2019 | Q1

March 31, 2019

Chief Executive Officer's Report

Brookfield Residential's results for the first quarter of 2019 improved over the same period last year with income before income taxes of $7 million compared to $1 million last year. Preliminary results of the U.S. spring selling season are positive, albeit at a slower pace than the prior year, while the Canadian market continues to experience similar economic and regulatory conditions as last year.

With consumer confidence affected by overall affordability concerns in the U.S. housing market, homebuyer traffic was initially slow to start the year. However, recent activity has been stimulated by the declines in mortgage rates and new product and community openings. Affordability remains a key consideration in our California and Denver markets as we look to address this with the focus on entry-level options in many of our master-planned communities. Our backlog in the U.S. is lower when compared to the same period last year as a result of a slower sales pace in early 2019, the impact of the 2018 slowdown and a 134 bulk home sales order in Austin in the prior year.

Our Canadian operations performed reasonably well in the first quarter of 2019, however our sales pace continues to be impacted by the stress test mortgage rules, the regulatory environment in Ontario and economic conditions in Alberta. In the most recent federal government budget, a new shared equity mortgage program was introduced to assist first-time homebuyers. Additional details relating to the program will be released later this Fall, but we anticipate that this may potentially offset the impact of the stress test for many prospective homebuyers.

Our backlog in Canada remains lower when compared to last year as a result of the limited sales activity in Ontario where our operational focus was to execute on our backlog. In Ontario, we look to bring on new communities during the second quarter of 2019. We anticipate that these home sales will yield a majority of closings for 2020 versus 2019 closings. Initial interest in the upcoming offerings are positive as we anticipate pricing will be similar to the homes closed last year. In Alberta, the most recent Provincial election results saw the winning party being one whose platform focused on stimulating the economy with a majority government. This re-affirms that Alberta is "open for business" and hopefully positively impact consumer confidence. The Federal election is scheduled this Fall where key items such as a pipeline approval, which is seen as a stimulus for additional economic and housing growth in Alberta, will most likely be an election issue.

Our View Going Forward

Based on our outlook at this early point in the year, we anticipate that our income before income taxes for 2019 will be lower than 2018 due to the smaller backlog entering 2019, the preliminary results of the U.S. spring selling season and general market conditions in Canada. For our U.S. operations, we anticipate to close approximately 1,950 homes and 1,650 lots in 2019. For our Canadian markets, we expect to close approximately 950 homes and 850 lots. We also project a number of multi-family, commercial and industrial parcel sales in both countries. Similar to previous years, the nature and operating cycle of our business continues to lend itself to generating the highest proportion of the year's net income in the fourth quarter.

Company Initiatives

Brookfield Residential's investment into the mixed-use platform continues with construction at Fifth + Broadway, a large mixed-use development project located in downtown Nashville, Tennessee. Once completed, the project will include a contemporary for-rent residential tower with 381 units, 371,000 square feet Class-A office tower, 251,000 square feet of walkable shops and rooftop restaurants, a renovated conference center and the National Museum of African American Music. Anchor tenants have been secured for the office and retail space as we work towards an opening in early 2020.

As previously mentioned, a management company, Brookfield Properties Development, has been formed to oversee both the current Brookfield Residential operation and mixed-use and multi-family opportunities that exist in Brookfield's North American real estate portfolio. During the quarter, we entered into a management agreement where the management fee is determined by an allocation of expenditures based on time spent. While there are no changes to the operations of Brookfield Residential, we look to leverage the combined strengths of both organizations to provide efficiencies in the form of cost savings in the future.

Alan Norris
Chairman & Chief Executive Officer
April 24, 2019

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 March 31, 2019 were $4.5 billion.

As of March 31, 2019, we controlled 88,001 single family lots (serviced lots and future lot equivalents) and 171 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 March 31, 2019 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 3/31/2019		Total Acres	
	Owned	**Options**	**Owned**	**Options**	**3/31/2019**	**12/31/2018**	**Entitled**	**Unentitled**	**3/31/2019**	**12/31/2018**
Calgary	18,400	—	2,436	—	20,836	20,954	11,785	9,051	66	65
Edmonton	11,322	—	—	—	11,322	11,442	6,112	5,210	27	27
Ontario	7,001	—	1,100	—	8,101	8,241	1,568	6,533	2	—
Canada	36,723	—	3,536	—	40,259	40,637	19,465	20,794	95	92
Northern California	2,353	4,950	266	—	7,569	7,590	2,619	4,950	—	—
Southern California	6,470	—	1,376	1,001	8,847	8,977	7,613	1,234	—	—
Hawaii	123	—	—	—	123	127	123	—	3	3
Other	100	—	—	—	100	100	100	—	—	—
California	9,046	4,950	1,642	1,001	16,639	16,794	10,455	6,184	3	3
Denver	7,674	—	—	—	7,674	7,786	7,674	—	15	15
Austin	12,484	215	—	—	12,699	12,439	12,699	—	37	60
Phoenix	745	155	2,928	—	3,828	4,073	3,828	—	14	14
Washington, D.C. Area	2,955	1,004	—	—	3,959	4,074	3,922	37	4	4
Other	2,943	—	—	—	2,943	2,881	2,943	—	3	3
Central and Eastern U.S.	26,801	1,374	2,928	—	31,103	31,253	31,066	37	73	96
Total	72,570	6,324	8,106	1,001	88,001	88,684	60,986	27,015	171	191
Entitled lots	53,702	1,374	5,910	—	60,986					
Unentitled lots	18,868	4,950	2,196	1,001	27,015					
Total March 31, 2019	72,570	6,324	8,106	1,001	88,001					
Total December 31, 2018	72,511	6,798	8,374	1,001		88,684				

[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 potential offset of the recently announced Canadian shared equity mortgage program on the impact of stress test mortgage rules in Canada; new community openings in our Ontario operations, home prices in the communities, home closings resulting therefrom, and the timing thereof; the impact of potential interest rate increases in the U.S. and Canada and resulting consumer confidence; 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; the impact of provincial elections in Alberta and federal elections on the Canadian 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; our ability to grow our mixed-use development segment, 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; 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 2019 and beyond;
- possible or assumed future results, including our outlook and limited guidance for 2019 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 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, 2018.

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 March 31, 2019 and has been prepared with an effective date of April 24, 2019. 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 interim 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 in operation for over 60 years. We are the flagship North American residential property company of Brookfield Asset Management Inc., a leading global alternative asset manager with $350 billion of assets under management.

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 to create shared value for our stakeholders through a balanced mix of revenue-generating consumer and commercial deliverables. We build and sell lots to third-party builders, conduct our own homebuilding operations and, in select developments, establish commercial areas. We also participate in select strategic real estate opportunities, including infill projects, mixed-use developments, infrastructure projects and joint ventures.

Our disciplined land entitlement process, synergistic operations and capital flexibility allow us to pursue land investment, traditional homebuilding and mixed-use development in typically supply-constrained markets where we have strategically invested. 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), Arizona (Phoenix) and Tennessee (Nashville).

We target these markets as they have strong underlying economic fundamentals and we believe over the longer term they offer robust, diversified housing demand, barriers to entry and close proximity to areas where employment growth is expected.

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 centers in our communities. Through this flexible, integrated operating model, we maintain balanced and diversified operations offering value at the various stages of the land development process while also being responsive to the economic conditions within each market where we do business.

As a result, Brookfield Residential has developed a reputation for delivering innovative, award-winning master-planned communities and residential products. Our reputation stems from our passion to create "The Best Places to Call Home." This goes beyond the physical structures we build. To us, it's also about creating sustainable communities that offer a high quality of life and truly make a difference in people's lives. That's why our business is more than a traditional housing operation. The master-planned communities we develop typically also feature community centres, parks, recreational areas, schools, commercial areas and other amenities. As we grow our mixed-use platform, we are uniquely positioned to apply our distinct expertise to urban redevelopment projects that are residentially anchored.

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.

Land Acquisition

Our traditional land development and homebuilding industry involves converting raw or undeveloped land into residential housing built by us and/or like-minded building partners, as well as commercial areas to add to the community placemaking strategy and provide added value creation. 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.

As a land developer in all of our markets, we target the acquisition of raw land during the low point of the economic cycle. Due to our local presence and collective capital strength, we are uniquely positioned to acquire underutilized land or brownfield development opportunities as they arise. We make diligent investments in supply-constrained markets with strong underlying economic fundamentals informed by strategic land studies to review growth patterns.

Entitlement Process & Land Development

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 held for development afford us a true “master-planned” development opportunity that, following entitlement and assuming market conditions allow, creates a multi-year stream of cash flow. 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. Through strong relationships with the jurisdictions and key stakeholders where we operate, we create shared value and infrastructure that supports great places.

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.

In addition to building homes and community amenities, as part of the planning process, we also consider the opportunity for mixed-use and commercial space within the community to cultivate the live, work and play experience many customers desire today.

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. Our 2018 acquisition of OliverMcMillan Inc. ("OliverMcMillan"), including its premier mixed-use projects under development in Tennessee (Nashville) and Hawaii (Waikiki), allows us to design and build leading-edge mixed-use developments in some of the most vibrant urban centers in the U.S. Through this strategic acquisition we increased our position in this area and set the stage for this additional growth strategy.

Our core land and homebuilding operations remains our focus and priority; however, we see increasing our position in mixed-use development as a significant opportunity and reflects our view of some potential shifts in our residential portfolio to continue to meet customer needs and lifestyle preferences. We believe Brookfield Residential 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.

Consumer Deliverables

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 monetize our land and provides us with market knowledge through our direct contact with the homebuyers to understand customer preferences and product choices. 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. Certain master-planned communities will also include the development of mixed-use space, consisting of retail or commercial assets, which we will build and add value through leasing, before selling to a third-party operator.

RESULTS OF OPERATIONS

Key financial results and operating data for the three months ended March 31, 2019 compared to the three months ended March 31, 2018 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Three Months Ended March 31 2019	2018
Key Financial Results		
Housing revenue	$ 319	$ 233
Land revenue	27	41
Gross margin ($)	67	56
Gross margin[1] (%)	19%	20%
Income before income taxes	7	1
Income tax recovery	4	2
Net income attributable to Brookfield Residential	10	3
Basic earnings per share	$ 0.08	$ 0.02
Diluted earnings per share	$ 0.08	$ 0.02
Key Operating Data		
Home closings for Brookfield Residential (units)	611	458
Home closings for unconsolidated entities (units)	—	1
Average home selling price for Brookfield Residential (per unit)	$ 522,000	$ 510,000
Average home selling price for unconsolidated entities (per unit)	$ —	$ 1,751,000
Net new home orders for Brookfield Residential (units)	760	923
Net new home orders for unconsolidated entities (units)	—	1
Backlog for Brookfield Residential (units)	1,286	2,158
Backlog for unconsolidated entities (units)	—	2
Backlog value for Brookfield Residential	$ 685	$ 1,182
Backlog value for unconsolidated entities	$ —	$ 2
Lot closings for Brookfield Residential (single family units)	258	264
Lot closings for unconsolidated entities (single family units)	278	26
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	10	9
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	1	16
Average lot selling price for Brookfield Residential (single family units)	$ 94,000	$ 129,000
Average lot selling price for unconsolidated entities (single family units)	$ 43,000	$ 163,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 320,000	$ 768,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ 106,000	$ 313,000

(1) Gross margin percentage is a non-GAAP financial measure and has been presented as we find it useful in evaluating our performance and believe that it helps readers of our financial statements compare our operations with those of our competitors. However, gross margin percentage as presented may not be fully comparable to similarly-titled measures reported by our competitors. See the Non-GAAP Financial Measures section on page 27.

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 for master-planned communities, mixed-use properties 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 months ended March 31, 2019 and 2018.

(US$ millions, except unit activity and average selling price)	Three Months Ended March 31 2019	2018
Housing revenue		
Canada	$ 83	$ 69
California	137	101
Central and Eastern U.S.	99	63
Total	$ 319	$ 233
Land revenue		
Canada	$ 13	$ 27
California	—	9
Central and Eastern U.S.	14	5
Total	$ 27	$ 41
Housing gross margin		
Canada	$ 14	$ 13
California	24	16
Central and Eastern U.S.	15	10
Total	$ 53	$ 39
Land gross margin		
Canada	$ 9	$ 11
California	2	5
Central and Eastern U.S.	3	1
Total	$ 14	$ 17
Home closings (units)		
Canada	215	194
California	193	138
Central and Eastern U.S.	203	126
	611	458
Unconsolidated Entities	—	1
Total	611	459
Average home selling price		
Canada	$ 386,000	$ 359,000
California	709,000	730,000
Central and Eastern U.S.	487,000	502,000
	522,000	510,000
Unconsolidated Entities	—	1,751,000
Average	$ 522,000	$ 513,000
Active housing communities		
Canada	36	31
California	27	26
Central and Eastern U.S.	26	29
	89	86
Unconsolidated Entities	—	1
Total	89	87

	Three Months Ended March 31	
	2019	2018
Lot closings (single family units)		
Canada	120	159
California	—	47
Central and Eastern U.S.	138	58
	258	264
Unconsolidated Entities	278	26
Total	536	290
Acre closings (multi-family, industrial and commercial)		
Canada	—	9
California	—	—
Central and Eastern U.S.	10	—
	10	9
Unconsolidated Entities	1	16
Total	11	25
Average lot selling price (single family units)		
Canada	$ 112,000	$ 129,000
California	—	192,000
Central and Eastern U.S.	78,000	78,000
	94,000	129,000
Unconsolidated Entities	43,000	163,000
Average	$ 68,000	$ 132,000
Average per acre selling price (multi-family, industrial and commercial)		
Canada	$ —	$ 768,000
California	—	—
Central and Eastern U.S.	320,000	—
	320,000	768,000
Unconsolidated Entities	106,000	313,000
Average	$ 303,000	$ 477,000
Active land communities		
Canada	13	11
California	5	6
Central and Eastern U.S.	12	11
	30	28
Unconsolidated Entities	7	6
Total	37	34

(US$ millions)	As at March 31 2019	December 31 2018
Total assets		
Canada	$ 1,080	$ 1,057
California	1,281	1,253
Central and Eastern U.S.	1,740	1,666
Corporate and other	429	546
Total	$ 4,530	$ 4,522

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 Months Ended March 31, 2019 Compared with Three Months Ended March 31, 2018

Net Income

Net income attributable to Brookfield Residential for the three months ended March 31, 2019 was $10 million compared to $3 million for the three months ended March 31, 2018.

(US$ millions, except per share amounts)	Three Months Ended March 31 2019	2018
Net income attributable to Brookfield Residential	$ 10	$ 3
Basic earnings per share	$ 0.08	$ 0.02
Diluted earnings per share	$ 0.08	$ 0.02

The increase of $7 million in net income attributable to Brookfield Residential for the three months ended March 31, 2019, compared to the same period in 2018 was primarily the result of an increase in gross margin of $11 million primarily due to higher housing gross margins, a decrease in interest expense of $3 million and an increase in income tax recovery of $2 million. This was partially offset by an increase in selling, general and administrative expense of $6 million and an increase in lease expense of $3 million.

A breakdown of the revenue and gross margin for the three months ended March 31, 2019 and 2018 is as follows:

(US$ millions, except percentages)	Three Months Ended March 31 2019	2018
Revenue		
Housing	$ 319	$ 233
Land	27	41
	$ 346	$ 274
Gross Margin		
Housing	$ 53	$ 39
Land	14	17
	$ 67	$ 56
Gross Margin (%)		
Housing	17%	17%
Land	52%	41%
	19%	20%

Total revenue increased $72 million and gross margin increased $11 million for the three months ended March 31, 2019, when compared to the same period in 2018. The increase in total revenue was primarily the result of higher activity in our housing operations with 153 additional home closings when compared to the same period in 2018. The increase was due to higher home closings across all operating segments as well as a 2% increase in the average home selling price as a result of the geographic and product mix of homes sold. Housing gross margins increased as a result of the mix of homes closed. This was partially offset by a $14 million decrease in land revenue due to six fewer single family lot closings combined with 27% lower average lot selling prices. Total gross margin of $67 million increased $11 million as a result of higher housing gross margins while total gross margin percentage of 19% decreased 1% as a result of the mix of product sold with a higher proportion coming from home closings which typically have a lower gross margin percentage than land sales.

Results of Operations – Housing

Housing revenue and gross margin were $319 million and $53 million, respectively, for the three months ended March 31, 2019, compared to $233 million and $39 million for the same period in 2018. The increase in revenue was primarily the result of 153 additional home closings and a 2% increase in the average home selling price. The increase in gross margin was primarily due to higher home closings across all operating segments. Gross margin percentage remained consistent with 2018 at 17%. Revenues are affected by geographic mix, 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 months ended March 31, 2019 and 2018 is as follows:

Consolidated

	Three Months Ended March 31	
(US$ millions, except unit activity, percentages and average selling price)	**2019**	**2018**
Home closings	611	458
Revenue	$ 319	$ 233
Gross margin	$ 53	$ 39
Gross margin (%)	17%	17%
Average home selling price	$ 522,000	$ 510,000

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

Canada

	Three Months Ended March 31	
(US$ millions, except unit activity, percentages and average selling price)	**2019**	**2018**
Home closings	215	194
Revenue	$ 83	$ 69
Gross margin	$ 14	$ 13
Gross margin (%)	17%	19%
Average home selling price	$ 386,000	$ 359,000

Housing revenue in our Canadian segment for the three months ended March 31, 2019 increased by $14 million when compared to 2018 primarily due to an 8% increase in the average home selling price and 21 additional home closings. The increase in the average home selling price was primarily due to the geographic and product mix of homes closed where a higher proportion of our home closings came from the Ontario market which typically have higher average selling prices. When comparing the average home selling price in Canadian dollars for the three months ended March 31, 2019 to 2018, the average home selling price was C$513,000 compared to C$454,000, respectively, representing an increase of 13%, primarily due to geographic and product mix. Gross margin increased $1 million primarily as a result of higher average home selling prices and gross margin percentage decreased 2% primarily as a result of product mix when compared to 2018.

California

	Three Months Ended March 31	
(US$ millions, except unit activity, percentages and average selling price)	**2019**	**2018**
Home closings	193	138
Revenue	$ 137	$ 101
Gross margin	$ 24	$ 16
Gross margin (%)	18%	16%
Average home selling price	$ 709,000	$ 730,000

Housing revenue in our California segment was $137 million for the three months ended March 31, 2019, an increase of $36 million when compared to the same period in 2018. The increase in housing revenue was due to 55 additional home closings partially offset by a 3% decrease in the average home selling price primarily as a result of the product mix in Southern California with a higher proportion of closings coming from entry-level products. Gross margin increased $8 million when compared to 2018, primarily as a result of higher home closings and gross margin percentage increased 2% as a result of product mix when compared to 2018.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2019	2018
Home closings	203	126
Revenue	$ 99	$ 63
Gross margin	$ 15	$ 10
Gross margin (%)	15%	16%
Average home selling price	$ 487,000	$ 502,000

The Central and Eastern U.S. housing revenue increased by $36 million for the three months ended March 31, 2019 when compared to the same period in 2018 as a result of 77 additional home closings, due to increased activity, primarily in our Washington D.C. market, partially offset by a 3% lower average home selling price. Gross margin increased by $5 million when compared to 2018 primarily as a result of higher home closings while gross margin percentage decreased by 1% when compared to 2018 as a result of geographic and product mix of homes closed.

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 months ended March 31, 2019, total incentives recognized as a percentage of gross revenues increased slightly as a result of market conditions in Canada and California when compared to the same period in 2018.

Our incentives on homes closed by operating segment for the three months ended March 31, 2019 and 2018 were as follows:

	Three Months Ended March 31			
	2019		2018	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 4	4%	$ 2	2%
California	5	3%	1	1%
Central and Eastern U.S.	4	4%	3	5%
	$ 13	4%	$ 6	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 months ended March 31, 2019 totalled 760 units, a decrease of 164 units or 18% when compared to the same period in 2018. The decrease in net new home orders was a result of lower net new orders in our California and Central and Eastern U.S. operating segments, partially offset by higher net new orders in our Canadian operating segment. The decrease in net new orders in our California segment was mainly due to lower net new orders in both our Northern and Southern California markets. Net new orders in our Central & Eastern U.S. segment decreased by 145 units as a result of lower net new orders from our Austin and Denver markets as a result of higher housing activity in 2018. Net new orders in our Canadian segment increased mainly due to higher net new orders in our Alberta market as a result of recent new community openings. Average monthly sales per community by reportable segment for the three months ended March 31, 2019 were: Canada – 2 units (2018 – 2 units); California – 3 units (2018 – 4 units); Central and Eastern U.S. – 4 units (2018 – 5 units); and Unconsolidated Entities – nil units (2018 – <1 unit). We were selling from 89 active housing communities, including our share of unconsolidated entities, at March 31, 2019 compared to 87 at March 31, 2018.

The net new home orders for the three months ended March 31, 2019 and 2018 by our three operating segments were as follows:

	Three Months Ended March 31	
(Units)	**2019**	**2018**
Canada	240	154
California	236	340
Central and Eastern U.S.	284	429
	760	923
Unconsolidated entities	—	1
	760	924

The overall cancellation rates for the three months ended March 31, 2019 and 2018 were 12% and 8%, respectively. The increase in the cancellation rate was primarily driven by a higher number of cancellations in our Alberta market as a result of market conditions. The cancellation rates for the three months ended March 31, 2019 and 2018 by our operating segments were as follows:

	Three Months Ended March 31			
	2019		**2018**	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	44	15%	11	7%
California	23	9%	30	8%
Central and Eastern U.S.	40	12%	40	9%
	107	12%	81	8%
Unconsolidated entities	—	—%	1	50%
	107	12%	82	8%

Home Sales – Backlog

Our backlog, which represents the number of new homes subject to sales contracts, as at March 31, 2019 and 2018 by operating segment, were as follows:

	As at March 31			
	2019		**2018**	
(US$ millions, except unit activity)	**Units**	**Value**	**Units**	**Value**
Canada	476	$ 189	909	$ 420
California	304	254	617	469
Central and Eastern U.S.	506	242	632	293
	1,286	685	2,158	1,182
Unconsolidated entities	—	—	2	2
Total	1,286	$ 685	2,160	$ 1,184

We expect all of our backlog to close between 2019 and 2022, subject to future cancellations. For the three months ended March 31, 2019, the units in our backlog decreased compared to the prior year primarily due to lower net new home orders in our California and Central and Eastern U.S. operating segments and lower backlog in our Canadian operating segment entering the period, particularly in Ontario, where we had limited net new orders in 2018. Our units in backlog in our Canadian operating segment decreased by 433 units at March 31, 2019, when compared to March 31, 2018, mainly due to execution of our backlog in our Alberta and Ontario markets. Our California segment's units in backlog decreased mainly due to a 31% decrease in net new home orders for the period ended March 31, 2019 compared to the same period in 2018. The decrease of 126 units in the Central and Eastern U.S. operating segment was primarily the result of 34% decrease in net new orders primarily in our Austin market due to bulk home sales in Austin in the prior year. Total backlog value decreased by $499 million when compared to the same period in 2018 primarily as a result of lower backlog units, as well as product mix of homes in backlog.

Results of Operations – Land

Land revenue totalled $27 million for the three months ended March 31, 2019 and land gross margin totalled $14 million, a decrease of $14 million and $3 million, respectively, when compared to 2018. The decrease in land revenue was primarily due to 27% lower average single family lot selling prices and six fewer single family lot closings. Gross margin decreased primarily due to lower single family lot selling prices as a result of the geographic mix of single family lots sold and lower multi-family, industrial and commercial selling prices. Gross margin percentage increased by 11% due to the mix of land sold. Revenues are affected by geographic mix, product mix and market conditions, which have an impact on the selling price of land.

A breakdown of our results from land operations for the three months ended March 31, 2019 and 2018 is as follows:

Consolidated

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2019		2018	
Lot closings (single family units)		258		264
Acre sales (multi-family, industrial and commercial)		10		9
Revenue	$	27	$	41
Gross margin	$	14	$	17
Gross margin (%)		52%		41%
Average lot selling price (single family units)	$	94,000	$	129,000
Average per acre selling price (multi-family, industrial and commercial)	$	320,000	$	768,000

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 March 31 2019		2018	
Lot closings (single family units)		120		159
Acre sales (multi-family, industrial and commercial)		—		9
Revenue	$	13	$	27
Gross margin	$	9	$	11
Gross margin (%)		69%		41%
Average lot selling price (single family units)	$	112,000	$	129,000
Average per acre selling price (multi-family, industrial and commercial)	$	—	$	768,000

Land revenue in Canada for the three months ended March 31, 2019 was $13 million, a decrease of $14 million when compared to the same period in 2018. The decrease in revenue was primarily the result of 13% lower average single family lot selling prices primarily due to lower selling prices in Alberta where we had proportionately more single family lot closings from lower margin communities as compared to the prior year and nine multi-family, industrial and commercial acres sold in 2018 compared to none in 2019. Gross margin decreased $2 million primarily as a result of lower activity in 2019 when compared to the same period in 2018 and lower average single family lot selling prices. Gross margin percentage increased 28% when compared to 2018, primarily due to the mix of land sold.

California

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2019		2018	
Lot closings (single family units)		—		47
Revenue	$	—	$	9
Gross margin	$	2	$	5
Gross margin (%)		—%		56%
Average lot selling price (single family units)	$	—	$	192,000

Land revenue for our California operating segment for the three months ended March 31, 2019 decreased $9 million when compared to the same period in 2018. This was the result of having no single family lot closings for the three months ended March 31, 2019 compared to 47 single family lot closings due to the timing of lots sold during the same period in 2018. Gross margin and gross margin percentage decreased as a result of the decrease in single family lot closings.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2019	2018
Lot closings (single family units)	138	58
Acre sales (multi-family, industrial and commercial)	10	—
Revenue	$ 14	$ 5
Gross margin	$ 3	$ 1
Gross margin (%)	21%	20%
Average lot selling price (single family units)	$ 78,000	$ 78,000
Average per acre selling price (multi-family, industrial and commercial)	$ 320,000	$ —

For the three months ended March 31, 2019, Central and Eastern U.S. land revenue increased $9 million and gross margin increased $2 million when compared to 2018. The increase in revenue was primarily from an additional 80 single family lot closings with consistent average lot selling prices, which was primarily the result of higher single family lot sales in our Denver market as well as 10 multi-family, industrial and commercial acres sold. Gross margin percentage increased 1% primarily as a result of increased gross margin due to the mix of land sold within the operating segment.

Equity in Earnings from Unconsolidated Entities

Equity in earnings from unconsolidated entities for the three months ended March 31, 2019 totalled $4 million, compared to $5 million for the same period in 2018. The housing and land operations of our unconsolidated entities are discussed below.

Housing

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

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2019	2018
Home closings	—	1
Revenue	$ —	$ 2
Gross margin	$ —	$ 1
Gross margin (%)	—%	50%
Average home selling price	$ —	$ 1,751,000

Housing revenue within unconsolidated entities decreased $2 million and gross margin decreased $1 million for the three months ended March 31, 2019 when compared to the same period in 2018. The decrease in housing revenue and home closings is a result of acquiring the remaining 50% of our housing joint venture in Hawaii during the third quarter of 2018 which is now a wholly-owned subsidiary where results subsequent to the acquisition are included in the condensed consolidated financial statements.

Land

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

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2019	2018
Lot closings (single family units)	278	26
Acre closings (multi-family, industrial and commercial)	1	16
Revenue	$ 12	$ 9
Gross margin	$ 4	$ 4
Gross margin (%)	33%	44%
Average lot selling price (single family units)	$ 43,000	$ 163,000
Average per acre selling price (multi-family, industrial and commercial)	$ 106,000	$ 313,000

Land revenue within unconsolidated entities increased $3 million and gross margin remained consistent for the three months ended March 31, 2019 when compared to the same period in 2018. This was primarily the result of 252 additional single family lot closings, primarily from our Phoenix joint ventures partially offset by lower average lot selling prices due to the geographic and product mix of single-family lots. There were also 16 multi-family, industrial and commercial acre sales in 2018 compared to one acre in 2019.

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three months ended March 31, 2019 and 2018 are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2019**	**2018**
General and administrative expense	$ 37	$ 37
Sales and marketing expense	25	19
Share-based compensation expense	4	4
	$ 66	$ 60

Selling, general and administrative expense was $66 million for the three months ended March 31, 2019, an increase of $6 million when compared to the same period in 2018. There was no change in general and administrative expense for the three months ended March 31, 2019 when compared to the same period in 2018. Sales and marketing expense increased $6 million primarily due to higher selling expenses from increased activity in our housing operations. There was no change in our share-based compensation expense for the three months ended March 31, 2019 compared to the same period in 2018.

Other Income

The components of other income for the three months ended March 31, 2019 and 2018 are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2019**	**2018**
Investment income	$ 10	$ 9
Joint venture management fee income	3	3
Other	1	1
	$ 14	$ 13

For the three months ended March 31, 2019, other income increased $1 million compared to the same period in 2018. This was primarily the result of a $1 million increase in dividends received on our held-to-maturity investment due to a higher dividend rate.

Income Tax Expense / (Recovery)

Income tax recovery was $4 million for the three months ended March 31, 2019, compared to $2 million for the three months ended March 31, 2018. The components of income tax recovery are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2019**	**2018**
Current income tax expense	$ 2	$ 1
Deferred income tax recovery	(6)	(3)
	$ (4)	$ (2)

For the three months ended March 31, 2019, current income tax expense increased $1 million, compared to the same period in 2018. The increase in current income tax expense primarily relates to the increase in taxable income in our U.S. operations in the three months ended March 31, 2019, compared to the same period in 2018.

For the three months ended March 31, 2019, deferred income tax recovery increased $3 million, compared to the same period in 2018. The increase in deferred income tax recovery primarily relates to the change in geographic mix of income and an increase in the non-taxable preferred share dividend received in the three months ended March 31, 2019, compared to the same period in 2018.

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, affiliate and jointly controlled entity 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 unconsolidated entities having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at March 31, 2019, the rate of exchange was C$1.3351 equivalent to US$1 (December 31, 2018 – C$1.3641 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 March 31, 2019, the average rate of exchange was C$1.3295 equivalent to US$1 (three months ended March 31, 2018 – C$1.2644 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 $15 million for the three months ended March 31, 2019, compared to a loss of $21 million in the same period of 2018.

QUARTERLY OPERATING AND FINANCIAL DATA

	2019	2018				2017		
(US$ millions, except unit activity and per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Quarterly Operating Data								
Home closings (units)	611	1,107	827	1,019	458	1,168	692	733
Lot closings (single family units)	258	1,655	552	367	264	1,076	467	597
Acre closings (multi-family, industrial and commercial)	10	27	42	1	9	59	15	8
Acre closings (raw and partially finished)	—	—	—	19	—	61	313	230
Net new home orders (units)	760	506	644	782	923	679	716	998
Backlog (units at end of period)	1,286	1,137	1,738	1,921	2,158	1,693	2,182	2,158
Backlog value	$ 685	$ 612	$ 955	$ 1,038	$ 1,182	$ 928	$ 1,198	$ 1,166
Quarterly Financial Data(1)(2)								
Revenue	$ 346	$ 796	$ 502	$ 589	$ 274	$ 818	$ 451	$ 443
Direct cost of sales	(279)	(619)	(388)	(463)	(218)	(610)	(349)	(354)
Gross margin	67	177	114	126	56	208	102	89
Gain on sale of commercial properties	—	6	—	—	—	—	—	—
Selling, general and administrative expense	(66)	(93)	(72)	(71)	(60)	(74)	(56)	(56)
Interest expense	(9)	(9)	(8)	(9)	(12)	(13)	(15)	(14)
Equity in earnings from unconsolidated entities	4	5	4	4	5	7	5	1
Other income	14	15	18	14	12	8	7	5
Lease expense	(3)	—	—	—	—	—	—	—
Income before income taxes	7	101	56	64	1	136	43	25
Income tax recovery / (expense)	4	(22)	(8)	(12)	2	(42)	(8)	(3)
Net income	11	79	48	52	3	94	35	22
Net income attributable to non-controlling interest	1	2	4	2	—	—	—	—
Net income attributable to Brookfield Residential	$ 10	$ 77	$ 44	$ 50	$ 3	$ 94	$ 35	$ 22
Foreign currency translation	15	(42)	14	(15)	(21)	(8)	32	22
Comprehensive income / (loss)	$ 25	$ 35	$ 58	$ 35	$ (18)	$ 86	$ 67	$ 44
Basic	$ 0.08	$ 0.59	$ 0.34	$ 0.38	$ 0.02	$ 0.72	$ 0.27	$ 0.17
Diluted	$ 0.08	$ 0.59	$ 0.34	$ 0.38	$ 0.02	$ 0.72	$ 0.27	$ 0.17

(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.*

(2) *The Company applied ASC Topic 842 Leases, ("ASC Topic 842") with an initial application date of January 1, 2019. ASC Topic 842 was applied using the Comparatives under 840 Option approach and therefore, the comparative information has not been adjusted and continues to be reported under ASC Topic 840 Leases.*

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 March 31, 2019 and December 31, 2018:

	As at	
(US$ millions)	**March 31, 2019**	**December 31, 2018**
Land and housing inventory	$ 3,007	$ 2,974
Investments in unconsolidated entities	361	347
Commercial properties	306	270
Held-to-maturity investment	150	300
Receivables and other assets	484	480
Operating and financing lease right-of-use asset	64	—
Cash and restricted cash	74	73
Deferred income tax assets	68	62
Goodwill	16	16
	$ 4,530	$ 4,522
Notes payable	$ 1,625	$ 1,620
Bank indebtedness and other financings	93	143
Accounts payable and other liabilities	601	636
Operating and financing lease liability	64	—
Total equity	2,147	2,123
	$ 4,530	$ 4,522

Assets

Our assets as at March 31, 2019 totalled $4.5 billion. Our land and housing inventory and investments in unconsolidated entities are our most significant assets with a combined book value of $3.4 billion, or approximately 74% of our total assets. The land and housing assets increased when compared to December 31, 2018 due to land acquisitions of $48 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 March 31, 2019 compared with December 31, 2018 follows:

	As at			
	March 31, 2019		**December 31, 2018**	
(US$ millions, except units)	**Units**	**Book Value**	**Units**	**Book Value**
Land held for development (lot equivalents)	66,431	$ 1,419	67,104	$ 1,417
Land under development and finished lots (single family units)	10,467	849	10,225	839
Housing units, including models	1,996	656	1,980	654
	78,894	$ 2,924	79,309	$ 2,910
Multi-family, industrial and commercial parcels (acres)	153	$ 83	172	$ 64

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at March 31 2019	As at December 31 2018
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)	187	183
6.375% unsecured senior notes due May 15, 2025 (d)	350	350
	$ 1,637	$ 1,633
Transaction costs (e)	(12)	(13)
	$ 1,625	$ 1,620

(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 March 31, 2019. Our actual fixed charge coverage and indebtedness to consolidated net tangible worth ratio as at March 31, 2019 are reflected in the table below:

	Covenant	Actual as at March 31 2019
Minimum fixed charge coverage	2.0 to 1	3.03 to 1
Maximum indebtedness to consolidated net tangible worth	2.25 to 1	0.82 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings as at March 31, 2019 were $93 million, a decrease of $50 million from December 31, 2018. The decrease was primarily the result the repayment of bank indebtedness with proceeds from the partial retraction of our held-to-maturity investment, partially offset by borrowings to fund land development, home construction and strategic acquisitions. Our bank indebtedness and other financings represent construction and development loans and facilities that are used to fund the operations of our communities as land is developed and homes and commercial property are constructed. As of March 31, 2019, the weighted average interest rate on our bank indebtedness and other financings was 4.8% (December 31, 2018 – 4.4%).

The debt maturing in 2019 and onwards is expected to either be refinanced or repaid from home and/or lot closings over this period. Additionally, as at March 31, 2019, we had bank indebtedness capacity of $575 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	
	March 31 2019	**December 31 2018**
Bank indebtedness (a)	$ 41	$ 89
Project-specific financings (b)	36	35
Secured vendor take back ("VTB") mortgages (c)	25	29
	102	153
Transaction costs (a)(b)	(9)	(10)
	$ 93	$ 143

(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 March 31, 2019, the total borrowings outstanding under the North American unsecured credit facility were $41 million (December 31, 2018 - $89 million).

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 $1,262 million, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at March 31, 2019, 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 March 31 2019**
Minimum tangible net worth	$ 1,262	$ 2,130
Maximum total debt to capitalization	65%	45%

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.

(b) Project-specific financings

(i) At March 31, 2019, the Company has two Canadian project-specific financings totaling $36 million (C$48 million) provided by various lenders (December 31, 2018 - $35 million (C$48 million)).

Project-specific financing totaling $9 million, held by a joint venture in our Edmonton operations, a consolidated subsidiary of the Company, has an interest rate of Canadian Prime + 0.5%, matures in 2020, and is unsecured without covenants. The debt is repayable in Canadian dollars of C$12 million (December 31, 2018 - C$11 million).

Project-specific financing totaling $27 million has an interest rate of Canadian Prime + 0.5%, matures in 2020, 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. The maturity of the debt was extended from 2019 to 2020 during the three months ended March 31, 2019. This debt is repayable in Canadian dollars of C$37 million (December 31, 2018 - C$37 million). 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 March 31, 2019. The following table reflects the debt to equity ratio covenant:

	Covenant	Actual as at March 31 2019
Maximum debt to equity ratio	1.50 to 1	0.42 to 1

(ii) On November 29, 2018, OliverMcMillan Spectrum Emery LLC, a wholly owned subsidiary of the Company, entered into a five-year secured construction loan with a Canadian federal corporation for the Nashville mixed-used project. The loan allows OliverMcMillan Spectrum Emery LLC to borrow up to $360 million in U.S. dollars.

As at March 31, 2019, there were no borrowings outstanding under the construction loan (December 31, 2018 - $nil).

Interest is charged on the loan at a rate equal to LIBOR plus 3.35%, with the ability to convert the interest charged to a prime rate loan.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires Brookfield Residential US Corporation, as the parent company to the borrower and a wholly owned subsidiary of the Company, to maintain a minimum liquidity of $36 million and a minimum net worth of $360 million. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at March 31, 2019. The following table reflects the covenants:

(US$ millions)	Covenant	Actual as at March 31 2019
Minimum liquidity	$ 36	$ 617
Minimum net worth	$ 360	$ 1,084

The transaction costs are costs related to the issuance of the project facility, and are amortized using the straight-line method over the life of the project facility.

(c) Secured VTB mortgages

Nine secured VTB mortgages (December 31, 2018 – nine secured VTB mortgages) in the amount of $20 million (December 31, 2018 – $25 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$27 million (December 31, 2018 – C$34 million). The interest rate on this debt ranges from fixed rates of 4.0% to 6.0% and variable rates of prime plus 2% and the debt is secured by related land. As at March 31, 2019, these borrowings are not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2018 – three secured VTB mortgages) in the amount of $5 million (December 31, 2018 – $4 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 4% to 6% and the debt is secured by related land. As at March 31, 2019, these borrowings are not subject to any financial covenants.

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 March 31, 2019 and December 31, 2018 was as follows:

	As at	
(US$ millions, except percentages)	**March 31 2019**	**December 31 2018**
Bank indebtedness and other financings	$ 93	$ 143
Notes payable	1,625	1,620
Total interest bearing debt	1,718	1,763
Less: cash	(67)	(70)
	1,651	1,693
Total equity	2,147	2,123
Total capitalization	$ 3,798	$ 3,816
Net debt to total capitalization	43%	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 March 31, 2019 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 March 31, 2019, we had cash and cash equivalents, including restricted cash, of $74 million, compared to $73 million at December 31, 2018.

The net cash flows for the three months ended March 31, 2019 and 2018 were as follows:

	Three Months Ended March 31	
(US$ millions)	**2019**	**2018**
Cash flows used in operating activities	$ (88)	$ (160)
Cash flows provided by / (used) in investing activities	144	(27)
Cash flows (used in) / provided by financing activities	(54)	157
Effect of foreign exchange rates on cash	(1)	(1)
	$ 1	$ (31)

Cash Flow Used in Operating Activities

Cash flows used in operating activities during the three months ended March 31, 2019 totalled $88 million, compared to $160 million for the same period in 2018. During the three months ended March 31, 2019, cash used in operating activities was primarily impacted by our net income, an increase in land and housing inventory due to land development, home construction and strategic land purchases, an increase in commercial properties, a decrease in receivables and other assets, operating and financing right-of-use assets obtained in exchange for a lease obligation, a decrease in accounts payable and other liabilities and payments for amounts included in the measurement of the lease liabilities. Acquisitions for the three months ended March 31, 2019 totalled $48 million, consisting of $12 million in Canada, $15 million in California and $21 million in Central and Eastern U.S. The increase in commercial properties of $35 million was largely due to continued construction at our Nashville mixed-use development project. During the three months ended March 31, 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 and construction activity, an increase in receivables and other assets, and an increase in accounts payable and other liabilities. Acquisitions for the three months ended March 31, 2018 totalled $60 million consisting of $18 million in Canada, $33 million in California and $9 million in Central and Eastern U.S.

Cash Flow Provided by Investing Activities

During the three months ended March 31, 2019, cash flows provided by investing activities totalled $144 million compared to cash flows used in our investing activities of $27 million for the same period in 2018. During the three months ended March 31, 2019, we received $150 million from the partial retraction of our held-to-maturity investment and dividend income relating to this investment of $5 million. We also received $3 million in distributions from our unconsolidated entities. This was partially offset by our investment of $15 million in unconsolidated entities primarily in our joint ventures in Southern California. During the three months ended March 31, 2018, we invested $33 million in unconsolidated entities primarily as a result of the OliverMcMillan acquisition, which was partially offset by dividend income from our held-to-maturity investment and distributions from unconsolidated entities.

Cash Flow Used in Financing Activities

Cash flows used in our financing activities for the three months ended March 31, 2019 totalled $54 million, compared to cash flows provided by our financing activities of $157 million in the same period in 2018. The cash used in our financing activities during the three months ended March 31, 2019 was primarily from repayments under bank indebtedness of $48 million and net repayments under project-specific and other financings of $5 million. This was partially offset by net distributions to non-controlling interest of $1 million. For the three months ended March 31, 2018, there were borrowings under bank indebtedness of $131 million, net borrowings under project-specific and other financings of $23 million and net contributions from non-controlling interest of $3 million.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at March 31, 2019 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]	$ 1,637	$ —	$ 600	$ 687	$ 350
Interest on notes payable	382	103	168	77	34
Secured VTB mortgages[2][3]	24	7	13	4	—
Bank indebtedness[2][3]	41	—	41	—	—
Accounts payable and other liabilities[4]	601	601	—	—	—
Operating and financing lease obligations including imputed interest [5]	65	2	9	9	45
Purchase agreements and other obligations[6]	109	39	69	—	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 and financing leases involving office space, design centres and model homes. See Note 20 to the condensed consolidated financial statements for additional information regarding lease agreements.

(6) See Note 21 to the condensed consolidated financial statements for additional information regarding purchase agreements and other obligations.

Shareholders' Equity

At April 24, 2019, 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 April 24, 2019, 12,468,886 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the three months ended March 31, 2019.

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 the options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of March 31, 2019, we had $97 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 8,106 lots and control under option 1,001 lots through our proportionate share of unconsolidated entities. As of March 31, 2019, our investment in unconsolidated entities totaled $361 million. We have provided varying levels of guarantees of debt in our unconsolidated entities. As of March 31, 2019, we had recourse guarantees of $8 million with respect to debt in our unconsolidated entities. During the three months ended March 31, 2019, 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 March 31, 2019, we had $66 million in letters of credit outstanding and $624 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds at March 31, 2019 are $36 million and $172 million, respectively.

Transactions Between Related Parties

Related parties include the directors, executive officers, director nominees or 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 months ended March 31, 2019 and 2018 were as follows:

- During the quarter, the Company entered into a management agreement with our service providers, Brookfield Properties Development, wholly-owned subsidiaries of Brookfield Asset Management Inc. The management fee is determined by an allocation of expenditures based on time spent. During the three months ended March 31, 2019, the Company paid $9 million of management fees (three months ended March 31, 2018 - $nil). These transactions were recorded at the exchange amount.
- During the three months ended March 31, 2019, the Company received $150 million from the partial retraction of the Company's preferred shares of Brookfield BPY Holdings Inc. These transactions were recorded at the exchange amount.
- During the three months ended March 31, 2019, the Company received $5 million of dividends from the preferred shares of Brookfield BPY Holdings Inc. (three months ended March 31, 2018 - $4 million). These transactions were recorded at the exchange amount.
- During the three months ended March 31, 2018, the Company paid $0.2 million to purchase Canadian tax credits from Brookfield Asset Management Inc. These transactions were recorded at the exchange amount.

Non-GAAP Financial 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 March 31 2019	As at December 31 2018
Assets			
Land and housing inventory	4	$ 3,006,823	$ 2,974,249
Investments in unconsolidated entities	5	360,741	347,325
Commercial properties	6	305,841	269,829
Held-to-maturity investment	8	150,000	300,000
Receivables and other assets	9	484,109	478,932
Operating and financing lease right-of-use asset	20	63,960	—
Restricted cash	10	6,515	3,200
Cash and cash equivalents		67,163	69,932
Deferred income tax assets	15	68,542	61,847
Goodwill	7	16,479	16,479
Total assets		$ 4,530,173	$ 4,521,793
Liabilities and Equity			
Notes payable	11	$ 1,624,776	$ 1,619,918
Bank indebtedness and other financings	12	92,582	143,480
Accounts payable and other liabilities	13	601,450	635,800
Operating and financing lease liability	20	64,579	—
Total liabilities		2,383,387	2,399,198
Common Shares – 129,756,910 shares outstanding (December 31, 2018 – 129,756,910 shares outstanding)	17	626,594	626,594
Additional paid-in-capital		367,433	367,433
Retained earnings		1,246,418	1,236,092
Non-controlling interest	16	52,744	53,832
Accumulated other comprehensive loss		(146,403)	(161,356)
Total equity		2,146,786	2,122,595
Total liabilities and equity		$ 4,530,173	$ 4,521,793
Commitments, contingent liabilities and other	21		
Guarantees	22		

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 March 31	
	Note	**2019**	**2018**
Revenue			
Housing		$ 318,768	$ 233,682
Land		27,456	40,765
Total revenue		346,224	274,447
Direct Cost of Sales			
Housing		(265,793)	(194,674)
Land		(13,761)	(23,818)
Total direct cost of sales		(279,554)	(218,492)
Gross margin		66,670	55,955
Selling, general and administrative expense		(66,376)	(59,783)
Interest expense		(8,539)	(11,978)
Equity in earnings from unconsolidated entities	5	4,408	5,210
Other income	14	14,351	12,866
Lease expense	20	(2,786)	—
Depreciation		(1,059)	(1,040)
Income Before Income Taxes		6,669	1,230
Current income tax expense	15	(1,543)	(1,323)
Deferred income tax recovery	15	5,542	3,467
Net Income		10,668	3,374
Other Comprehensive Income / (Loss)			
Unrealized foreign exchange gain / (loss) on:			
Translation of the net investment in Canadian subsidiaries		18,928	(26,158)
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		(3,975)	5,025
Comprehensive Income / (Loss)		$ 25,621	$ (17,759)
Net Income Attributable To:			
Consolidated		$ 10,668	$ 3,374
Non-controlling interest	16	342	380
Brookfield Residential		$ 10,326	$ 2,994
Comprehensive Income / (Loss) Attributable To:			
Consolidated		$ 25,621	$ (17,759)
Non-controlling interest	16	342	380
Brookfield Residential		$ 25,279	$ (18,139)
Common Shareholders Earnings Per Share			
Basic	19	$ 0.08	$ 0.02
Diluted	19	$ 0.08	$ 0.02
Weighted Average Common Shares Outstanding *(in thousands)*			
Basic	19	129,757	129,757
Diluted	19	129,923	129,767

See accompanying notes to the condensed consolidated financial statements

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

		(Unaudited) Three months ended March 31	
	Note	**2019**	**2018**
Common Shares	17		
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		1,236,092	1,063,623
Adjustment due to adoption of ASC Topic 606		—	(1,933)
Adjusted opening balance		1,236,092	1,061,690
Net income attributable to Brookfield Residential		10,326	2,994
Ending balance		1,246,418	1,064,684
Accumulated Other Comprehensive Loss			
Opening balance		(161,356)	(97,393)
Other comprehensive income / (loss)		14,953	(21,133)
Ending balance		(146,403)	(118,526)
Total Brookfield Residential Equity		$ 2,094,042	$ 1,940,185
Non-Controlling Interest	16		
Opening balance		$ 53,832	$ 54,216
Net income attributable to non-controlling interest		342	380
(Distributions) / Contributions		(1,430)	2,583
Ending balance		$ 52,744	$ 57,179
Total Equity		$ 2,146,786	$ 1,997,364

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) Three months ended March 31	
Cash Flows Provided by / (Used in) Operating Activities	**2019**	**2018**
Net income	$ 10,668	$ 3,374
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities	(698)	(4,679)
Deferred income tax recovery	(5,542)	(3,467)
Share-based compensation costs	4,151	3,771
Depreciation	1,059	1,040
Amortization of non-cash interest	1,672	1,016
Dividend income on held-to-maturity investment	(5,304)	(4,206)
Changes in operating assets and liabilities:		
Decrease / (Increase) in receivables and other assets	4,755	(43,447)
Increase in land and housing inventory	(23,878)	(135,305)
Increase in commercial properties	(35,084)	—
Operating and financing ROU assets obtained in the exchange for a lease obligation	2,122	—
Payments for amounts included in the measurement of the lease liabilities	(1,440)	—
(Decrease) / Increase in accounts payable and other liabilities	(40,342)	21,599
Net cash used in operating activities	(87,861)	(160,304)
Cash Flows Provided by / (Used in) Investing Activities		
Investments in unconsolidated entities	(14,754)	(33,311)
Distributions from unconsolidated entities	3,112	1,755
Increase in commercial properties	—	(225)
Retraction of held-to-maturity investment	150,000	—
Dividend income on held-to-maturity investment	5,304	4,206
Decrease in loan receivable	35	1,082
Net cash provided by / (used in) investing activities	143,697	(26,493)
Cash Flows Provided by / (Used in) Financing Activities		
Drawings under project-specific and other financings	515	26,786
Repayments under project-specific and other financings	(5,452)	(3,560)
Drawings on bank indebtedness	—	131,072
Repayments on bank indebtedness	(48,004)	—
Net (distributions) / contributions from non-controlling interest	(1,430)	2,584
Payments made on the principal of financing leases	(102)	—
Net cash (used in) / provided by financing activities	(54,473)	156,882
Effect of foreign exchange rates on cash and cash equivalents	(817)	(1,151)
Change in cash and cash equivalents	546	(31,066)
Cash and cash equivalents at beginning of period	73,132	107,855
Cash and cash equivalents at end of period	$ 73,678	$ 76,789
Supplemental Cash Flow Information		
Cash interest paid	$ 19,374	$ 16,340
Cash taxes paid	$ 258	$ 178

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 60 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 25 "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 generally determined to be constrained at the time the revenue contract is recognized. The Company will reassess and recognize profit participation as appropriate 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 2019 generally assume recent sales activity and normalized sales rates beyond 2019. 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. Commercial properties under development are stated at cost and are not depreciated until available for use. 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) *Leases*

An arrangement is determined to be a lease or not at inception. Operating and financing leases are included in operating and financing lease right-of-use ("ROU") assets and operating and financing lease liabilities on our condensed consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and the lease liabilities represents the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at a commencement date based on the present value of the lease payments over the lease term. As the Company's leases do not contain an implicit rate, the Company used an incremental borrowing rate based on the information available at the commencement date in determining the present value of the lease payments. The Company has used an incremental borrowing rate, determined by taking a sum of: the appropriate U.S. or Canadian Government bond rate, and credit spread of the US Industrial B1 and US risk free rate or the Implied B1 Canadian composite bond yield and the Canadian risk free rate. The Company will use the implicit rate when it is readily available.

The Company's leases do contain the existence of terms and conditions of options to extend or terminate certain leases. Leases with termination or extension options which the Company is reasonably certain to exercise have been included as part of the ROU asset and liability. Termination or extension options which the Company is reasonably certain not to exercise have been excluded in the determination of the ROU asset and liability.

Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company's lease agreements contain both lease and non-lease components. The Company has elected to not separate non-lease components from either a lessee or lessor perspective. The Company has applied the practical expedient for short term leases; short-term leases are recognized on a straight-line basis over the life of the lease, and are not recognized on the balance sheet.

For lease agreements where the Company is a sub-lessor, the Company has presented the lease expense on a gross basis on the condensed consolidated statements of operations, and has recognized sub-lease income within "other income". See Note 20 "Leases" for sub-lease income recognized.

(f) 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.

(g) 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.

(h) 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.

(i) 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, share-based compensation, ROU liabilities, contingent liabilities including litigation and the purchase price allocated to the assets acquired and the liabilities assumed of an acquisition. Actual results could differ materially from these estimates.

(j) 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.

(k) 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.

(l) 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.

(m) 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 18 "Share-Based Compensation" for further discussion.

(n) 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 unconsolidated entities 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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) Recent Accounting Pronouncements

There are no recent accounting pronouncements that would have an impact on the Company.

Note 2. Change in Accounting Policies

ASC Topic 842 "Leases"

The Company applied ASC Topic 842 Leases, ("ASC Topic 842") with an initial application date of January 1, 2019. As a result, the Company has changed its accounting policy for leases as detailed below.

The Company applied ASC Topic 842 using the "Comparatives under 840 Option". Therefore, the comparative information has not been adjusted and continues to be reported under ASC Topic 840 Leases. The details of the significant changes are discussed below.

Under ASC Topic 842, the definition of a lease has changed. Leases are now recognized on the balance sheet by right-of-use asset and lease liability. Leases classified as a financing lease are now recognized on the condensed consolidated statement of operations as lease expense. Operating leases are expensed on a straight-line basis as a lease expense on the condensed consolidated statement of operations. The classification of leases and the new definition of a lease, did not have an impact to the Company's leases. The recognition of the leases on the balance sheet has resulted in a quantitative impact to the Company's condensed consolidated financial statements. There was no impact to opening retained earnings.

The Company has applied ASU 2019-01 *Leases (Topic 842): Codification Improvements* which allows entities adopting ASC Topic 842 to exclude the required disclosures under ASC 250-10-50-3. Under ASU 2019-01, the Company will not be disclosing the effect of the adoption of ASC Topic 842 on the change on income from continuing operations, net income and related per-share amounts.

The Company has elected the following package of practice expedients: the Company has not reassessed whether any expired or existing contracts are or contain a lease, the Company did not reassess the lease classification for any expired or existing leases, and the Company has not reassessed initial direct costs for any existing leases.

The Company has also elected ASC 842-10-15-42A, to not separate non-lease components from either a lessee or lessor perspective; and, to apply the short-term lease exception to all leases with an expiration within twelve months of the beginning of the reporting period.

For short-term leases, those with an expiry within twelve months of year-end and no option to purchase the asset at the end of the lease, the Company will elect not to apply the recognition requirements under ASC 842. Short-term leases have been expensed on the condensed consolidated statement of operations.

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

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 three months ended March 31, 2019, the Company recognized $0.1 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	
	March 31 2019	December 31 2018
Land held for development	$ 1,419,566	$ 1,417,372
Land under development	931,103	903,315
Housing inventory	555,196	554,140
Model homes	100,958	99,422
	$ 3,006,823	$ 2,974,249

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 months ended March 31, 2019 and 2018, no impairment charges were recognized. Refer to Note 23 "Fair Value Measurements".

The Company capitalizes interest which is expensed as housing units and building lots are sold. Interest capitalized and expensed during the three months ended March 31, 2019 and 2018 was as follows:

	Three months ended March 31	
	2019	2018
Interest capitalized, beginning of the period	$ 197,687	$ 180,650
Interest capitalized	17,659	16,148
Interest expensed to cost of sales	(9,281)	(6,257)
Interest capitalized, end of the period	$ 206,065	$ 190,541

In the ordinary course of business, the Company has entered into a number of option contracts to acquire land or lots in the future in accordance with specific terms and conditions. As such, the Company has advanced deposits to secure these rights. The Company is required by ASC Topic 810 *Consolidation* to qualitatively assess whether it is the primary beneficiary of these options based on whether it has the power to control the significant activities of the VIE and an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The Company has evaluated its option contracts in accordance with this guidance and determined that, for those entities considered to be VIEs, it is the primary beneficiary of options with an aggregate exercise price of $44.0 million (December 31, 2018 – $44.6 million), which are required to be consolidated. In these cases, the only asset recorded is the Company's exercise price for the option to purchase, with an increase in accounts payable and other liabilities of $44.0 million (December 31, 2018 – $44.6 million) for the assumed third-party investment in the VIE. Where the land sellers are not required to provide the Company with financial information related to the VIE, certain assumptions by the Company are required in its assessment as to whether or not it is the primary beneficiary.

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

Land and housing inventory includes non-refundable deposits and other entitlement costs totalling $97.4 million (December 31, 2018 – $96.8 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 $108.8 million (December 31, 2018 – $110.1 million), including the non-refundable deposits and other entitlement costs identified above. The number of lots in which the Company has obtained an option to purchase, excluding those already consolidated and those held through investment in unconsolidated entities, and their respective dates of expiry and aggregate exercise prices follow:

Years of Expiry	Number of Lots	Total Exercise Price
2019	2,925	$ 41,248
2020	1,277	28,019
2021	298	9,887
2022	100	2,948
2023	1,003	7,539
Thereafter	566	19,157
	6,169	$ 108,798

The Company holds agreements for a further 3,641 acres (December 31, 2018 – 3,641 acres) of longer-term land, with non-refundable deposits and other entitlement costs of $8.8 million (December 31, 2018 – $18.6 million), which is included in land and housing inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of $87.3 million (December 31, 2018 – $87.9 million). However, given that the Company is in the initial stage of land entitlement, the Company has concluded at this time that the level of uncertainty in entitling these properties does not warrant including them in the above totals.

Note 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 March 31, 2019, the Company was involved with 12 unconsolidated entities (December 31, 2018 – 12 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities includes $19.4 million (December 31, 2018 – $18.1 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 1,001 lots (December 31, 2018 – 1,001 lots) under option. The Company's share of the total exercise price of these options is $37.0 million (December 31, 2018 – $36.2 million). Summarized financial information on a 100% basis for the combined unconsolidated entities follows:

	As at	
	March 31 2019	December 31 2018
Assets		
Land and housing inventory	$ 860,240	$ 840,418
Investments in unconsolidated entities	151,260	131,260
Other assets	66,539	70,450
	$ 1,078,039	$ 1,042,128
Liabilities and Equity		
Bank indebtedness and other financings	$ 134,191	$ 127,376
Accounts payable and other liabilities	116,282	112,584
Brookfield Residential's interest	360,741	347,325
Others' interest	466,825	454,843
	$ 1,078,039	$ 1,042,128

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

	Three Months Ended March 31	
	2019	**2018**
Revenue and Expenses		
Revenue	$ 24,251	$ 24,747
Direct cost of sales	(14,812)	(14,843)
Other (expense) / income	(598)	63
Net income	$ 8,841	$ 9,967
Brookfield Residential's share of net income	$ 4,408	$ 5,210

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 March 31, 2019, the Company had recourse guarantees of $8.2 million (December 31, 2018 – $8.0 million) with respect to debt of its unconsolidated entities.

Note 6. Commercial Properties

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

	As at	
	March 31 2019	**December 31 2018**
Commercial properties	$ 307,664	$ 271,428
Less: accumulated depreciation	(1,823)	(1,599)
	$ 305,841	$ 269,829

Commercial properties consists of the following properties:

	As at	
	March 31 2019	**December 31 2018**
Commercial properties under development	$ 274,830	$ 239,271
Commercial properties producing leasing revenue	32,834	32,157
	$ 307,664	$ 271,428

Note 7. Business Combinations

The Company had no business combinations during the three months ending March 31, 2019.

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.

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.

The net assets acquired was $23.0 million, resulting in goodwill of $16.5 million.

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

Note 8. Held-to-Maturity Investment

	As at	
	March 31 2019	**December 31 2018**
Brookfield BPY Holdings Inc. Class B Junior Preferred Shares ("preferred shares")	$ 150,000	$ 300,000
	$ 150,000	$ 300,000

The Company holds preferred shares in Brookfield BPY Holdings Inc., a subsidiary of Brookfield Asset Management Inc. 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 months ended March 31, 2019, Brookfield BPY Holdings Inc. made a partial retraction of the preferred shares the Company holds, of $150.0 million.

During the three months ended March 31, 2019, $5.3 million of dividends were recorded in the statement of operations as other income (three months ended March 31, 2018 - $4.2 million).

Note 9. Receivables and Other Assets

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

	As at	
	March 31 2019	**December 31 2018**
Receivables (a)	$ 365,972	$ 371,197
Other assets (b)	118,137	107,735
	$ 484,109	$ 478,932

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

	As at	
	March 31 2019	**December 31 2018**
Development recovery receivables (i)	$ 98,753	$ 105,905
Real estate receivables (ii)	97,081	104,507
Loan receivables (iii)	94,864	94,899
Sundry receivables (iv)	37,937	30,812
Proceeds and escrow receivables (v)	26,673	24,950
Refundable deposits	10,664	10,124
	$ 365,972	$ 371,197

(i) 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 1.0% to a fixed rate of 0.0% to 8.5% (December 31, 2018 – U.S. prime plus 0.5% to a fixed rate of 6.0%).

(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 Canadian prime plus 2.0% to 3.0% or a fixed interest rate of 0.0% to 6.0% (December 31, 2018 – Canadian prime plus 3.0% or a fixed interest rate of 0.0% to 6.0%).

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

(iii) 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 months ended March 31, 2019, no amounts related to the principal were collected (December 31, 2018 - $17.1 million).

(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 March 31, 2019, allowances for doubtful accounts were $nil (December 31, 2018 - $nil).

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

	As at	
	March 31 2019	**December 31 2018**
Non-refundable earnest funds and investigation fees (i)	$ 35,856	$ 29,148
Capitalized sales and marketing costs (ii)	31,417	21,209
Capital assets (iii)	22,481	23,532
Other	14,938	21,836
Prepaid expenses	13,445	12,010
	$ 118,137	$ 107,735

(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 $19.7 million (December 31, 2018 – $16.9 million).

(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 $20.5 million (December 31, 2018 – $21.1 million).

Note 10. Restricted Cash

At March 31, 2019, the Company has restricted cash consisting of (i) $0.1 million (December 31, 2018 – $0.2 million) relating to cash collateralization of development letters of credit and (ii) $6.4 million (December 31, 2018 – $3.0 million) of restricted cash relating to funds in various cash accounts reserved for guarantees on completion of certain improvements, and guarantees on future insurance loss deductible payments.

Note 11. Notes Payable

	As at	
	March 31 2019	**December 31 2018**
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)	187,250	183,275
6.375% unsecured senior notes due May 15, 2025 (d)	350,000	350,000
	1,637,250	1,633,275
Transaction costs (e)	(12,474)	(13,357)
	$ 1,624,776	$ 1,619,918

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

(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
2019 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
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:

	Notes Redemption Price
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:

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

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

(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 March 31, 2019.

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	
	March 31 2019	December 31 2018
Bank indebtedness (a)	$ 40,821	$ 88,822
Project-specific financings (b)	36,052	34,834
Secured VTB mortgages (c)	24,406	29,247
	101,279	152,903
Transaction costs (a)(b)	(8,697)	(9,423)
	$ 92,582	$ 143,480

(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 March 31, 2019, the total borrowings outstanding under the North American unsecured credit facility were $40.8 million (December 31, 2018 - $88.8 million).

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 $1,262 million, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at March 31, 2019, 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.

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

(b) Project-specific financings

(i) As at March 31, 2019, the Company has Canadian project-specific financings totaling $36.0 million (C$48.1 million) provided by various lenders (December 31, 2018 - $34.8 million (C$47.5 million)).

Project-specific financing totaling $27.4 million has an interest rate of Canadian Prime + 0.5%, matures in 2020, 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. The maturity of the debt was extended from 2019 to 2020 during the three months ended March 31, 2019. This debt is repayable in Canadian dollars of C$36.6 million (December 31, 2018 - C$36.7 million). 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 March 31, 2019.

Project-specific financing totaling $8.6 million, held by a joint venture in our Edmonton operations, a consolidated subsidiary of the Company, has an interest rate of Canadian Prime + 0.5%, matures in 2020, and is unsecured without covenants. The debt is repayable in Canadian dollars of C$11.5 million (December 31, 2018 - C$10.8 million).

(ii) On November 29, 2018, OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company, entered into a five-year secured construction loan with a Canadian federal corporation for the Nashville mixed-used project. The loan allows OliverMcMillan Spectrum Emery LLC to borrow up to $360.0 million in U.S. dollars.

As at March 31, 2019, the Company has no borrowings outstanding (December 31, 2018 - $nil).

Interest is charged on the loan at a rate equal to LIBOR plus 3.35%, with the ability to convert the interest charged to a prime rate loan.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires Brookfield Residential US Corporation, as the parent company to the borrower and a wholly owned subsidiary of the Company, to maintain a minimum liquidity of $36.0 million and a minimum net worth of $360.0 million. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at March 31, 2019.

The transaction costs are costs related to the issuance of the project facility, and are amortized using the straight-line method over the life of the project facility.

(c) Secured VTB mortgages

The Company has 11 secured VTB mortgages (December 31, 2018 – 12 secured VTB mortgages) in the amount of $24.4 million (December 31, 2018 – $29.2 million). Secured VTB mortgages are repayable as follows: 2019 - $7.4 million; 2020 – $8.1 million; 2021 – $5.3 million, 2022 – $1.3 million and thereafter – $2.3 million.

Nine secured VTB mortgages (December 31, 2018 – nine secured VTB mortgages) in the amount of $19.9 million (December 31, 2018 – $24.7 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$26.5 million (December 31, 2018 – C$33.7 million). The interest rates on the debt range from fixed rates of 4.0% to 6.0% and variable rates of prime plus 2% and the debt is secured by the related land. As at March 31, 2019, these borrowings are not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2018 – three secured VTB mortgages) in the amount of $4.5 million (December 31, 2018 – $4.6 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 4.0% to 6.0% and the debt is secured by related land. As at March 31, 2019, these borrowings are not subject to any financial covenants.

Note 13. Accounts Payable and Other Liabilities

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

	As at	
	March 31 2019	**December 31 2018**
Accounts payable (a)	$ 377,453	$ 410,593
Other liabilities (b)	223,997	225,207
	$ 601,450	$ 635,800

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

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

	As at	
	March 31 2019	**December 31 2018**
Trade payables and other accruals	$ 157,421	$ 169,554
Customer deposits	81,055	76,407
Development costs payable (i)	71,632	77,897
Interest on notes payable	31,591	21,021
Current income taxes payable	15,618	14,309
Accrued and deferred compensation	14,373	45,187
Real estate payables	5,763	6,218
	$ 377,453	$ 410,593

(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	
	March 31 2019	**December 31 2018**
Share-based compensation (Note 18)	$ 81,136	$ 78,513
Other (i)	68,269	67,215
Consolidated land option contracts (ii)	44,036	44,557
Warranty costs (Note 21 (a))	21,355	21,515
Deferred revenue (iii)	9,201	13,407
	$ 223,997	$ 225,207

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

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

(iii) The amount of deferred revenue recognized as revenue in the three months ended March 31, 2019 was $4.2 million (December 31, 2018 - $89.9 million).

Note 14. Other Income

The Company’s components of other income consist of the following:

	Three Months Ended March 31	
	2019	**2018**
Investment income	$ 10,311	$ 8,776
Joint venture management fee income	3,138	3,324
Other	902	766
	$ 14,351	$ 12,866

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

Note 15. Income Taxes

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the three months ended March 31, 2019 and 2018 is as follows:

	Three months ended March 31	
	2019	**2018**
Statutory rate	27.0 %	27.0 %
Non-temporary differences	16.6	131.8
Rate difference from statutory rate	(80.0)	(279.2)
Non-taxable preferred share dividend	(22.2)	(131.0)
Other	(4.7)	(0.5)
Effective tax rate	(63.3)%	(251.9)%

The Company currently operates in fourteen 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 (63.3)% for the three months ended March 31, 2019 (March 31, 2018 - (251.9)%). The increase in the 2019 effective tax rate when compared to the same period in 2018 was primarily due to an overall increase in net income before tax and an increase in non-deductible share-based compensation costs, partially offset by an increase in the non-taxable preferred share dividends received.

The provision for income taxes for the three months ended March 31, 2019 and 2018 is set forth below:

	Three months ended March 31	
	2019	**2018**
Current		
Canada	$ —	$ —
U.S.	(1,142)	(20)
International	(401)	(1,303)
Current income tax expense	(1,543)	(1,323)
Deferred		
Canada	4,476	1,329
U.S.	1,066	2,138
Deferred income tax recovery	5,542	3,467
Total income tax recovery	$ 3,999	$ 2,144

(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)	**March 31 2019**	**December 31 2018**
Differences relating to land and housing inventory	$ (3,845)	$ (4,888)
Compensation deductible for tax purposes when paid	8,105	12,471
Operating loss carry-forwards	51,547	46,657
Capital loss carry-forwards	2,501	2,501
Impact of foreign exchange	26,005	28,180
Other	12,735	7,607
Net deferred tax assets before valuation allowance	97,048	92,528
Cumulative valuation allowance	(28,506)	(30,681)
Net deferred tax assets	$ 68,542	$ 61,847

The Company has Canadian federal non-capital loss carryforwards of approximately $188.5 million (C$251.6 million) as at March 31, 2019 (December 31, 2018 – $170.3 million (C$232.3 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 2039. At March 31, 2019, the Company has U.S. federal capital loss carryforwards of $9.3 million (December 31, 2018 - $9.3 million) that expire between 2022 and 2023 and state loss carryforwards of approximately $17.9 million (December 31, 2018 - $18.3 million) that may be carried forward up to 20 years and expire between 2029 and 2032.

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

In evaluating the need for a valuation allowance against the Company's deferred tax assets at March 31, 2019, the Company considered all available and objectively verifiable positive and negative evidence. The valuation allowance of $28.5 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 March 31, 2019 were considered to be permanently reinvested. A determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable.

Note 16. Non-Controlling Interest

Non-controlling interest includes third-party investments in consolidated entities of $52.7 million at March 31, 2019 (December 31, 2018 – $53.8 million).

In accordance with ASC Topic 810, non-controlling interest has been classified as a component of total equity and the net income on the condensed consolidated statements of operations have been adjusted to include the net income attributable to non-controlling interest, which for the three months ended March 31, 2019 was $0.3 million (March 31, 2018 – $0.4 million).

Note 17. 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.

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

There were no Common Shares issued during the three months ended March 31, 2019 and the year ended December 31, 2018.

	For the Period Ended	
	March 31 2019	**December 31 2018**
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 March 31, 2019 and December 31, 2018.

Note 18. 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 months ended March 31, 2019, there were 887,000 options granted to eligible employees (three months ended March 31, 2018 - no options granted). The significant weighted average assumptions relating to the valuation of the Company's options outstanding during the three months ended March 31, 2019 and 2018 are as follows:

	March 31 2019	**March 31 2018**
Dividend yield	—%	—%
Volatility rate	29.22%	30.61%
Risk-free interest rate	2.48%	2.23%
Expected option life (years)	4.7	5.7

The liability of $49.4 million (December 31, 2018 - $45.2 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 months ended March 31, 2019 was $4.2 million (March 31, 2018 - $3.8 million).

(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 three months ended March 31, 2019 and 2018:

	March 31, 2019		March 31, 2018	
	Options	**Weighted Average Per Share Exercise Price**	**Options**	**Weighted Average Per Share Exercise Price**
Outstanding, beginning of the period	11,581,886	$ 22.15	11,581,866	$ 22.15
Granted	887,000	22.98	—	—
Exercised	—	—	—	—
Cancelled	—	—	—	—
Outstanding, end of the period	12,468,886	22.21	11,581,866	22.15
Options exercisable, end of the period	7,165,508	$ 22.45	4,849,131	22.59

A summary of the status of the Company's unvested options for the three months ended March 31, 2019 and 2018 are as follows:

	March 31, 2019		March 31, 2018	
	Options	**Weighted Average Fair Value Per Option**	**Options**	**Weighted Average Fair Value Per Option**
Unvested options outstanding, beginning of the period	5,644,756	$ 7.21	7,961,132	$ 6.84
Granted	887,000	8.73	—	—
Vested	(1,228,378)	5.86	(1,228,377)	5.73
Cancelled	—	—	—	—
Unvested options outstanding, end of the period	5,303,378	$ 7.78	6,732,755	$ 7.05

At March 31, 2019, there was $37.9 million (March 31, 2018 - $44.4 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 3.0 years (March 31, 2018 - 3.3 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 March 31, 2019 and December 31, 2018:

	For the Period Ended	
	March 31 2019	**December 31 2018**
Outstanding, beginning of the period	1,448,638	1,448,638
Granted and reinvested	—	—
Redeemed	(66,504)	—
Outstanding, end of the period	1,382,134	1,448,638
Deferred share units vested	1,382,134	1,448,638

The liability of $31.8 million (December 31, 2018 – $33.3 million) relating to the DSUP is included in accounts payable and other liabilities. There was no financial statement impact relating to the DSUP for the three months ended March 31, 2019 (March 31, 2018 - expense of $nil) which has been included in selling, general, and administrative expense.

Note 19. Earnings Per Share

Basic and diluted earnings per share for the three months ended March 31, 2019 and 2018 were calculated as follows:

	Three Months Ended March 31	
	2019	**2018**
Numerator:		
Net income attributable to Brookfield Residential	$ 10,326	$ 2,994
Denominator (in '000s of shares):		
Basic weighted average shares outstanding	129,757	129,757
Diluted weighted average shares outstanding	129,923	129,767
Basic earnings per share	$ 0.08	$ 0.02
Diluted earnings per share	$ 0.08	$ 0.02

Note 20. Leases

The Company's nature of leases are: office space, office equipment, land, design centers, vehicles, and model homes. Select leases include variable payments in the form of rent increases, these are dependent on the market rate. The term of the Company's leases range from two to 99 years, and includes extension terms that are reasonably expected to be exercised.

The Company does not have any leases which have been entered into, but not yet commenced, where the Company is a lessee.

Included in lease expense is lease expenses for operating leases, financing lease interest and financing lease amortization. The Company has sublease income for the three months ended March 31, 2019 of $0.1 million included in other income.

The Company has committed to future minimum payments for leases as follows:

Years of Expiry	**Operating Leases**	**Financing Leases**
2019	$ 2,026	$ 239
2020	4,014	247
2021	4,154	212
2022	4,277	125
2023	3,992	57
Thereafter	45,236	—
Total lease payments	63,699	880
Less imputed interest (i)	(242,036)	(20)
Total	$ (178,337)	$ 860

(i) The Company has two land leases with a 99 year lease term, and rent free periods. As a result, the impact of the discounting is greater and the imputed interest for most of the life of the lease exceeds the appreciation and depreciation of the lease obligation.

Note 21. Commitments, Contingent Liabilities and Other

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

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

The following table reflects the changes in the Company's estimated warranty liability for the three months ended March 31, 2019 and 2018:

	Three months ended March 31	
	2019	**2018**
Balance, beginning of the period	$ 21,515	$ 20,863
Payments and other adjustments made during the period	(2,950)	(2,529)
Warranties issued during the period	2,560	2,271
Adjustments made for pre-existing warranties	230	(141)
Balance, end of the period	$ 21,355	$ 20,464

(b) As at March 31, 2019, there were no amounts held in other assets related to land purchase obligations (December 31, 2018 - $13.1 million). The total amount owing on these obligations is $109.2 million (December 31, 2018 - $108.5 million).

Note 22. 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 March 31, 2019, these guarantees amounted to $690.2 million (December 31, 2018 – $720.0 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 23. Fair Value Measurements

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

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

The fair value measurements for land and housing inventory were determined by comparing the carrying amount of an asset to its expected future cash flows. To arrive at the estimated fair value of land and housing inventory deemed to be impaired during the three months ended March 31, 2019, the Company estimated the cash flow for the life of each project. Specifically, project by project, the Company evaluated the margins on homes that have been closed, margins on sales contracts which are in backlog and estimated margins with regard to future home sales over the life of the projects, as well as estimated margins with respect to future land sales. The Company evaluated and continues to evaluate projects where inventory is turning over more slowly than expected or whose average sales price and margins are declining and are expected to continue to decline. These projections take into account the specific business plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area. Such projections generally assume current home selling prices, with cost estimates and sales rates for short-term projects consistent with recent sales activity. For longer-term projects, planned sales rates for 2019 generally assume recent sales activity and normalized sales rates beyond 2019. 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.

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

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

The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. For the three months ended March 31, 2019 and 2018, no impairment charges were recognized.

The locations of the projects reviewed are as follows:

	Number of Projects
Canada	41
California	47
Central and Eastern U.S.	35
	123
Unconsolidated entities	14
Total	137

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 months ended March 31, 2019, unrealized pre-tax loss of $4.0 million (March 31, 2018 – gain of $5.0 million), were recorded in other comprehensive income for the effective portion of hedges of net investments in foreign operations.

Fair Value Hierarchy

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

As at March 31, 2019, 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, include $nil (December 31, 2018 – $nil) of financial assets based on management's best estimates and $nil (December 31, 2018 – $nil) of financial liabilities which are measured at fair value using valuation inputs based on model-based techniques or similar instruments in markets that are not active.

Note 24. 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 March 31, 2019, a 1% change in interest rates would have a $0.8 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 March 31, 2019, the book value of all outstanding debt exceeded its fair value by $7.6 million (December 31, 2018 – fair value of all outstanding debt exceeded its book value by $60.5 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 March 31, 2019 (December 31, 2018 – $2.5 million gain). See Note 23 "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.

(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.

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

A summary of the Company's contractual obligations and purchase agreements as at March 31, 2019 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)]	$ 1,637,250	$ —	$ 600,000	$ 687,250	$ 350,000
Interest on notes payable	381,830	103,407	167,813	77,141	33,469
Secured VTB mortgages[(2)(3)]	24,406	7,419	13,390	3,597	—
Bank indebtedness[(2)(3)]	40,821	—	40,821	—	—
Accounts payable and other liabilities[(4)]	601,450	601,450	—	—	—
Operating and financing lease obligations including imputed interest [(5)]	64,579	2,265	8,628	8,450	45,236
Purchase agreements and other obligations[(6)]	109,187	38,952	69,036	408	791

(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 and financing leases involving office space, design centres and model homes. See Note 20 for additional information regarding lease agreements.

(6) See Note 21 for additional information regarding purchase agreements and other obligations.

Note 25. 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 for master-planned communities and mixed-use properties and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of other risk factors. Earnings performance is measured using income before income taxes. The accounting policies of the segments are the same as those referred to in Note 1, "Significant Accounting Policies."

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

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

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

	Three Months Ended March 31, 2019				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 96,536	$ 136,918	$ 112,770	$ —	$ 346,224
Direct cost of sales	(73,890)	(110,955)	(94,709)	—	(279,554)
	22,646	25,963	18,061	—	66,670
Equity in earnings	(162)	935	3,635	—	4,408
Expenses	(13,027)	(20,073)	(19,579)	(11,730)	(64,409)
Income / (loss) before income taxes	$ 9,457	$ 6,825	$ 2,117	$ (11,730)	$ 6,669

	Three Months Ended March 31, 2018				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 96,909	$ 109,808	$ 67,730	$ —	$ 274,447
Direct cost of sales	(72,643)	(88,094)	(57,755)	—	(218,492)
	24,266	21,714	9,975	—	55,955
Equity in earnings	(68)	738	4,540	—	5,210
Expenses	(13,353)	(14,525)	(16,552)	(15,505)	(59,935)
Income / (loss) before income taxes	$ 10,845	$ 7,927	$ (2,037)	$ (15,505)	$ 1,230

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

	As at March 31, 2019				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 426,669	$ 429,132	$ 563,765	$ —	$ 1,419,566
Land under development	257,969	219,278	453,856	—	931,103
Housing inventory	113,584	265,587	176,025	—	555,196
Model homes	22,585	54,349	24,024	—	100,958
Total land and housing inventory	820,807	968,346	1,217,670	—	3,006,823
Investments in unconsolidated entities	51,021	221,207	85,644	2,869	360,741
Commercial properties	53,121	—	252,720	—	305,841
Held-to-maturity investment	—	—	—	150,000	150,000
Operating and financing lease right-of use asset	11,200	18,050	23,093	11,617	63,960
Goodwill	-	-	-	16,479	16,479
Other assets [(1)]	143,498	73,461	160,971	248,399	626,329
Total assets	$ 1,079,647	$ 1,281,064	$ 1,740,098	$ 429,364	$ 4,530,173

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

	As at December 31, 2018				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 409,568	$ 423,728	$ 584,076	$ —	$ 1,417,372
Land under development	246,612	259,956	396,747	—	903,315
Housing inventory	125,319	246,170	182,651	—	554,140
Model homes	22,143	53,008	24,271	—	99,422
Total land and housing inventory	803,642	982,862	1,187,745	—	2,974,249
Investments in unconsolidated entities	49,714	207,317	90,294	—	347,325
Commercial properties	51,503	—	218,326	—	269,829
Held-to-maturity investment	—	—	—	300,000	300,000
Operating and financing lease right-of use asset	—	—	—	—	—
Goodwill	—	—	—	16,479	16,479
Other assets [(1)]	151,812	62,847	169,658	229,594	613,911
Total assets	$ 1,056,671	$ 1,253,026	$ 1,666,023	$ 546,073	$ 4,521,793

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

Note 26. Related Party Transactions

Related parties include the directors, executive officers, director nominees or 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 months ended March 31, 2019 and 2018 were as follows:

- During the quarter, the Company entered into a management agreement with our service providers, Brookfield Properties Development, wholly-owned subsidiaries of Brookfield Asset Management Inc. The management fee is determined by an allocation of expenditures based on time spent. During the three months ended March 31, 2019, the Company paid $8.8 million of management fees (three months ended March 31, 2018 - $nil). These transactions were recorded at the exchange amount.
- During the three months ended March 31, 2019, the Company received $150.0 million from the partial retraction of the Company's preferred shares of Brookfield BPY Holdings Inc. (three months ended March 31, 2018 - $nil). These transactions were recorded at the exchange amount.
- During the three months ended March 31, 2019, the Company received $5.3 million of dividends from the preferred shares of Brookfield BPY Holdings Inc. (three months ended March 31, 2018 - $4.2 million). These transactions were recorded at the exchange amount.
- During the three months ended March 31, 2018, the Company paid $0.2 million to Brookfield Asset Management Inc. for Canadian tax credits. These transactions were recorded at the exchange amount.

Note 27. Subsequent Events

The Company performed an evaluation of subsequent events through April 24, 2019, 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 $350 billion of assets under management. Further information is available at BrookfieldResidential.com or Brookfield.com or contact:

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BONDHOLDER INQUIRIES

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