Brookfield Residential

2019 | Q2

June 30, 2019

Chief Executive Officer's Report

Brookfield Residential's results for the first six months of 2019 were slower than last year and attributed to the slower U.S. housing market in the latter half of 2018 and early 2019 combined with the ongoing economic and regulatory challenges in the Canadian market. For the six months ended June 30, 2019, Brookfield Residential recorded income before income taxes of $30 million compared to $65 million in the same period of 2018.

In the first half of 2019, we delivered 1,374 homes compared to 1,477 homes in the same period of the prior year. Included in 2018, we had closed 159 homes from our mid-rise condominium project in Aurora, Ontario with no such comparable closings in 2019. Our housing gross margin percentage was lower at 16% in 2019 and reflects the increased incentives from slower U.S. and Canadian markets experienced in the latter half of 2018. We also closed a total of 1,014 single family lots in the first half of 2019 of which 456 lots were from our Homebuilder Finance program where minimal land gross margin is recognized at the time of closings but interest income is generated throughout the period that the lots are owned by Brookfield Residential. Total land gross margin percentage was reduced to 27% for the first half of 2019, however, when the Homebuilder Finance program lot closings are excluded, our gross margin percentage from our land operations was 45% in 2019 compared to 41% in 2018.

Market Overview

The U.S. housing market improved in the second quarter with the decline in mortgage rates. This was combined with positive economic fundamentals which was supported by continued job growth and limited housing supply. Although many of our U.S. markets were not as robust as the prior year's spring selling season, we had net new home orders of 1,069 homes for the first six months of 2019 compared to 1,361 homes for the same period in 2018. We are encouraged by the return of the market but remain cautious as affordability is a key consideration in markets such as California and Denver. In addition, trade tensions and potential tariffs provide some degree of uncertainty and continue to affect consumer confidence.

Our Canadian operations continue to be impacted by the stress test mortgage rules and the economic conditions in Alberta. The new shared equity mortgage program may be implemented prior to the Federal election this Fall but we anticipate a marginal benefit to prospective homebuyers. The Alberta economic environment continues to be challenged by Federal regulatory policies with the passing of bills C-69 and C-48 which may change future investments in the energy sector despite the Federal government re-approving the Trans Mountain pipeline expansion in June. Net new home orders in Canada increased to 558 homes in 2019 when compared to 344 homes in 2018. The increase is directly attributable to 98 home orders from the new communities in Ontario where interest has been positive and at pricing that is similar to the homes closed last year. As per our expectations, the majority of these Ontario home sales are scheduled to close in 2020 versus 2019.

Strategic Initiatives with Brookfield Asset Management Inc. ("BAM")

In 2019, we had our $300 million Class B Junior Preferred Shares of Brookfield BPY Holdings Inc. redeemed and we used the proceeds to purchase $300 million of Series 1 Class A Preference Shares of Brookfield International Limited from BAM. In addition, during the second quarter, we entered into a deposit agreement with BAM to allow, from time-to-time, cash to be deposited with Brookfield Residential at a lower rate than our current cost of borrowing. At June 30, 2019, we had $200 million on deposit from BAM and anticipate that the cash will be repaid on demand before the end of the fiscal year.

Our View Going Forward

With our backlog at June 30, 2019 consisting of 1,390 units, with a value of $730 million, the second half of the year continues to lend itself to generating the bulk of the year's net income with the highest proportion in the fourth quarter. We remain optimistic about the balance of 2019 and based on current forecasts, we re-affirm our previously provided limited guidance of closing 950 homes and 850 lots in Canada and 1,950 homes and 1,650 lots in the U.S. We continue to project a number of multi-family, commercial and industrial parcel sales in both countries and also continued Homebuilder Finance lot sales in the last half of 2019.

Alan Norris
Chairman & Chief Executive Officer
July 25, 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 June 30, 2019 were $4.8 billion.

As of June 30, 2019, we controlled 87,815 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 June 30, 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 6/30/2019		Total Acres	
	Owned	Options	Owned	Options	6/30/2019	12/31/2018	Entitled	Unentitled	6/30/2019	12/31/2018
Calgary	18,167	—	2,434	—	20,601	20,954	11,549	9,052	70	65
Edmonton	11,203	—	—	—	11,203	11,442	5,993	5,210	24	27
Ontario	7,026	—	1,042	—	8,068	8,241	2,514	5,554	2	—
Canada	36,396	—	3,476	—	39,872	40,637	20,056	19,816	96	92
Northern California	2,821	4,435	266	—	7,522	7,590	3,087	4,435	—	—
Southern California	6,425	—	1,348	1,001	8,774	8,977	7,540	1,234	—	—
Hawaii	97	—	—	—	97	127	97	—	3	3
Other	—	—	—	—	—	100	—	—	—	—
California	9,343	4,435	1,614	1,001	16,393	16,794	10,724	5,669	3	3
Denver	7,593	—	—	—	7,593	7,786	7,593	—	15	15
Austin	12,312	194	—	—	12,506	12,439	12,506	—	37	60
Phoenix	745	788	2,762	—	4,295	4,073	4,295	—	14	14
Washington, D.C. Area	2,945	1,004	—	—	3,949	4,074	3,912	37	3	4
Other	—	—	—	—	—	2,881	—	—	3	3
Central and Eastern U.S.	23,595	1,986	2,762	—	28,343	31,253	28,306	37	72	96
Corporate and Other	3,207	—	—	—	3,207	—	3,207	—	—	—
Total	72,541	6,421	7,852	1,001	87,815	88,684	62,293	25,522	171	191
Entitled lots	53,672	1,986	6,635	—	62,293					
Unentitled lots	18,869	4,435	1,217	1,001	25,522					
Total June 30, 2019	72,541	6,421	7,852	1,001	87,815					
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 4

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

About this Management's Discussion and Analysis 6

Overview 6

Results of Operations 8

Quarterly Operating and Financial Data 22

Liquidity and Capital Resources 24

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets – As at June 30, 2019 and December 31, 2018 32

Condensed Consolidated Statements of Operations – Three and Six Months Ended June 30, 2019 and 2018 .. 33

Condensed Consolidated Statements of Equity – Six Months Ended June 30, 2019 and 2018 34

Condensed Consolidated Statements of Cash Flows – Six Months Ended June 30, 2019 and 2018 35

Notes to the Condensed Consolidated Financial Statements 36

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 and our ability to respond to such conditions; the effect of seasonality on the homebuilding business; 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; international trade factors, including changes in trade policy, such as trade sanctions and increased tariffs; 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; our relationship with operational jurisdictions and key stakeholders; 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 realize our deferred tax assets; 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 and the availability of 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, our assumptions regarding normalized sales, our projections regarding revenue and housing inventory, the impact of acquisitions on our operations in certain markets;
- the expected closing of transactions;
- the expected exercise of options contracts and lease options;
- 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 ability to create value in our land development business and meet our development plans;
- 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 June 30, 2019 and has been prepared with an effective date of July 25, 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 $365 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 and six months ended June 30, 2019 compared to the three and six months ended June 30, 2018 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	**Three Months Ended June 30**		**Six Months Ended June 30**	
	2019	**2018**	**2019**	**2018**
Key Financial Results				
Housing revenue	$ 405	$ 535	$ 724	$ 769
Land revenue	71	54	99	95
Gross margin ($)	79	126	145	182
Gross margin (%)[1]	17%	21%	18%	21%
Income before income taxes	23	64	30	65
Income tax expense	(6)	(12)	(2)	(10)
Net income attributable to Brookfield Residential	16	50	26	53
Basic earnings per share	$ 0.12	$ 0.38	$ 0.20	$ 0.41
Diluted earnings per share	$ 0.12	$ 0.38	$ 0.20	$ 0.41
Key Operating Data				
Home closings for Brookfield Residential (units)	763	1,019	1,374	1,477
Home closings for unconsolidated entities (units)	—	2	—	3
Average home selling price for Brookfield Residential (per unit)	$ 531,000	$ 525,000	$ 527,000	$ 521,000
Average home selling price for unconsolidated entities (per unit)	$ —	$1,229,000	$ —	$1,403,000
Net new home orders for Brookfield Residential (units)	867	782	1,627	1,705
Net new home orders for unconsolidated entities (units)	—	3	—	4
Backlog for Brookfield Residential (units)	1,390	1,921	1,390	1,921
Backlog for unconsolidated entities (units)	—	2	—	2
Backlog value for Brookfield Residential	$ 730	$ 1,038	$ 730	$ 1,038
Backlog value for unconsolidated entities	$ —	$ 2	$ —	$ 2
Lot closings for Brookfield Residential (single family units)	756	367	1,014	631
Lot closings for unconsolidated entities (single family units)	257	96	535	122
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	3	1	13	10
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	—	—	1	16
Acre closings for Brookfield Residential (raw and partially finished)	—	19	—	19
Average lot selling price for Brookfield Residential (single family units)	$ 91,000	$ 141,000	$ 92,000	$ 136,000
Average lot selling price for unconsolidated entities (single family units)	$ 172,000	$ 137,000	$ 105,000	$ 143,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 581,000	$ 775,000	$ 396,000	$ 769,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ —	$ —	$ 106,000	$ 350,000
Average per acre selling price for Brookfield Residential (raw and partially finished)	$ —	$ 94,000	$ —	$ 94,000

(1) Gross margin percentage is a non-GAAP measure and has been presented as we find it useful in evaluating our performance and believe that it helps readers of our financial statements compare our operations with those of our competitors. However, gross margin percentage as presented may not be fully comparable to similarly-titled measures reported by our competitors. See the Non-GAAP Measures section on page 31.

Segmented Information

We operate in three operating segments within North America: Canada, California and Central and Eastern U.S. Each of the Company's segments specializes in land entitlement and development and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of risk factors. The following table summarizes information relating to revenues, gross margin and assets by operating segment for the three and six months ended June 30, 2019 and 2018.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2019**	**2018**	**2019**	**2018**
Housing revenue				
Canada	$ 110	$ 137	$ 193	$ 207
California	174	278	311	378
Central and Eastern U.S.	121	120	220	184
Total	$ 405	$ 535	$ 724	$ 769
Land revenue				
Canada	$ 19	$ 26	$ 33	$ 54
California	6	22	6	31
Central and Eastern U.S.	11	6	20	10
Corporate and Other	35	—	40	—
Total	$ 71	$ 54	$ 99	$ 95
Housing gross margin				
Canada	$ 16	$ 29	$ 29	$ 42
California	30	55	54	71
Central and Eastern U.S.	20	20	35	30
Total	$ 66	$ 104	$ 118	$ 143
Land gross margin				
Canada	$ 9	$ 15	$ 18	$ 26
California	2	7	4	12
Central and Eastern U.S.	2	—	5	1
Corporate and Other	—	—	—	—
Total	$ 13	$ 22	$ 27	$ 39
Home closings (units)				
Canada	291	379	506	573
California	227	377	420	515
Central and Eastern U.S.	245	263	448	389
	763	1,019	1,374	1,477
Unconsolidated entities	—	2	—	3
Total	763	1,021	1,374	1,480
Average home selling price				
Canada	$ 378,000	$ 362,000	$ 381,000	$ 361,000
California	765,000	737,000	740,000	735,000
Central and Eastern U.S.	495,000	458,000	491,000	472,000
	531,000	525,000	527,000	521,000
Unconsolidated entities	—	1,229,000	—	1,403,000
Average	$ 531,000	$ 527,000	$ 527,000	$ 522,000

	As at June 30	
	2019	2018
Active housing communities		
Canada	36	31
California	24	29
Central and Eastern U.S.	30	29
	90	89
Unconsolidated entities	—	1
Total	90	90

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Lot closings (single family units)				
Canada	171	166	291	325
California	47	129	47	176
Central and Eastern U.S.	140	72	220	130
Corporate and Other	398	—	456	—
	756	367	1,014	631
Unconsolidated entities	257	96	535	122
Total	1,013	463	1,549	753
Acre closings (multi-family, industrial and commercial)				
Canada	2	1	2	10
California	—	—	—	—
Central and Eastern U.S.	1	—	11	—
	3	1	13	10
Unconsolidated entities	—	—	1	16
Total	3	1	14	26
Acre closings (raw and partially finished)				
Canada	—	19	—	19
California	—	—	—	—
Central and Eastern U.S.	—	—	—	—
Total	—	19	—	19
Average lot selling price (single family units)				
Canada	$ 103,000	$ 144,000	$ 107,000	$ 137,000
California	131,000	172,000	132,000	177,000
Central and Eastern U.S.	72,000	78,000	75,000	78,000
Corporate and Other	88,000	—	86,000	—
	91,000	141,000	92,000	136,000
Unconsolidated entities	172,000	137,000	105,000	143,000
Average	$ 112,000	$ 140,000	$ 97,000	$ 137,000
Average per acre selling price (multi-family, industrial and commercial)				
Canada	$ 611,000	$ 775,000	$ 647,000	$ 769,000
California	—	—	—	—
Central and Eastern U.S.	510,000	—	338,000	—
	581,000	775,000	396,000	769,000
Unconsolidated entities	—	—	106,000	350,000
Average	$ 581,000	$ 775,000	$ 385,000	$ 508,000

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Average per acre selling price (raw and partially finished)				
Canada	$ —	$ 94,000	$ —	$ 94,000
California	—	—	—	—
Central and Eastern U.S.	—	—	—	—
Average	$ —	$ 94,000	$ —	$ 94,000

	Six Months Ended June 30	
	2019	2018
Active land communities		
Canada	13	12
California	5	6
Central and Eastern U.S.	12	11
	30	29
Unconsolidated entities	7	7
Total	37	36

(US$ millions)	As at June 30 2019	As at December 31 2018
Total assets		
Canada	$ 1,075	$ 1,057
California	1,299	1,253
Central and Eastern U.S.	1,745	1,666
Corporate and other	673	546
Total	$ 4,792	$ 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 and Six Months Ended June 30, 2019 Compared with Three and Six Months Ended June 30, 2018

Net Income

Net income attributable to Brookfield Residential for the three and six months ended June 30, 2019 was $16 million and $26 million, respectively, compared to $50 million and $53 million for the same periods in 2018.

(US$ millions, except per share amounts)	Three Months Ended June 30 2019	Three Months Ended June 30 2018	Six Months Ended June 30 2019	Six Months Ended June 30 2018
Net income attributable to Brookfield Residential	$ 16	$ 50	$ 26	$ 53
Basic earnings per share	$ 0.12	$ 0.38	$ 0.20	$ 0.41
Diluted earnings per share	$ 0.12	$ 0.38	$ 0.20	$ 0.41

The decrease of $34 million in net income attributable to Brookfield Residential for the three months ended June 30, 2019, compared to the same period in 2018 was primarily the result of a decrease in gross margin of $47 million primarily due to lower housing gross margins. Additionally, there was a decrease in other income of $4 million and an increase in lease expense of $3 million.This was partially offset by an increase in equity earnings from unconsolidated entities of $7 million, a decrease in income tax expense of $6 million, a decrease in general and administrative expense of $3 million, a decrease in sales and marketing expense of $3 million and a decrease in interest expense of $1 million.

The decrease of $27 million in net income attributable to Brookfield Residential for the six months ended June 30, 2019, compared to the same period in 2018 was primarily the result of a decrease in gross margin of $37 million mainly from lower housing gross margins. Additionally, there was an increase in lease expense of $6 million and a decrease in other

income of $3 million. This was partially offset by an increase in equity earnings from unconsolidated entities of $7 million, a decrease in income tax expense of $8 million and a decrease in interest expense of $4 million.

A breakdown of the revenue and gross margin for the three and six months ended June 30, 2019 and 2018 is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except percentages)	**2019**	**2018**	**2019**	**2018**
Revenue				
Housing	$ 405	$ 535	$ 724	$ 769
Land	71	54	99	95
	$ 476	$ 589	$ 823	$ 864
Gross Margin				
Housing	$ 66	$ 104	$ 118	$ 143
Land	13	22	27	39
	$ 79	$ 126	$ 145	$ 182
Gross Margin (%)				
Housing	16%	19%	16%	19%
Land	18%	41%	27%	41%
	17%	21%	18%	21%

For the three months ended June 30, 2019, total revenue decreased by $113 million and total gross margin decreased by $47 million, when compared to the same period in 2018. The decrease in total revenue was primarily the result of 256 fewer home closings, partially offset by an increase in the average home selling price. There was also a $17 million increase in land revenue as a result of 389 additional single family lot closings and two additional multi-family, industrial and commercial acre closings when compared to the same period in 2018. Total gross margin decreased as a result of lower housing and land gross margins. Total gross margin percentage decreased when compared to 2018 mainly due to geographic and product mix of homes closed. Housing gross margins decreased as a result of decreased home closings and a lower gross margin percentage across our Canadian and California operating segments primarily due to product mix. Land gross margins decreased as a result of a lower gross margin percentage due to the geographic mix of land sold.

For the six months ended June 30, 2019, total revenue decreased by $41 million and total gross margin decreased by $37 million when compared to the same period in 2018. The decrease in total revenue was primarily the result of 103 fewer home closings and having 19 raw and partially finished acre sales in 2018 compared to none in 2019. The decrease in home closings was due to lower home closings in our Canadian and California operating segments, partially offset by higher closings in our Central and Eastern U.S. operating segment. The decrease in total revenue was also impacted by a decrease in the average single family lot selling price. Total gross margin decreased as a result of lower housing and land gross margins, while total gross margin percentage decreased in 2019 due to the mix of homes and land sold when compared to 2018.

Results of Operations – Housing

Housing revenue and gross margin were $405 million and $66 million, respectively, for the three months ended June 30, 2019, compared to $535 million and $104 million for the same period in 2018. The decrease in revenue and gross margin was primarily the result of 256 fewer home closings and a 4% decrease in the Canadian to U.S. dollar foreign exchange rate when compared to the same period in 2018. This was partially offset by a 1% increase in the average home selling price primarily as a result of the mix of homes closed. The decrease in gross margin was also impacted by a decrease in the gross margin percentage from our Canadian and California operating segments, primarily as a result of the geographic and product mix of homes sold. Revenues are also affected by the mix of homes closed and market conditions, which have an impact on the selling price per home.

Housing revenue and gross margin were $724 million and $118 million, respectively, for the six months ended June 30, 2019, compared to $769 million and $143 million for the same period in 2018. The decrease in revenue and gross margin was primarily the result of 103 fewer home closings, particularly in our Canadian and California operating segments, partially offset by additional home closings in our Central and Eastern U.S. operating segment. This was partially offset by a 1% increase in the average home selling price due to product mix. The gross margin percentage decreased primarily due to a decrease in our Canadian operating segment. Our California and Central and Eastern U.S. operating segments gross margin percentage remained relatively consistent when compared to 2018. Revenues are also affected by the geographic mix of homes closed, local product mix and market conditions, which have an impact on the selling price per home.

A breakdown of our results from housing operations for the three and six months ended June 30, 2019 and 2018 is as follows:

Consolidated

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2019**	**2018**	**2019**	**2018**
Home closings	763	1,019	1,374	1,477
Revenue	$ 405	$ 535	$ 724	$ 769
Gross margin	$ 66	$ 104	$ 118	$ 143
Gross margin (%)	16%	19%	16%	19%
Average home selling price	$ 531,000	$ 525,000	$ 527,000	$ 521,000

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

Canada

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2019**	**2018**	**2019**	**2018**
Home closings	291	379	506	573
Revenue	$ 110	$ 137	$ 193	$ 207
Gross margin	$ 16	$ 29	$ 29	$ 42
Gross margin (%)	15%	21%	15%	20%
Average home selling price	$ 378,000	$ 362,000	$ 381,000	$ 361,000

Housing revenue in our Canadian segment for the three months ended June 30, 2019 decreased by $27 million when compared to the same period in 2018, primarily due to 88 fewer home closings, partially offset by a 4% increase in the average home selling price. The decrease in home closings was primarily the result of lower closings in our Ontario market from the timing of community openings and the increase in the average home selling price was primarily due to an increase in average home selling prices in our Ontario market from the product mix of homes sold. For the three months ended June 30, 2018, there were 159 homes closed from our mid-rise condominium project in Ontario with no comparable closings in 2019. When comparing the average home selling price in Canadian dollars for the three months ended June 30, 2019 and 2018, the average home selling price was C$505,000 and C$467,000, respectively, representing an increase of 8%, primarily due to geographic and product mix. Gross margin decreased $13 million and gross margin percentage decreased 6% for the three months ended June 30, 2019 when compared to the same period in 2018 primarily as a result of geographic mix of homes closed.

Housing revenue for the six months ended June 30, 2019 decreased by $14 million when compared to the same period in 2018, primarily due 67 fewer home closings, partially offset by a 6% increase in the average home selling price. The decrease in home closings was primarily the result of fewer closings from our Edmonton and Ontario markets. When comparing the average home selling price in Canadian dollars for the six months ended June 30, 2019 and 2018, the average home selling price was C$509,000 and C$463,000, respectively, representing an increase of 10%, primarily due to geographic and product mix. Gross margin decreased $13 million for the six months ended June 30, 2019 when compared to the same period in 2018 primarily as a result of lower gross margin percentages across all of our regions within this operating segment. Gross margin percentage for the six months ended June 30, 2019 decreased 5% when compared to 2018 primarily as a result of geographic mix of homes closed.

California

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2019**	**2018**	**2019**	**2018**
Home closings	227	377	420	515
Revenue	$ 174	$ 278	$ 311	$ 378
Gross margin	$ 30	$ 55	$ 54	$ 71
Gross margin (%)	17%	20%	17%	19%
Average home selling price	$ 765,000	$ 737,000	$ 740,000	$ 735,000

Housing revenue in our California segment was $174 million for the three months ended June 30, 2019, a decrease of $104 million when compared to the same period in 2018. The decrease in housing revenue was primarily due to 150 fewer home closings, partially offset by a 4% increase in the average home selling price as a result of the product mix

in Southern California. Gross margin decreased $25 million in the three months ended June 30, 2019 when compared to 2018, primarily as a result of lower home closings. Gross margin percentage decreased 3% as a result of product mix when compared to 2018.

Housing revenue for the six months ended June 30, 2019 was $311 million, a decrease of $67 million when compared to the same period in 2018. The decrease in revenue was primarily due to 95 fewer home closings, partially offset by a 1% increase in the average home selling price. The average home selling price increase is due to product and geographic mix of homes closed across the segment. Gross margin decreased $17 million primarily as a result of lower home closings and gross margin percentage decreased 2% as a result of product mix when compared to 2018.

Central and Eastern U.S.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity, percentages and average selling price)	**2019**	**2018**	**2019**	**2018**
Home closings	245	263	448	389
Revenue	$ 121	$ 120	$ 220	$ 184
Gross margin	$ 20	$ 20	$ 35	$ 30
Gross margin (%)	17%	17%	16%	16%
Average home selling price	$ 495,000	$ 458,000	$ 491,000	$ 472,000

The Central and Eastern U.S. housing revenue for the three months ended June 30, 2019 increased $1 million compared to the same period in 2018 primarily due to a 8% increase in the average home selling price, partially offset by 18 fewer home closings. Gross margin and gross margin percentage remained consistent when compared to the same period in 2018.

Housing revenue increased by $36 million for the six months ended June 30, 2019 when compared to the same period in 2018. The increase in revenue was primarily the result of 59 additional home closings and a 4% increase in the average home selling price. The increase in home closings was primarily due to higher home closings in our Washington D.C. market, while the increase in the average home selling price was primarily due to an increase in average selling prices particularly in our Austin market as a result of product mix of homes sold. Gross margin increased $5 million primarily as a result of geographic mix, an increase in the average home selling price and higher home closings, while gross margin percentage remained consistent when compared to the same period in 2018.

Home Sales – Incentives

We grant our homebuyers sales incentives from time-to-time in order to promote sales of our homes. The type and amount of incentives will vary on a community-by-community and home-by-home basis. Incentives that impact the value of the home or the sales price paid, such as additional options, are reflected as a reduction to sales revenue. Incentives that we pay to an outside party, such as paying some or all of a homebuyer's closing costs, are recorded as cost of sales. Incentives are recognized at the time title passes to the homebuyer and the sale is recognized. For the three and six months ended June 30, 2019, total incentives recognized as a percentage of gross revenues increased by 3% and 2%, respectively, as a result of market conditions in Canada and California when compared to the same periods in 2018. As the homes closed during the three and six months ended June 30, 2019 were ordered in the latter half of 2018 or early 2019 in the slower Canadian and California markets, additional incentives were offered to secure the home order.

Our incentives on homes closed by operating segment for the three and six months ended June 30, 2019 and 2018 were as follows:

	Three Months Ended June 30			
	2019		2018	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 10	8%	$ 2	1%
California	5	3%	4	1%
Central and Eastern U.S.	5	4%	5	4%
	$ 20	5%	$ 11	2%

	Six Months Ended June 30			
	2019		2018	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 13	6%	$ 3	2%
California	10	3%	6	1%
Central and Eastern U.S.	10	4%	8	4%
	$ 33	4%	$ 17	2%

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders, including our share of unconsolidated entities, for the three and six months ended June 30, 2019 totalled 867 units and 1,627 units, an increase of 82 units or 10% and a decrease of 82 units or 5% respectively, compared to the same periods in 2018. For the six months ended June 30, 2019 the decrease in net new home orders was primarily 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 our Southern California market. Net new orders in our Central & Eastern U.S. segment decreased as a result of lower net new orders from our Austin market as a result of higher housing activity in 2018 due to a 134 bulk home sale with no comparable sale in 2019. Net new orders in our Canadian segment increased mainly due to higher net new orders in our Calgary and Ontario markets with a large portion of orders coming from new community openings in Ontario. Average monthly sales per community by reportable segment for the three and six months ended June 30, 2019 were: Canada – 3 and 3 units (2018 – 2 and 2 units); California – 4 and 4 units (2018 – 4 and 4 units); Central and Eastern U.S. – 3 and 3 units (2018 – 3 and 4 units); and unconsolidated entities – nil units (2018 – 1 and 1 unit). We were selling from 90 active housing communities, including our share of unconsolidated entities, at June 30, 2019 compared to 90 at June 30, 2018.

The net new home orders for the three and six months ended June 30, 2019 and 2018 by our three operating segments were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(Units)	2019	2018	2019	2018
Canada	318	190	558	344
California	300	312	536	652
Central and Eastern U.S.	249	280	533	709
	867	782	1,627	1,705
Unconsolidated entities	—	3	—	4
	867	785	1,627	1,709

The overall cancellation rates for the three and six months ended June 30, 2019 were 14% and 13%, respectively, compared to 11% and 9% in 2018. The increase in the cancellation rates for the three and six months ended June 30, 2019 were primarily driven by a higher number of cancellations in our Alberta market as a result of market conditions. The cancellation rates for the three and six months ended June 30, 2019 and 2018 by our three operating segments were as follows:

	Three Months Ended June 30			
	2019		2018	
(Units, except percentages)	Units	% of Gross Home Orders	Units	% of Gross Home Orders
Canada	62	16%	14	7%
California	30	9%	37	11%
Central and Eastern U.S.	51	17%	46	14%
	143	14%	97	11%
Unconsolidated entities	—	—%	—	—%
	143	14%	97	11%

	Six Months Ended June 30			
	2019		2018	
(Units, except percentages)	Units	% of Gross Home Orders	Units	% of Gross Home Orders
Canada	106	16%	25	7%
California	53	9%	67	9%
Central and Eastern U.S.	91	15%	86	11%
	250	13%	178	9%
Unconsolidated entities	—	—%	1	22%
	250	13%	179	9%

Home Sales – Backlog

Our backlog, which represents the number of new homes subject to sales contracts, as at June 30, 2019 and 2018 by operating segment, was as follows:

	As at June 30			
	2019		2018	
(US$ millions, except unit activity)	Units	Value	Units	Value
Canada	503	$ 192	720	$ 331
California	377	299	552	400
Central and Eastern U.S.	510	239	649	307
	1,390	730	1,921	1,038
Unconsolidated entities	—	—	2	2
Total	1,390	$ 730	1,923	$ 1,040

We expect all of our backlog to close between 2019 and 2022, subject to future cancellations. The units in our backlog for the six months ended June 30, 2019 decreased compared to the same period in 2018, primarily due to lower net new home orders in our California and Central and Eastern U.S. operating segments. Our units in backlog in our Canadian operating segment decreased by 217 units at June 30, 2019, when compared to June 30, 2018, mainly due to the execution of our backlog with lower net new home orders in 2018 from our Ontario market. Our California segment's units in backlog decreased mainly due to a decrease in net new home orders in 2019 compared to the same period in 2018. The decrease of 139 units in the Central and Eastern U.S. operating segment was primarily the result of a decrease in net new orders primarily in our Austin market due to the 134 bulk home sales in the prior year. Total backlog value decreased by $310 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 $71 million for the three months ended June 30, 2019, and land gross margin totalled $13 million, an increase of $17 million and a decrease of $9 million, respectively, when compared to the same period in 2018. The increase in land revenue was primarily due to 398 additional single family lot closings from our Homebuilder Finance program as part of the Corporate and Other non-operating segment. 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 acre selling prices. Gross margin percentage decreased by 23% due to the mix of land sold. Single family lots closed as part of the Homebuilder Finance program had gross margins of 1% as interest income is recorded during the period that lots are owned by the Company. Taking the above into account, when excluding the Corporate and Other lot closings, our operating segments had nine fewer single family lot closings and a decrease in gross margin percentage of 5% when compared to the prior period. Revenues are affected by geographic mix, product mix and market conditions, which have an impact on the selling price of land.

Land revenue totalled $99 million for the six months ended June 30, 2019, and land gross margin totalled $27 million, an increase of $4 million and a decrease of $12 million, respectively, when compared to the same period in 2018. The increase in land revenue was primarily due to an additional 456 single family lot closings from our Homebuilder Finance program as part of the Corporate and Other non-operating segment. 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 decreased by 14% due to the mix of land sold. Single family lots closed as part of the Homebuilder Finance program had gross margins of 1% as interest income is recorded during the period that lots are owned by the Company. Taking the above into account, when excluding the Corporate and Other lot closings, our operating segments had 73 fewer single family lot closings and an increase in gross margin percentage of 4% when compared to the prior period. 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 and six months ended June 30, 2019 and 2018 is as follows:

Consolidated

(US$ millions, except unit activity, percentages and average selling price)	**Three Months Ended June 30**		**Six Months Ended June 30**	
	2019	**2018**	**2019**	**2018**
Lot closings (single family units)	756	367	1,014	631
Acre closings (multi-family, industrial and commercial)	3	1	13	10
Acre closings (raw and partially finished)	—	19	—	19
Revenue	$ 71	$ 54	$ 99	$ 95
Gross margin	$ 13	$ 22	$ 27	$ 39
Gross margin (%)	18%	41%	27%	41%
Average lot selling price (single family units)	$ 91,000	$ 141,000	$ 92,000	$ 136,000
Average per acre selling price (multi-family, industrial and commercial)	$ 581,000	$ 775,000	$ 396,000	$ 769,000
Average per acre selling price (raw and partially finished)	$ —	$ 94,000	$ —	$ 94,000

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

Canada

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended June 30		Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Lot closings (single family units)	171	166	291	325
Acre closings (multi-family, industrial and commercial)	2	1	2	10
Acre closings (raw and partially finished)	—	19	—	19
Revenue	$ 19	$ 26	$ 33	$ 54
Gross margin	$ 9	$ 15	$ 18	$ 26
Gross margin (%)	47%	58%	55%	48%
Average lot selling price (single family units)	$ 103,000	$ 144,000	$ 107,000	$ 137,000
Average per acre selling price (multi-family, industrial and commercial)	$ 611,000	$ 775,000	$ 647,000	$ 769,000
Average per acre selling price (raw and partially finished)	$ —	$ 94,000	$ —	$ 94,000

Land revenue in Canada for the three months ended June 30, 2019 was $19 million, a decrease of $7 million when compared to the same period in 2018. The decrease was primarily the result of 28% lower average single family lot selling prices primarily as a result of geographic mix of where land was sold between our Calgary and Edmonton communities as compared to prior year. Additionally, there were 19 raw and partially finished acres sold in 2018 with no comparative sale in 2019. This was partially offset by five additional single family lots closed. Gross margin decreased $6 million primarily as a result of lower average single family lot selling prices in 2019 when compared to the same period in 2018. Gross margin percentage decreased 11% when compared to 2018, primarily due to the mix of land sold.

Land revenue in Canada for the six months ended June 30, 2019 was $33 million, a decrease of $21 million when compared to the same period in 2018. The decrease was primarily the result of 34 fewer single family lot closings with 22% lower average single family lot selling prices primarily due to the mix of land sold during the period. Additionally, there were 19 raw and partially finished acres sold in 2018 with no comparative sale in 2019, and eight fewer multi-family, industrial, and commercial acre sales in 2019 when compared to the same period in 2018. Gross margin decreased $8 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 7% 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 June 30		Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Lot closings (single family units)	47	129	47	176
Revenue	$ 6	$ 22	$ 6	$ 31
Gross margin	$ 2	$ 7	$ 4	$ 12
Gross margin (%)	33%	32%	67%	39%
Average lot selling price (single family units)	$ 131,000	$ 172,000	$ 132,000	$ 177,000

Land revenue in California for the three months ended June 30, 2019 decreased $16 million and gross margin decreased $5 million when compared to the same period in 2018. This was primarily due to 82 fewer single family lot closings due to the timing of lots sold during the same period in 2018. Gross margin decreased as a result of lower activity while gross margin percentage increased 1% as a result of product mix.

Land revenue in California for the six months ended June 30, 2019 decreased $25 million and gross margin decreased $8 million when compared to the same period in 2018. This was primarily due to 129 fewer single family lot closings due to the timing of lots sold during the same period in 2018. Gross margin decreased as a result of lower activity while gross margin percentage increased 28% as a result of product mix.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended June 30 2019	Three Months Ended June 30 2018	Six Months Ended June 30 2019	Six Months Ended June 30 2018
Lot closings (single family units)	140	72	220	130
Acre closings (multi-family, industrial and commercial)	1	—	11	—
Revenue	$ 11	$ 6	$ 20	$ 10
Gross margin	$ 2	$ —	$ 5	$ 1
Gross margin (%)	18%	—%	25%	10%
Average lot selling price (single family units)	$ 72,000	$ 78,000	$ 75,000	$ 78,000
Average per acre selling price (multi-family, industrial and commercial)	$ 510,000	$ —	$ 338,000	$ —

For the three months ended June 30, 2019, Central and Eastern U.S. land revenue increased by $5 million and gross margin increased $2 million compared to the same period in 2018. The increase in revenue was primarily from an additional 68 single family lot closings, partially offset by a 8% decrease in single family lot selling prices. Gross margin percentage increased to 18% as a result of the mix of land sold within the operating segment.

For the six months ended June 30, 2019, Central and Eastern U.S. land revenue and gross margin increased by $10 million and $4 million, respectively when compared to 2018. The increase in revenue was primarily from an additional 90 single family lot closings, partially offset by a 4% decrease in single family lot selling prices. Gross margin percentage increased 15% as a result of the mix of land sold within the operating segment.

Equity in Earnings from Unconsolidated Entities

Equity in earnings from unconsolidated entities for the three and six months ended June 30, 2019 totalled $11 million and $15 million, respectively, compared to $4 million and $9 million, respectively, for the same periods 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 June 30 2019	Three Months Ended June 30 2018	Six Months Ended June 30 2019	Six Months Ended June 30 2018
Home closings	—	2	—	3
Revenue	$ —	$ 2	$ —	$ 4
Gross margin	$ —	$ 1	$ —	$ 1
Gross margin (%)	—%	50%	—%	25%
Average home selling price	$ —	$1,229,000	$ —	$1,403,000

Housing revenue within unconsolidated entities decreased $2 million and $4 million, respectively, and gross margin decreased $1 million and $1 million, respectively for the three and six months ended June 30, 2019 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 June 30		Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Lot closings (single family units)	257	96	535	122
Acre closings (multi-family, industrial and commercial)	—	—	1	16
Revenue	$ 45	$ 14	$ 57	$ 23
Gross margin	$ 16	$ 4	$ 20	$ 8
Gross margin (%)	36%	29%	35%	35%
Average lot selling price (single family units)	$ 172,000	$ 137,000	$ 105,000	$ 143,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ —	$ 106,000	$ 350,000

Land revenue within unconsolidated entities increased $31 million and gross margin increased $12 million for the three months ended June 30, 2019 when compared to the same period in 2018. This was primarily the result of 161 additional single family lot closings and a 26% increase in the average selling price for single family lot closings primarily from our Phoenix joint ventures.

Land revenue within unconsolidated entities increased $34 million for the six months ended June 30, 2019 compared to the same period in 2018. This was primarily the result of 413 additional single family lot closings primarily from our Phoenix joint ventures, partially offset by a 27% decrease in the average selling price for single family lot closings and 15 fewer multi-family, industrial and commercial acre sales in 2019, compared to the same period in 2018.

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three and six months ended June 30, 2019 and 2018 are summarized as follows:

(US$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
General and administrative expense	$ 33	$ 36	$ 70	$ 73
Sales and marketing expense	28	31	53	50
Share-based compensation	4	4	8	8
	$ 65	$ 71	$ 131	$ 131

Selling, general and administrative expense was $65 million for the three months ended June 30, 2019, a decrease of $6 million when compared to the same period in 2018. General and administrative expense decreased $3 million for the three months ended June 30, 2019 primarily due to cost efficiencies as a result of entering into the management agreement with Brookfield Properties Development and a reduction in rent expense that is classified as lease expense in accordance with ASC 842, where in the comparative period it is included as part of selling, general, and administrative expense. Sales and marketing expense for the three months ended June 30, 2019 decreased $3 million when compared to the same period in 2018, primarily due to lower brokerage and commission costs as a result of lower housing activity. Share-based compensation in 2019 remained consistent with 2018.

Selling, general and administrative expense was $131 million for the six months ended June 30, 2019 which was consistent with the same period in 2018. General and administrative expense decreased $3 million for the six months ended June 30, 2019 primarily due to cost efficiencies as a result of entering into the management agreement with Brookfield Properties Development and a reduction in rent expense that is classified as lease expense in accordance with ASC 842, where in the comparative period it is included as part of selling, general, and administrative expense. Sales and marketing expense for the six months ended June 30, 2019 increased $3 million when compared to the same period in 2018, primarily due to higher amortization on capitalized sales and marketing costs. Share-based compensation in 2019 remained consistent with the same period in 2018.

Other (Income) / Expense

The components of other (income) / expense for the three and six months ended June 30, 2019 and 2018 are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2019**	**2018**	**2019**	**2018**
Investment income	$ (9)	$ (9)	$ (19)	(17)
Joint venture management fee income	(3)	(5)	(6)	(9)
Other	1	(2)	—	(2)
	$ (11)	$ (16)	$ (25)	$ (28)

For the three months ended June 30, 2019, other income decreased $5 million when compared to the same period in 2018. This was primarily the result of a $2 million decrease in joint venture management fee income and a $3 million decrease in other income.

For the six months ended June 30, 2019, other income decreased $3 million compared to the same period in 2018. This was primarily the result of a $3 million decrease in joint venture management fee income.

Income Tax Expense

Income tax expense for the three and six months ended June 30, 2019 was $6 million and $2 million, respectively, compared to $12 million and $10 million, for the same periods in 2018. The components of current and deferred income tax expense are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2019**	**2018**	**2019**	**2018**
Current income tax expense	$ —	$ 7	$ 2	$ 8
Deferred income tax expense	6	5	—	2
	$ 6	$ 12	$ 2	$ 10

For the three and six months ended June 30, 2019, current income tax expense decreased $7 million and $6 million, respectively, when compared to the same periods in 2018. This was primarily due to the decrease in taxable income in our U.S. operations when compared to the same periods in 2018.

For the three and six months ended June 30, 2019, deferred income tax expense increased $1 million and decreased $2 million, respectively, when compared to the same periods in 2018. The change in deferred income taxes primarily relates to the change in geographic mix of income and a tax expense of $5 million recognized due to the effect of a change in the Alberta corporate tax rate during the three months ended June 30, 2019.

Foreign Exchange Translation

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

Assets and liabilities of subsidiaries or 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 June 30, 2019, the rate of exchange was C$1.3098 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 June 30, 2019, the average rate of exchange was C$1.3377 equivalent to US$1 (June 30, 2018 – C$1.2905 equivalent to US$1). The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI"). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the condensed consolidated statements of operations as other income / (expense), except for those related to monetary liabilities qualifying as hedges of the Company's investment in foreign operations

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

The financial results of our Canadian operations are translated into U.S. dollars for financial reporting purposes. Foreign currency translation gains and losses are recorded as the exchange rate between the two currencies fluctuates. These gains and losses are included in OCI and accumulated OCI. The translation of our Canadian operations resulted in a gain of $14 million and $29 million, respectively, for the three and six months ended June 30, 2019, compared to a loss of $15 million and $36 million, respectively, in the same periods of 2018.

QUARTERLY OPERATING AND FINANCIAL DATA

	2019		2018				2017	
(US$ millions, except unit activity and per share amounts)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Quarterly Operating Data								
Home closings (units)	763	611	1,107	827	1,019	458	1,168	692
Lot closings (single family units)	756	258	1,655	552	367	264	1,076	467
Acre closings (multi-family, industrial and commercial)	3	10	27	42	1	9	59	15
Acre closings (raw and partially finished)	—	—	—	—	19	—	61	313
Net new home orders (units)	867	760	506	644	782	923	679	716
Backlog (units at end of period)	1,390	1,286	1,137	1,738	1,921	2,158	1,693	2,182
Backlog value	$ 730	$ 685	$ 612	$ 955	$ 1,038	$ 1,182	$ 928	$ 1,198
Quarterly Financial Data(1)(2)								
Revenue	$ 476	$ 346	$ 796	$ 502	$ 589	$ 274	$ 818	$ 451
Direct cost of sales	(397)	(279)	(619)	(388)	(463)	(218)	(610)	(349)
Gross margin	79	67	177	114	126	56	208	102
Gain on sale of commercial properties	—	—	6	—	—	—	—	—
Selling, general and administrative expense	(65)	(66)	(93)	(72)	(71)	(60)	(74)	(56)
Interest expense	(8)	(9)	(9)	(8)	(9)	(12)	(13)	(15)
Equity in earnings from unconsolidated entities	11	4	5	4	4	5	7	5
Other income	9	14	15	18	14	12	8	7
Lease expense	(3)	(3)	—	—	—	—	—	—
Income before income taxes	23	7	101	56	64	1	136	43
Income tax (expense) / recovery	(6)	4	(22)	(8)	(12)	2	(42)	(8)
Net income	17	11	79	48	52	3	94	35
Net income attributable to non-controlling interest	1	1	2	4	2	—	—	—
Net income attributable to Brookfield Residential	$ 16	$ 10	$ 77	$ 44	$ 50	$ 3	$ 94	$ 35
Foreign currency translation	14	15	(42)	14	(15)	(21)	(8)	32
Comprehensive income / (loss)	$ 30	$ 25	$ 35	$ 58	$ 35	$ (18)	$ 86	$ 67
Basic	$ 0.12	$ 0.08	$ 0.59	$ 0.34	$ 0.38	$ 0.02	$ 0.72	$ 0.27
Diluted	$ 0.12	$ 0.08	$ 0.59	$ 0.34	$ 0.38	$ 0.02	$ 0.72	$ 0.27

(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 June 30, 2019 and December 31, 2018:

	As at	
(US$ millions)	**June 30, 2019**	**December 31, 2018**
Land and housing inventory	$ 3,056	$ 2,974
Investments in unconsolidated entities	375	347
Commercial properties	364	270
Held-to-maturity investment	300	300
Receivables and other assets	442	480
Operating and financing lease right-of-use asset	62	—
Cash and restricted cash	113	73
Deferred income tax assets	64	62
Goodwill	16	16
	$ 4,792	$ 4,522
Notes payable	$ 1,629	$ 1,620
Bank indebtedness and other financings	337	143
Accounts payable and other liabilities	586	636
Operating and financing lease liability	64	—
Total equity	2,176	2,123
	$ 4,792	$ 4,522

Assets

Our assets as at June 30, 2019 totalled $4.8 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 72% of our total assets. The land and housing assets increased when compared to December 31, 2018 due to land acquisitions of $183 million, land development and home construction activity, partially offset by sales activity. Our land and housing assets include land under development and land held for development, finished lots ready for construction, homes completed and under construction and model homes.

A summary of our lots owned, excluding unconsolidated entities, and their stage of development as at June 30, 2019 compared with December 31, 2018 is as follows:

	As at			
	June 30, 2019		December 31, 2018	
(US$ millions, except units)	**Units**	**Book Value**	**Units**	**Book Value**
Land held for development (lot equivalents)	66,881	$ 1,460	67,104	$ 1,417
Land under development and finished lots (single family units)	9,921	805	10,225	839
Housing units, including models	2,160	703	1,980	654
	78,962	$ 2,968	79,309	$ 2,910
Multi-family, industrial and commercial parcels (acres)	153	$ 88	172	$ 64

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at June 30 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)	191	183
6.375% unsecured senior notes due May 15, 2025 (d)	350	350
	$ 1,641	$ 1,633
Transaction costs (e)	(12)	(13)
	$ 1,629	$ 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 June 30, 2019. Our actual fixed charge coverage and indebtedness to consolidated net tangible worth ratio as at June 30, 2019 are reflected in the table below:

	Covenant	Actual as at June 30 2019
Minimum fixed charge coverage	2.0 to 1	2.7 to 1
Maximum indebtedness to consolidated net tangible worth	2.25 to 1	0.93 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings as at June 30, 2019 were $337 million, an increase of $194 million from December 31, 2018. The increase was primarily the result of $200 million received under a deposit agreement with a subsidiary of our sole shareholder 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 June 30, 2019, the weighted average interest rate on our bank indebtedness and other financings was 4.6% (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 June 30, 2019, we had bank indebtedness capacity of $617 million that was available to complete land development and construction activities. The “Cash Flow” section below discusses future available capital resources should proceeds from our future home and/or lot closings not be sufficient to repay our debt obligations.

Bank indebtedness and other financings consists of the following:

	As at	
(US$ millions)	**June 30 2019**	**December 31 2018**
Due to affiliates (a)	$ 200	$ —
Project-specific financings (b)	85	35
Secured vendor take back ("VTB") mortgages (c)	60	29
Bank indebtedness (d)	—	89
	345	153
Transaction costs (b)(d)	(8)	(10)
	$ 337	$ 143

(a) Due to affiliates

On May 27, 2019, Brookfield Residential Finance Corp., a wholly-owned subsidiary of the Company, entered into a $300 million deposit agreement with a subsidiary of Brookfield Asset Management Inc. The principal is repayable on demand. Interest is charged on the principal at a rate of LIBOR plus 1.50%. As at June 30, 2019, the Company had $200 million of borrowings outstanding. These borrowings are not subject to financial covenants.

For the three and six months ended June 30, 2019, the Company paid $0.6 million of interest.

(b) Project-specific financings

(i) At June 30, 2019, the Company has two Canadian project-specific financings totaling $34 million (C$45 million) provided by various lenders (December 31, 2018 - $35 million (C$48 million)).

Project-specific financing totaling $7 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$10 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 six months ended June 30, 2019. This debt is repayable in Canadian dollars of C$35 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 June 30, 2019. The following table reflects the debt to equity ratio covenant:

	Covenant	**Actual as at June 30 2019**
Maximum debt to equity ratio	1.50 to 1	0.40 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 June 30, 2019, there were $51 million of 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 June 30, 2019. The following table reflects the covenants:

(US$ millions)	**Covenant**	**Actual as at June 30 2019**
Minimum liquidity	$ 36	$ 699
Minimum net worth	$ 360	$ 1,094

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

Ten secured VTB mortgages (December 31, 2018 – nine secured VTB mortgages) in the amount of $29 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$38 million (December 31, 2018 – C$34 million). The interest rate on this debt ranges from fixed rates of 2.2% to 6.0% and variable rates of Canadian prime plus 1% to prime plus 2% and the debt is secured by related land. As at June 30, 2019, these borrowings are not subject to any financial covenants.

Four secured VTB mortgages (December 31, 2018 – three secured VTB mortgages) in the amount of $31 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 7% and the debt is secured by related land. As at June 30, 2019, these borrowings are not subject to any financial covenants.

(d) Bank indebtedness

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

As at June 30, 2019, the Company had no borrowings outstanding under the North American unsecured credit facility (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 $1,270 million, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at June 30, 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 June 30 2019
Minimum tangible net worth	$ 1,270	$ 2,159
Maximum total debt to capitalization	65%	48%

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.

Net Debt to Capitalization Calculation

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

Our net debt to total capitalization ratio as at June 30, 2019 and December 31, 2018 was as follows:

	As at	
(US$ millions, except percentages)	June 30 2019	December 31 2018
Bank indebtedness and other financings	$ 337	$ 143
Notes payable	1,629	1,620
Total interest bearing debt	1,966	1,763
Less: cash	(105)	(70)
	1,861	1,693
Total equity	2,176	2,123
Total capitalization	$ 4,037	$ 3,816
Net debt to total capitalization	46%	44%

Credit Ratings

Our access to financing depends on, among other things, suitable market conditions and the maintenance of suitable long-term credit ratings. Our credit ratings may be adversely affected by various factors, including 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 June 30, 2019 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. On July 23, 2019, S&P upgraded our corporate rating to B+ with a stable outlook. There have been no changes to Moody's ratings subsequent to June 30, 2019.

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 June 30, 2019, we had cash and cash equivalents, including restricted cash, of $113 million, compared to $73 million at December 31, 2018.

The net cash flows for the six months ended June 30, 2019 and 2018 were as follows:

	Six Months Ended June 30	
(US$ millions)	**2019**	**2018**
Cash flows used in operating activities	$ (154)	$ (119)
Cash flows provided by / (used) in investing activities	9	(63)
Cash flows provided by financing activities	186	205
Effect of foreign exchange rates on cash	(1)	(3)
	$ 40	$ 20

Cash Flow Used in Operating Activities

Cash flows used in operating activities during the six months ended June 30, 2019 totalled $154 million, compared to $119 million for the same period in 2018. During the six months ended June 30, 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 six months ended June 30, 2019 totalled $183 million, consisting of $41 million in Canada, $80 million in California $40 million in Central and Eastern U.S and $22 million in Corporate and Other. The increase in commercial properties of $93 million was largely due to continued construction at our Nashville mixed-use development project. During the six months ended June 30, 2018, cash used in operating activities was impacted by our net income, an increase in land and housing inventory due to strategic land purchases, development and construction activity, an increase in receivables and other assets, and an increase in accounts payable and other liabilities. Acquisitions for the six months ended June 30, 2018 totalled $110 million consisting of $20 million in Canada, $72 million in California and $18 million in Central and Eastern U.S.

Cash Flow Provided by Investing Activities

During the six months ended June 30, 2019, cash flows provided by investing activities totalled $9 million compared to cash flows used in our investing activities of $63 million for the same period in 2018. During the six months ended June 30, 2019, we received $300 million from the full redemption of our held-to-maturity investment in Brookfield BPY Holdings Inc., invested $300 million for our held-to-maturity investment in Brookfield International Limited and received dividend income relating to these investments of $8 million. We also received $9 million in distributions from our unconsolidated entities and had a decrease in our loan receivables of $15 million. This was partially offset by our investment of $23 million in unconsolidated entities primarily in our joint ventures in Southern California. During the six months ended June 30, 2018, we invested $75 million in unconsolidated entities primarily as a result of the OliverMcMillan acquisition as well as in our joint ventures in Southern California, and had an increase in commercial properties of $1 million. This was partially offset by dividend income from our held-to-maturity investment, a decrease in loan receivables and distributions from unconsolidated entities.

Cash Flow Provided by Financing Activities

Cash flows provided by our financing activities for the six months ended June 30, 2019 totalled $186 million, compared to $205 million for the same period in 2018. The cash provided in our financing activities during the six months ended June 30, 2019 was primarily from $200 million that was received under a due to affiliates deposit agreement. Additionally, there were net borrowings under project-specific and other financings of $79 million.This was partially offset by repayments under bank indebtedness of $90 million and net distributions from non-controlling interest of $3 million. For the six months ended June 30, 2018, there were borrowings under bank indebtedness of $192 million, net borrowings under project specific and other financings of $11 million and net contributions from non-controlling interest of $2 million.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at June 30, 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]	$ 1,641	$ —	$ 600	$ 691	$ 350
Interest on notes payable	347	104	149	72	22
Secured VTB mortgages[2][3]	60	49	7	4	—
Bank indebtedness[2][3]	—	—	—	—	—
Project-specific financing[2][3]	85	27	7	51	—
Due to affiliates[2][3]	200	200	—	—	—
Accounts payable and other liabilities[4]	586	586	—	—	—
Operating and financing lease obligations[5]	63	1	8	9	45
Purchase agreements and other obligations[6]	104	32	70	1	1

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

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

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

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

(5) Amounts relate to non-cancellable operating 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 July 25, 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 July 25, 2019, 12,404,886 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the six months ended June 30, 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 June 30, 2019, we had $101 million of primarily non-refundable option deposits and advanced costs. The total remaining exercise price of these options was $106 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 $8 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 7,852 lots and control under option 1,001 lots through our proportionate share of unconsolidated entities. As of June 30, 2019, our investment in unconsolidated entities totaled $375 million. We have provided varying levels of guarantees of debt in our unconsolidated entities. As of June 30, 2019, we had recourse guarantees of $23 million with respect to debt in our unconsolidated entities. During the six months ended June 30, 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 June 30, 2019, we had $117 million in letters of credit outstanding and $680 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds as at June 30, 2019 are $88 million and $232 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 and six months ended June 30, 2019 and 2018 were as follows:

- During the three months ended June 30, 2019, the Company entered into a $300 million deposit agreement with a subsidiary of Brookfield Asset Management Inc. As at June 30, 2019, the company had $200 million of borrowings outstanding. During the three months ended June 30, 2019, the company paid $0.6 million of interest.
- During the three months ended June 30, 2019, the Company purchased $300 million of preferred shares of Brookfield International Ltd, a subsidiary of Brookfield Asset Management Inc. During the three months ended June 30, 2019, the Company received $2 million of dividends from the preferred shares (three months ended June 30, 2018 - $nil). The transactions were recorded at the exchange amount.
- During the six months ended June 30, 2019, 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 and six months ended June 30, 2019, the Company paid $9 million and $18 million, respectively, of management fees (three and six months ended June 30, 2018 - $nil). These transactions were recorded at the exchange amount.
- During the three and six months ended June 30, 2019, the Company received $150 million and $300 million, respectively, from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. The Company also received $2 million and $7 million of dividends from these preferred shares for the three and six months ended June 30, 2019, respectively (three and six months ended June 30, 2018 - $4 million and $8 million, respectively). These transactions were recorded at the exchange amount.
- During the six months ended June 30, 2019, the Company paid $0.2 million to Brookfield Asset Management Inc. for Canadian tax credits (six months ended June 30, 2018 - $0.2 million). 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 June 30 2019	December 31 2018
Assets			
Land and housing inventory	4	$ 3,055,608	$ 2,974,249
Investments in unconsolidated entities	5	375,069	347,325
Commercial properties	6	364,317	269,829
Held-to-maturity investment	8	300,000	300,000
Receivables and other assets	9	441,346	478,932
Operating and financing lease right-of-use asset	20	62,140	—
Restricted cash	10	8,140	3,200
Cash and cash equivalents		105,248	69,932
Deferred income tax assets	15	63,678	61,847
Goodwill	7	16,479	16,479
Total assets		$ 4,792,025	$ 4,521,793
Liabilities and Equity			
Notes payable	11	$ 1,629,292	$ 1,619,918
Bank indebtedness and other financings	12	337,467	143,480
Accounts payable and other liabilities	13	586,093	635,800
Operating and financing lease liability	20	63,202	—
Total liabilities		2,616,054	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		1,262,574	1,236,092
Non-controlling interest	16	51,697	53,832
Accumulated other comprehensive loss		(132,327)	(161,356)
Total equity		2,175,971	2,122,595
Total liabilities and equity		$ 4,792,025	$ 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 June 30		**Six Months Ended June 30**	
	Note	**2019**	**2018**	**2019**	**2018**
Revenue					
Housing		$ 404,908	$ 535,373	$ 723,676	$ 769,055
Land		71,044	54,209	98,500	94,974
Total revenue		475,952	589,582	822,176	864,029
Direct Cost of Sales					
Housing		(339,502)	(431,208)	(605,295)	(625,882)
Land		(57,815)	(32,212)	(71,576)	(56,030)
Total direct cost of sales		(397,317)	(463,420)	(676,871)	(681,912)
Gross margin		78,635	126,162	145,305	182,117
Selling, general and administrative expense		(64,921)	(71,242)	(131,296)	(131,025)
Interest expense		(8,165)	(9,134)	(16,704)	(21,112)
Equity in earnings from unconsolidated entities	5	10,661	3,447	15,069	8,657
Other income	14	11,108	15,757	25,459	28,623
Lease expense	20	(3,047)	—	(5,833)	—
Depreciation		(1,144)	(1,073)	(2,204)	(2,112)
Income Before Income Taxes		23,127	63,917	29,796	65,148
Current income tax expense	15	(321)	(6,998)	(1,864)	(8,321)
Deferred income tax expense	15	(5,882)	(5,195)	(340)	(1,728)
Net Income		16,924	51,724	27,592	55,099
Other Comprehensive Income / (Loss)					
Unrealized foreign exchange gain / (loss) on:					
Translation of the net investment in Canadian subsidiaries		17,702	(18,609)	36,629	(44,767)
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		(3,625)	3,475	(7,600)	8,500
Comprehensive Income / (Loss)		$ 31,001	$ 36,590	$ 56,621	$ 18,832
Net Income Attributable To:					
Consolidated		$ 16,924	$ 51,724	$ 27,592	$ 55,099
Non-controlling interest	16	768	1,787	1,110	2,167
Brookfield Residential		$ 16,156	$ 49,937	$ 26,482	$ 52,932
Comprehensive Income / (Loss) Attributable To:					
Consolidated		$ 31,001	$ 36,590	$ 56,621	$ 18,832
Non-controlling interest	16	768	1,787	1,110	2,167
Brookfield Residential		$ 30,233	$ 34,803	$ 55,511	$ 16,665
Common Shareholders Earnings Per Share					
Basic	19	$ 0.12	$ 0.38	$ 0.20	$ 0.41
Diluted	19	$ 0.12	$ 0.38	$ 0.20	$ 0.41
Weighted Average Common Shares Outstanding *(in thousands)*					
Basic	19	129,757	129,757	129,757	129,757
Diluted	19	129,923	129,767	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)	
		Six months Ended June 30	
	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		26,482	52,932
Ending balance		1,262,574	1,114,622
Accumulated Other Comprehensive Loss			
Opening balance		(161,356)	(97,393)
Other comprehensive income / (loss)		29,029	(36,267)
Ending balance		(132,327)	(133,660)
Total Brookfield Residential Equity		$ 2,124,274	$ 1,974,989
Non-Controlling Interest	16		
Opening balance		$ 53,832	$ 54,216
Net income attributable to non-controlling interest		1,110	2,167
(Distributions) / Contributions		(3,245)	1,645
Ending balance		$ 51,697	$ 58,028
Total Equity		$ 2,175,971	$ 2,033,017

See accompanying notes to the condensed consolidated financial statements

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

	(Unaudited)	
	Six months Ended June 30	
Cash Flows Provided by / (Used in) Operating Activities	**2019**	**2018**
Net income	$ 27,592	$ 55,099
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities	(9,399)	(7,975)
Deferred income tax expense	340	1,728
Share-based compensation costs	8,492	7,583
Depreciation	2,204	2,112
Amortization of non-cash interest	3,237	2,342
Dividend income on held-to-maturity investment	(8,648)	(8,460)
Changes in operating assets and liabilities:		
Decrease / (Increase) in receivables and other assets	17,573	(48,798)
Increase in land and housing inventory	(43,387)	(126,207)
Increase in commercial properties	(92,706)	(927)
Operating and financing ROU assets obtained in the exchange for a lease obligation	2,577	—
Payments for amounts included in the measurement of the lease liabilities	(1,210)	—
(Decrease) / Increase in accounts payable and other liabilities	(60,605)	4,469
Net cash used in operating activities	(153,940)	(119,034)
Cash Flows Provided by / (Used in) Investing Activities		
Investments in unconsolidated entities	(23,154)	(74,758)
Distributions from unconsolidated entities	8,617	2,415
Dividend income on held-to-maturity investment	8,648	8,460
Decrease in loan receivable	15,090	1,082
Net cash provided by / (used in) investing activities	9,201	(62,801)
Cash Flows Provided by / (Used in) Financing Activities		
Deposits from affiliates	200,000	—
Drawings under project-specific and other financings	80,770	29,577
Repayments under project-specific and other financings	(1,702)	(18,567)
Drawings on bank indebtedness	—	192,000
Repayments on bank indebtedness	(90,072)	—
Net (distributions) / contributions from non-controlling interest	(3,245)	1,645
Payments made on the principal of financing leases	(68)	—
Net cash provided by financing activities	185,683	204,655
Effect of foreign exchange rates on cash and cash equivalents	(688)	(2,793)
Change in cash and cash equivalents	40,256	20,027
Cash and cash equivalents at beginning of period	73,132	107,855
Cash and cash equivalents at end of period	$ 113,388	$ 127,882
Supplemental Cash Flow Information		
Cash interest paid	$ 56,921	$ 55,192
Cash taxes paid	$ 14,862	$ 26,352

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, lease 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 elected not to apply the recognition requirements under ASC 842. Short-term leases have been expensed on the condensed consolidated statement of operations.

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 and six months ended June 30, 2019, the Company recognized $0.4 million and $0.5 million, respectively, (June 30, 2018 - $0.6 million and $1.5 million, respectively) in revenue from performance obligations satisfied in prior periods. This cumulative catch-up adjustment resulted from a change in transaction price related to variable consideration that was constrained in previous periods. For amounts not recognized due to constraints, the Company has determined the amounts cannot be reliably estimated due to the following factors outside of the Company's control: economic volatility, period of time between the lot sale and the ultimate home closing, fluctuations and difficult prediction of profits and pricing of the ultimate home closing.

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

Note 4. Land and Housing Inventory

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

The following summarizes the components of land and housing inventory:

	As at	
	June 30 2019	December 31 2018
Land held for development	$ 1,460,226	$ 1,417,372
Land under development	893,093	903,315
Housing inventory	594,618	554,140
Model homes	107,671	99,422
	$ 3,055,608	$ 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 and six months ended June 30, 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 and six months ended June 30, 2019 and 2018 was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Interest capitalized, beginning of the period	$ 206,065	$ 190,542	$ 197,687	$ 180,650
Interest capitalized	17,619	20,615	35,278	36,764
Interest expensed to cost of sales	(12,715)	(13,640)	(21,996)	(19,897)
Interest capitalized, end of the period	$ 210,969	$ 197,517	$ 210,969	$ 197,517

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 $8.1 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 $8.1 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.

Land and housing inventory includes non-refundable deposits and other entitlement costs totalling $101.3 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 $105.6 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	69	$ 4,050
2020	704	29,350
2021	159	11,411
2022	106	3,427
2023	1,235	6,080
Thereafter	3,360	51,257
	5,633	$ 105,575

The Company holds agreements for a further 3,461 acres (December 31, 2018 – 3,641 acres) of longer-term land, with non-refundable deposits and other entitlement costs of $17.0 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 $79.1 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 June 30, 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 $20.6 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 $36.8 million (December 31, 2018 – $36.2 million). Summarized financial information on a 100% basis for the combined unconsolidated entities follows:

	As at	
	June 30 2019	December 31 2018
Assets		
Land and housing inventory	$ 848,559	$ 840,418
Investments in unconsolidated entities	149,395	131,260
Other assets	108,459	70,450
	$ 1,106,413	$ 1,042,128
Liabilities and Equity		
Bank indebtedness and other financings	$ 138,877	$ 127,376
Accounts payable and other liabilities	101,781	112,584
Brookfield Residential's interest	375,069	347,325
Others' interest	490,686	454,843
	$ 1,106,413	$ 1,042,128

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	2019	2018
Revenue and Expenses				
Revenue	$ 100,304	$ 40,464	$ 124,556	$ 65,211
Direct cost of sales	(61,636)	(28,238)	(76,449)	(43,081)
Other (expense) / income	(1,639)	1,642	(2,237)	1,705
Net income	$ 37,029	$ 13,868	$ 45,870	$ 23,835
Brookfield Residential's share of net income	$ 10,661	$ 3,447	$ 15,069	$ 8,657

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

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

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt of its unconsolidated entities. At June 30, 2019, the Company had recourse guarantees of $22.9 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	
	June 30 2019	December 31 2018
Commercial properties	$ 366,370	$ 271,428
Less: accumulated depreciation	(2,053)	(1,599)
	$ 364,317	$ 269,829

Commercial properties consists of the following properties:

	As at	
	June 30 2019	December 31 2018
Commercial properties under development	$ 332,625	$ 239,271
Commercial properties producing leasing revenue	33,745	32,157
	$ 366,370	$ 271,428

Note 7. Business Combinations

The Company had no business combinations during the three and six months ended June 30, 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 were $23.0 million, resulting in goodwill of $16.5 million.

Note 8. Held-to-Maturity Investment

	As at	
	June 30 2019	December 31 2018
Brookfield International Ltd. Series I Class A Preference Shares ("BIL preferred shares") (a)	$ 300,000	$ —
Brookfield BPY Holdings Inc. Class B Junior Preferred Shares ("BPY preferred shares") (b)	—	300,000
	$ 300,000	$ 300,000

(a) Brookfield International Ltd.

During the three months ended June 30, 2019, the Company entered into an agreement with a subsidiary of Brookfield Asset Management Inc. to purchase $300.0 million of BIL preferred shares. The BIL preferred shares entitle their holders to receive, when declared, dividend payments at a rate of 8.0%, paid quarterly. The BIL preferred shares are redeemable and retractable at any time and must be redeemed on the tenth anniversary of their issuance.

During the three and six months ended June 30, 2019, $1.8 million of dividends were recorded in the statement of operations as other income (three and six months ended June 30, 2018 - $nil).

(b) Brookfield BPY Holdings Inc.

The Company held preferred shares in Brookfield BPY Holdings Inc., a subsidiary of Brookfield Asset Management Inc. The BPY preferred shares entitled 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 BPY preferred shares will entitle their holders to receive a cumulative preferential dividend equal to 5.0% plus the prevailing yield for the 5-year U.S. Treasury Notes. The BPY preferred shares are redeemable at any time and must be redeemed on the tenth anniversary of their issuance. The BPY preferred shares have a right of retraction after the fifth anniversary of the issuance.

During the three and six months ended June 30, 2019, Brookfield BPY Holdings Inc. made a redemption of the preferred shares the Company held, of $150.0 million and $300.0 million, respectively.

During the three and six months ended June 30, 2019, $1.6 million and $6.9 million, respectively, of dividends were recorded in the statement of operations as other income (three and six months ended June 30, 2018 - $4.3 million and $8.5 million, respectively).

Note 9. Receivables and Other Assets

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

	As at	
	June 30 2019	December 31 2018
Receivables (a)	$ 338,256	$ 371,197
Other assets (b)	103,090	107,735
	$ 441,346	$ 478,932

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

	As at	
	June 30 2019	**December 31 2018**
Development recovery receivables (i)	$ 95,063	$ 105,905
Real estate receivables (ii)	88,318	104,507
Loan receivables (iii)	79,809	94,899
Sundry receivables (iv)	47,113	30,812
Proceeds and escrow receivables (v)	17,555	24,950
Refundable deposits	10,398	10,124
	$ 338,256	$ 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 Canadian prime or 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 two 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 7.0% (December 31, 2018 – Canadian prime plus 3.0% or a fixed interest rate of 0.0% to 6.0%).

(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 13.0% and matures in 2021. During the three and six months ended June 30, 2019, $15.1 million of principal was collected (three and six months ended June 30, 2018 - $nil and $1.1 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 June 30, 2019, allowances for doubtful accounts were $nil (December 31, 2018 - $nil).

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

	As at	
	June 30 2019	**December 31 2018**
Capitalized sales and marketing costs (i)	$ 33,588	$ 21,209
Capital assets (ii)	23,578	23,532
Non-refundable earnest funds and investigation fees (iii)	16,776	29,148
Other	15,317	21,836
Prepaid expenses	13,831	12,010
	$ 103,090	$ 107,735

(i) 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 $21.8 million (December 31, 2018 – $16.9 million).

(ii) 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 $21.6 million (December 31, 2018 – $21.1 million).

(iii) 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.

Note 10. Restricted Cash

At June 30, 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) $8.0 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	
	June 30 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)	190,875	183,275
6.375% unsecured senior notes due May 15, 2025 (d)	350,000	350,000
	1,640,875	1,633,275
Transaction costs (e)	(11,583)	(13,357)
	$ 1,629,292	$ 1,619,918

(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
2018 and thereafter	100.00%

(b) On June 25, 2013, the Company and Brookfield Residential US Corporation, a wholly-owned subsidiary of the Company, co-issued a private placement of $500.0 million of unsecured senior notes. The notes have a nine-year term, are due July 1, 2022 and bear interest at a fixed rate of 6.125%. The notes require semi-annual interest payments on January 1 and July 1 of each year until maturity. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries.

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

	Notes Redemption Price
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:

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

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

All unsecured senior notes include covenants that, among others, place limitations on incurring additional indebtedness and restricted payments. Under the limitation on additional indebtedness, Brookfield Residential is permitted to incur specified categories of indebtedness but is prohibited from incurring further indebtedness if it does not satisfy either an indebtedness to consolidated net tangible worth ratio condition of 2.25 to 1 or a fixed coverage ratio of 2.0 to 1. The Company was in compliance with these financial covenants as at June 30, 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	
	June 30 2019	**December 31 2018**
Due to affiliates (a)	$ 200,000	$ —
Project-specific financings (b)	85,330	34,834
Secured VTB mortgages (c)	60,144	29,247
Bank indebtedness (d)	—	88,822
	345,474	152,903
Transaction costs (b)(d)	(8,007)	(9,423)
	$ 337,467	$ 143,480

(a) Due to affiliates

On May 27, 2019, Brookfield Residential Finance Corp., a wholly-owned subsidiary of the Company, entered into a $300.0 million deposit agreement with a subsidiary of Brookfield Asset Management Inc. The principal is repayable on demand. Interest is charged on the principal at a rate of LIBOR plus 1.50%. As at June 30, 2019, the Company had $200.0 million of borrowing outstanding. These borrowings are not subject to financial covenants.

For the three and six months ended June 30, 2019, the Company paid $0.6 million of interest.

(b) Project-specific financings

(i) As at June 30, 2019, the Company has two Canadian project-specific financings totaling $34.0 million (C$44.6 million) provided by various lenders (December 31, 2018 - $34.8 million (C$47.5 million)).

Project-specific financing totaling $26.7 million has an interest rate of Canadian Prime + 0.50%, 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 six months ended June 30, 2019. This debt is repayable in Canadian dollars of C$35.0 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 June 30, 2019.

Project-specific financing totaling $7.3 million, held by a joint venture in our Edmonton operations, a consolidated subsidiary of the Company, has an interest rate of Canadian Prime + 0.50%, matures in 2020, and is unsecured without covenants. The debt is repayable in Canadian dollars of C$9.6 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 June 30, 2019, the Company has $51.3 million of 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 $36.0 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 June 30, 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 14 secured VTB mortgages (December 31, 2018 – 12 secured VTB mortgages) in the amount of $60.1 million (December 31, 2018 – $29.2 million). Secured VTB mortgages are repayable as follows: 2019 - $49.4 million; 2020 – $3.3 million; 2021 – $3.8 million, 2022 – $1.3 million and thereafter – $2.3 million.

Ten secured VTB mortgages (December 31, 2018 – nine secured VTB mortgages) in the amount of $28.6 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$37.6 million (December 31, 2018 – C$33.7 million). The interest rates on the debt range from fixed rates of 2.2% to 6.0% and variable rates of Canadian prime plus 1% to 2% and the debt is secured by the related land. As at June 30, 2019, these borrowings are not subject to any financial covenants.

Four secured VTB mortgages (December 31, 2018 – three secured VTB mortgages) in the amount of $31.5 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 6.5% and the debt is secured by related land. As at June 30, 2019, these borrowings are not subject to any financial covenants.

(d) Bank indebtedness

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 June 30, 2019, the Company had no borrowings outstanding under the North American unsecured credit facility (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 $1,270 million, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at June 30, 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.

Note 13. Accounts Payable and Other Liabilities

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

	As at	
	June 30 2019	**December 31 2018**
Accounts payable (a)	$ 396,228	$ 410,593
Other liabilities (b)	189,865	225,207
	$ 586,093	$ 635,800

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

	As at	
	June 30 2019	**December 31 2018**
Trade payables and other accruals	$ 177,161	$ 169,554
Customer deposits	75,880	76,407
Development costs payable (i)	68,254	77,897
Real estate payables	35,310	6,218
Interest on notes payable	21,080	21,021
Accrued and deferred compensation	17,216	45,187
Current income taxes payable	1,327	14,309
	$ 396,228	$ 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	
	June 30 2019	**December 31 2018**
Share-based compensation (Note 18)	$ 85,478	$ 78,513
Other (i)	67,877	67,215
Warranty costs (Note 21 (a))	21,525	21,515
Consolidated land option contracts (ii)	8,114	44,557
Deferred revenue (iii)	6,871	13,407
	$ 189,865	$ 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 six months ended June 30, 2019 was $6.1 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 June 30		Six months Ended June 30	
	2019	**2018**	**2019**	**2018**
Investment income	$ (8,571)	$ (8,599)	$ (18,883)	$ (17,375)
Joint venture management fee income	(3,179)	(5,495)	(6,317)	(8,819)
Other	642	(1,663)	(259)	(2,429)
	$ (11,108)	$ (15,757)	$ (25,459)	$ (28,623)

Note 15. Income Taxes

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the six months ended June 30, 2019 and 2018 is as follows:

	Six months ended June 30	
	2019	**2018**
Statutory rate	26.5%	27.0%
Non-temporary differences	9.1	3.8
Rate difference from statutory rate	(32.4)	(11.0)
Change in statutory tax rate	15.6	—
Non-taxable preferred share dividend	(8.0)	(3.6)
Other	(3.1)	(0.2)
Effective tax rate	7.7%	16.0%

The Company currently operates in 14 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 7.7% for the six months ended June 30, 2019 (June 30, 2018 - 16.0%). The decrease in the 2019 effective tax rate when compared to the same period in 2018 was primarily due to an overall decrease in net income before tax, partially offset by an increase in tax expense of $5 million due to the effect of a change in the Alberta corporate tax rate during the three months ended June 30, 2019.

The provision for income taxes for the three and six months ended June 30, 2019 and 2018 is set forth below:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Current				
Canada	$ (34)	$ —	$ (34)	$ —
U.S.	(14)	(6,658)	(1,156)	(6,678)
International	(273)	(340)	(674)	(1,643)
Current income tax expense	(321)	(6,998)	(1,864)	(8,321)
Deferred				
Canada	(4,474)	(3,043)	2	(1,714)
U.S.	(1,408)	(2,152)	(342)	(14)
Deferred income tax (expense) / recovery	(5,882)	(5,195)	(340)	(1,728)
Total income tax expense	$ (6,203)	$ (12,193)	$ (2,204)	$ (10,049)

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

	As at	
Net deferred tax assets / (liabilities)	**June 30 2019**	**December 31 2018**
Differences relating to land and housing inventory	$ (1,404)	$ (4,888)
Compensation deductible for tax purposes when paid	7,403	12,471
Operating loss carry-forwards	46,990	46,657
Capital loss carry-forwards	2,501	2,501
Impact of foreign exchange	20,471	28,180
Other	10,689	7,607
Net deferred tax assets before valuation allowance	86,650	92,528
Cumulative valuation allowance	(22,972)	(30,681)
Net deferred tax assets	$ 63,678	$ 61,847

The Company has Canadian federal non-capital loss carryforwards of approximately $188.7 million (C$247.1 million) as at June 30, 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 June 30, 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 $18.0 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 June 30, 2019, the Company considered all available and objectively verifiable positive and negative evidence. The valuation allowance of $23.0 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 June 30, 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 $51.7 million at June 30, 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 and six months ended June 30, 2019 was $0.8 million and $1.1 million (June 30, 2018 – $1.8 million and $2.2 million, respectively).

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.

There were no Common Shares issued during the six months ended June 30, 2019 and the year ended December 31, 2018.

	For the Period Ended	
	June 30 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 June 30, 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 and six months ended June 30, 2019, there were nil and 887,000 options granted to eligible employees (three and six months ended June 30, 2018 - no options granted). The significant weighted average assumptions relating to the valuation of the Company's options outstanding during the six months ended June 30, 2019 and 2018 are as follows:

	June 30 2019	**June 30 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 $53.7 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 and six months ended June 30, 2019 was $4.3 million and $8.5 million, respectively (2018 - $3.8 million and $7.6 million, respectively).

The following tables set out the number of Non-Voting Class B Common Shares that employees of the Company may acquire under options granted under the Company's Management Share Option Plan for the six months ended June 30, 2019 and 2018:

	June 30, 2019		June 30, 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 six months ended June 30, 2019 and 2018 are as follows:

	June 30, 2019		June 30, 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 June 30, 2019, there was $33.5 million (June 30, 2018 - $40.6 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 2.9 years (June 30, 2018 - 3.1 years).

(b) Deferred Share Unit Plan

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

The following table sets out changes in and the number of deferred share units that executives, directors and senior operating management employees may redeem under Brookfield Residential's DSUP at June 30, 2019 and December 31, 2018:

	For the Period Ended	
	June 30 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 and six months ended June 30, 2019 and 2018 which has been included in selling, general, and administrative expense.

Note 19. Earnings Per Share

Basic and diluted earnings per share for the three and six months ended June 30, 2019 and 2018 were calculated as follows:

	Three Months Ended June 30		Six months Ended June 30	
	2019	**2018**	**2019**	**2018**
Numerator:				
Net income attributable to Brookfield Residential	$ 16,156	$ 49,937	$ 26,482	$ 52,932
Denominator (in '000s of shares):				
Basic weighted average shares outstanding	129,757	129,757	129,757	129,757
Diluted weighted average shares outstanding	129,923	129,767	129,923	129,767
Basic earnings per share	$ 0.12	$ 0.38	$ 0.20	$ 0.41
Diluted earnings per share	$ 0.12	$ 0.38	$ 0.20	$ 0.41

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 one 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 June 30, 2019 of $0.2 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	$ 835	$ 153
2020	3,709	247
2021	4,189	217
2022	4,299	129
2023	4,016	59
Thereafter	45,349	—
Total lease payments	62,397	805
Less imputed interest (i)	(241,081)	(45)
Total	$ (178,684)	$ 760

(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.

The following table reflects the changes in the Company's estimated warranty liability for the six months ended June 30, 2019 and 2018:

	Six months ended June 30	
	2019	**2018**
Balance, beginning of the period	$ 21,515	$ 20,862
Payments and other adjustments made during the period	(5,690)	(4,318)
Warranties issued during the period	5,282	6,739
Adjustments made for pre-existing warranties	418	(100)
Balance, end of the period	$ 21,525	$ 23,183

(b) As at June 30, 2019, $1.4 million of the amounts held in other assets related to land purchase obligations (December 31, 2018 - $13.1 million). The total amount owing on these obligations is $103.5 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 June 30, 2019, these guarantees amounted to $797.2 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 reviewed for impairment during the six months ended June 30, 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.

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 and six months ended June 30, 2019 and 2018, no impairment charges were recognized.

The locations of the projects reviewed are as follows:

	Number of Projects
Canada	40
California	50
Central and Eastern U.S.	34
	124
Unconsolidated entities	14
Total	138

Hedging Activities

The Company uses derivative and non-derivative financial instruments to manage or maintain exposures to interest, currency, credit and other market risks. For certain derivatives which are used to manage exposures, the Company determines whether hedge accounting can be applied. To qualify for hedge accounting, the derivative must be highly effective in accomplishing the objective of offsetting changes in the fair value or cash flows attributable to the hedged risk both at inception and over the life of the hedge. If it is determined that the derivative is not highly effective as a hedge, hedge accounting is discontinued prospectively.

Net Investment Hedges

The Company uses foreign currency denominated debt instruments to manage its foreign currency exposures arising from net investments in foreign operations. For the three and six months ended June 30, 2019, unrealized pre-tax loss of $3.6 million and $7.6 million, respectively (June 30, 2018 – gain of $3.5 million and $8.5 million, respectively), 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 June 30, 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 June 30, 2019, a 1% change in interest rates would have a $2.9 million impact on the Company's cash flows.

The fair value of debt with fixed interest rates is determined by discounting contractual principal and interest payments at estimated current market interest rates determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at June 30, 2019, the fair value of all outstanding debt exceeded its book value by $17.5 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 June 30, 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.

A summary of the Company's contractual obligations and purchase agreements as at June 30, 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]	$ 1,640,875	$ —	$ 600,000	$ 690,875	$ 350,000
Interest on notes payable	346,328	103,629	148,757	71,629	22,313
Secured VTB mortgages[2][3]	60,144	49,402	7,120	3,622	—
Bank indebtedness[2][3]	—	—	—	—	—
Project-specific financings[2][3]	85,330	26,724	7,314	51,292	—
Due to affiliates[2][3]	200,000	200,000	—	—	—
Accounts payable and other liabilities[4]	586,093	586,093	—	—	—
Operating and financing lease obligations[5]	63,202	988	8,362	8,503	45,349
Purchase agreements and other obligations[6]	103,525	31,838	69,611	1,222	854

(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, human resources and ancillary homebuilder finance activites. Corporate also provides the necessary administrative functions to support the Company.

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

	Three Months Ended June 30, 2019				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 129,083	$ 179,924	$ 131,793	$ 35,152	$ 475,952
Direct cost of sales	(104,576)	(147,945)	(109,869)	(34,927)	(397,317)
	24,507	31,979	21,924	225	78,635
Equity in earnings	3,849	1,358	5,454	—	10,661
Expenses	(16,931)	(20,420)	(21,036)	(7,782)	(66,169)
Income / (loss) before income taxes	$ 11,425	$ 12,917	$ 6,342	$ (7,557)	$ 23,127

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

	Six Months Ended June 30, 2019				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 225,619	$ 316,843	$ 240,276	$ 39,438	$ 822,176
Direct cost of sales	(178,466)	(258,900)	(200,482)	(39,023)	(676,871)
	47,153	57,943	39,794	415	145,305
Equity in earnings	3,687	2,293	9,089	—	15,069
Expenses	(29,957)	(40,857)	(41,430)	(18,334)	(130,578)
Income / (loss) before income taxes	$ 20,883	$ 19,379	$ 7,453	$ (17,919)	$ 29,796

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

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

	As at June 30, 2019				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 431,315	$ 431,430	$ 597,481	$ —	$ 1,460,226
Land under development	249,594	196,392	348,066	99,041	893,093
Housing inventory	126,439	294,663	173,516	—	594,618
Model homes	25,061	56,983	25,627	—	107,671
Total land and housing inventory	832,409	979,468	1,144,690	99,041	3,055,608
Investments in unconsolidated entities	55,434	230,496	89,139	—	375,069
Commercial properties	54,300	—	310,017	—	364,317
Held-to-maturity investment	—	—	—	300,000	300,000
Operating and financing lease right-of use asset	10,348	17,531	22,744	11,517	62,140
Goodwill	—	—	—	16,479	16,479
Other assets [(1)]	122,386	71,188	178,568	246,270	618,412
Total assets	$ 1,074,877	$ 1,298,683	$ 1,745,158	$ 673,307	$ 4,792,025

	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 and six months ended June 30, 2019 and 2018 were as follows:

- During the three months ended June 30, 2019, the Company entered into a $300 million deposit agreement with a subsidiary of Brookfield Asset Management Inc. As at June 30, 2019, the company had $200 million of borrowings outstanding. During the three months ended June 30, 2019, the company paid $0.6 million of interest.
- During the three months ended June 30, 2019, the Company purchased $300.0 million of preferred shares of Brookfield International Ltd., a subsidiary of Brookfield Asset Management Inc. During the three months ended June 30, 2019, the Company received $1.8 million of dividends from the preferred shares (three months ended June 30, 2018 - $nil). The transactions were recorded at the exchange amount.
- During the six months ended June 30, 2019, 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 and six months ended June 30, 2019, the Company paid $8.8 million and $17.5 million, respectively, of management fees (three and six months ended June 30, 2018 - $nil). These transactions were recorded at the exchange amount.
- During the three and six months ended June 30, 2019, the Company received $150.0 million and $300.0 million, respectively, from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. The Company also received $1.6 million and $6.9 million of dividends from these preferred shares, for the three and six months ended June 30, 2019, respectively (three and six months ended June 30, 2018 - $4.3 million and $8.5 million, respectively). These transactions were recorded at the exchange amount.
- During the six months ended June 30, 2019, the Company paid $0.2 million to Brookfield Asset Management Inc. for Canadian tax credits (six months ended June 30, 2018 - $0.2 million). These transactions were recorded at the exchange amount.

Note 27. Subsequent Events

The Company performed an evaluation of subsequent events through July 25, 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 $365 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.