S.	2,924	(1,162)	2,910	(1,568)
Deferred income tax recovery / (expense)	1,377	(1,296)	(351)	(3,159)
Total income tax expense	$ (8,349)	$ (7,896)	$ (18,398)	$ (9,403)

(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)	**September 30 2018**	**December 31 2017**
Differences relating to land and housing inventory	$ (1,451)	$ (3,451)
Compensation deductible for tax purposes when paid	9,010	10,416
Operating loss carry-forwards	53,755	58,358
Capital loss carry-forwards	1,614	—
Impact of foreign exchange	22,530	19,687
Other	5,443	3,040
Net deferred tax assets before valuation allowance	90,901	88,050
Cumulative valuation allowance	(24,144)	(19,687)
Net deferred tax assets	$ 66,757	$ 68,363

The Company has Canadian federal non-capital loss carryforwards of approximately $195.1 million (C$252.0 million) as at September 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 September 30, 2018, the Company has U.S. federal capital loss carryforwards of $6.0 million (December 31, 2017 - nil) that expire in 2022 and state loss carryforwards of approximately $25.5 million (December 31, 2017 – $28.9 million) that may be carried forward up to 20 years and expire between 2029 and 2032.

As enacted by the TCJA, the U.S. federal corporate income tax rate was reduced 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 September 30, 2018, the Company considered all available and objectively verifiable positive and negative evidence. The valuation allowance of $24.1 million mainly relates to the unrealized foreign exchange capital losses in Canada and the realized capital losses in the U.S. that have not met the more-likely-than not realization threshold. The Company concluded it is more-likely-than-not that all of its remaining U.S. and Canadian deferred tax assets will be realized in the future.

Undistributed earnings of the Company's non-Canadian affiliates as of September 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 $56.9 million at September 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 nine months ended September 30, 2018 was income of $3.1 million and $5.2 million, respectively (2017 – loss of $nil 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 nine months ended September 30, 2018 and year ended December 31, 2017.

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

	September 30 2018	**September 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 $39.7 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 nine months ended September 30, 2018 was $3.9 million and $11.4 million, respectively (2017 - $2.8 million and $8.2 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 nine months ended September 30, 2018 and 2017:

	September 30, 2018		September 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	4,849,130	$ 22.59	3,014,754	$ 22.72

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

	September 30, 2018		September 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	(1,228,376)	5.73	(1,238,377)	5.53
Cancelled	—	—	—	—
Unvested options outstanding, end of the period	6,732,756	$ 7.05	6,307,132	$ 5.99

At September 30, 2018, there was $36.7 million (September 30, 2017 - $30.6 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 2.9 years (September 30, 2017 - 2.8 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 September 30, 2018 and December 31, 2017:

	For the Period Ended	
	September 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 nine months ended September 30, 2018 and 2017 which has previously been included in selling, general, and administrative expense.

Note 18. Earnings Per Share

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
Numerator:				
Net income attributable to Brookfield Residential	$ 44,435	$ 34,808	$ 97,367	$ 72,468
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	$ 0.34	$ 0.27	$ 0.75	$ 0.56
Diluted earnings per share	$ 0.34	$ 0.27	$ 0.75	$ 0.56

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 nine months ended September 30, 2018 and 2017:

	Nine Months Ended September 30	
	2018	**2017**
Balance, beginning of the period	$ 20,862	$ 23,217
Payments and other adjustments made during the period	(6,837)	(6,679)
Warranties issued during the period	10,595	7,598
Adjustments made for pre-existing warranties	817	392
Balance, end of the period	$ 25,437	$ 24,528

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

Years of Expiry	
2018	$ 2,887
2019	10,060
2020	9,394
2021	8,115
2022	8,040
Thereafter	26,789
	$ 65,285

(c) As at September 30, 2018, $11.0 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 $39.7 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 September 30, 2018, these guarantees amounted to $723.9 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 nine months ended September 30, 2018, an unrealized pre-tax loss of $3.3 million and an unrealized pre-tax gain of $5.2 million, respectively (2017 – loss of $7.6 million and $14.5 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 September 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).

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

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 ”:

	September 30, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Loan receivables	$ 106,431	$ —	$ —	$ 112,000	$ —	$ —
Restricted cash	1,837	—	—	3,351	—	—
Cash and cash equivalents	82,961	—	—	104,504	—	—
	$ 191,229	$ —	$ —	$ 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 September 30, 2018, a 1% change in interest rates would have a $3.5 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 September 30, 2018, the fair value of all outstanding debt exceeded its book value by $0.8 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 September 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 September 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]	$ 1,643,625	$ —	$ 600,000	$ 693,625	$ 350,000
Interest on notes payable	435,485	103,797	188,094	98,969	44,625
Secured VTB mortgages[2][3]	37,748	16,745	17,363	3,640	—
Bank indebtedness[2][3]	311,000	—	311,000	—	—
Accounts payable and other liabilities[4]	652,886	652,886	—	—	—
Operating lease obligations[5]	65,285	2,887	19,454	16,155	26,789
Purchase agreements and other obligations[6]	39,732	3,300	34,897	511	1,024

(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 September 30, 2018				
	Canada	**California**	**Central and Eastern U.S.**	**Corporate and Other**	**Total**
Revenues	$ 143,670	$ 220,228	$ 138,057	$ —	$ 501,955
Direct cost of sales	(106,364)	(169,315)	(111,948)	—	(387,627)
	37,306	50,913	26,109	—	114,328
Equity in earnings	7	1,322	3,001	—	4,330
Expenses	(15,333)	(20,286)	(7,421)	(19,753)	(62,793)
Income / (loss) before income taxes	$ 21,980	$ 31,949	$ 21,689	$ (19,753)	$ 55,865

	Three Months Ended September 30, 2017				
	Canada	**California**	**Central and Eastern U.S.**	**Corporate and Other**	**Total**
Revenues	$ 145,130	$ 203,176	$ 102,770	$ —	$ 451,076
Direct cost of sales	(105,906)	(160,151)	(83,198)	—	(349,255)
	39,224	43,025	19,572	—	101,821
Equity in earnings	(148)	14	5,433	—	5,299
Expenses	(15,127)	(18,356)	(12,704)	(18,212)	(64,399)
Income / (loss) before income taxes	$ 23,949	$ 24,683	$ 12,301	$ (18,212)	$ 42,721

	Nine Months Ended September 30, 2018				
	Canada	**California**	**Central and Eastern U.S.**	**Corporate and Other**	**Total**
Revenues	$ 404,168	$ 630,026	$ 331,789	$ —	$ 1,365,983
Direct cost of sales	(298,737)	(496,003)	(274,798)	—	(1,069,538)
	105,431	134,023	56,991	—	296,445
Equity in earnings	657	3,484	8,846	—	12,987
Expenses	(44,755)	(56,277)	(41,447)	(45,940)	(188,419)
Income / (loss) before income taxes	$ 61,333	$ 81,230	$ 24,390	$ (45,940)	$ 121,013

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

	Nine Months Ended September 30, 2017				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 430,134	$ 528,780	$ 273,651	$ —	$ 1,232,565
Direct cost of sales	(316,062)	(422,608)	(228,998)	—	(967,668)
	114,072	106,172	44,653	—	264,897
Equity in earnings	(204)	1,305	6,931	—	8,032
Expenses	(43,529)	(50,148)	(43,789)	(53,757)	(191,223)
Income / (loss) before income taxes	$ 70,339	$ 57,329	$ 7,795	$ (53,757)	$ 81,706

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

	As at September 30, 2018				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 439,725	$ 444,746	$ 571,785	$ —	$ 1,456,256
Land under development	293,980	288,675	390,909	—	973,564
Housing inventory	183,305	339,755	195,024	—	718,084
Model homes	22,944	61,654	23,375	—	107,973
Total land and housing inventory	939,954	1,134,830	1,181,093	—	3,255,877
Commercial properties	32,916	—	188,650	—	221,566
Investments in unconsolidated entities	52,657	218,024	85,453	—	356,134
Held-to-maturity investment	—	—	—	300,000	300,000
Goodwill	—	—	—	16,479	16,479
Other assets (1)	152,911	52,633	126,971	258,811	591,326
Total assets	$ 1,178,438	$ 1,405,487	$ 1,582,167	$ 575,290	$ 4,741,382

	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 nine months ended September 30, 2018 and 2017 were as follows:

- During the three and nine months ended September 30, 2018, the Company received $4.3 million and $12.8 million, respectively, of dividends from the preferred shares of Brookfield BPY Holdings Inc. (2017 - $4.3 million and $12.8 million, respectively). These transactions were recorded at the exchange amount.
- During the nine months ended September 30, 2018, the Company paid $0.2 million (nine months ended September 30, 2017 - $6.5 million) to Brookfield Asset Management Inc. for Canadian tax credits. These transactions were recorded at the exchange amount.

Note 25. Subsequent Events

The Company performed an evaluation of subsequent events through October 30, 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:

BROOKFIELD RESIDENTIAL PROPERTIES INC.

4906 Richard Road S.W.

Calgary, Alberta T3E 6L1

Tel: (403) 231-8900

Fax: (403) 231-8960

Email: info@brookfieldrp.com

Website: www.BrookfieldResidential.com

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.