Brookfield Residential

2019 | ANNUAL REPORT

Chief Executive Officer's Report

As we reflect back on 2019, Brookfield Residential had a positive year achieving our home and lot closing guidance and the accomplishment of several strategic corporate and capital initiatives. Our operating and financial performance was lower in 2019 when compared to 2018, which is mainly due to a lower housing backlog entering the year as a result of the slower net new home orders in the U.S. housing market experienced in the latter half of 2018 and early 2019, the ongoing economic and regulatory challenges experienced in the Alberta market and the operational focus of limiting sales activity in Ontario in 2018. Although our overall results were lower, we are encouraged with recent market activity as we ended the year with growth in our net new home orders in both countries. Early indications suggest that this momentum will help fuel a positive spring selling season as we look ahead to 2020.

Operating and financial highlights for the year:

- For the year ended December 31, 2019, our income before income taxes was $203 million
- Home closings of 2,930 homes with a gross margin of 17% and an average selling price of $529,000
- Net new home orders of 3,066, an increase of 7% and backlog units of 1,273, an increase of 12%, when compared to 2018
- Single-family lot closings of 3,170 lots, with an overall land gross margin of 31%
- Our Eastmark community in Mesa, Arizona was ranked number five and our New Haven community, which is part of the Ontario Ranch masterplan community in Southern California's Inland Empire, was ranked number eight in the U.S. top-selling master-planned communities listed in the 2019 year-end report from RCLCo
- Continued construction at our Fifth + Broadway, a large mixed-use development projected located in Nashville, Tennessee that will open in the Fall of 2020
- General and administrative expenses were reduced by $20 million primarily as a result of the formation of the management company, Brookfield Properties Development
- Net debt to total capitalization at December 31, 2019 was 36% compared to 44% at December 31, 2018
- The Company had cash of $110 million and no borrowings outstanding on our $675 million North American unsecured revolving credit facility as at December 31, 2019

Market Overview

We remained encouraged with the U.S. housing market conditions as it continues to be supported by positive economic fundamentals. We have experienced recent improvement in consumer confidence partially due to lower mortgage rates, with a 21% increase in our net new home orders during the three months ended December 31, 2019 compared to 2018. However, we remain cautious as affordability continues to be a key consideration in the long term, particularly in markets such as California and Denver, with an ongoing trend towards lower priced homes.

The overall Canadian market continues to be impacted by government changes to mortgage rules as homebuyers have had to adjust to what they can qualify for as a result of the previously implemented stress test. Recently, the Federal government announced modifications to the stress test, and while the impact of these changes are expected to be minimal, they are positive changes for the consumer. In our individual Canadian markets, there continues to be varying market conditions between our Alberta and Ontario operations. In Alberta, the economic environment continues to remain challenged with limited investment in the energy sector as a result of uncertainty relating to pipeline approvals and overall Federal policy towards the energy sector. However, we have still experienced order growth in the Alberta market in 2019 compared to 2018. In Ontario, with the opening of several new communities in 2019, we saw an increase in home orders with terra firma on house prices and even a slight increase recently. As a result, our net new home orders in Canada for the fourth quarter of 2019 increased 54% when compared to 2018.

Strategic Corporate Initiatives

In 2019, we completed the previously announced Reorganization Transaction where Brookfield Residential contributed the capital stock of its U.S. land and housing holding company in exchange for a minority interest in the capital stock of Brookfield US Inc., a subsidiary of Brookfield Asset Management. In addition, the Company continued to execute on our capital plan in 2019 with the issuance of $600 million unsecured senior notes with an interest rate of 6.25% due in 2027. Subsequent to the end of the year, Brookfield Residential issued $500 million unsecured senior notes with an interest rate of 4.875% due in 2030. The proceeds from both of these offerings, together with cash on hand, were used to fund the redemption of our senior unsecured notes due in 2020 and 2022. The successful completion of both offerings allows the Company to maintain existing debt levels, reduce annual interest costs as well as favorably extend our debt maturity profile.

We extend our sincere thanks to all our team members and supportive stakeholders for your continued support of Brookfield Residential of our business and in our endeavors relating to the strategic corporate initiatives and execution of our capital plan. With the current market conditions experienced in the U.S. and in Ontario, we are encouraged and hopeful that this early momentum will continue into the spring selling season.

Alan Norris

Chairman & Chief Executive Officer

March 3, 2020

BROOKFIELD RESIDENTIAL PROPERTIES PORTFOLIO

Our business is focused on land development and single family and multi-family homebuilding in the markets in which we operate. Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at December 31, 2019 were $5.6 billion.

As of December 31, 2019, we controlled 87,646 single family lots (serviced lots and future lot equivalents) and 154 multi-family, industrial and commercial serviced parcel acres. Controlled lots and acres include those we directly own and our share of those owned by unconsolidated entities. Our controlled lots and acres provide a strong foundation for our future lot and acre sales and homebuilding business, as well as visibility on our future cash flow. The number of building lots and acre parcels we control in each of our primary markets as of December 31, 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 12/31/2019		Total Acres	
	Owned	**Options**	**Owned**	**Options**	**12/31/2019**	**12/31/2018**	**Entitled**	**Unentitled**	**12/31/2019**	**12/31/2018**
Calgary	16,595	—	2,450	—	19,045	20,954	10,932	8,113	70	65
Edmonton	10,797	—	—	—	10,797	11,442	5,587	5,210	22	27
Ontario	7,266	—	1,027	—	8,293	8,241	2,739	5,554	1	—
Canada	34,658	—	3,477	—	38,135	40,637	19,258	18,877	93	92
Northern California	2,966	7,255	253	—	10,474	7,590	3,219	7,255	—	—
Southern California	5,734	—	862	1,001	7,597	8,977	6,412	1,185	—	—
Hawaii	48	—	—	—	48	127	48	—	—	3
Other	—	—	—	—	—	100	—	—	—	—
California	8,748	7,255	1,115	1,001	18,119	16,794	9,679	8,440	—	3
Denver	7,328	—	—	—	7,328	7,786	7,328	—	10	15
Austin	12,016	104	—	—	12,120	12,439	12,120	—	37	60
Phoenix	745	788	2,499	—	4,032	4,073	4,032	—	14	14
Washington, D.C. Area	2,747	985	—	—	3,732	4,074	3,695	37	—	4
Other	—	—	—	—	—	2,881	—	—	—	3
Central and Eastern U.S.	22,836	1,877	2,499	—	27,212	31,253	27,175	37	61	96
Corporate and Other	4,180	—	—	—	4,180	—	4,180	—	—	—
Total	70,422	9,132	7,091	1,001	87,646	88,684	60,292	27,354	154	191
Entitled lots	52,492	1,877	5,923	—	60,292					
Unentitled lots	17,930	7,255	1,168	1,001	27,354					
Total December 31, 2019	70,422	9,132	7,091	1,001	87,646					
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.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual 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 annual report include, among others, statements with respect to:

- the current business environment and outlook, including statements regarding: economic and market conditions in the U.S. and Canadian housing markets 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 Canadian shared equity mortgage program on the impact of stress test mortgage rules in Canada; the impact of the recent Canadian Federal election; new community openings in our Ontario operations, home prices and affordability 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 and regulatory uncertainty surrounding the energy industry and pipeline approvals and the impact thereof on demand in our markets including future investment, 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; realization of expected operational and administrative synergies from the Reorganization Transaction; expectations for 2020 and beyond;
- possible or assumed future results, including our outlook 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 annual report are based upon reasonable assumptions and expectations, readers of this annual report should not place undue reliance on such forward-looking statements and information because they involve assumptions, known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of Brookfield Residential to differ materially from anticipated future results, performance, or achievements expressed or implied by such forward-looking statements and information.

Various factors, in addition to those discussed elsewhere in this annual report, that could affect the future results of Brookfield Residential and could cause actual results, performance, or achievements to differ materially from those expressed in the forward-looking statements and information include, but are not limited to, those factors included under the sections entitled “Cautionary Statements Regarding Forward-Looking Statements” and “Business Environment and Risks” of the Annual Report for the fiscal year ended December 31, 2019.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis relates to the year ended December 31, 2019 and has been prepared with an effective date of March 3, 2020. It should be read in conjunction with the annual consolidated financial statements and the related notes thereto included elsewhere in this annual report. All dollar amounts discussed herein are in U.S. dollars, unless otherwise stated. Amounts in Canadian dollars are identified as "C$." The 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 annual 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. ("BAM") and has been in operation for over 60 years. We are the flagship North American residential property company of BAM, a leading global alternative asset manager with over $540 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 related to our land and housing operations: 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 (Honolulu), 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 remain 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 year ended December 31, 2019 compared to the year ended December 31, 2018 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Year Ended December 31	
	2019	**2018**
Key Financial Results		
Housing revenue	$ 1,550	$ 1,794
Land revenue	388	368
Gross margin ($)	387	473
Gross margin (%)[1]	20%	22%
Income before income taxes	203	222
Income tax expense	(5)	(40)
Consolidated net income	198	182
Net income attributable to Brookfield Residential	154	174
Basic earnings per share	$ 1.19	$ 1.34
Diluted earnings per share	$ 1.19	$ 1.34
Key Operating Data		
Home closings for Brookfield Residential (units)	2,930	3,411
Home closings for unconsolidated entities (units)	—	4
Average home selling price for Brookfield Residential (per unit)	$ 529,000	$ 526,000
Average home selling price for unconsolidated entities (per unit)	$ —	$ 1,328,000
Net new home orders for Brookfield Residential (units)	3,066	2,855
Net new home orders for unconsolidated entities (units)	—	3
Backlog for Brookfield Residential (units)	1,273	1,137
Backlog value for Brookfield Residential	$ 603	$ 612
Lot closings for Brookfield Residential (single family units)	3,170	2,838
Lot closings for unconsolidated entities (single family units)	1,017	554
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	43	79
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	26	16
Acre closings for Brookfield Residential (raw and partially finished)	152	19
Average lot selling price for Brookfield Residential (single family units)	$ 105,000	$ 112,000
Average lot selling price for unconsolidated entities (single family units)	$ 119,000	$ 113,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 684,000	$ 603,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ 1,017,000	$ 350,000
Average per acre selling price for Brookfield Residential (raw and partially finished)	$ 162,000	$ 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 in this Management's Discussion and Analysis (MD&A).

Segmented Information

We operate in three operating segments within North America related to our land and housing operations: Canada, California and Central and Eastern U.S. Each of the Company's segments specializes in land entitlement and development and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of risk factors. The following table summarizes information relating to revenues, gross margin and assets by operating segment for the years ended December 31, 2019 and 2018.

	Year Ended December 31	
(US$ millions, except unit activity and average selling price)	**2019**	**2018**
Housing revenue		
Canada	$ 366	$ 458
California	725	876
Central and Eastern U.S.	459	460
Total	$ 1,550	$ 1,794
Land revenue		
Canada	$ 149	$ 159
California	118	114
Central and Eastern U.S.	55	95
Corporate and Other	66	—
Total	$ 388	$ 368
Housing gross margin		
Canada	$ 55	$ 87
California	137	178
Central and Eastern U.S.	76	79
Total	$ 268	$ 344
Land gross margin		
Canada	$ 65	$ 69
California	32	35
Central and Eastern U.S.	20	25
Corporate and Other	2	—
Total	$ 119	$ 129
Home closings (units)		
Canada	1,000	1,215
California	994	1,205
Central and Eastern U.S.	936	991
	2,930	3,411
Unconsolidated entities	—	4
Total	2,930	3,415
Average home selling price		
Canada	$ 366,000	$ 377,000
California	730,000	727,000
Central and Eastern U.S.	490,000	464,000
	529,000	526,000
Unconsolidated entities	—	1,328,000
Average	$ 529,000	$ 527,000

	Year Ended December 31	
	2019	2018
Active housing communities		
Canada	35	34
California	21	26
Central and Eastern U.S.	37	28
Total	93	88
Lot closings (single family units)		
Canada	918	928
California	742	674
Central and Eastern U.S.	733	1,236
Corporate and Other	777	—
	3,170	2,838
Unconsolidated entities	1,017	554
Total	4,187	3,392
Acre closings (multi-family, industrial and commercial)		
Canada	29	42
California	—	24
Central and Eastern U.S.	14	13
	43	79
Unconsolidated entities	26	16
Total	69	95
Acre closings (raw and partially finished)		
Canada	134	19
California	18	—
Central and Eastern U.S.	—	—
Total	152	19
Average lot selling price (single family units)		
Canada	$ 117,000	$ 126,000
California	151,000	167,000
Central and Eastern U.S.	69,000	72,000
Corporate and Other	83,000	—
	105,000	112,000
Unconsolidated entities	119,000	113,000
Average	$ 109,000	$ 112,000
Average per acre selling price (multi-family, industrial and commercial)		
Canada	$ 831,000	$ 945,000
California	—	94,000
Central and Eastern U.S.	372,000	427,000
	684,000	603,000
Unconsolidated entities	1,017,000	350,000
Average	$ 805,000	$ 560,000

	Year Ended December 31	
	2019	2018
Average per acre selling price (raw and partially finished)		
Canada	$ 138,000	$ 94,000
California	343,000	—
Central and Eastern U.S.	—	—
Average	$ 162,000	$ 94,000

	As at	
	December 31 2019	December 31 2018
Active land communities		
Canada	12	13
California	4	5
Central and Eastern U.S.	12	12
	28	30
Unconsolidated entities	6	8
Total	34	38

	As at	
(US$ millions)	December 31 2019	December 31 2018
Total assets		
Canada	$ 1,095	$ 1,057
California	1,198	1,253
Central and Eastern U.S.	1,870	1,666
Corporate and other	1,396	546
Total	$ 5,559	$ 4,522

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

Year Ended December 31, 2019 Compared with Year Ended December 31, 2018

Net Income

Consolidated net income for the years ended December 31, 2019 was $198 million, compared to $182 million for the year ended December 31, 2018.

	Year Ended December 31	
(US$ millions, except per share amounts)	2019	2018
Consolidated net income	$ 198	$ 182
Net income attributable to Brookfield Residential	$ 154	$ 174
Basic earnings per share	$ 1.19	$ 1.34
Diluted earnings per share	$ 1.19	$ 1.34

The increase of $16 million in consolidated net income for the year ended December 31, 2019 compared to the same period in 2018 was primarily the result of a decrease in selling, general and administrative expense of $52 million, a decrease in income tax expense of $35 million, an increase in equity earnings from unconsolidated entities of $40 million and a decrease in interest expense of $1 million. This was partially offset by a decrease in gross margin of $86 million due to lower housing and land gross margins, an increase in lease expense of $12 million, a decrease in gain on sale of commercial assets of $6 million, and a decrease in other income of $8 million.

A breakdown of the revenue and gross margin for the years ended December 31, 2019 and 2018 is as follows:

	Year Ended December 31	
(US$ millions, except percentages)	2019	2018
Revenue		
Housing	$ 1,550	$ 1,794
Land	388	368
	$ 1,938	$ 2,162
Gross Margin		
Housing	$ 268	$ 344
Land	119	129
	$ 387	$ 473
Gross Margin (%)		
Housing	17%	19%
Land	31%	35%
	20%	22%

For the year ended December 31, 2019, total revenue decreased by $224 million and total gross margin decreased by $86 million when compared to the same period in 2018. The decrease in total revenue was primarily the result of 481 fewer home closings. The decrease in home closings was due to lower closings across all three land and housing operating segments. Total gross margin decreased primarily as a result of lower housing gross margins due to fewer closings and increased incentives provided on the homes closed, as well as a decrease in land gross margins. Total gross margin percentage decreased due to the mix of homes and land sold when compared to 2018.

Results of Operations – Housing

Housing revenue and gross margin were $1.6 billion and $268 million, respectively, for the year ended December 31, 2019, compared to $1.8 billion and $344 million for the same period in 2018. The decrease in revenue and gross margin was primarily the result of 481 fewer home closings across all three land and housing operating segments. Gross margin percentage decreased as a result of a decrease in gross margin percentage across all of our land and housing operating segments due to the mix of homes closed as well as increased incentives. Revenues are also affected by the geographic mix of homes closed, local product mix and market conditions as these factors have an impact on the selling price per home.

A breakdown of our results from housing operations for the years ended December 31, 2019 and 2018 is as follows:

Consolidated

	Year Ended December 31	
(US$ millions, except unit activity, percentages and average selling price)	2019	2018
Home closings	2,930	3,411
Revenue	$ 1,550	$ 1,794
Gross margin	$ 268	$ 344
Gross margin (%)	17%	19%
Average home selling price	$ 529,000	$ 526,000

A breakdown of our results from housing operations by our three land and housing operating segments is as follows:

Canada

(US$ millions, except unit activity, percentages and average selling price)	Year Ended December 31	
	2019	**2018**
Home closings	1,000	1,215
Revenue	$ 366	$ 458
Gross margin	$ 55	$ 87
Gross margin (%)	15%	19%
Average home selling price	$ 366,000	$ 377,000

Housing revenue for the year ended December 31, 2019 decreased by $92 million when compared to the same period in 2018, primarily due to 215 fewer home closings and a 3% lower average home selling prices. The decrease in home closings was primarily the result of fewer closings from our Ontario market, largely due to a midrise building closing in 2018, with no comparable closings in 2019. When comparing the average home selling price in Canadian dollars for the years ended December 31, 2019 and 2018, the average home selling price was C$486,000 and C$491,000, respectively, representing a decrease of 1%. The decrease was primarily due to geographic and product mix of homes closed. Gross margin decreased $32 million for the year ended December 31, 2019 when compared to the same period in 2018 primarily as a result of lower gross margin percentages across all of our markets within this operating segment. Gross margin percentage for the year ended December 31, 2019 decreased 4% when compared to the same period in 2018 primarily as a result of product mix and increased incentives on the homes closed.

California

(US$ millions, except unit activity, percentages and average selling price)	Year Ended December 31	
	2019	**2018**
Home closings	994	1,205
Revenue	$ 725	$ 876
Gross margin	$ 137	$ 178
Gross margin (%)	19%	20%
Average home selling price	$ 730,000	$ 727,000

Housing revenue for the year ended December 31, 2019 was $725 million, a decrease of $151 million when compared to the same period in 2018. The decrease in revenue was primarily due to 211 fewer home closings with the largest decrease coming from our Southern California market as a result of weaker market conditions for home orders in the last half of 2018 and in early 2019. Gross margin decreased $41 million primarily as a result of fewer home closings, and gross margin percentage declined 1% primarily due to higher incentives across California as well as product mix, with lower margin homes closed in Northern California, when compared to the same period in 2018.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	Year Ended December 31	
	2019	**2018**
Home closings	936	991
Revenue	$ 459	$ 460
Gross margin	$ 76	$ 79
Gross margin (%)	17%	17%
Average home selling price	$ 490,000	$ 464,000

Housing revenue decreased by $1 million for the year ended December 31, 2019 when compared to the same period in 2018. The decrease in revenue was primarily the result of 55 fewer home closings, partially offset by a 6% increase in the average home selling price. The decrease in home closings was primarily due to fewer closings in our Austin and Denver markets as a result of lower backlog entering 2019 due to market conditions. The increase in average selling price was primarily attributable to product mix with our Austin home closings having the greatest increase. Gross margin decreased $3 million primarily as a result of fewer 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 year ended December 31, 2019, total incentives recognized as a percentage of gross revenues increased by 1% primarily as a result of market conditions in our Canadian and California operating segments when compared to the same period in 2018.

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

	Year Ended December 31			
	2019		2018	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 23	6%	$ 11	2%
California	23	3%	16	2%
Central and Eastern U.S.	21	4%	19	4%
	$ 67	4%	$ 46	3%

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders, including our share of unconsolidated entities, for the year ended December 31, 2019 totaled 3,066 units, an increase of 208 units or 7% when compared to the same period in 2018. For the year ended December 31, 2019, the increase in net new home orders was primarily a result of higher net new orders in our Canadian operating segment, partially offset by lower net new orders in our California and Central and Eastern U.S. operating segments. The increase in net new orders in our Canadian segment was mainly due to higher net new orders in our Ontario market with a large portion of orders coming from new community openings compared to the operational focus of executing on our backlog in 2018. Net new orders in our California segment decreased as a result of lower net new orders from our Southern California market as a result of slower sales pace in the first few months of 2019 when compared to 2018, but sales pace since the 2019 spring selling season had improved. Net new orders in our Central & Eastern U.S. segment decreased as a result of lower net new orders, primarily in our Washington market. Average monthly sales per community by reportable segment for the year ended December 31, 2019 were: Canada – 3 units (2018 – 2 units); California – 3 units (2018 – 3 units); Central and Eastern U.S. – 3 units (2018 – 3 units). We were selling from 93 active housing communities at December 31, 2019 compared to 88 at December 31, 2018.

The net new home orders for the years ended December 31, 2019 and 2018 by our three land and housing operating segments were as follows:

	Year Ended December 31	
(Units)	2019	2018
Canada	1,105	717
California	952	1,051
Central and Eastern U.S.	1,009	1,087
	3,066	2,855
Unconsolidated entities	—	3
	3,066	2,858

The overall cancellation rates for the years ended December 31, 2019 and 2018 were 15% and 11%, respectively. The increase in the cancellation rates for the year ended December 31, 2019 were primarily driven by a higher number of cancellations in our Canadian operating segment primarily as a result of market conditions in Alberta and the impact of the changes to mortgage rules that occurred in 2018. The cancellation rates for the years ended December 31, 2019 and 2018 by our three land and housing operating segments were as follows:

	Year Ended December 31			
	2019		2018	
(Units, except percentages)	Units	% of Gross Home Orders	Units	% of Gross Home Orders
Canada	230	17%	39	5%
California	109	10%	146	12%
Central and Eastern U.S.	193	16%	172	14%
	532	15%	357	11%
Unconsolidated entities	—	—%	1	29%
	532	15%	358	11%

Home Sales – Backlog

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

	As at December 31			
	2019		2018	
(US$ millions, except unit activity)	Units	Value	Units	Value
Canada	556	$ 221	451	$ 198
California	219	167	261	202
Central and Eastern U.S.	498	215	425	212
Total	1,273	$ 603	1,137	$ 612

We expect all of our backlog to close between 2020 and 2022, subject to future cancellations. The units in our backlog for the year ended December 31, 2019 increased compared to the same period in 2018, primarily due to higher net new home orders, mainly in our Canadian operating segment. Our units in backlog in our Canadian operating segment increased by 105 units at December 31, 2019, when compared to December 31, 2018, primarily due to higher net new orders across all our Canadian markets. Our California segment's units in backlog decreased 42 units mainly due to a decrease in net new home orders in 2019 compared to the same period in 2018. The increase of 73 units in the Central and Eastern U.S. operating segment was primarily the result of higher units in backlog for our Austin region. Total backlog value decreased by $9 million when compared to the same period in 2018 mainly due to the mix of the homes in backlog.

Results of Operations – Land

Land revenue totaled $388 million and land gross margin totaled $119 million for the year ended December 31, 2019, an increase of $20 million and a decrease of $10 million, respectively, when compared to 2018. The increase in land revenue was primarily due to an additional 777 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 land gross margin in our Canadian and Central & Eastern U.S. operating segments, partially offset by higher land gross margins in our California operating segment. Gross margin percentage decreased by 4% due to the mix of land sold. Single family lots closed as part of the Homebuilder Finance program had gross margins of 2% 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 land and housing operating segments had 362 fewer single family lot closings and an increase in gross margin percentage of 4% when compared to the prior year. 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 years ended December 31, 2019 and 2018 is as follows:

Consolidated

(US$ millions, except unit activity, percentages and average selling price)	Year Ended December 31	
	2019	**2018**
Lot closings (single family units)	3,170	2,838
Acre closings (multi-family, industrial and commercial)	43	79
Acre closings (raw and partially finished)	152	19
Revenue	$ 388	$ 368
Gross margin	$ 119	$ 129
Gross margin (%)	31%	35%
Average lot selling price (single family units)	$ 105,000	$ 112,000
Average per acre selling price (multi-family, industrial and commercial)	$ 684,000	$ 603,000
Average per acre selling price (raw and partially finished)	$ 162,000	$ 94,000

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

Canada

(US$ millions, except unit activity, percentages and average selling price)	Year Ended December 31	
	2019	**2018**
Lot closings (single family units)	918	928
Acre closings (multi-family, industrial and commercial)	29	42
Acre closings (raw and partially finished)	134	19
Revenue	$ 149	$ 159
Gross margin	$ 65	$ 69
Gross margin (%)	44%	43%
Average lot selling price (single family units)	$ 117,000	$ 126,000
Average per acre selling price (multi-family, industrial and commercial)	$ 831,000	$ 945,000
Average per acre selling price (raw and partially finished)	$ 138,000	$ 94,000

Land revenue in Canada for the year ended December 31, 2019 was $149 million, a decrease of $10 million when compared to 2018. The decrease was primarily the result of 10 fewer single family lot closings with a 7% lower average single family lot selling prices primarily due to the mix of land sold and 13 fewer multi-family, industrial and commercial acre sales. This was partially offset by closing 134 raw and partially finished acres in 2019 with only 19 comparative sales in 2018. Gross margin decreased $4 million and gross margin percentage increased 1% primarily as a result of the mix of land sold.

California

(US$ millions, except unit activity, percentages and average selling price)	Year Ended December 31	
	2019	**2018**
Lot closings (single family units)	742	674
Acre closings (multi-family, industrial and commercial)	—	24
Revenue	$ 118	$ 114
Gross margin	$ 32	$ 35
Gross margin (%)	27%	31%
Average lot selling price (single family units)	$ 151,000	$ 167,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ 94,000

Land revenue in California for the year ended December 31, 2019 increased $4 million and gross margin decreased $3 million when compared to 2018. This was primarily due to 68 additional single family lot closings, partially offset by 10%

lower single family lot selling prices due to the mix of lots sold. Gross margin decreased $3 million as a result of higher activity and gross margin percentage decreased 4% as a result of the geographic mix of land sold, with a higher proportion coming from our Southern California master-planned communities.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	Year Ended December 31 2019	2018
Lot closings (single family units)	733	1,236
Acre closings (multi-family, industrial and commercial)	14	13
Revenue	$ 55	$ 95
Gross margin	$ 20	$ 25
Gross margin (%)	36%	26%
Average lot selling price (single family units)	$ 69,000	$ 72,000
Average per acre selling price (multi-family, industrial and commercial)	$ 372,000	$ 427,000

For the year ended December 31, 2019, Central and Eastern U.S. land revenue decreased $40 million and gross margin decreased by $5 million when compared to 2018. The decrease in revenue was primarily from 503 fewer single family lot closings due primarily to a bulk lot sale in Phoenix during 2018 with no comparable sale in the current year, and 4% lower average single family lot selling prices. Gross margin percentage increased 10% as a result of the geographic mix of land sold within the operating segment, with a higher proportion in 2019 coming from our Austin operations.

Equity in Earnings from Unconsolidated Entities - Land and Housing

Equity in earnings from land and housing unconsolidated entities for the year ended December 31, 2019 totaled $35 million, compared to $18 million for the same period in 2018. The housing and land operations of our unconsolidated entities are discussed below.

Housing

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

(US$ millions, except unit activity, percentages and average selling price)	Year Ended December 31 2019	2018
Home closings	—	4
Revenue	$ —	$ 5
Gross margin	$ —	$ 1
Gross margin (%)	—%	20%
Average home selling price	$ —	$ 1,328,000

For the year ended December 31, 2019, there were no closings in housing operations from unconsolidated entities, compared to 4 during the same period in 2018. This was the result of no active housing joint ventures as the Company acquired the remaining 50% of our housing joint venture in Hawaii in 2018.

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)	Year Ended December 31 2019	Year Ended December 31 2018
Lot closings (single family units)	1,017	554
Acre closings (multi-family, industrial and commercial)	26	16
Revenue	$ 147	$ 68
Gross margin	$ 36	$ 17
Gross margin (%)	24%	25%
Average lot selling price (single family units)	$ 119,000	$ 113,000
Average per acre selling price (multi-family, industrial and commercial)	$ 1,017,000	$ 350,000

Land revenue within unconsolidated entities increased $79 million and gross margin increased $19 million for the year ended December 31, 2019 compared to the same period in 2018. This was primarily the result of 463 additional single family lot closings primarily from our Phoenix joint ventures with 5% overall higher average selling prices. Additionally, there were 26 multi-family, industrial and commercial acre sales in 2019, compared to 16 in the same period in 2018.

Selling, General and Administrative Expense

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

(US$ millions)	Year Ended December 31 2019	Year Ended December 31 2018
General and administrative expense	$ 145	$ 165
Sales and marketing expense	115	112
Share-based compensation	(16)	19
	$ 244	$ 296

Selling, general and administrative expense was $244 million for the year ended December 31, 2019, a decrease of $52 million when compared to the same period in 2018. General and administrative expense decreased $20 million for the year ended December 31, 2019 primarily due to cost efficiencies as a result of entering into a 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 year ended December 31, 2019 increased $3 million when compared to the same period in 2018, primarily due to higher sales and marketing costs incurred to sell our homes. Share-based compensation in 2019 decreased by $35 million primarily resulting from the change in fair value of our share-based compensation liabilities for the year ended December 31, 2019 compared to the year ended December 31, 2018.

Other (Income) / Expense

The components of other (income) / expense for the years ended December 31, 2019 and 2018 are summarized as follows:

(US$ millions)	Year Ended December 31 2019	Year Ended December 31 2018
Investment income	$ (43)	(40)
Joint venture management fee income	(17)	(15)
Other	(4)	(8)
Loss on extinguishment of debt	3	—
Consent solicitation costs	6	—
	$ (55)	$ (63)

For the year ended December 31, 2019, other income decreased $8 million when compared to the same period in 2018. This was primarily the result of a loss on the extinguishment of the 2020 unsecured senior notes of $3 million, consent

solicitation costs of $6 million and a decrease in other income of $4 million. Refer to Note 12 "Notes Payable" in the consolidated financial statements for additional information relating to the consent solicitation costs and the loss on extinguishment of the 2020 unsecured senior notes. This was partially offset by a $3 million increase in investment income primarily from our preferred share dividends and a $2 million increase in joint venture management fee income.

Income Tax Expense / (Recovery)

Income tax expense for the year ended December 31, 2019 was $5 million, compared to $40 million for the year ended December 31, 2018. The components of current and deferred income tax expense are summarized as follows:

	Year Ended December 31	
(US$ millions)	**2019**	**2018**
Current income tax expense	$ 8	$ 38
Deferred income tax (recovery) / expense	(3)	2
	$ 5	$ 40

For the year ended December 31, 2019, current income tax expense decreased $30 million when compared to 2018. This was primarily due to a decrease in taxable income for 2019 in our U.S. operations and the impact of the Reorganization Transaction which resulted in our investment in Brookfield Residential US LLC ("BRUS LLC") (formerly known as Brookfield Residential US Corporation) to be held in a limited liability company treated as a partnership for tax purposes that is 10% held by the Company and 90% held by Brookfield US Inc. ("BUSI"). As a result, the Company recorded current income tax expense on 10% of the 2019 fourth quarter taxable income from our U.S. operations.

For the year ended December 31, 2019, deferred income tax expense decreased $5 million when compared to the same period in 2018. The change in deferred income taxes primarily relates to the change in geographic mix of income offset by a deferred income tax expense of $6 million recognized due to the effect of a change in the Alberta corporate tax rate during the year ended December 31, 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 December 31, 2019, the rate of exchange was C$1.2989 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 year ended December 31, 2019, the average rate of exchange was C$1.3267 equivalent to US$1 (December 31, 2018 – C$1.2957 equivalent to US$1). The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI"). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the consolidated statements of operations as other income / (expense), except for those related to monetary liabilities qualifying as hedges of the Company's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

The financial results of our Canadian operations are translated into U.S. dollars for financial reporting purposes. Foreign currency translation gains and losses are recorded as the exchange rate between the two currencies fluctuates. These gains and losses are included in OCI and accumulated OCI. The translation of our Canadian operations resulted in a gain of $36 million, for the year ended December 31, 2019, compared to a loss of $64 million in the same period in 2018.

QUARTERLY OPERATING AND FINANCIAL DATA

(US$ millions, except unit activity and per share amounts)	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Quarterly Operating Data								
Home closings (units)	882	674	763	611	1,107	827	1,019	458
Lot closings (single family units)	1,578	578	756	258	1,655	552	367	264
Acre closings (multi-family, industrial and commercial)	20	10	3	10	27	42	1	9
Acre closings (raw and partially finished)	18	134	—	—	—	—	19	—
Net new home orders (units)	671	768	867	760	506	644	782	923
Backlog (units at end of period)	1,273	1,484	1,390	1,286	1,137	1,738	1,921	2,158
Backlog value	$ 603	$ 744	$ 730	$ 685	$ 612	$ 955	$ 1,038	$ 1,182
Quarterly Financial Data								
Revenue	$ 656	$ 461	$ 476	$ 346	$ 796	$ 502	$ 589	$ 274
Direct cost of sales	(520)	(356)	(397)	(279)	(619)	(388)	(463)	(218)
Gross margin	136	105	79	67	177	114	126	56
Gain on sale of commercial properties	—	—	—	—	6	—	—	—
Selling, general and administrative expense	(53)	(60)	(65)	(66)	(93)	(72)	(71)	(60)
Interest expense	(10)	(9)	(8)	(9)	(9)	(8)	(9)	(12)
Equity in earnings from unconsolidated entities	34	9	11	4	5	4	4	5
Other income	15	12	9	14	15	18	14	12
Lease expense	(3)	(3)	(3)	(3)	—	—	—	—
Income before income taxes	119	54	23	7	101	56	64	1
Income tax (expense) / recovery	2	(5)	(6)	4	(22)	(8)	(12)	2
Net income	121	49	17	11	79	48	52	3
Net income attributable to non-controlling interest	41	1	1	1	2	4	2	—
Net income attributable to Brookfield Residential	$ 80	$ 48	$ 16	$ 10	$ 77	$ 44	$ 50	$ 3
Foreign currency translation	15	(8)	14	15	(42)	14	(15)	(21)
Comprehensive income / (loss)	$ 95	$ 40	$ 30	$ 25	$ 35	$ 58	$ 35	$ (18)
Basic	$ 0.61	$ 0.37	$ 0.12	$ 0.08	$ 0.59	$ 0.34	$ 0.38	$ 0.02
Diluted	$ 0.61	$ 0.37	$ 0.12	$ 0.08	$ 0.59	$ 0.34	$ 0.38	$ 0.02

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.

On September 26, 2019, the Company completed a reorganization (the “Reorganization Transaction”) with BUSI, a wholly-owned subsidiary of BAM, whereby the Company transferred its investment in its U.S. land development and homebuilding operations for a 12.3% economic interest and a 50% voting interest in BUSI (See Note 5 "Reorganization Transaction" of the consolidated financial statements). As a result of the Reorganization Transaction, 81% of U.S. operations is recorded in the consolidated financial statements as non-controlling interest, resulting in a $39 million increase in net income attributable to non-controlling interest when compared to the fourth quarter of 2018.

Fourth Quarter Highlights

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

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Three Months Ended December 31 2019	Three Months Ended December 31 2018
Key Financial Results		
Total revenue	$ 656	$ 796
Housing revenue	479	596
Land revenue	177	200
Gross margin ($)	136	177
Gross margin[(1)] (%)	21%	22%
Income before income taxes	119	101
Income tax recovery / (expense)	2	(22)
Consolidated net income	121	79
Net income attributable to Brookfield Residential	80	77
Basic earnings per share	$ 0.61	$ 0.59
Diluted earnings per share	$ 0.61	$ 0.59
Key Operating Data		
Home closings for Brookfield Residential (units)	882	1,107
Average home selling price for Brookfield Residential (per unit)	$ 543,000	$ 539,000
Net new home orders for Brookfield Residential (units)	671	506
Backlog for Brookfield Residential (units)	1,273	1,137
Backlog value for Brookfield Residential	$ 603	$ 612
Lot closings for Brookfield Residential (single family units)	1,578	1,655
Lot closings for unconsolidated entities (single family units)	231	239
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	20	27
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	26	—
Acre closings for Brookfield Residential (raw and partially finished parcels)	18	—
Average lot selling price for Brookfield Residential (single family units)	$ 99,000	$ 105,000
Average lot selling price for unconsolidated entities (single family units)	$ 202,000	$ 100,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 779,000	$ 941,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ 1,034,000	$ —
Average per acre selling price for Brookfield Residential (raw and partially finished parcels)	$ 343,000	$ —

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

Consolidated income for the three months ended December 31, 2019 was $121 million compared to $79 million for the same period in 2018. Net income attributable to Brookfield Residential for the three months ended December 31, 2019 was $80 million compared to $77 million for the same period in 2018.

For the three months ended December 31, 2019, total revenue decreased $140 million and gross margin decreased $41 million, when compared to the same period in 2018. The decrease in total revenue was the result of 225 fewer home closings and 77 fewer single family lot closings with 6% lower average single family lot selling prices. The decrease in total gross margin was primarily a result of lower lot and home closings combined with a lower total gross margin percentage.

For the three months ended December 31, 2019, housing revenue was $479 million compared to $596 million for the same period in 2018. Housing gross margin for the three months ended December 31, 2019 was $88 million, a $25

million decrease compared to the same period in 2018. The decrease in housing revenue was primarily due to 225 fewer home closings, partially offset by a 1% increase in the average home selling price. The decrease in housing gross margin was primarily a result of a lower gross margin percentage in our California and Canadian operating segments due to geographic and product mix of homes sold within each operating segment, as well as higher incentives provided in the Canadian segment.

Housing gross margin in the Canadian segment decreased $11 million when compared to the same period in 2018 primarily as a result of 100 fewer home closings and a 2% decrease in the housing gross margin percentage primarily due to 15% lower average home selling prices from the geographic and product mix of homes closed in the segment. The California segment's housing gross margin decreased $10 million due to 50 fewer home closings, partially offset by 1% higher average home selling prices. Central and Eastern U.S. housing gross margin decreased $4 million due to 75 fewer home closings, partially offset by a 5% increase in the average home selling price.

Land revenue for the three months ended December 31, 2019 was $177 million, a decrease of $23 million compared to 2018. The decrease in revenue was mainly the result of 77 fewer single family closings, primarily from fewer closings in our Central and Eastern U.S. operating segment. This was partially offset by having 18 raw and partially finished acre sales in 2019 with no comparative sales for the three months ended December 31, 2018.

Land gross margin was $48 million, a $16 million decrease compared to the same period in 2018. Land gross margin in Canada decreased $3 million due to lower land gross margin percentage. California land gross margin decreased $8 million due to mix of land sold. Central and Eastern U.S. land gross margin decreased $6 million due to 438 fewer single family lot closings, primarily due to a 405 single family lot sale in Phoenix during 2018, with no comparative bulk sale in 2019.

For the three months ended December 31, 2019, equity in earnings from land and housing unconsolidated entities increased $6 million when compared to the same period in 2018. The increase in equity in earnings was primarily due to an increase in the average single family lot selling price, partially offset by eight fewer single family lots closed.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's consolidated balance sheets as at December 31, 2019 and December 31, 2018:

(US$ millions)	As at December 31 2019	As at December 31 2018
Land and housing inventory	$ 3,059	$ 2,974
Investments in unconsolidated entities - land and housing	330	347
Investment in unconsolidated entities - affiliate	634	—
Commercial properties	469	270
Held-to-maturity investment	300	300
Receivables and other assets	488	480
Operating and financing lease right-of-use asset	90	—
Cash and restricted cash	124	73
Deferred income tax assets	49	62
Goodwill	16	16
	$ 5,559	$ 4,522
Notes payable	$ 1,617	$ 1,620
Bank indebtedness and other financings	228	143
Accounts payable and other liabilities	577	636
Operating and financing lease liability	93	—
Total equity	3,044	2,123
	$ 5,559	$ 4,522

Assets

Our assets as at December 31, 2019 totaled $5.6 billion. Our land and housing inventory and investments in land and housing unconsolidated entities are our most significant assets with a combined book value of $3.4 billion, or approximately 61% of our total assets. The land and housing assets increased when compared to December 31, 2018 due to land acquisitions of $400 million and 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 December 31, 2019 compared with December 31, 2018 is as follows:

	As at December 31, 2019		As at December 31, 2018	
(US$ millions, except units)	Units	Book Value	Units	Book Value
Land held for development (lot equivalents)	67,008	$ 1,386	67,104	$ 1,417
Land under development and finished lots (single family	10,492	952	10,225	839
Housing units, including models	2,054	615	1,980	654
	79,554	$ 2,953	79,309	$ 2,910
Multi-family, industrial and commercial parcels (acres)	140	$ 105	172	$ 64

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at December 31 2019	As at December 31 2018
6.50% unsecured senior notes redeemed on September 23, 2019 (a)	$ —	$ 600
6.125% unsecured senior notes due July 1, 2022 (b)	500	500
6.125% unsecured senior notes due May 15, 2023 (c)	192	183
6.375% unsecured senior notes due May 15, 2025 (d)	350	350
6.250% unsecured senior notes due September 15, 2027 (e)	600	—
	$ 1,642	$ 1,633
Transaction costs (f)	(25)	(13)
	$ 1,617	$ 1,620

(a) On December 14, 2012, the Company issued a private placement of unsecured senior notes due December 15, 2020, at an interest rate of 6.50%. On September 23, 2019, these notes were redeemed in full at a redemption price equal to 100% of their aggregate principal amount, plus accrued and unpaid interest, using cash on hand and the net proceeds from the issuance of the senior notes due in 2027.

(b) On June 25, 2013, the Company and BRUS LLC 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 BRUS LLC'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, the Company 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. Upon consummation of the Reorganization Transaction, BRUS LLC became a co-issuer of the unsecured senior notes.

(d) On May 12, 2015, the Company 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. Upon consummation of the Reorganization Transaction, BRUS LLC became a co-issuer of the unsecured senior notes.

(e) On September 23, 2019, the Company and BRUS LLC co-issued a private placement of $600 million of unsecured senior notes. The notes have an eight-year term, are due September 15, 2027 and bear interest at a fixed rate of 6.25%. The notes require semi-annual interest payments on March 15 and September 15 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. The net proceeds of the offering were used to redeem the $600 million aggregate principal amount of the unsecured senior notes due in 2020.

(f) 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. During the year ended December 31, 2019, the Company capitalized $11 million of transaction costs associated with the unsecured senior notes due in 2027. As a result of the redemption of the unsecured senior notes due in 2020, the Company recorded a loss on extinguishment of debt, which included the write-off of net unamortized transaction costs of $2 million. In addition, $8 million of consent fees were capitalized against the unsecured senior notes due in 2022, 2023 and 2025 in association with the bondholder consent obtained to implement the Reorganization Transaction. Holders who validly delivered their consents prior to the expiration date received a consent payment equal to $7.50 per $1,000 of the principal amount outstanding on the unsecured senior notes due in 2022, 2023 or 2025, as applicable.

On September 6, 2019, the Company received consents from holders of a majority of the outstanding aggregate principal amount of its (i) 6.125% unsecured senior notes due in 2023 and 6.375% unsecured senior notes due in 2025, voting together as a single class and (ii) its 6.125% unsecured senior notes due in 2022, to approve amendments to the indentures relating to each series of notes. Following the receipt of the requisite consents, the Company modified certain covenants contained in the respective indentures to permit the Company to implement the Reorganization Transaction

(see Note 5 "Reorganization Transaction" in the consolidated financial statements). In addition, for the unsecured senior notes due in 2023 and 2025 the indenture was updated to add BRUS LLC as a co-issuer.

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, net indebtedness to tangible net worth ratio, or a fixed charge coverage ratio, as applicable. Brookfield Residential was in compliance with these financial incurrence covenants as at December 31, 2019. Our actual fixed charge coverage, indebtedness to consolidated net tangible worth, and net indebtedness to tangible net worth ratio as at December 31, 2019 are reflected in the table below:

	Covenant	Actual as at December 31 2019
Minimum fixed charge coverage	2.0 to 1	2.56 to 1
Maximum indebtedness to consolidated net tangible worth	2.25 to 1	0.62 to 1
Maximum net indebtedness to consolidated net tangible worth	3.0 to 1	0.60 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings as at December 31, 2019 were $228 million, an increase of $85 million from December 31, 2018. The increase was primarily the result of borrowings to fund the construction at our Nashville mixed-use project, 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 properties are constructed. As of December 31, 2019, the weighted average interest rate on our bank indebtedness and other financings was 4.8% (December 31, 2018 – 4.4%).

The debt maturing in 2020 and onwards is expected to either be refinanced or repaid from home and/or lot closings over this period. Additionally, as at December 31, 2019, we had bank indebtedness capacity of $610 million that was available to complete land development and construction activities. The “Cash Flow” section below discusses future available capital resources should proceeds from our future home and/or lot closings not be sufficient to repay our debt obligations.

Bank indebtedness and other financings consists of the following:

	As at	
(US$ millions)	December 31 2019	December 31 2018
Project-specific financings (a)	180	35
Secured VTB mortgages (b)	55	29
Bank indebtedness (c)	—	89
Due to affiliates (d)	—	—
	235	153
Transaction costs (a)(b)	(7)	(10)
	$ 228	$ 143

(a) Project-specific financings

(i) At December 31, 2019, the Company has two Canadian project-specific financings totaling $47 million (C$62 million) provided by various lenders (December 31, 2018 - $35 million (C$48 million)).

Project-specific financing totaling $40 million (C$52 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 (December 31, 2018 - $27 million (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 December 31, 2019.

The following table reflects the debt to equity ratio covenant:

	Covenant		Actual as at December 31 2019	
Maximum debt to equity ratio	1.50	to 1	1.00	to 0.64

Project-specific financing totaling $7 million (C$9 million), held by a joint venture in our Alberta operations, a consolidated subsidiary of the Company, has an interest rate of Canadian Prime + 0.5%, matures in 2020, and is unsecured without covenants (December 31, 2018 - $8 million (C$11 million)).

(ii) On November 29, 2018, OliverMcMillan Spectrum Emery LLC entered into a five-year secured construction loan for the Nashville mixed-used project. The loan allows OliverMcMillan Spectrum Emery LLC to borrow up to $360 million. As at December 31, 2019, there were $133 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 BRUS LLC 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 December 31, 2019. The following table reflects the covenants:

(US$ millions)	Covenant	Actual as at December 31 2019
Minimum liquidity	$ 36	$ 659
Minimum net worth	$ 360	$ 1,189

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.

(b) Secured VTB mortgages

Eight secured VTB mortgages (December 31, 2018 – nine secured VTB mortgages) in the amount of $26 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$34 million (December 31, 2018 – C$34 million). The interest rate on this debt ranges from fixed rates of 4% to 6% and variable rates of Canadian prime plus 1% to prime plus 2% and the debt is secured by related land. As at December 31, 2019, one secured VTB in our Alberta operations is subject to a minimum shareholder's equity covenant of Brookfield Residential (Alberta) LP of $200 million. The following table reflects the minimum shareholder's equity covenant:

(US$ millions)	Covenant	Actual as at December 31 2019
Minimum shareholder's equity	$ 200	$ 634

As at December 31, 2019, the remaining borrowings are not subject to any financial covenants.

Five secured VTB mortgages (December 31, 2018 – three secured VTB mortgages) in the amount of $29 million (December 31, 2018 – $4 million) relate to raw land held for development by various 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 December 31, 2019, these borrowings are not subject to any financial covenants.

(c) Bank indebtedness

(i) On March 8, 2018, the Company and BRUS LLC 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 LLC 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 December 31, 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 $1.4 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at December 31, 2019, the Company was in compliance with all of our covenants relating to this facility. The following table reflects consolidated tangible net worth and consolidated total debt to capitalization covenants:

(US$ millions, except percentages)	**Covenant**	**Actual as at December 31 2019**
Minimum tangible net worth	$ 1,361	$ 3,029
Maximum total debt to capitalization	65%	38%

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.

(d) 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 BAM. The principal is repayable on demand. Interest is charged on the principal at a rate of LIBOR plus 1.50%. As at December 31, 2019, the Company had no borrowings outstanding. These borrowings are not subject to financial covenants. For the year ended December 31, 2019, the Company paid $2 million of interest.

Net Debt to Capitalization Calculation

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

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

	As at	
(US$ millions, except percentages)	**December 31 2019**	**December 31 2018**
Bank indebtedness and other financings	$ 228	$ 143
Notes payable	1,617	1,620
Total interest bearing debt	1,845	1,763
Less: cash	(110)	(70)
	1,735	1,693
Total equity	3,044	2,123
Total capitalization	$ 4,779	$ 3,816
Net debt to total capitalization	36%	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 December 31, 2019 were as follows:

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

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issuer of securities. Agency ratings are subject to change, and there can be no assurance that a rating agency will rate us and/or maintain our rating.

Cash Flow

Our principal uses of working capital include acquisitions of land, land development, 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 December 31, 2019, we had cash and cash equivalents, including restricted cash, of $124 million, compared to $73 million at December 31, 2018.

The net cash flows for the year ended December 31, 2019 and 2018 were as follows:

	Year Ended December 31	
(US$ millions)	2019	2018
Cash flows used in operating activities	$ (157)	$ (100)
Cash flows provided by / (used) in investing activities	63	(28)
Cash flows provided by financing activities	146	95
Effect of foreign exchange rates on cash	(1)	(2)
	$ 51	$ (35)

Cash Flow Used in Operating Activities

Cash flows used in operating activities during the year ended December 31, 2019 totaled $157 million, compared to $100 million for 2018. During the year ended December 31, 2019, cash used in operating activities was primarily impacted by our net income, an increase in commercial properties, an increase in land and housing inventory due to land development, home construction and strategic land purchases, an increase in receivables and other assets, a decrease in accounts payable and other liabilities and a decrease in operating lease liabilities. Acquisitions of land and housing inventory for the year ended December 31, 2019 totaled $401 million, consisting of $56 million in Canada, $200 million in California, $61 million in Central and Eastern U.S and $84 million in Corporate and Other relating to our Homebuilder Finance program. The increase in commercial properties of $197 million was largely due to continued construction at our Nashville mixed-use development project. During the year ended December 31, 2018, cash used in operating activities was impacted by our net income, an increase in commercial properties, an increase in land and housing inventory due to strategic land purchases, an increase in receivables and other assets, development and construction activity, and an increase in accounts payable and other liabilities. Acquisitions for the year ended December 31, 2018 totaled $301 million, consisting of $58 million in Canada, $182 million in California and $61 million in Central and Eastern U.S. The increase in commercial properties was largely due to the acquisition of the remaining 90% interest not already owned in our Nashville mixed-use development project as well as increased development of the project subsequent to acquisition.

Cash Flow Provided by / (Used In) Investing Activities

During the year ended December 31, 2019, cash flows provided by investing activities totaled $63 million compared to cash flows used in our investing activities of $28 million for the same period in 2018. During the year ended December 31, 2019, we received $300 million from the full redemption of our held-to-maturity investment in Brookfield BPY Holdings Inc., invested $300 million into our held-to-maturity investment in Brookfield International Limited and received cash dividends relating to these investments of $9 million. We also received $66 million in distributions from our land and housing unconsolidated entities, collected $19 million on our loan receivables, and acquired $6 million of cash from the Reorganization Transaction. This was partially offset by our investment of $37 million in land and housing unconsolidated entities primarily in our joint ventures in Southern California. During the year ended December 31, 2018, we invested $93 million in land and housing unconsolidated entities primarily as a result of the OliverMcMillan acquisition as well as our joint ventures in Southern California. This was partially offset by cash dividend from our held-to-maturity investment, a decrease in real-estate loan receivables and distributions from land and housing unconsolidated entities.

Cash Flow Provided by Financing Activities

Cash flows provided by our financing activities for the year ended December 31, 2019 totaled $146 million, compared to $95 million for the same period in 2018. The cash provided by our financing activities during the year ended December 31, 2019 was primarily from $153 million net borrowing under project-specific and other financings and $104 million from the sale of interests in consolidated subsidiaries. This was partially offset by net repayments on our bank indebtedness of $77 million, payments of debt issuance costs of $19 million, and net contributions to non-controlling interest of $15 million. Additionally, during the year ended December 31, 2019, the Company's unsecured senior notes due in 2020 were redeemed in full using the net proceeds from the issuance of the unsecured senior notes due in 2027, together with cash on hand. A total of $11 million in debt issuance costs were incurred with the issuance of the unsecured senior notes due in 2027 and $8 million in consent fees were paid relating to the senior notes due in 2022, 2023 and 2025. For the year ended December 31, 2018 there were borrowings under bank indebtedness of $82 million, net borrowings under project-specific and other financings of $25 million and net distributions from land and housing non-controlling interest of $8 million.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at December 31, 2019 is as follows:

	Payment Due By Period				
(US$ millions)	Total	Less than 1 Years	1 – 3 Years	3 – 5 Years	More than 5 Years
Notes payable[1]	$ 1,642	$ —	$ 500	$ 192	$ 950
Interest on notes payable	555	101	204	126	124
Secured VTB mortgages[2][3]	54	30	22	2	—
Bank indebtedness[2][3]	—	—	—	—	—
Project-specific financings[2][3]	180	40	7	133	—
Accounts payable and other liabilities[4]	577	577	—	—	—
Operating and financing lease obligations[5]	93	3	8	8	74
Purchase agreements and other obligations[6]	170	57	97	9	7

(1) Amounts are included on the consolidated balance sheets and exclude transaction costs. See Note 12 to the consolidated financial statements for additional information regarding unsecured senior notes payable.

(2) Amounts are included on the consolidated balance sheets. See Note 13 to the consolidated financial statements for additional information regarding bank indebtedness and other financings and related matters.

(3) Amounts do not include interest due to the floating nature of the interest on our debt. See Note 13 to the consolidated financial statements for additional information regarding our floating rate debt.

(4) Amounts are included on the consolidated balance sheets. See Note 14 to the 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 22 to the consolidated financial statements for additional information regarding lease agreements.

(6) See Note 23 to the consolidated financial statements for additional information regarding purchase agreements and other obligations.

Shareholders’ Equity

At March 3, 2020, 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 March 3, 2020, 12,388,886 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the year ended December 31, 2019.

Off-Balance Sheet Arrangements

In the ordinary course of business, and where market conditions permit, we enter into land and lot option contracts and invest in unconsolidated entities to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time until the options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of December 31, 2019, we had $99 million of primarily non-refundable option deposits and advanced costs. The total remaining exercise price of these options was $96 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 consolidated financial statements included elsewhere in this annual 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 7,091 lots and control under option 1,001 lots through our proportionate share of land and housing unconsolidated entities. As of December 31, 2019, our investment in land and housing unconsolidated entities totaled $330 million. We have provided varying levels of guarantees of debt in our land and housing unconsolidated entities. As of December 31, 2019, we had recourse guarantees of $6 million with respect to debt in our land and housing unconsolidated entities. During the year ended December 31, 2019, we did not make any loan re-margin repayments on the debt in our land and housing unconsolidated entities. Please refer to Note 6 “Investments in Unconsolidated Entities” to our consolidated financial statements included later in this annual report for additional information about our investments in unconsolidated entities.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of December 31, 2019, we had $67 million in letters of credit outstanding and $580 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds as at December 31, 2019 are $38 million and $194 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 years ended December 31, 2019 and 2018 were as follows:

- During the year ended December 31, 2019, the Company entered into a $300 million deposit agreement with a subsidiary of BAM and no borrowings were outstanding under the facility at December 31, 2019. During the year ended December 31, 2019, the Company paid $2 million of interest relating to the deposit agreement.
- During the year ended December 31, 2019, the Company entered into a management agreement with our service providers, Brookfield Properties Development, wholly-owned subsidiaries of BAM. The management fee is determined by an allocation of expenditures based on time spent. During the year ended December 31, 2019, the Company incurred and paid $25 million of management fees (year ended December 31, 2018 - $nil). These transactions were recorded at the exchange amount.
- During the year ended December 31, 2019, the Company received $300 million from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. The Company also received $7 million of dividends from these preferred shares for the year ended December 31, 2019 (year ended December 31, 2018 - $21 million). These transactions were recorded at the exchange amount.
- During the year ended December 31, 2019, the Company purchased $300 million of preferred shares of Brookfield International Ltd., a subsidiary of BAM. During the year ended December 31, 2019, the Company earned $14 million of preferred share dividends, where $2 million was collected and $12 million was recorded as a receivable from BAM. The transactions were recorded at the exchange amount.

- On September 26, 2019, the Company completed the Reorganization Transaction (see Note 5 "Reorganization Transaction" of the consolidated financial statements for details) with BUSI, a wholly-owned subsidiary of BAM, whereby the Company transferred its investment in its U.S. land development and homebuilding operations for a 12.3% economic interest and a 50% voting interest in BUSI. This transaction has been treated as a common control transaction.
- During the year ended December 31, 2019, the Company sold 34% of its Homebuilder Finance program to a wholly-owned subsidiary of BAM for consideration of $60 million. The transaction was recorded at the exchange amount.
- During the year ended December 31, 2019, the Company paid $0.2 million to BAM for Canadian tax credits (year ended December 31, 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.

BUSINESS ENVIRONMENT AND RISKS

The following is a review of certain risks that could adversely impact our financial condition and results of operations. Additional risks and uncertainties not previously known to the Company, or that the Company currently deems immaterial, may also impact our operations and financial results.

Risks related to the business and industry of the Company

The land development and homebuilding industry is significantly affected by changes in general and local economic and political conditions as well as real estate markets, which could reduce sales and profits, cause cancellations of home sales orders and materially negatively affect our business, results of operations and financial condition.

The land development and homebuilding industry is cyclical and is significantly affected by changes in general and local economic, political and industry conditions such as:

- employment and wage levels;
- availability and cost of financing for homebuyers including private and federal mortgage financing and mortgage insurance programs, as well as federal, provincial and state regulation of lending practices;
- regulatory changes, including zoning laws;
- interest rates;
- competitive and market supply and demand dynamics in our key markets, including those enabling existing homeowners to sell their existing homes at acceptable prices;
- the supply of available new or existing homes for sale, as well as other housing alternatives, such as apartments and residential rental property;
- foreclosure rates;
- inflation;
- real estate taxes, federal, provincial and state property and income tax provisions (including provisions for the deduction of mortgage interest payments and state property taxes and income tax rates and brackets in the United States), and any adverse changes in tax laws;
- the level of household debt affecting our customer base;
- the cost and availability of labor, materials and supplies;
- the Canadian, U.S. and global financial system and credit markets, including stock market, commodities market, currency market and credit market volatility;
- the supply of land suitable for development in our markets in Canada and the United States;
- consumer confidence;
- demographic housing trends, including population rates in our key markets, immigration rates and urban and suburban migration rates;
- decreases in rental rates for our mixed-use projects;
- an increase in competition for tenants and customers or decrease in demand by tenants and customers of our mixed-use properties;
- the financial condition of tenants in our mixed-use developments;
- an increase in operating costs that cannot be passed through to tenants of our mixed-use properties; and
- an inability to secure tenants or anchors necessary to support our mixed-use projects.

These factors could have a negative impact on housing demand and supply, which would negatively affect our business, results of operations and financial condition. For example, an oversupply of housing in general, as well as new home alternatives such as foreclosed homes, rental properties and resale homes, including homes held for sale by investors and speculators, may reduce our sales, depress prices and reduce margins, which could materially negatively affect our business, results of operations and financial condition. Despite some recent recovery, the U.S. and Canadian land development and homebuilding industry continues to face a number of challenges, with home foreclosures and tight credit standards continuing to have an effect on inventory and new home sale rates and prices.

In fiscal 2019, we experienced a steadily improving housing market; however, especially in the U.S. market, the prior economic downturn resulted in reduced homebuyer confidence, due principally to price declines, the number of foreclosures and low wage growth, which led some homebuyers to cancel or fail to honor their home sales contracts altogether. With consumer confidence being affected by affordability due to interest rate uncertainty, increased cost pressures leading to house price escalations, our U.S. operations may experience a slowdown of homebuyer traffic. We cannot predict whether recovery in the housing market will continue and improve these conditions. A more restrictive mortgage lending environment and the inability of some buyers to sell their existing homes has also impacted cancellations and reduced our ability to realize our backlog.

An economic downturn in Ontario or Alberta, Canada or challenging real estate markets in the United States could have a material adverse effect on our business, operating results and financial condition.

Our Canadian markets continue to be materially impacted by the changes to the mortgage rules as homebuyers adjust to what they can now afford as a result of the stress test combined with government policies relating to the Ontario real estate market and the Alberta energy sector surrounding pipeline approvals. Our Alberta operations will continue to be challenged due to the economic conditions stemming from amongst other things, the volatility in the price of crude oil, natural gas and other refined products and market access constraints. Any economic downturn, increase in unemployment, increase in interest rates, decrease in immigration or other changes in the general and local market, could have a material adverse effect on our Canadian operations and financial condition.

The housing market in the United States has experienced a severe downturn in previous years, exacerbated by, among other things, a decline in the overall economy, high unemployment, fear of job loss, volatility in the securities markets, an increase in the number of homes that are or will be available for sale due to foreclosures, an inability of homebuyers to sell their current homes, a deterioration in the credit markets and the direct and indirect impact of the turmoil in the mortgage loan market. For example, the significant number of home mortgage foreclosures made the purchase of a foreclosed home an attractive alternative to purchasing a new home in some markets, which increased supply of homes and drove prices down further. Homebuilders responded to declining sales and increased cancellation rates on home purchase contracts with significant concessions, further adding to the price declines. With the decline in the values of homes and the inability of many homeowners to make their mortgage payments, the credit markets were significantly disrupted, putting strains on many households and businesses. In the face of these conditions, the overall economy weakened significantly, with high unemployment levels and substantially reduced consumer spending and confidence. As a result, demand for new homes hit historically low levels.

Although the U.S. housing market has shown signs of recovery, many of the factors contributing to the downturn remain and improved conditions did not extend consistently to every market in which we operate. We expect these uneven conditions to continue.

If the current U.S. housing market does not continue to improve or improvement takes place over an extended period of time, or if similar conditions affect the Canadian homebuilding industry, our business, results of operations and financial condition may be materially adversely affected.

The current economic environment also continues to impact the industry for retail and office properties. Some commercial tenants are experiencing financial pressure and are continuing to place demands on landlords to provide rent concessions. The financial hardships on some tenants are so severe they may leave the market entirely or declare bankruptcy, creating fluctuating vacancy rates in commercial properties. Tenants in good financial condition often consider offers from competing projects and may wait for the best possible deal before committing. The foregoing conditions could adversely affect our results of operations from our mixed-use projects.

If the market value of our land and housing inventories declines, our business, results of operations and financial condition could be materially adversely affected by impairments and write-downs, as well as if we cannot recover our costs fully when selling homes.

We acquire land in the ordinary course of our business. There is an inherent risk that the value of our land may decline after purchase, which also may affect the value of our housing inventories and homes under construction. The valuation of property is inherently subjective and based on the individual characteristics of each property, as well as general and local real estate market conditions. The risks discussed elsewhere in this section can cause these conditions to change and thereby subject valuations to uncertainty.

Moreover, all valuations are made on the basis of assumptions that may not prove to reflect economic or demographic reality. We may acquire options on or buy and develop land at a cost we will not be able to recover fully or on which we cannot build and sell homes profitably. For example, if housing demand decreases below what we anticipated when we acquired or developed our inventory, we may not be able to recover the related costs when selling homes. In addition, our deposits for building lots under option or similar contracts may be put at risk.

We regularly review the value of our land holdings and will continue to do so on a periodic basis. If market conditions deteriorate, our assumptions prove to be inaccurate or the value of our property otherwise declines, some of our assets may be subject to impairments and write-down charges, which could materially adversely affect our business, results of operations and financial condition. In addition, if we sell land or homes at a loss, our results of operations and financial condition could be materially adversely affected.

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

In recent years, many provincial, state, regional and local governments in our served markets have struggled to balance their budgets due to a number of factors. As a result, there have been significant cuts to government departments, subsidies, programs and public employee staffing levels, while taxes and fees have been increased. Lawmakers' efforts at all governmental levels to address these budget deficit issues and/or efforts to increase governmental revenues could,

among other things, cause businesses and residents to leave, or discourage businesses or households from coming to, affected served markets, thereby limiting economic growth and/or resulting in significant delays and/or higher costs in obtaining required inspections, permits or approvals with respect to the development of our communities located in such markets. These negative impacts could adversely affect our ability to generate orders and revenues and/or to maintain or increase our housing gross profit margins in such markets, and the impact could be material and adverse to our consolidated financial statements.

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

Virtually all of the purchasers of our homes finance their acquisitions through mortgage financing. The Federal Reserve Bank of the United States increased interest rates in December 2015 for the first time since 2006 and has increased interest rates again several times since then, including in 2018 although in 2019, interest rates decreased several times. In Canada, the Bank of Canada increased the interest rates in July 2017 for the first time since 2010 and increased interest rates again several times since then, including in 2018. A further increase in interest and mortgage rates, which may occur in both the United States and Canada in the near future, or a reduction in the availability of mortgage financing could depress new home sales because the increased effective monthly costs of mortgage financing would discourage potential homebuyers. Tax law changes can have a similar impact. See "Tax law changes could make home ownership more expensive or less attractive, which could have an adverse impact on demand for and sales prices of new homes." Even if potential purchasers do not need financing, these conditions could make it harder for them to resell their homes in the future, which would discourage potential homebuyers. These conditions could also increase cancellation rates on home purchase contracts, which would reduce our ability to realize our backlog. As a result, increased interest and mortgage rates and reduced mortgage availability could materially adversely affect our ability to sell new homes and the price at which we can sell them, which would have a material adverse effect on our business, results of operations and financial condition.

More restrictive mortgage regulation and fewer mortgage products could adversely affect our ability to sell new homes.

In Canada, bank regulators, the Ministry of Finance, CMHC and the Bank of Canada work in concert to manage mortgage lending practices. In addition, mortgage insurance is mandatory for mortgages with a loan-to-value ratio greater than 80%. This insurance covers the entire loan amount for its full duration. During the past seven years, mortgage insurance rules have been tightened to shorten amortization periods, increase minimum equity requirements and limit the insured loan amounts, all of which have made access to mortgages more difficult and have negatively impacted homebuyers' ability to purchase homes.

Canadian mortgage rules subject home buyers with down payments of 20% or more to stricter qualifying criteria that determine whether a homebuyer will be able to afford their principal and interest payments. The criteria uses the higher of the Bank of Canada's 5-year benchmark rate (currently 5.19%) or the potential home buyer's mortgage interest plus 2%. The rules, which came into effect on January 1, 2018, apply to new mortgage loan agreements and have decreased the borrowing and purchasing power of home buyers. The rules, along with the rising interest rates, have affected the purchasing power of new homebuyers and their ability to secure mortgage financing, negatively impacting the sale of new homes and the price at which we can sell them. The Canadian government has also introduced a new shared equity mortgage program to assist first-time homebuyers. However, we anticipate the benefits to prospective homebuyers from this program to be marginal.

Prior to the recent volatility in the financial markets in the United States, a variety of mortgage products were available. As a result, more homebuyers were able to qualify for mortgage financing. Since 2007, however, there has been a significant decrease in the type of mortgage products available and a general increase in the qualification requirements for mortgages. Fewer loan products and tighter loan qualifications make it more difficult for some homebuyers to finance the purchase of new homes. This, coupled with higher mortgage interest rates for some mortgage products, has discouraged people from buying new homes. Beginning in January 2014, the U.S. Consumer Financial Protection Bureau began to enforce new rules regarding the origination of mortgages, including criteria for “qualified mortgages”. In December 2017, U.S. regulations regarding "risk retention" for securitizations, including securitizations of residential mortgages, went into effect. Other new regulations are forthcoming as required to be implemented pursuant to the U.S. Dodd-Frank Act of 2010. These new regulations could increase the difficulty of obtaining mortgage financing and result in higher mortgage interest rates, further discouraging new home purchases.

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

Tax law changes could make home ownership more expensive or less attractive, which could have an adverse impact on demand for and sales prices of new homes.

In the United States, unlike in Canada, significant expenses incurred for purposes of owning a home, including mortgage interest expense and real estate taxes, generally are deductible expenses for an individual's U.S. federal and, in some cases, state income taxes, subject to various limitations under current tax law and policy. On December 22, 2017, the Tax Cuts and Jobs Act was enacted which limited the federal deduction for mortgage interest so that it only applies to the first $750,000 of a new mortgage (as compared to $1 million under previous tax law) and introduced a $10,000 cap on the federal deductions for state and local taxes. These changes are in effect for taxable years 2018 through 2025. These changes may adversely impact demand for and sales prices of new homes.

If the U.S. federal government or a state government further changes its income tax laws, eliminating or substantially modifying these income tax deductions, the after-tax cost of owning a new home would increase for many potential purchasers of our homes. Increases in property tax rates by local governmental authorities, as experienced in response to reduced federal, state and provincial funding, can adversely affect the ability of potential purchasers of our homes to obtain financing or their desire to purchase new homes. In addition, increases in sales and other taxes could discourage potential homebuyers from purchasing one of our homes.

Any resulting loss or reduction of homeowner tax deductions, if such tax law changes were enacted without offsetting provisions, or any other increase in any taxes affecting homeowners, would adversely impact demand for and sales prices of new homes.

We may be unable to renew leases or re-lease space in our mixed-use properties as leases expire.

When our tenants decide not to renew their leases upon their expiration, we may not be able to re-lease the space. Even if tenants do renew or we can re-lease the space, the terms of renewal or new lease, taking into account, among other things, the cost of improvements to the property and leasing commissions, may be less favorable than the terms in the expired leases. In addition, changes in space utilization by our tenants may impact our ability to renew or re-lease space without the need to incur substantial costs in renovating or redesigning the internal configuration of the relevant property. If we are unable to promptly renew the leases or re-lease the space at similar rates or if we incur substantial costs in renewing or obtaining new leases for the space, our cash flow and results of operations could be adversely affected.

Our results of operations and cash flows may be adversely affected by vacancies and tenant defaults or bankruptcy in our mixed-use properties.

Our results of operations and cash flows may be adversely affected if we are unable to continue leasing a significant portion of our mixed-use projects. We depend on office, retail and apartment tenants to generate income from these projects. The current market conditions have negatively impacted these tenants on many levels. Despite improvement in certain economic measures, it will take time for many of our current or prospective tenants to achieve a financial outlook similar to what they had prior to the recession in 2007, if ever. The downturn has been particularly hard on retail tenants, many of whom have announced store closings and scaled back growth plans. If we are unable to sustain historical occupancy levels in our mixed-use real estate portfolio, our cash flows and results of operations could be adversely affected.

Our results of operations and cash flows may be adversely affected if a significant number of our tenants in our mixed-use projects default on their obligations to us. A default by a tenant may result in the inability for that tenant to re-lease space from us on economically favorable terms, or at all. In the event of a default by a tenant, we may experience delays in payments and incur substantial costs in recovering our losses.

In addition, our ability to collect rents and other charges will be difficult if the tenant is bankrupt or insolvent. The potential bankruptcies of tenants could make it difficult for us to enforce our rights as lessor and protect our investment.

Residential land development and homebuilding is a highly competitive industry, and competitive conditions may adversely affect our results of operations.

The residential land development and homebuilding industry is highly competitive. Residential land developers and homebuilders compete not only for homebuyers, but also for desirable properties, building materials, labor and capital. We compete with other local, regional and national homebuilders, often within larger communities designed, planned and developed by those homebuilders. Any improvement in the cost structure or service of these competitors will increase the competition we face. We also compete with the resale of existing homes including foreclosed homes, sales by housing speculators and investors and rental housing. These competitive conditions could result in difficulty in acquiring suitable land at acceptable prices, increased selling incentives, lower sales volumes and prices, lower profit margins, impairments in the value of our inventory and other assets or increased construction costs and delays in construction, any of which could adversely affect our business, results of operations and financial condition.

Any increase in unemployment or underemployment may lead to an increase in the number of loan delinquencies and property repossessions and could reduce our sales.

People who are unemployed, underemployed or concerned about the loss, or potential loss, of their jobs are less likely to purchase new homes, may be forced to try to sell the homes they own and may face difficulties in making required mortgage payments. Therefore, any increase in unemployment or underemployment may lead to an increase in the number of loan delinquencies and property repossessions and may have an adverse impact on us both by reducing demand for the homes we build and by increasing the supply of homes for sale, which could reduce our sales, adversely affecting our business and results of operations.

Higher cancellation rates of home purchase contracts may have an adverse effect on our business, financial condition and results of operations.

Our backlog reflects agreements of sale with homebuyers for homes that have not yet been delivered. If prices for new homes decline, interest rates increase, the availability of mortgage financing diminishes, current homeowners find it difficult to sell their current homes, there is a further downturn in local, regional or national economic conditions or competitors increase their use of sales incentives, homebuyers may cancel their existing home purchase contracts with us in order to negotiate a lower price or because they cannot, or become reluctant to, complete the purchase.

In cases of cancellation, we remarket the home and usually retain any deposits we are permitted to retain. We may not have any recourse against the homeowners other than retention of their deposit, and the deposits may not cover the additional costs involved in remarketing the home and carrying of higher inventory. A significant number of cancellations could adversely affect our business, results of operations and financial condition.

Our business is seasonal in nature and quarterly operating results can fluctuate.

Our quarterly operating results generally fluctuate by season. We typically experience the highest rate of orders for new homes in the first nine months of the calendar year, although the rate of orders for new homes is highly dependent upon the number of active communities. Because new home deliveries trail orders for new homes by several months, we typically deliver a greater percentage of new homes in the second half of the year compared with the first half of the year, which is typically when we would receive payment. As a result, our revenues from sales of homes are generally higher in the second half of the year. If, due to construction delays or other reasons, including seasonal natural disasters such as hurricanes, tornadoes, floods and fires, we are unable to deliver our expected number of homes in the second half of the calendar year, the full year results of operations may be adversely affected. In many cases, we may not be able to recapture increased costs by raising prices because we fix our prices in advance of delivery by signing new sales contracts.

Our business, results of operations and financial condition could be adversely affected by significant inflation or deflation.

Inflation can adversely affect us by increasing costs of land, materials and labor. We may not be able to offset inflation-related cost increases because inflation can lead to an oversupply of homes relative to demand, which would make it difficult for us to increase the sales prices of homes. Moreover, our costs of capital could increase with inflation, and the purchasing power of our cash resources could decline. Governmental efforts to stimulate the economy have increased the risk of inflation and its resulting adverse impact on our business, results of operations and financial condition. In addition, inflation is often accompanied by higher interest rates as a result of changes to national monetary policies, which have a negative impact on mortgage financing and housing demand. In such an environment, we may not be able to raise home prices sufficiently to keep up with the rate of inflation.

On the other hand, a significant period of deflation could cause a decrease in overall spending and borrowing levels. This could lead to a further deterioration in economic conditions, including an increase in the rate of unemployment. Deflation could also cause the value of our inventories to decline or reduce the value of existing homes below the related mortgage loan balance, which could potentially limit market activity.

Any of these factors affecting one of our master-planned communities, a region or our business as a whole, many of which are beyond our control, could cause our business, results of operations and financial condition to deteriorate.

Extensive and complex regulation affecting the land development and homebuilding industry subject us to restrictions, additional costs and delays, which could limit our homebuilding or other activities or increase our expenses, which would adversely affect our business and results of operations.

We must comply with extensive and complex local, provincial, state and federal regulation affecting the land development and homebuilding industry. This includes regulation concerning building, health and safety, environmental and zoning matters, among others. Governmental regulation also affects sales activities, mortgage lending activities and other dealings with customers.

In particular, we are required to obtain the approval of numerous governmental authorities regulating matters such as permitted land uses, levels of density, the installation of utility services, zoning and building standards. These governmental authorities often have broad discretion to impose significant conditions to these approvals, if they are granted at all. The industry also has experienced an increase in regulation that limits the availability or use of land. Certain jurisdictions in which we operate have in the past approved, or approved for inclusion on their ballot, various "slow growth" or "no growth" initiatives that negatively impact the availability of land and building opportunities within those localities. Further similar initiatives would reduce our ability to operate in those areas, including where we may already own land, as well as cause delays and increase our costs and administration requirements.

In addition, new development projects may be subject to various assessments for schools, parks and other open spaces, new or improved streets and highways, adequate water and sewage facilities and other local services, and may be required to include low and moderate income housing. The costs of these services can be substantial, and if developers are required to fund some or all of the costs, our expenses would increase. These assessments may also raise the price that homebuyers must pay for our homes, which could reduce our sales. In addition, expanded energy efficiency regulation may be implemented in Canada or the United States, which, even if phased in over time, could significantly increase our costs of building homes and the prices of our homes, which could increase our expenses and reduce our sales. Furthermore, municipalities may restrict or place moratoriums on the availability of utilities such as water and sewage facilities.

We incur substantial costs related to compliance with regulatory requirements. Changes in applicable regulation or changes in circumstances may require us to apply for additional approvals or modify our existing approvals, and may impose other new restrictions or requirements that may cause us to determine that a property is not feasible for development or otherwise limit or delay our activities, or impose substantial additional costs and administration requirements. Legal challenges to our proposed communities brought by governmental authorities or private parties could have a similar impact. All of these consequences could materially adversely affect our business, results of operations or financial condition.

Regulations related to the protection of the environment, health and safety subject us to additional costs and delays which could adversely affect our business and results of operations.

We must comply with various regulations concerning the protection of the environment, health and safety. These regulations cover, for example: the discharge of pollutants, including asbestos, into the water and air; the handling of hazardous or toxic materials; and the clean-up of contaminated sites currently or formerly owned, leased or occupied by us. This environmental regulation results in substantial potential risk and liability, whether or not we caused or knew of the pollution, and can severely restrict land development and homebuilding activity in environmentally sensitive regions or areas. The presence of hazardous or toxic substances, or the failure to remediate such substances properly, may also adversely affect our ability to sell the land or to borrow using the land as security. Environmental regulations sometimes result in delays and could cause us to implement time-consuming and expensive compliance programs. They can also have an adverse impact on the availability and price of certain raw materials, such as lumber.

Furthermore, we could incur substantial costs, including clean-up costs, fines, penalties and other sanctions and damages from third-party claims for property damage or personal injury, as a result of our failure to comply with, or liabilities under, applicable environmental laws and regulations. In addition, we are often subject to third-party challenges, such as by environmental groups, under environmental laws and regulations to the permits and other approvals required for our construction activities.

Difficulty in obtaining or retaining qualified trades workers and other labor relations issues could delay or increase the cost of home construction, which would adversely affect our business and results or operations.

Land developers and homebuilders are subject to risks related to labor and services, including shortages of qualified tradespeople. They may also face challenges as a result of unionization and labor disputes, for example, in the context of collective bargaining.

We depend on the continued availability of and satisfactory performance by subcontractors for the construction of our homes. In addition, the difficult operating environment over the last ten years in the United States has resulted in the failure of some subcontractors' businesses and may result in further failures. Furthermore, restrictions on immigration can create a shortage of skilled labor which may be exacerbated by policies and reforms implemented by the current U.S. federal government.

We are party to a collective bargaining agreement with the Universal Workers Union L.I.U.N.A. Local 183 pursuant to which we are required to use union members in connection with construction projects undertaken in Simcoe County, an area north of Toronto. Although we believe our relations with the union to be good, we may be affected in the future by strikes, work stoppages or other labor disputes. Any such events could have a material adverse effect on our business and results of operations. Moreover, our non-union laborers may become subject to labor union organizing efforts. If any current non-union laborers were to unionize, we would face increased risk of work stoppages and possibly higher labor costs.

When any of these difficulties occur, it causes delays and increases our costs, which could have an adverse effect on our business and results of operations.

Increases in minimum wage laws could adversely impact our labor costs for our projects in the United States and Canada.

Minimum wage laws in the provinces and states where we operate increased beyond inflation in 2019 and will continue to increase over the next number of years. In multiple provinces and states including Ontario, Alberta, Arizona and California, expanded minimum wages up to $15 per hour will result in increased labor costs for skilled laborers on our projects. If our ability to mitigate the financial impact of these increases through cost saving measures does not adequately counterbalance the increase in labor costs, our operating results on the sales of our properties may be adversely affected.

Our success depends on the availability of suitable undeveloped land and lots at acceptable prices and having sufficient liquidity to acquire those properties.

Our success in developing land and in building and selling homes depends in part upon the continued availability of suitable undeveloped land and lots at acceptable prices. The availability of undeveloped land and lots for purchase at favorable prices depends on a number of factors outside of our control, including the risk of competitive over-bidding on land and lots and restrictive governmental regulation. Should suitable land opportunities become less available, the number of homes we may be able to build and sell would be reduced, which would reduce our sales and profits, and have a material adverse effect on our business, results of operations and financial condition. In addition, our ability to make land purchases will depend upon whether we have sufficient liquidity to fund them.

If we are not able to develop and market our master-planned communities successfully or within expected timeframes, our business and results of operations will be adversely affected.

Before a master-planned community generates any revenues, material expenditures are incurred to acquire land, obtain development approvals and construct significant portions of project infrastructure, amenities, model homes and sales facilities. It generally takes several years for a master-planned community development to achieve cumulative positive cash flow. If we are unable to develop and market our master-planned communities successfully or to generate positive cash flows from these operations within expected timeframes, including as a result of unexpected costs or regulatory delay, it will have a material adverse effect on our business and results of operations.

Our business and results of operations will be adversely affected if poor relations with the residents of our communities negatively impact our sales.

As a master-planned community developer, we will sometimes be expected by community residents to resolve any issues or disputes that arise in connection with the development of our communities, including with respect to actions by subcontractors. Our sales may be negatively affected if any efforts we undertake to resolve these issues or disputes are unsatisfactory to the affected residents, which in turn would adversely affect our business and results of operations. In addition, our business and results of operations would be adversely affected if we are required to make material expenditures related to the settlement of these issues or disputes or to modify our community development plans.

A lack of availability or increased cost of required materials, supplies, utilities and resources, as well as unforeseen environmental and engineering problems, could delay or increase the cost of home construction, which would adversely affect our business and results of operations.

Land developers and homebuilders are subject to risks related to:

- the availability and cost of materials and supplies (and particularly increases in the price of lumber, wall board and cement, which are significant components of home construction costs);
- the availability of adequate utility infrastructure and services;
- material fluctuations in utility and resource costs; and
- unforeseen environmental and engineering problems.

Any of these issues could cause delays and increase our costs, which could have an adverse effect on our business and results of operations. In particular, the cost of petroleum products fluctuates and may increase as a result of natural disasters, geopolitical events or accidents. This could result in higher prices for any product utilizing petrochemicals, increased building material delivery costs and higher land development costs.

Furthermore, certain areas in which we operate have historically been subject to utility and resource shortages, including significant changes to the availability of electricity and water. These areas have also experienced material fluctuations in utility and resource costs. Shortages of natural resources, particularly water, in our markets, may make it more difficult for us to obtain regulatory approval of new developments, increase our costs and cause delays in completing construction. Utility shortages and rate fluctuations may also adversely affect the regional economies in which we operate, which may have an adverse effect on our sales.

We may incur a variety of costs to engage in future growth or expansion of our operations or acquisitions or disposals of businesses, and may not be able to realize anticipated synergies and benefits from any such endeavors.

As a part of our business strategy, we may make acquisitions of, significant investments in, or disposals of businesses. Any future acquisitions, investments or disposals would be accompanied by risks such as:

- difficulties in assimilating the operations and personnel of acquired companies or businesses;
- diversion of our management's attention and financial resources from ongoing business concerns;
- our potential inability to maximize our financial and strategic position through the successful incorporation or disposition of operations;
- receipt of consent or approval from governmental authorities that could delay or prevent the completion of the acquisition;
- maintenance of uniform standards, controls, procedures and policies; and
- impairment of existing relationships with employees, contractors, suppliers and customers as a result of the integration of new management personnel and cost-saving initiatives.

In addition, acquisitions or other major investments can expose us to valuation risks, including the risk of writing off goodwill or impairing inventory and other assets related to such acquisitions. The risk of goodwill and other asset impairments increases during a cyclical housing downturn in which our profitability declines.

While we seek protection through warranties and indemnities in the case of acquisitions, for example, significant liabilities may not be identified in due diligence or come to light after the expiry of warranty or indemnity periods. Additionally, while we seek to limit our ongoing exposure, for example, through liability caps and period limits on warranties and indemnities in the case of disposals, some warranties and indemnities may give rise to unexpected and significant liabilities.

Any of these factors could have a material adverse effect on our business, results of operations and financial condition.

Home warranty and construction defect claims may subject us to liabilities as a general contractor and other losses.

As a homebuilder, we are subject to construction defect and home warranty claims arising in the ordinary course of our business. These claims are common in the homebuilding industry and can be costly.

Where we act as the general contractor, we are responsible for the performance of the entire contract, including work assigned to subcontractors. Claims may be asserted against us for construction defects, personal injury or property damage caused by the subcontractors, and if successful, these claims give rise to liability. We may not be indemnified against substantive claims, and even if we are, we may not be able to collect from the subcontracted party. Subcontractors are independent of the homebuilders that contract with them under normal management practices and the terms of trade contracts and subcontracts within the industry; however, if Canadian or U.S. regulatory agencies or courts reclassify the employees of subcontractors as employees of homebuilders, homebuilders using subcontractors could be responsible for wage, hour and other employment-related liabilities of their subcontractors.

We will sometimes become responsible for the losses or other obligations of general contractors we hire if there are unforeseen events like their bankruptcy, or an uninsured or under-insured loss claimed against them. The costs of insuring against construction defect and product liability claims are high, and the amount of coverage offered by insurance companies may be limited. There can be no assurance that this coverage will not be further restricted and become more costly. If we are not able to obtain adequate insurance against these claims in the future, our business and results of operations will be adversely affected.

Increasingly in recent years, individual and class action lawsuits have been filed against homebuilders asserting claims of personal injury and property damage caused by a variety of issues, including faulty materials and the presence of mold in residential dwellings. Furthermore, decreases in home values as a result of general economic conditions may result in an increase in both non-meritorious and meritorious construction defect claims, as well as claims based on marketing and sales practices. Our insurance may not cover all of the claims arising from such issues, or such coverage may become prohibitively expensive. If we are not able to obtain adequate insurance against these claims, we may experience significant litigation costs and losses that could reduce our net income, even if we are successful in defending such claims.

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

These investments involve risks and are highly illiquid. We currently operate through a number of unconsolidated homebuilding and land development joint ventures with independent third parties in which we do not have a controlling

interest. At December 31, 2019, we had invested an aggregate of $330.6 million in these joint ventures. In addition, as part of our strategy, we intend to continue to evaluate additional joint venture opportunities.

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

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

Our joint ventures typically obtain secured acquisition, development and construction financing. Historically, we and our joint ventures partners provided varying levels of guarantees of debt or other obligations of our unconsolidated joint ventures. These guarantees include construction completion guarantees, repayment guarantees and environmental indemnities. We accrue for guarantees we determine are probable and reasonably estimated, but we do not record a liability for the contingent aspects of any guarantees that we determine are reasonably possible but not probable. As of December 31, 2019, we had $6.2 million outstanding in recourse guarantees related to our joint ventures.

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

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

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

We may face substantial damages or be enjoined from pursuing important activities as a result of existing or future litigation, arbitration or other claims.

In our land development and homebuilding activities, we are exposed to potentially significant litigation, arbitration proceedings and other claims, including breach of contract, contractual disputes and disputes relating to defective title, property misdescription or construction defects. Class action lawsuits can be costly to defend, and if we were to lose any certified class action suit, it could result in substantial liability for us. With respect to certain general liability exposures, including construction defect and product liability claims, due to the complex nature of these exposures, we are required to exercise significant judgment in interpretation of underlying current and future trends, assessment of claims and the related liability and reserve estimation. Furthermore, it is difficult to determine the extent to which the assertion of construction defect claims will expand geographically. As a result, our insurance policies may not be available or adequate to cover any liability for damages.

Failure in our financial and commercial controls could result in significant cost overruns or errors in valuing sites.

We own and may purchase a number of sites each year and are therefore dependent on our ability to process a number of transactions (which include, among other things, evaluating the site purchase, designing the layout of the development, sourcing materials and subcontractors and managing contractual commitments) efficiently and accurately. Errors by employees, failure to comply with regulatory requirements and conduct of business rules, failings or inadequacies in internal control processes, equipment failures, natural disasters or the failure of external systems, including those of our suppliers or counterparties, could result in operational losses that could adversely affect our business, financial condition and operating results and our relationships with our customers.

Our business is susceptible to adverse weather conditions, other environmental conditions and natural and man-made disasters, which could adversely affect our business and results of operations.

Adverse weather conditions and natural and man-made disasters such as hurricanes, tornadoes, storms, earthquakes, floods, droughts, fires, snow, blizzards and other environmental conditions, as well as terrorist attacks, riots and electrical outages, can have a significant effect on our ability to develop and market our communities. These adverse conditions can cause physical damage to work in progress and new homes, delays and increased costs in the construction of new homes and disruptions and suspensions of our operations, whether caused directly or by disrupting or suspending operations of those upon whom we rely in our operations. For example, in fiscal 2017, Hurricane Harvey disrupted our businesses in Texas, which resulted in temporary reductions in sales and closings. While none of our U.S. properties were materially adversely affected by the recent significant wildfires throughout Southern California, we could experience labor shortages, construction delays, or utility company delays, which in turn could impact our results. If fires are again experienced, our properties may be affected in which event we may suffer losses to our properties and land value which may be difficult to realize. In such event, we cannot be certain insurance will adequately cover the damage which may result in certain unrecoverable losses. These conditions can mutually cause or aggravate each other, and their incidence and severity are unpredictable.

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

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

If insurance is unavailable to us or is unavailable on acceptable terms, or if our insurance is not adequate to cover business interruptions or losses resulting from these conditions, our business and results of operations will be materially adversely affected. In addition, damage to new homes caused by these conditions may cause our insurance costs to increase.

Information technology failures and data security breaches could harm our business.

We use information technology and computer resources extensively in our operations. While we have implemented systems, protocols and processes to secure and protect our information, these security measures may not be sufficient for all possible scenarios and may be vulnerable to viruses, malicious code, cyber or phishing attacks, intentional penetration, natural disasters, hardware or software failure or error, third-party failure or error, telecommunications and network failure or error, service failure or error, user or employee error, faulty password management or other irregularities.

Breaches to our data security systems, including cyber-security related incidents, could, among other things: result in unauthorized users gaining access to our systems, the disclosure or misappropriation of assets or sensitive information (including personal and confidential information), the corruption of data or operational disruption. The result of these incidents could include, but is not limited to, lost revenue or loss of customers, increased insurance premiums, disrupted operations, misstated financial data, liability for stolen assets or information, increased cyber-security protection costs, regulatory penalties or fines, litigation and reputational damage adversely affecting our business and results of operations, all of which may result in us incurring expenses to rectify and resolve such incidents.

Data privacy laws are becoming increasingly demanding and more complex.

Laws surrounding the collection, storage, usage and transmission of personal data are becoming more demanding and complex. In particular, the California Privacy Act of 2018 ("CCPA"), which came into effect on January 1, 2020, provides

a new private right of action for data breaches and requires companies that process information on California residents to adopt and implement protocols with respect to the collection and disclosure of personal information.
. Failure to abide by these new rules may result in regulatory fines and penalties, litigation and reputational damage.

We cannot predict the impact that changing climate conditions, including legal, regulatory and social responses thereto, may have on our business.

Various scientists, environmentalists, international organizations, regulators and other commentators believe that global climate change has added, and will continue to add, to the unpredictability, frequency and severity of natural disasters in certain parts of the world, which may cause delays in land development and construction which could increase our operating expenses and reduce our revenues. A number of legal and regulatory measures as well as social initiatives have been introduced in an effort to reduce greenhouse gas and other carbon emissions which some believe may be chief contributors to global climate change. We cannot predict the impact that changing climate conditions, if any, will have on our results of operations or our financial condition. Moreover, we cannot predict how legal, regulatory and social responses to concerns about global climate change will impact our business.

A major health and safety incident relating to our business could be costly in terms of potential liabilities and reputational damage.

Building sites are inherently dangerous, and operating in the homebuilding industry poses certain inherent health and safety risks. Due to health and safety regulatory requirements and the number of projects we work on, health and safety performance is critical to the success of our business. Any failure in health and safety performance may result in penalties for non-compliance with relevant regulatory requirements, and a failure that results in a major or significant health and safety incident is likely to be costly in terms of potential liabilities and workers' compensation claims incurred as a result. Such a failure could also generate significant negative publicity and have a corresponding impact on our reputation, our relationships with relevant regulatory agencies or governmental authorities and our ability to win new business, which in turn could have a material adverse effect on our business, results of operation and financial condition.

Risks Related to financing and liquidity

If we are not able to raise capital on favourable terms or at all, our business and results of operations will be adversely affected.

We operate in a capital intensive industry and require capital to maintain our competitive position. The failure to secure additional debt or equity financing or the failure to do so on favorable terms will limit our ability to grow our business, which in turn will adversely affect our business and results of operations. We expect to make significant capital expenditures in the future to enhance and maintain the operations of our properties and to expand and develop our real estate inventory. If our plans or assumptions change or prove to be inaccurate, or if cash flow from operations proves to be insufficient due to unanticipated expenses or otherwise, we will likely seek to minimize cash expenditures and/or obtain additional financing in order to support our plan of operations.

The availability of financing from banks and the public debt markets have been volatile in the United States in recent years. Due to the uncertainties that exist in the credit markets, economy and for homebuilders in general, we cannot be certain that we will be able to replace existing financing or find additional sources of financing. If sufficient funding, whether obtained through public or private debt, equity financing or from strategic alliances, is not available when needed or is not available on acceptable terms, our business and results of operations will be adversely affected.

Our access to capital and our ability to obtain additional financing could be affected by any downgrade of our credit ratings.

The Company's corporate credit rating and ratings on the Company's senior unsecured notes and our current credit condition affect, among other things, our ability to access new capital, especially debt. Negative changes in these ratings may result in more stringent covenants and higher interest rates under the terms of any new debt. If our credit ratings are lowered or rating agencies issue adverse commentaries in the future, it could have a material adverse effect on our business, results of operations, financial condition and liquidity. In particular, a weakening of our financial condition, including a significant increase in our leverage or decrease in our profitability or cash flows, could adversely affect our ability to obtain necessary funds, result in a credit rating downgrade or change in outlook, or otherwise increase our cost of borrowing.

An inability to obtain additional performance, payment, completion and surety bonds and letters of credit could limit our future growth.

We are often required to provide performance, payment, completion and surety bonds or letters of credit to secure the completion of our construction contracts, development agreements and other arrangements. We have obtained facilities to provide the required volume of performance, payment, completion and surety bonds and letters of credit for our expected growth in the medium term; however, unexpected growth may require additional facilities. Our ability to obtain

additional performance, payment, completion and surety bonds and letters of credit primarily depends on our capitalization, working capital, past performance, management expertise and certain external factors, including the capacity of the performance bond market. Performance, payment, completion and surety bond and letter of credit providers consider these factors, in addition to our performance and claims record and provider-specific underwriting standards, which may change from time to time.

If our claims record or our providers' requirements or policies change or if the market's capacity to provide performance and completion bonds is not sufficient and we are unable to renew or amend our existing facilities on favorable terms or at all, we could be unable to obtain additional performance, payment, completion and surety bonds or letters of credit when required, which could limit our future growth or have a material adverse effect on our existing business, results of operations and financial condition.

Changes to foreign currency exchange rates could adversely affect the value of our results of operations and financial condition.

We have businesses with earnings in both the United States and Canada. Our financial results are reported in U.S. dollars. Changes in the U.S. dollar/Canadian dollar exchange rate will affect the value of the reported earnings and the value of those assets and liabilities denominated in foreign currencies. For example, an increase in the value of the U.S. dollar compared to the Canadian dollar would reduce our Canadian dollar-denominated revenue when reported in U.S. dollars, as occurred several times in 2019, and vice versa. Our results of operations and financial condition may be adversely affected by such exchange rate fluctuations.

Our significant levels of debt and leverage could adversely affect our business, financial condition or results of operations and prevent us from fulfilling our obligations under our debt instruments.

We have a significant amount of debt. As of December 31, 2019, the total principal amount of our debt outstanding was $1.8 billion and we had $27.6 million of non-recourse guarantees of obligations of unconsolidated joint ventures. We also had $675.0 million in undrawn commitments under our Canadian and U.S. credit facilities as of that date.

Subject to the limits under our debt instruments, we may be able to incur substantial additional debt from time to time, including but not limited to new credit facilities, to finance working capital, capital expenditures, investments or acquisitions or for other purposes. If we incur additional debt, the risks related to our level of debt and leverage could intensify. Specifically, a high level of debt and leverage could have important consequences, including:

- making it more difficult for us to satisfy our obligations with respect to our debt;
- increasing our vulnerability to adverse economic or industry conditions, reducing our ability to withstand competitive pressures and making us more vulnerable to a general economic downturn;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements, or requiring us to make non-strategic divestitures, particularly when the availability of financing in the capital markets is limited;
- requiring a substantial portion of our cash flows from operations for the payment of interest on our debt and reducing our ability to use our cash flows to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- exposing us to the risk of increased interest rates, since some of our borrowings are and will continue to be at variable rates of interest;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- placing us at a competitive disadvantage to less leveraged competitors; and
- increasing our cost of borrowing.

If any of these conditions occur, or should we be unable to repay these obligations as they become due, our financial condition will be materially adversely affected.

In addition, our various debt instruments contain financial and other restrictive covenants that may limit our ability to, among other things, borrow additional funds that might be needed in the future. We also guarantee shortfalls under some of our community bond debt, when the revenues, fees and assessments which are designed to cover principal and interest and other operating costs of the bonds are not paid. Historically, we financed many of our projects located in the United States individually through certain of our subsidiaries, and we expect to do so to a greater extent in the future, particularly in connection with our mixed-use development business. As a result, to the extent we increase the number of projects and our related investments, our total debt obligations may increase. In general, we repay the principal of our project debt from the proceeds of home and lot closings.

An increase in interest rates under our existing credit facilities and mortgages would increase the cost of servicing our debt and could have a material adverse effect on our financial condition and ability to pay interest on our debt obligations.

A significant amount of our existing borrowings consist of secured and unsecured credit facilities, some of which bears interest at variable rates. Our secured credit facilities bear interest at rates of Canadian prime +0.5%. Our unsecured credit facility bears interest at either the adjusted LIBOR plus the applicable rate between 1.75% and 2.25% per annum or the alternate base rate plus the applicable rate between 0.75% and 1.25% per annum. This amount of variable interest rate debt exposes us to interest rate risk. As of December 31, 2019, a 1% change up or down in interest rates would have a $2 million impact on our annual cash flows. If interest rates increase under the terms of these credit facilities or mortgages, our debt service obligations will increase even if the amount of our borrowings remain the same, which could have a material adverse effect on our net income and our ability to make timely interest payments on our debt.

The elimination of LIBOR could adversely affect our business, results of operations or financial condition.

In July 2017, the head of the United Kingdom Financial Conduct Authority announced plans to phase out the use of LIBOR by the end of 2021. In addition, other regulators have suggested reforming or replacing other benchmark rates. These may be replaced by the Secured Overnight Financing Rate ("SOFR") or other benchmark rates over the next several years. Although the impact is uncertain at this time, the elimination of LIBOR could have an adverse impact on our business, results of operations, or financial condition.

We have approximately $133 million of outstanding LIBOR-based debt. This debt generally includes fallback features that allow for the use of an alternative rate if LIBOR is no longer available. The use of an alternative rate could result in increased costs, including increased interest expense, and increased borrowing and hedging costs in the future. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR, and we are unable to predict the effect of any such alternatives on our business, results of operations or financial condition.

We may not be able to generate sufficient cash to service all of our debt and may be forced to take other actions to satisfy our obligations under such debt, which may not be successful.

Our ability to make scheduled payments on or refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our credit facilities or otherwise in an amount sufficient to enable us to pay the principal, premium, if any, and interest on our debt obligations or to fund our other liquidity needs.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments, strategic acquisitions and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance all or a portion of our debt obligations. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all, or on terms that would not be disadvantageous to us or on terms that would not require us to breach the terms and conditions of our existing or future debt agreements. Even if successful, those alternatives may not allow us to meet our scheduled debt service obligations. The terms of some of our indebtedness restrict our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our debt obligations on commercially reasonable terms or at all, would materially and adversely affect our financial position and results of operations and our ability to satisfy our obligations.

If we cannot make scheduled payments on our debt, we will be in default under our relevant debt agreements and holders of that debt could declare all outstanding principal and interest on that debt to be due and payable, causing a cross-acceleration or cross-default under certain of our debt agreements, and we could be forced into bankruptcy, liquidation or restructuring proceedings.

We are a holding company and depend on our subsidiaries for our cash flow. Because a significant portion of our operations are conducted through our subsidiaries, our financial condition and ability to service our debt is partly dependent on our receipt of distributions or other payments from our subsidiaries.

We are a holding company and depend on our subsidiaries for our cash flow. A significant portion of our operations are conducted through our subsidiaries. As a result, our ability to service our debt is partly dependent on the earnings of our subsidiaries and the payment of those earnings to us in the form of dividends, loans or advances and through repayment of loans or advances from us. Our subsidiaries are legally distinct from us and our subsidiaries that are not guarantors of our debt have no obligation to pay amounts due on our debt or to make funds available to us for such payment. The

ability of our subsidiaries to pay dividends, repay intercompany notes or make other advances to us are subject to restrictions imposed by applicable laws, tax considerations and the agreements governing our subsidiaries, including financial maintenance covenants, affiliate transaction restrictions, covenants related to the payment of dividends, limitations on liens and limitations on loans and investments. In addition, such payments may be restricted by claims against our subsidiaries by their creditors, including the holders of any debt securities they may issue, suppliers, vendors, lessors and employees.

Restrictive covenants and financial maintenance covenants in our financing agreements may restrict our ability to pursue our business strategy, react to market conditions or meet our capital or liquidity needs and increase the risk of default on our debt obligations.

The agreements governing our credit facilities and our other debt obligations will limit our ability, and the terms of any future indebtedness may limit our ability, among other things, to:

- incur or permit to exist liens;
- enter into sale and leaseback transactions;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- incur or guarantee additional debt;
- pay dividends or make distributions on our capital stock;
- make certain loans and investments;
- sell assets, including capital stock of restricted subsidiaries;
- agree to payment restrictions affecting our restricted subsidiaries;
- enter into transactions with our affiliates;
- enter into swap agreements; and
- designate any of our subsidiaries as unrestricted subsidiaries.

A breach of any of these restrictive covenants or our inability to comply with the applicable financial covenants could result in a default under the agreements governing our credit facilities, other borrowings or future borrowings. If a default occurs, lenders under our credit facilities or other debt instruments may elect to declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable. The lenders will also have the right in these circumstances to terminate any commitments they have to provide further borrowings. If we are unable to repay outstanding borrowings when due, the lenders under our credit facilities and holders of our other debt obligations will also have the right to proceed against the collateral granted to them to secure such debt obligations, if any. If the indebtedness under our credit facilities or our other indebtedness were to be accelerated, we cannot assure you that our assets would be sufficient to repay in full that indebtedness. The instruments governing certain of our credit facilities and our other debt obligations also contain cross-default provisions. Under these provisions, a default under one instrument governing our debt obligations may constitute a default under our other debt instruments.

Our guarantor subsidiaries and our U.S. project subsidiaries are also subject to financial maintenance covenants and certain default provisions that may be triggered upon a material adverse change to our business, among other events, in a number of our financing agreements. We could breach these financial maintenance covenants or default provisions due to circumstances beyond our control, such as a decline in the value of our assets.

Risks Relating to Our Structure

Brookfield Asset Management Inc. ("BAM") currently controls Brookfield Properties Development, a management company that employs our senior executive officers and certain shared services employees (the "Manager"), which manages both our land development homebuilding business and mixed use development opportunities and those at other entities within the Brookfield group. BAM may from time to time have conflicts of interest with us and may, through the Manager, favor its own interests to the detriment of our business.

BAM owns 100% of our Manager, which manages our land development and homebuilding business, as well as mixed use development opportunities for us and for other entities within the Brookfield group. Our Manager and, through it, BAM have other business interests besides ours and, as a result, may at times have potential or actual conflicts of interest with us. In resolving these conflicts of interest, the Manager may favor the interests of the other Brookfield entities that pursue mixed use development opportunities or other interests of BAM and its affiliates over our interests and those of our lenders or holders of our debt instruments.

As of January 1, 2019, all of our executive officers are now employees of the Manager and are responsible for managing both our business and the mixed use development opportunities across the Brookfield group. Their compensation is designed to reward performance in both of these areas. Accordingly, they may not have as much time to devote to our business and like the Manager, may at times have potential or actual conflicts of interest with us.

Potential conflict of interest situations for the Manager and our executive officers may include the following:

- no agreement requires the Manager or our executive officers to pursue a business strategy that favors us, our lenders or holders of our debt instruments;
- BAM and its affiliates (including the Manager), are not limited in their ability to compete with us;
- our Manager and executive officers are not restricted from favoring the interests of parties other than us, including BAM and its affiliates, in resolving conflicts of interest with us; and
- the Manager decides whether to retain separate counsel, accountants or others to perform services for us.

Affiliates of our Manager are not limited in their ability to compete with us and are not obligated to offer us the opportunity to pursue additional assets or businesses.

The Manager, BAM, and their other affiliates are not prohibited from owning assets or engaging in businesses that compete directly or indirectly with us. Any of these entities may pursue opportunities to acquire or develop properties in the future, including but not limited to opportunities for mixed use developments, without any obligation to offer us the opportunity.

Our sole shareholder, BAM, may have interests as an equity holder that may conflict with the interests of creditors.

BAM beneficially owns, or controls or directs, directly or indirectly 100% of our outstanding Common Shares. Accordingly, BAM has the ability to control our policies and operations. The interests of BAM may not in all cases be aligned with our creditors' interests. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of BAM might conflict with our creditors' interests. In addition, BAM may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in its judgment, could enhance its equity investment, even though such transactions might involve risks to holders of the notes. Furthermore, BAM may in the future own businesses that directly or indirectly compete with us. BAM also may pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. BAM holds a 50% voting interest and a majority economic interest in BUSI, an entity in which we have a minority economic interest and 50% voting interest following the Reorganization Transaction. BAM's strategy with respect to BUSI, including with respect to the distribution of BUSI's cash flow, may conflict with our creditors' interests.

Our relationship with our sole shareholder, BAM, and other affiliates may be on terms more or less favorable than those that could be obtained from third parties.

BAM beneficially owns, or controls or directs, directly or indirectly, 100% of our outstanding Common Shares. Our relationship with BAM and its affiliates includes certain related party transactions. See Note 28 to the consolidated financial statements for additional information on related party transactions. Additionally, we have the right to use the names "Brookfield" and "Brookfield Residential" pursuant to a license agreement between Brookfield Office Properties and Brookfield Global Asset Management Limited, a subsidiary of BAM. These and other arrangements with affiliates may not be on terms at least as favorable to us as those that could be negotiated with third parties, despite procedural protections to simulate arm's length negotiations, such as the prior approval of related party transactions by our independent directors. Conversely, the terms of our agreements with affiliates could be more favorable to us than would be available from a third party. In such event, should we be required to replace these arrangements, we might not be able to obtain terms as least at favorable as those with affiliates.

Management's Responsibility for Financial Reporting

Management of Brookfield Residential Properties Inc. ("Brookfield Residential") is responsible for the integrity and fair presentation of the financial information, including the consolidated financial statements and management's discussion and analysis and review, contained in this annual report. To fulfill this responsibility, the Company maintains policies, procedures, and a system of internal controls to ensure that its reporting practices and accounting and administrative procedures are appropriate and provide assurance that relevant and reliable information is produced. These controls include the careful selection and training of employees, the establishment of well-defined areas of responsibility and accountability for performance, the communication of policies and code of conduct throughout the company, and an actively defined tone-at-the-top.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and include some amounts based on management's best estimates and careful judgment in the circumstances. The consolidated financial statements include the accounts of Brookfield Residential and all of its subsidiaries (collectively, the "Company"). The financial information of the Company included in the Company's Annual Report is consistent with that in the consolidated financial statements.

Deloitte LLP, the independent auditors appointed by the shareholders, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Board of Directors and shareholders their opinion on the consolidated financial statements. Their report as an independent auditor is set out on the following page.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and for overseeing management's performance of its financial reporting. The Board of Directors carries out these responsibilities and meets periodically with management, our internal auditors and independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related reporting and internal control matters before the financial statements are approved by the Board of Directors.

/s/ Alan Norris

Alan Norris
Chairman and Chief Executive Officer

/s/ Thomas Lui

Thomas Lui
Executive Vice President and Chief Financial Officer

Calgary, Canada
March 3, 2020

Independent Auditor's Report

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

Opinion

We have audited the financial statements of Brookfield Residential Properties Inc. (the "Company"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of operations, consolidated statements of equity, and consolidated statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

/s/ Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
March 4, 2020

CONSOLIDATED FINANCIAL STATEMENTS

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

	Note	As at December 31 2019	As at December 31 2018
Assets			
Land and housing inventory	4	$ 3,058,624	$ 2,974,249
Investments in unconsolidated entities - land and housing	6	330,597	347,325
Investment in unconsolidated entities - affiliate	6	634,028	—
Commercial properties	7	468,519	269,829
Held-to-maturity investment	9	300,000	300,000
Receivables and other assets	10	488,716	478,932
Operating and financing lease right-of-use asset	22	89,750	—
Restricted cash	11	13,818	3,200
Cash and cash equivalents		109,923	69,932
Deferred income tax assets	16	49,392	61,847
Goodwill	8	16,479	16,479
Total assets		$ 5,559,846	$ 4,521,793
Liabilities and Equity			
Notes payable	12	$ 1,616,545	$ 1,619,918
Bank indebtedness and other financings	13	228,147	143,480
Accounts payable and other liabilities	14	577,074	635,800
Operating and financing lease liability	22	92,834	—
Total liabilities		2,514,600	2,399,198
Common Shares – 129,756,910 shares outstanding (December 31, 2018 – 129,756,910 shares outstanding)	19	626,594	626,594
Additional paid-in-capital	5	—	367,433
Retained earnings		1,382,130	1,236,092
Non-controlling interest - land and housing	18	149,574	53,832
Non-controlling interest - affiliate	17,18	1,012,242	—
Accumulated other comprehensive loss		(125,294)	(161,356)
Total equity		3,045,246	2,122,595
Total liabilities and equity		$ 5,559,846	$ 4,521,793
Commitments, contingent liabilities and other	23		
Guarantees	24		
Subsequent events	29		

See accompanying notes to the consolidated financial statements

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

	Note	Year Ended December 31 2019	2018
Revenue			
Housing		$ 1,550,377	$ 1,794,077
Land		387,981	368,273
Total revenue		1,938,358	2,162,350
Direct Cost of Sales			
Housing		(1,282,055)	(1,450,393)
Land		(269,523)	(238,990)
Total direct cost of sales		(1,551,578)	(1,689,383)
Gross margin		386,780	472,967
Gain on sale of commercial properties	7	—	6,331
Selling, general and administrative expense		(244,407)	(296,035)
Interest expense		(36,090)	(37,912)
Equity in earnings from unconsolidated entities - land and housing	6	34,680	18,360
Equity in earnings from unconsolidated entities - affiliate	6	23,382	—
Other income	15	54,701	62,891
Lease expense	22	(11,653)	—
Depreciation		(4,383)	(4,379)
Income Before Income Taxes		203,010	222,223
Current income tax expense	16	(8,489)	(38,056)
Deferred income tax recovery / (expense)	16	3,039	(1,813)
Net Income		197,560	182,354
Other Comprehensive Income / (Loss)			
Unrealized foreign exchange gain / (loss) on:			
Translation of the net investment in Canadian subsidiaries		45,262	(79,514)
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		(9,200)	15,550
Comprehensive Income		$ 233,622	$ 118,390
Net Income Attributable To:			
Consolidated		$ 197,560	$ 182,354
Non-controlling interest - land and housing	18	7,003	7,952
Non-controlling interest - affiliate	17,18	36,418	—
Brookfield Residential		$ 154,139	$ 174,402
Comprehensive Income Attributable To:			
Consolidated		$ 233,622	$ 118,390
Non-controlling interest - land and housing	18	7,003	7,952
Non-controlling interest - affiliate	17,18	36,418	—
Brookfield Residential		$ 190,201	$ 110,438
Common Shareholders Earnings Per Share			
Basic	21	$ 1.19	$ 1.34
Diluted	21	$ 1.19	$ 1.34
Weighted Average Common Shares Outstanding *(in thousands)*			
Basic	21	129,757	129,757
Diluted	21	129,786	129,922

See accompanying notes to the consolidated financial statements

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

	Note	Year Ended December 31 2019	2018
Common Shares	19		
Opening balance		$ 626,594	$ 626,594
Ending balance		626,594	626,594
Additional Paid-in-Capital			
Opening balance		367,433	367,433
Impact of common control Reorganization Transaction	5	(367,433)	—
Ending balance		—	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
Impact of common control Reorganization Transaction	5	(8,101)	—
Net income attributable to Brookfield Residential		154,139	174,402
Ending balance		1,382,130	1,236,092
Accumulated Other Comprehensive Loss			
Opening balance		(161,356)	(97,393)
Other comprehensive income / (loss)		36,062	(63,963)
Ending balance		(125,294)	(161,356)
Total Brookfield Residential Equity		$ 1,883,430	$ 2,068,763
Non-Controlling Interest	17,18		
Opening balance		$ 53,833	$ 54,216
Non-controlling interest attributable to common control transactions	5	975,823	—
Additions		103,530	174
Net income attributable to non-controlling interest		43,421	7,952
Distributions		(14,791)	(8,510)
Ending balance		$ 1,161,816	$ 53,832
Total Equity		$ 3,045,246	$ 2,122,595

See accompanying notes to the consolidated financial statements

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

	Year Ended December 31	
Cash Flows Provided by / (Used in) Operating Activities	**2019**	**2018**
Net income	$ 197,560	$ 182,354
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities - land and housing	(6,738)	(13,545)
Undistributed earnings from unconsolidated entities - affiliate	(23,382)	—
Deferred income tax (recovery) / expense	(3,039)	1,813
Share-based compensation (recovery) / expense	(15,557)	19,418
Depreciation	4,383	4,379
Right-of-use asset depreciation	6,007	—
Amortization of non-cash interest	6,676	4,480
Loss on extinguishment of debt	3,578	—
Dividend income on held-to-maturity investment	(8,648)	(21,093)
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(17,428)	(121,329)
Increase in land and housing inventory	(52,191)	(20,829)
Increase in commercial properties	(196,774)	(192,145)
Change in operating lease liabilities	(2,545)	—
(Decrease) / increase in accounts payable and other liabilities	(48,636)	56,510
Net cash used in operating activities	(156,734)	(99,987)
Cash Flows Provided by / (Used in) Investing Activities		
Investments in unconsolidated entities - land and housing	(36,547)	(92,609)
Distributions from unconsolidated entities - land and housing	66,097	26,660
Redemption of held-to-maturity investments	300,000	—
Purchase of held-to-maturity investments	(300,000)	—
Dividend income on held-to-maturity investment	8,648	21,093
Decrease in loan receivable	18,645	17,101
Cash acquired from common control Reorganization Transaction	5,989	—
Net cash provided by / (used in) investing activities	62,832	(27,755)
Cash Flows Provided by / (Used in) Financing Activities		
Deposits from affiliates	200,000	—
Repayments on affiliate deposits	(200,000)	—
Drawings under project-specific and other financings	199,726	40,865
Repayments under project-specific and other financings	(46,369)	(16,148)
Net drawings on bank indebtedness	—	82,930
Net repayments on bank indebtedness	(77,084)	—
Drawings under unsecured senior notes payable	600,000	—
Repayments under unsecured senior notes payable	(600,000)	—
Payments of debt issuance costs	(18,796)	(4,034)
Net contributions to non-controlling interest	(14,791)	(8,430)
Sale of interests in consolidated subsidiaries	103,530	—
Payments made on the principal of financing leases	(211)	—
Net cash provided by financing activities	146,005	95,183
Effect of foreign exchange rates on cash and cash equivalents	(1,494)	(2,164)
Change in cash, cash equivalents and restricted cash	50,609	(34,723)
Cash, cash equivalents and restricted cash at beginning of year	73,132	107,855
Cash, cash equivalents and restricted cash at end of year	$ 123,741	$ 73,132
Supplemental Cash Flow Information		
Cash interest paid	$ 107,987	$ 114,483
Cash taxes paid	$ 27,193	$ 51,085

See accompanying notes to the consolidated financial statements

Note 1. Significant Accounting Policies

(a) Basis of Presentation

Brookfield Residential Properties Inc. (the “Company” or “Brookfield Residential”) was incorporated in Ontario, Canada and is a wholly-owned subsidiary of Brookfield Asset Management Inc. ("BAM") and has been developing land and building homes for over 60 years.

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

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

(b) Revenue Recognition

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 probable. Revenues from the sale of homes are recognized when title passes to the purchaser upon closing, wherein all proceeds are received or collectability is probable. In certain circumstances, when title transfers but material future development is required, revenue is recognized at a point in time when 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 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 27 "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 probable 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 10 "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 future undiscounted 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 2020 generally assume recent sales activity and normalized sales rates beyond 2020. 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 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 year beginning with the commencement of development and ending with the completion of construction or development.

The Company capitalizes certain interest costs to qualified inventory during the development and construction period in accordance with ASC Topic 835-20 *Capitalization of Interest.* Capitalized interest is charged to cost of sales when the related inventory is delivered. Interest incurred on home building indebtedness in excess of qualified inventory, as defined in ASC 835-20, is charged to the consolidated statement of operations in the period incurred.

(d) Commercial Properties

Commercial properties include any properties that are currently leased out by Brookfield Residential and produce leasing revenue for the Company, 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 is 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 consolidated balance sheets.

ROU assets represent the Company’s right to use an underlying asset for the lease term and the lease liabilities represent 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. The Company will use the implicit rate when it is readily available. 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 U.S. Industrial B1 and U.S. risk free rate or the Implied B1 Canadian composite bond yield and the Canadian risk free rate.

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 for all classes of assets. 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 consolidated statements of operations, and has recognized sub-lease income within “other income”. See Note 22 “Leases” for sub-lease income recognized.

(f) Loans and notes receivable

Loans and notes receivable are carried at amortized cost, 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 credit loss 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.

The Company holds an investment in a related entity, Brookfield US Inc. ("BUSI"), which it does not control. This investment is accounted for using the equity method. This investment was initially recorded at its book value as it resulted from a transaction between entities under common control. The investment is adjusted for the Company's proportionate share of undistributed equity earnings or losses, increased for contributions made and decreased for all distributions received. The equity investee holds an interest in an entity, which is consolidated by the Company. Accordingly, the undistributed equity earnings have been adjusted for amounts already included in the Company's consolidated financial statements. Dilution gains/losses resulting from changes in our interest resulting from transactions with entities under common control are treated as deemed contributions or distributions and recorded within equity.

(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 bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. Additionally, for its investments in foreign or domestic partnerships, and in accordance with ASC Topic 740, the Company recognizes a deferred tax asset or

liability based on the difference between the tax basis and accounting basis of their investment, this is known as the outside basis difference.

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 20 "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 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 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 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 (i) are the power to direct the activities of an entity that most significantly impact the entity's economic performance; (ii) the obligation to absorb the expected losses of the entity; and (iii) the right to receive the expected residual returns of the entity. The entity that has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and 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 investments and land option contracts, which it considers VIEs that have been consolidated in these financial statements. See Note 4 "Land and Housing Inventory", Note 6 (a) "Investments in Unconsolidated Entities - Land and Housing", Note 6 (b) "Investments in Unconsolidated Entities - Affiliates" and Note 17 "Consolidated VIE & Non-Controlling Interest" for further discussion on the consolidation of land option contracts and consolidated 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 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). Changes in the fair value of cash flow hedges included in the assessment of hedge effectiveness are recorded through other comprehensive income and reclassified to earnings. 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. 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 are initially recorded in other comprehensive income as long as the hedge remains effective.

(t) Held-to-Maturity Investment

Held-to-maturity investments are recorded 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 Measurements

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 805-50 *Business Combinations - Related Issues,* 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 and retained earnings.

The transfer of consolidated entities under common control may result in a change in reporting entity in accordance with ASC Topic 250. Where material, this requires retrospective combination of the entities for all periods presented as if the combination had been in effect since the inception of common control.

(w) Non-controlling Interest

In accordance with ASC Topic 810 *Consolidation*, the Company accounts for its non-controlling interest after considering the impact of the Company's direct and indirect interest in its subsidiaries.

Non-controlling interest represents ownership interests attributable directly or indirectly to third parties in certain consolidated subsidiaries, limited partnerships and VIEs. The portion of equity not owned by the Company in such entities is reflected as non-controlling interest within the equity section of the consolidated balance sheets. See Note 17 "Consolidated VIE & Non-Controlling Interest" and Note 18 "Non-Controlling Interest".

In certain circumstances, the Company's equity method investee may own an interest in an entity or partnership consolidated by the Company. In these situations, the carrying amount of the investment and the Company's share of undistributed equity earnings, have been adjusted to reflect the fact that the Company has already consolidated the partnership with a corresponding adjustment made to non-controlling interest.

(x) Future Accounting Pronouncements

ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, was issued in June 2016, and is effective January 1, 2023 with early adoption permitted. It is to be applied on a modified retrospective basis. Principally, it requires entities to use an expected credit loss methodology and to consider a broader range of reasonable and supportable information to estimate credit losses. Adoption of the update is not expected to have a significant impact on the Company's financial position and results of operations.

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 consolidated statement of operations as lease expense. Operating leases are expensed on a straight-line basis as a lease expense on the 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 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 practical 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, the Company has not reassessed initial direct costs for any existing leases, and the Company has used hindsight to determine the lease term as of the effective date.

The Company has also elected practical expedients under ASC 842, to not separate non-lease components; and, to apply the short-term lease exception to all leases with a term of less than 12 months.

For short-term leases, those with a lease term of less than twelve months 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 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 year ended December 31, 2019, the Company recognized $1.2 million, (December 31, 2018 - $1.7 million) in revenue from performance obligations satisfied in prior periods. This cumulative catch-up adjustment resulted from a change in transaction price related to variable consideration that was constrained in previous periods. For amounts not recognized due to constraints, the Company has determined the amounts cannot be reliably estimated due to the following factors outside of the Company's control: economic volatility, period of time between the lot sale and the ultimate home closing, fluctuations and difficult prediction of profits and pricing of the ultimate home closing.

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

Note 4. Land and Housing Inventory

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

The following summarizes the components of land and housing inventory:

	As at	
	December 31 2019	**December 31 2018**
Land held for development	$ 1,386,340	$ 1,417,372
Land under development	1,056,884	903,315
Housing inventory	504,643	554,140
Model homes	110,757	99,422
	$ 3,058,624	$ 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*. Refer to Note 25 "Fair Value Measurements".

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

	Year Ended December 31	
	2019	**2018**
Interest capitalized, beginning of year	$ 197,687	$ 180,650
Interest capitalized	68,928	71,860
Interest expensed to cost of sales	(58,811)	(54,823)
Interest capitalized, end of year	$ 207,804	$ 197,687

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 accordance with ASC Topic 810, the future exercise price for these options have been recorded in land and housing inventory, with a corresponding increase in accounts payable and other liabilities 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 $99.0 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 $96.1 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
2020	1,024	$ 26,041
2021	138	9,626
2022	100	2,810
2023	1,757	6,079
2024	100	2,859
Thereafter	5,225	48,705
	8,344	$ 96,120

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 $12.2 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 $79.5 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 the exercise price in the above totals.

Note 5. Reorganization Transaction

On September 26, 2019, the Company completed a reorganization (the "Reorganization Transaction") in order to facilitate operational and administrative synergies by combining all of BAM's direct U.S. investments into one corporate group and further expand the Company's business by including land banking assets owned by BAM's subsidiary BUSI.

As part of the Reorganization Transaction, Brookfield Residential US Corporation ("BRUSC"), Brookfield Holdings (Meadows) LLC ("Meadows") and Brookfield Holdings (Hayden I) LLC ("Hayden I") became subsidiaries of a new limited liability company Brookfield Residential US Holdings LLC ("BRUSH").

Upon consummation of the Reorganization Transaction, BUSI became the direct owner of 89.6% of the economic interests in BRUSH. Brookfield Residential GP LLC ("BRGP"), Brookfield Residential's wholly-owned subsidiary, became the managing member of, and holds a 10.4% direct interest in BRUSH. Furthermore, the Company received a 12.3% economic interest and a 50% voting interest in the capital stock of BUSI.

Accordingly, at the time of completion of the Reorganization Transaction, the Company held direct and indirect interests in BRUSH of 21.4%. The Reorganization Transaction was structured such that the Company's minority economic interest in the capital stock of BUSI, together with BRGP's 10.4% economic interest in BRUSH, was equal to the fair value of the capital stock of BRUSC. The Company also holds a 50% voting interest in the capital stock of BUSI.

The impact on the Company's consolidated financial statements resulting from the Reorganization Transaction was as follows:

Increase in net assets resulting from contribution of Meadows and Hayden I	$ 7,718
Increase in equity investment in BUSI	610,644
Decrease in deferred income tax	(18,073)
Increase in non-controlling interest	(975,823)
Decrease in additional paid-in-capital	367,433
Decrease in retained earnings	8,101

Note 6. Investments in Unconsolidated Entities

(a) Land and Housing

As part of its land and housing operations, the Company participates in joint ventures and partnerships to explore opportunities while minimizing risk. As of December 31, 2019, the Company was involved with 12 unconsolidated entities (December 31, 2018 – 12 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities include $21.6 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 $41.3 million (December 31, 2018 – $36.2 million). Summarized financial information on a 100% basis for the combined land and housing unconsolidated entities follows:

	As at	
	December 31 2019	December 31 2018
Assets		
Land and housing inventory	$ 720,970	$ 840,418
Investments in unconsolidated entities	151,524	131,260
Other assets	138,837	70,450
	$ 1,011,331	$ 1,042,128
Liabilities and Equity		
Bank indebtedness and other financings	$ 113,194	$ 127,376
Accounts payable and other liabilities	117,408	112,584
Brookfield Residential's interest	330,597	347,325
Others' interest	450,132	454,843
	$ 1,011,331	$ 1,042,128

	Year Ended December 31	
	2019	2018
Revenue and Expenses		
Revenue	$ 399,600	$ 127,494
Direct cost of sales	(300,946)	(88,576)
Other income and expenses	4,407	8,485
Net income	$ 103,061	$ 47,403
Brookfield Residential's share of net income	$ 34,680	$ 18,360

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

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

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt of its unconsolidated entities. At December 31, 2019, the Company had recourse guarantees of $6.2 million (December 31, 2018 – $8.0 million) with respect to debt of its land and housing unconsolidated entities.

(b) Affiliates

Through the Reorganization Transaction (see Note 5 "Reorganization Transaction" for additional information relating to the transaction), the Company acquired a 12.3% economic interest and a 50% voting interest in BUSI, a company under common control through Brookfield Residential's parent company, BAM.

The Company recorded its investment in BUSI using the equity method in accordance with ASC Topic 323 *Equity Method - Investments and Joint Ventures* for transactions with entities under common control. Under the equity method, the Company's investment is recorded at its proportionate share of the carrying amount of the underlying assets and liabilities of BUSI as at September 26, 2019. The Company's investment in BUSI is subsequently increased or decreased to

recognize the Company's share of profit or loss after the initial recognition date and for changes in ownership.

At the time of the Reorganization Transaction BUSI had net assets with a carrying value of approximately $3.6 billion (excluding pre-existing preferred shares and non-controlling interest). The Company's equity interest received from BUSI was measured and recorded at 12.3% of the carrying value of BUSI at September 24, 2019. As part of BUSI's business, it may acquire or dispose assets at its discretion which may cause the Company's percentage economic interest in BUSI to fluctuate to the extent BUSI acquires new assets funded through equity issuances. Subsequent to the Reorganization Transaction, BAM and BUSI closed the previously announced acquisition of Oaktree Capital Group and as a result, the Company's percentage economic interest in BUSI was diluted to 9.5%.

The Company's maximum exposure to loss is limited to its investment in BUSI.

		Year Ended December 31
Equity Investment in BUSI		
Investment at September 26, 2019	$	444,986
Dilution gain		165,660
Equity earnings		23,382
Investment at December 31, 2019		634,028

The acquisition of shares in BUSI have been excluded from the statement of cash flows as a non-cash investing transaction because it did not result in a cash outflow.

Summarized financial information of BUSI, excluding the assets and liabilities of BUSI's investment in the Company's controlled subsidiaries, (presented at 100%) is as follows:

		As at December 31, 2019
Assets		
Investments	$	5,029,025
Investments in unconsolidated entities		4,652,721
Other assets		4,630,511
	$	14,312,257
Liabilities and Equity		
Loans payable	$	3,672,568
Other liabilities		465,988
Non-controlling interest		3,485,813
Brookfield Residential's interest		634,028
Others' Interest		6,053,860
	$	14,312,257

		Year Ended December 31, 2019
Revenue and Expenses		
Income	$	2,068,966
Expenses		(1,224,210)
Net income	$	844,756

In reporting the Company's share of net income, all intercompany profits from equity investments are eliminated. Unconsolidated entities in which the Company has a non-controlling interest are accounted for using the equity method.

Note 7. 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	
	December 31 2019	December 31 2018
Commercial properties	$ 470,917	$ 271,428
Less: accumulated depreciation	(2,398)	(1,599)
	$ 468,519	$ 269,829

Commercial properties consist of the following properties:

	As at	
	December 31 2019	December 31 2018
Commercial properties under development	$ 436,842	$ 239,271
Commercial properties producing leasing revenue	34,075	32,157
	$ 470,917	$ 271,428

Note 8. Business Combinations

The Company had no business combinations during the year ended December 31, 2019.

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

The acquisition was accounted for as a business combination under the provisions of ASC Topic 805 *Business Combinations* which, among other things, requires assets acquired and liabilities assumed to be measured at their acquisition date fair values.

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

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

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

(b) Goodwill represents the residual asset value of the net assets acquired less the total consideration. The total amount of goodwill that was expected to be deductible for tax purposes was $33.8 million.

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

Revenue	$	—
Net loss	$	(11,355)

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

		Year Ended December 31, 2018
Total revenues	$	—
Net loss attributable to Brookfield Residential	$	(12,254)

Note 9. Held-to-Maturity Investment

	As at			
		December 31 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. ("BIL")

During the year ended December 31, 2019, the Company entered into an agreement with a subsidiary of BAM 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%, accrued 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 year ended December 31, 2019, the Company earned $13.9 million preferred share dividends, of which $1.8 million was collected and the remainder of $12.1 million recorded in Receivables and Other Assets. See Note 10 "Receivables and Other Assets" for details. (year ended December 31, 2018 - $nil was earned and collected).

(b) Brookfield BPY Holdings Inc. ("BPY")

The Company held preferred shares in Brookfield BPY Holdings Inc., a subsidiary of BAM. 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 entitled 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 were redeemable at any time and must be redeemed on the tenth anniversary of their issuance. The BPY preferred shares had a right of retraction after the fifth anniversary of the issuance.

During the year ended December 31, 2019, the Company received $300 million from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. During the year ended December 31, 2019, $6.9 million of dividends were recorded in the statement of operations as other income (year ended December 31, 2018 - $21.1 million).

Note 10. Receivables and Other Assets

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

	As at	
	December 31 2019	**December 31 2018**
Receivables (a)	$ 373,988	$ 371,197
Other assets (b)	114,728	107,735
	$ 488,716	$ 478,932

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

	As at	
	December 31 2019	**December 31 2018**
Real estate receivables (i)	$ 119,002	$ 104,507
Development recovery receivables (ii)	113,980	105,905
Loan receivables (iii)	76,254	94,899
Sundry receivables (iv)	36,396	30,812
Proceeds and escrow receivables (v)	20,611	24,950
Refundable deposits	7,745	10,124
	$ 373,988	$ 371,197

(i) Real estate receivables include VTB mortgage receivables. The VTB collection terms range from three months to five years and bear interest at Canadian prime plus 2.0% to 3.0% or a fixed interest rate of 0.0% to 6.0% (December 31, 2018 – Canadian prime plus 3.0% or a fixed interest rate of 0.0% to 6.0%).

(ii) 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%).

(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 13.5% and matures in 2021. During the year ended December 31, 2019, $18.6 million, of principal was collected (year ended December 31, 2018 - $17.1 million).

(iv) Sundry receivables are comprised of $12.1 million of preferred share dividends receivable from the BIL preferred shares (see Note 9 "Held-to-Maturity Investment" for details), lot interest receivables and other miscellaneous amounts.

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

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

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

	As at	
	December 31 2019	**December 31 2018**
Capitalized sales and marketing costs (i)	$ 31,115	$ 21,209
Non-refundable earnest funds and investigation fees (ii)	27,124	29,148
Capital assets (iii)	26,878	23,532
Other	15,168	21,836
Prepaid expenses	14,443	12,010
	$ 114,728	$ 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 consolidated statement of operations. Included in capitalized sales and marketing is accumulated amortization of $25.4 million (December 31, 2018 – $16.9 million).

(ii) 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.

(iii) Capital assets are recorded at cost less accumulated depreciation. The Company provides for depreciation using the straight-line method. Leasehold improvements are depreciated over the term of the lease and equipment is depreciated over three to five years. Included in capital assets is accumulated depreciation of $21.5 million (December 31, 2018 – $21.1 million).

Note 11. Restricted Cash

At December 31, 2019, the Company has restricted cash consisting of (i) $0.1 million (December 31, 2018 – $0.2 million) relating to cash collateralization of development letters of credit and (ii) $13.7 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 12. Notes Payable

	As at	
	December 31 2019	**December 31 2018**
6.50% unsecured senior notes redeemed on September 23, 2019 (a)	$ —	$ 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)	192,475	183,275
6.375% unsecured senior notes due May 15, 2025 (d)	350,000	350,000
6.250% unsecured senior notes due September 15, 2027 (e)	600,000	—
	1,642,475	1,633,275
Transaction costs (f)	(25,930)	(13,357)
	$ 1,616,545	$ 1,619,918

(a) On December 14, 2012, the Company issued a private placement of unsecured senior notes due December 15, 2020, at an interest rate of 6.50%. On September 23, 2019, these notes were redeemed in full at a redemption price equal to 100% of their aggregate principal amount, plus accrued and unpaid interest, using cash on hand and the net proceeds from its issuance of the unsecured senior notes due in 2027 (see Note 12(e)).

(b) On June 25, 2013, the Company and Brookfield Residential US LLC ("BRUS LLC") (formerly known as BRUSC) 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. Upon the consummation of the Reorganization Transaction, BRUS LLC became a co-issuer of the unsecured senior 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
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. Upon the consummation of the Reorganization Transaction, BRUS LLC became a co-issuer of the unsecured senior notes.

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) On September 23, 2019, the Company and BRUS LLC co-issued a private placement of $600.0 million of unsecured senior notes. The notes have an eight-year term, are due September 15, 2027 and bear interest at a fixed rate of 6.250%. The notes require semi-annual interest payments on March 15 and September 15 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 September 15 of the years 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 the principal amount) set forth below, plus accrued and unpaid interest on the notes redeemed:

	Notes Redemption Price
2022	103.13%
2023	102.08%
2024	101.04%
2025 and thereafter	100.00%

The net proceeds of the offering were used to redeem the $600.0 million aggregate principal amount of the unsecured senior notes due in 2020 (see Note 12(a)).

(f) 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. During the year ended December 31, 2019, the Company capitalized $11.0 million of transaction costs associated with the unsecured senior notes due in 2027. As a result of the redemption of the unsecured senior notes due in 2020, the Company recorded a loss on extinguishment of debt, which included the write-off of net unamortized deferred financing fees of $2.1 million. In addition, $7.8 million of consent fees were capitalized against the unsecured senior notes due in 2022, 2023 and 2025 in association with the bondholder consent obtained to implement the Reorganization Transaction. Holders who validly delivered their consent prior to the expiration date received a consent payment equal to $7.50 per $1,000 of the principal amount outstanding on the unsecured senior notes due in 2022, 2023 or 2025 as applicable. As part of the consent solicitation process, legal and agent costs of $5.6 million were recorded as Other Expense.

On September 6, 2019, the Company received consents from holders of a majority of the outstanding aggregate principal amount of its (i) 6.125% unsecured senior notes due in 2023 and 6.375% unsecured senior notes due in 2025, voting together as a single class and (ii) its 6.125% unsecured senior notes due in 2022, to approve amendments to the indentures relating to each series of notes. Following the receipt of the requisite consents, the Company modified certain covenants contained in the respective indentures to permit the Company to implement the Reorganization Transaction (see Note 5 "Reorganization Transaction"). In addition, for the unsecured senior notes due in 2023 and 2025 the indenture was updated to add BRUS LLC as a co-issuer of the unsecured senior notes due in 2023 and 2025.

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, a net indebtedness to tangible worth ratio of 3.0 to 1, or a fixed coverage ratio of 2.0 to 1, as applicable. The Company was in compliance with these financial covenants as at December 31, 2019.

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

Note 13. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	December 31 2019	**December 31 2018**
Project-specific financings (a)	$ 180,352	$ 34,834
Secured VTB mortgages (b)	54,796	29,247
Bank indebtedness (c)	—	88,822
Due to affiliates (d)	—	—
	235,148	152,903
Transaction costs (a)(c)	(7,001)	(9,423)
	$ 228,147	$ 143,480

(a) Project-specific financings

(i) As at December 31, 2019, the Company has two Canadian project-specific financings totaling $47.4 million (C$61.6 million) provided by various lenders (December 31, 2018 - $34.8 million (C$47.5 million)).

Project-specific financing totaling $40.2 million (C$52.2 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 (December 31, 2018 - $26.8 million (C$36.7 million)). The maturity of the debt was extended from 2019 to 2020 during the year ended December 31, 2019. 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 December 31, 2019.

Project-specific financing totaling $7.2 million (C$9.3 million), held by a joint venture in our Alberta operations, a consolidated subsidiary of the Company, has an interest rate of Canadian Prime + 0.50%, matures in 2020, and is unsecured without covenants (December 31, 2018 - $8.0 million (C$10.8 million)).

(ii) On November 29, 2018, OliverMcMillan Spectrum Emery LLC entered into a five-year secured construction loan for the Nashville mixed-used project. The loan allows OliverMcMillan Spectrum Emery LLC to borrow up to $360.0 million. As at December 31, 2019, the Company has $132.9 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 BRUS LLC 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 December 31, 2019.

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

(b) Secured VTB mortgages

The Company has 13 secured VTB mortgages (December 31, 2018 – 12 secured VTB mortgages) in the amount of $54.8 million (December 31, 2018 – $29.2 million). Secured VTB mortgages are repayable as follows: 2020 – $30.2 million; 2021 – $21.0 million, 2022 – $1.3 million and 2023 – $2.3 million.

Eight secured VTB mortgages (December 31, 2018 – nine secured VTB mortgages) in the amount of $26.0 million (December 31, 2018 – $24.7 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Residential (Ontario) LP, wholly-owned subsidiaries of the Company. This debt is repayable in Canadian dollars of C$33.8 million (December 31, 2018 – C$33.7 million). The interest rates on the debt range from fixed rates of 4.0% to 6.0% and variable rates of Canadian prime plus 1.0% to 2.0% and the debt is secured by the related land. One secured VTB in our Calgary region is subject to a minimum shareholder's equity covenant of Brookfield Residential (Alberta) LP of $200.0 million. The Company was in compliance with this covenant as at December 31, 2019.

Five secured VTB mortgages (December 31, 2018 – three secured VTB mortgages) in the amount of $28.8 million (December 31, 2018 – $4.6 million) relate to raw land held for development by various 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 December 31, 2019, these borrowings are not subject to any financial covenants.

(c) Bank indebtedness

On March 8, 2018, the Company and BRUS LLC 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. BRUS LLC 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 December 31, 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 $1.4 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at December 31, 2019, the Company was in compliance with all of its covenants relating to this facility.

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

(d) 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 BAM. The principal is repayable on demand. Interest is charged on the principal at a rate of LIBOR plus 1.50%. As at December 31, 2019, the Company had no borrowings outstanding. These borrowings are not subject to financial covenants.

For the year ended December 31, 2019, the Company paid $2.4 million of interest.

Note 14. Accounts Payable and Other Liabilities

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

	As at	
	December 31 2019	**December 31 2018**
Accounts payable (a)	$ 400,888	$ 410,593
Other liabilities (b)	176,186	225,207
	$ 577,074	$ 635,800

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

	As at	
	December 31 2019	**December 31 2018**
Trade payables and other accruals	$ 156,313	$ 169,554
Customer deposits	97,633	76,407
Development costs payable (i)	72,807	77,897
Accrued and deferred compensation	36,908	45,187
Real estate payables	32,104	6,218
Interest on notes payable	9,513	21,021
Current income taxes (receivable) / payable	(4,390)	14,309
	$ 400,888	$ 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	
	December 31 2019	**December 31 2018**
Share-based compensation (Note 20)	$ 61,427	$ 78,513
Other	44,105	43,346
Purchase price consideration payable (Note 8)	23,869	23,869
Deferred revenue (i)	20,125	13,407
Warranty costs (Note 23 (a))	18,546	21,515
Consolidated land option contracts (ii)	8,114	44,557
	$ 176,186	$ 225,207

(i) Of the $13.4 million deferred revenue balance at December 31, 2018, the amount recognized during the year ended December 31, 2019 was $12.9 million (December 31, 2018 - $89.9 million).

(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”.

Note 15. Other Income / (Expense)

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

	Year Ended December 31	
	2019	**2018**
Investment income	$ 43,176	$ 39,873
Joint venture management fee income	16,743	15,160
Other	3,954	7,858
Loss on extinguishment of debt (Note 12(f))	(3,578)	—
Consent solicitation costs (Note 12(f))	(5,594)	—
	$ 54,701	$ 62,891

Note 16. Income Taxes

A reconciliation of the Company’s effective tax rate from the Canadian statutory tax rate for the year ended December 31, 2019 and 2018 is as follows:

	Year ended December 31	
	2019	**2018**
Statutory rate	26.5%	27.0%
Non-temporary differences	(2.2)	3.2
Rate difference from statutory rate	(9.1)	(8.1)
Change in tax rates	2.7	—
Realized capital loss on foreign exchange	(10.1)	—
Deferred tax asset valuation allowance impact	7.1	—
Non-taxable preferred share dividends	(2.7)	(2.6)
Taxable income attributable to non-controlling interests	(5.8)	—
Other	(3.7)	(0.9)
Effective tax rate	2.7%	18.6%

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 2.7% for the year ended December 31, 2019 (December 31, 2018 - 18.6%). The decrease in the 2019 effective tax rate when compared to the same period in 2018 was primarily due to changes in the proportion of income in jurisdictions with different tax rates, an increase in non-taxable stock-based compensation recovery and the impact of the Reorganization Transaction that results in the consolidation of earnings attributable to non-controlling interest for which the consolidated tax provision only includes our proportionate share. This was partially offset by an increase in tax expense due to the re-measurement of the company’s deferred tax asset as a result of a change in the Alberta corporate tax rate during the year. On September 23, 2019, the Company redeemed its $600.0 million unsecured senior notes due 2020 and realized a foreign exchange capital loss of C$204.6 million since Brookfield Residential Properties Inc., the legal entity, computes its income taxes in Canadian dollars. This favourable rate impact was reduced by the establishment of a valuation allowance for the portion of the realized capital losses that have not met the more-likely-than-not realization threshold.

The provision for income taxes for the years ended December 31, 2019 and 2018 is set forth below:

	Year ended December 31	
	2019	**2018**
Current		
Canada	$ (259)	$ (189)
U.S.	(7,102)	(35,370)
International	(1,128)	(2,497)
Current income tax expense	(8,489)	(38,056)
Deferred		
Canada	(413)	(6.946)
U.S.	3,452	5.133
Deferred income tax recovery / (expense)	3,039	(1,813)
Total income tax expense	$ (5,450)	$ (39,869)

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	
	December 31 2019	**December 31 2018**
Net deferred tax assets / (liabilities)		
Differences relating to land and housing inventory	$ (9,746)	$ (4,888)
Compensation deductible for tax purposes when paid	6,426	12,471
Operating loss carry-forwards	49,752	46,657
Capital loss carry-forwards	17,985	2,501
Impact of foreign exchange	778	28,180
Investment in unconsolidated entities - affiliate	31,179	—
Other	2,960	7,607
Net deferred tax assets before valuation allowance	99,334	92,528
Cumulative valuation allowance	(49,942)	(30,681)
Net deferred tax assets	$ 49,392	$ 61,847

The Company has Canadian federal non-capital loss carryforwards of approximately $211.2 million (C$274.3 million) as at December 31, 2019 (December 31, 2018 – $170.3 million (C$232.3 million)). Federal non-capital loss carryforwards attributable to Canada may be carried forward up to 20 years to offset future taxable income and expire between 2032 and 2039. At December 31, 2019, the Company has Canadian and U.S. capital loss carryforwards of $156.4 million and $nil, respectively (December 31, 2018 - $nil and $9.3 million, respectively). Capital loss carryforwards attributable to Canada do not expire.

As a result of the Reorganization Transaction, the Company's investment in BRUS LLC is now held through a limited liability company treated as a partnership for tax purposes (BRUSH), which required the Company to reverse the existing deferred tax balance that was recorded on the consolidated books of BRUS LLC under the inside basis, and book the deferred tax relating to the outside basis difference of its interest in BRUSH. The outside basis difference is calculated by applying the tax rate applicable to the Company by the difference between the adjusted cost basis of the Company's investment in BRUSH, and 10.4% of the carrying amount of BRUSH's net assets, excluding any non-controlling interest that existed prior to the Reorganization Transaction. The Company assesses the outside basis difference at each reporting period, with any change being recorded in current or deferred taxes, as appropriate.

The Company records net deferred tax assets to the extent it believes these assets will more-likely-than-not be realized. At each reporting period, the Company evaluates the recoverability of its deferred tax assets by tax jurisdiction to determine if a valuation allowance is required. In making such determinations, the Company considers all available positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies and recent financial operations. This evaluation considers, among other factors, the

nature, frequency and severity of cumulative losses, actual earnings, forecasts of future operating results, the duration of statutory carryforward periods, the Company's experience with loss carryforwards not expiring and the outlook of the housing industry and the broader economy.

In evaluating the need for a valuation allowance against the Company's deferred tax assets at December 31, 2019, the Company considered all available and objectively verifiable positive and negative evidence. The valuation allowance of $49.9 million mainly relates to the realized and unrealized foreign exchange capital losses in Canada and its investment in unconsolidated entities 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 corporate affiliates as of December 31, 2019 were considered to be permanently reinvested. A determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable.

Note 17. Consolidated VIE & Non-Controlling Interest

Through the Reorganization Transaction, the Company's wholly owned subsidiary, BRGP became the sole managing member and 10.4% equity owner of BRUSH. BAM's subsidiary, BUSI owns 89.0% with the remaining 0.6% of BRUSH owned by a wholly owned subsidiary of BUSI. BUSI is controlled by BAM and Brookfield Residential holds a direct non-controlling minority interest (9.5%) in BUSI.

As BRGP is a wholly-owned subsidiary, the Company has control of BRUSH, despite only having a direct non-controlling minority interest of 10.4%. BRUSH is a VIE of the Company.

The Company is required by ASC Topic 810 to qualitatively assess whether it is the primary beneficiary of a VIE 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 investment in accordance with this guidance and determined that it is the primary beneficiary of this VIE because the 10.4% direct investment in BRUSH is sufficient and conveys power to the Company.

The Company is not responsible to provide financial or other support to BRUSH, but may enter into intercompany loans with BRUSH, or its wholly owned subsidiaries. The creditors of BRUSH have recourse on the Company's general credit only to the extent that BRUS LLC, a subsidiary of BRUSH, is a co-issuer of outstanding unsecured senior notes.

As the Company is deemed to be the primary beneficiary of BRUSH, the Company must consolidate 100% of the assets and liabilities and operations of BRUSH. These consolidation procedures include applying the acquisition method and reflecting equity interests in the VIE held by other parties as a non-controlling interest.

As at December 31, 2019, the assets and liabilities of BRUSH totaled $3.4 billion and $2.1 billion, respectively. In addition, the Company's non-controlling interest in BRUSH is $1.0 billion, which is reported as non-controlling interest on the accompanying consolidated balance sheets.

In accordance with ASC Topic 810, non-controlling interest has been classified as a component of total equity and the net income on the consolidated statements of operations has been adjusted to include the net income attributable to non-controlling interest (see Note 18 "Non-Controlling Interest).

Note 18. Non-Controlling Interest

In accordance with ASC Topic 810, non-controlling interest has been classified as a component of total equity and the net income on the consolidated statements of operations have been adjusted to include the net income attributable to non-controlling interest, which for the year ended December 31, 2019 was $43.4 million (December 31, 2018 – $8.0 million).

The following table provides additional information regarding non-controlling interests as presented in our Consolidated Balance Sheet:

	As at December 31, 2019
Land and housing	$ 149,574
Affiliate	1,012,242

The non-controlling interest held by the Company's affiliate, BUSI, of $1,012.2 million represents a total of 81.0% not held by the Company as at December 31, 2019. This represents the 89.6% interest held by BUSI adjusted for the Company's 9.5% indirect interest in BRUSH held through its equity investment in BUSI. The non-controlling interest of land and housing of $149.6 million (December 31, 2018 – $53.8 million) includes a 51% share of the Company's

Homebuilder Finance program sold during the year ended December 31, 2019, with 34% being sold to a wholly-owned subsidiary of BAM (see Note 28 "Related Party Transactions"), and 17% being sold to a third-party investor. As a result of the transaction, non-controlling interest of $103.5 million was recorded.

Note 19. 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 year ended December 31, 2019 and the year ended December 31, 2018.

	For the Year Ended	
	December 31 2019	**December 31 2018**
Common Shares issued, beginning of year	129,756,910	129,756,910
Common Shares issued	—	—
Common Shares issued and outstanding, end of year	129,756,910	129,756,910

The Company had no Non-Voting Class B Common Shares issued and outstanding as at December 31, 2019 and December 31, 2018.

Note 20. Share-Based Compensation

(a) Management Share Option Plan

Options issued under the Management Share Option Plan vest over a period of up to five years, expire 10 years after the grant date, and are settled through issuance of Non-Voting Class B Common Shares or in cash at the option of the holder. The exercise price of the options is the fair value of one Common Share at the grant date.

The fair value of the Company’s stock option awards is estimated at the grant date using the Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of the Company’s stock option awards is expensed over the vesting period of the stock options. Expected volatility is measured using the historical volatility of the Company's publicly traded peer group. The risk-free rate for periods within the contractual life of the option award is based on the yield curve of a zero-coupon U.S. Treasury bond with a maturity equal to the expected term of the option award granted. The Company uses historical Brookfield Residential data to estimate option exercises and forfeitures within its valuation model. The expected term of the option awards granted is derived from historical exercise experience under the Company’s option plan and represents the period of time that option awards granted are expected to be outstanding.

During the year ended December 31, 2019, there were 887,000 options granted to eligible employees (year ended December 31, 2018 - no options granted). The significant weighted average assumptions relating to the valuation of the Company’s options outstanding during the year ended December 31, 2019 and 2018 are as follows:

	December 31 2019	**December 31 2018**
Dividend yield	—%	—%
Volatility rate	30.23%	29.12%
Risk-free interest rate	1.62%	2.48%
Expected option life (years)	3.7	4.5
Liquidity discount	25%	—%

The liability of $32.2 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 resulting from the change in fair value of our share-based compensation liabilities for the year ended December 31, 2019 was a recovery of $13.1 million (2018 - $16.9 million expense).

The following tables set out the number of Non-Voting Class B Common Shares that employees of the Company may acquire under options granted under the Company’s Management Share Option Plan for the years ended December 31, 2019 and 2018:

	December 31, 2019		December 31, 2018	
	Options	Weighted Average Per Share Exercise Price	Options	Weighted Average Per Share Exercise Price
Outstanding, beginning of year	11,581,886	$ 22.15	11,581,886	$ 22.15
Granted	887,000	22.98	—	—
Exercised	(64,000)	22.96	—	—
Cancelled	(16,000)	22.96	—	—
Outstanding, end of year	12,388,886	22.21	11,581,886	22.15
Options exercisable, end of year	8,189,506	$ 22.28	5,937,128	$ 22.34

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

	December 31, 2019		December 31, 2018	
	Options	Weighted Average Fair Value Per Option	Options	Weighted Average Fair Value Per Option
Unvested options outstanding, beginning of year	5,644,758	$ 7.21	7,961,134	$ 6.84
Granted	887,000	5.10	—	—
Vested	(2,316,378)	3.59	(2,316,376)	6.86
Cancelled	16,000	2.94	—	—
Unvested options outstanding, end of year	4,231,380	$ 4.23	5,644,758	$ 7.21

At December 31, 2019, there was $13.8 million (December 31, 2018 - $34.2 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 2.8 years (December 31, 2018 - 2.7 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 December 31, 2019 and December 31, 2018:

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

The liability of $29.3 million (December 31, 2018 – $33.3 million million) relating to the DSUP is included in accounts payable and other liabilities. The financial statement impact relating to the DSUP for the years ended December 31, 2019 and 2018 which has been included in selling, general, and administrative expense is a recovery of $2.5 million.

Note 21. Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2019 and 2018 were calculated as follows:

	Year Ended December 31	
	2019	**2018**
Numerator:		
Net income attributable to Brookfield Residential	$ 154,139	$ 174,402
Denominator (in '000s of shares):		
Basic weighted average shares outstanding	129,757	129,757
Diluted weighted average shares outstanding	129,786	129,922
Basic earnings per share	$ 1.19	$ 1.34
Diluted earnings per share	$ 1.19	$ 1.34

Note 22. 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 include 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 year ended December 31, 2019 of $0.4 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	$ 8,782	$ 313
2020	9,365	289
2021	9,309	201
2022	8,910	127
2023	7,897	36
Thereafter	361,248	—
Total lease payments	405,511	966
Less imputed interest	(313,606)	(37)
Total	$ 91,905	$ 929

Note 23. 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 year ended December 31, 2019 and 2018:

	Year ended December 31	
	2019	**2018**
Balance, beginning of year	$ 21,515	$ 20,863
Payments and other adjustments made during the year	(11,144)	(9,441)
Warranties issued during the year	11,875	15,366
Adjustments due to change in estimates	(3,700)	(5,273)
Balance, end of year	$ 18,546	$ 21,515

(b) As at December 31, 2019, $36.0 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 $169.4 million (December 31, 2018 - $108.5 million).

Note 24. 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 December 31, 2019, these guarantees amounted to $646.5 million (December 31, 2018 – $720.0 million) and have not been recognized in the consolidated financial statements. However, the proportionate development costs that relate to lots that have been sold are accrued in accounts payable and other liabilities. Such guarantees are required by the municipalities in which the Company operates before construction permission is granted.

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

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

Note 25. 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 year ended December 31, 2019, the Company estimated the cash flow for the life of each project. Specifically, project by project, the Company evaluated the margins on homes that have been closed, margins on sales contracts which are in backlog and estimated margins with regard to future home sales over the life of the projects, as well as estimated margins with respect to future land sales. The Company evaluated and continues to evaluate projects where inventory is turning over more slowly than expected or whose average sales price and margins are declining and are expected to continue to decline. These projections take into account the specific business plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area. Such projections generally assume current home selling prices, with cost estimates and sales rates for short-term projects consistent with recent sales activity. For longer-term projects, planned sales rates for 2020 generally assume recent sales activity and normalized sales rates beyond 2020. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired and is then written down to fair value less estimated selling costs.

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

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

The locations of the projects reviewed are as follows:

	Number of Projects
Canada	41
California	49
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 year ended December 31, 2019, unrealized pre-tax loss of $9.2 million (December 31, 2018 – gain of $15.6 million), was recorded in other comprehensive income for hedges of net investments in foreign operations.

Fair Value Hierarchy

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

As at December 31, 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, with the exception of the Brookfield Holdings Two Rivers LP ("Two Rivers") investment. This balance is included in receivables and other assets on the consolidated balance sheet.

The Company has determined that the valuation of the Two Rivers investment under the fair value hierarchy will fall under Level 3, due to the lack of observable pricing inputs and related market activity.

The change in fair value of investment for which Two Rivers has used Level 3 inputs to determine fair value is as follows:

	Amounts ($)
Opening balance as of January 1, 2019	94,864
Principal payments	(18,610)
Balance as of December 31, 2019	76,254

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of December 31, 2019:

Financial Instrument	Fair value as of 12/31/2019	Valuation technique	Unobservable inputs	Ranges
Receivable	76,254	Discounted cash flow	Interest rate	13.5%

Note 26. 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 December 31, 2019, a 1% change in interest rates would have a $2.0 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 December 31, 2019, the fair value of all outstanding debt exceeded its book value by $58.9 million (December 31, 2018 – book value of all outstanding debt exceeded its fair 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 December 31, 2019 (December 31, 2018 – $2.5 million gain). See Note 25 "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 December 31, 2019 is as follows:

	Payment Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Notes payable[1]	$ 1,642,475	$ —	$ 500,000	$ 192,475	$ 950,000
Interest on notes payable	555,126	101,497	204,453	125,520	123,656
Secured VTB mortgages[2][3]	54,796	30,189	22,294	2,313	—
Bank indebtedness[2][3]	—	—	—	—	—
Project-specific financings[2][3]	180,352	40,221	7,184	132,947	—
Accounts payable and other liabilities[4]	577,074	577,074	—	—	—
Operating and financing lease obligations[5]	92,834	3,396	8,282	6,902	74,254
Purchase agreements and other obligations[6]	169,422	56,609	96,881	8,703	7,229

(1) Amounts are included on the consolidated balance sheets and exclude transaction costs. See Note 12 for additional information regarding notes payable.

(2) Amounts are included on the consolidated balance sheets. See Note 13 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 13 for additional information regarding floating rate debt.

(4) Amounts are included on the consolidated balance sheets. See Note 14 for additional information regarding accounts payable and other liabilities.

(5) Amounts relate to non-cancellable operating and financing leases involving office space, design centers and model homes. See Note 22 for additional information regarding lease agreements.

(6) See Note 23 for additional information regarding purchase agreements and other obligations.

Note 27. Segmented Information

As determined under ASC Topic 280 *Segment Reporting*, the Company has three operating segments related to our land and housing operations: Canada, California and Central and Eastern U.S., and one operating segment representing our equity investment in BUSI.

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 land and housing operating segments specializes in lot entitlement and development and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of other risk factors.

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

Corporate and other is a non-operating segment that develops and implements strategic initiatives and supports the operating divisions by centralizing key administrative functions, such as accounting, finance and treasury, information

technology, compliance, risk management, litigation, marketing and human resources. Corporate also provides the necessary administrative functions to support the Company.

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

	Year Ended December 31, 2019					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity investment in BUSI	Total
Revenues	$ 515,602	$ 843,971	$ 514,119	$ 64,666	$ —	$ 1,938,358
Direct cost of sales	(395,850)	(673,509)	(417,747)	(64,472)	—	(1,551,578)
	119,752	170,462	96,372	194	—	386,780
Equity in earnings - land and housing	4,556	11,313	17,456	1,355	—	34,680
Equity in earnings - affiliate	—	—	—	—	23,382	23,382
Expenses	(59,501)	(96,222)	(78,212)	(7,897)	—	(241,832)
Income / (loss) before income taxes	$ 64,807	$ 85,553	$ 35,616	$ (6,348)	$ 23,382	$ 203,010

	Year Ended December 31, 2018				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 617,165	$ 990,350	$ 554,835	$ —	$ 2,162,350
Direct cost of sales	(461,234)	(777,798)	(450,351)	—	(1,689,383)
	155,931	212,552	104,484	—	472,967
Gain on commercial assets held for sale	6,331	—	—	—	6,331
Equity in earnings	408	4,865	13,097	(10)	18,360
Expenses	(63,180)	(86,960)	(62,691)	(62,604)	(275,435)
Income / (loss) before income taxes	$ 99,490	$ 130,457	$ 54,890	$ (62,614)	$ 222,223

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

	As at December 31, 2019					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity investment in BUSI	Total
Land held for development	$ 419,069	$ 356,236	$ 611,035	$ —	$ —	$ 1,386,340
Land under development	236,597	288,146	354,795	177,346	—	1,056,884
Housing inventory	110,019	211,273	183,351	—	—	504,643
Model homes	24,551	59,309	26,897	—	—	110,757
Total land and housing	790,236	914,964	1,176,078	177,346	—	3,058,624
Commercial properties	55,934	—	412,585	—	—	468,519
Investments in unconsolidated entities - land and housing	50,636	194,400	85,561	—	—	330,597
Investments in unconsolidated entities - affiliate	—	—	—	—	634,028	634,028
Held-to-maturity investment	—	—	—	300,000	—	300,000
Operating and financing lease right-of use asset	14,876	42,557	22,285	10,032	—	89,750
Goodwill	—	—	—	16,479	—	16,479
Other assets [(1)]	183,213	46,455	173,596	258,585	—	661,849
Total assets	$ 1,094,895	$ 1,198,376	$ 1,870,105	$ 762,442	$ 634,028	$ 5,559,846

	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
Commercial properties	51,503	—	218,326	—	269,829
Investments in unconsolidated entities	49,714	207,317	90,294	—	347,325
Held-to-maturity investment	—	—	—	300,000	300,000
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 others assets, cash, restricted cash and deferred income tax assets.

Note 28. 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 years ended December 31, 2019 and 2018 were as follows:

- During the year ended December 31, 2019, the Company entered into a $300.0 million deposit agreement with a subsidiary of BAM and no borrowings were outstanding under the facility at December 31, 2019. During the year ended December 31, 2019, the Company paid $2.4 million of interest.
- During the year ended December 31, 2019, the Company entered into a management agreement with our service providers, Brookfield Properties Development, wholly-owned subsidiaries of BAM. The management fee is determined by an allocation of expenditures based on time spent. During the year ended December 31, 2019, the Company incurred and paid $25.0 million of management fees (year ended December 31, 2018 - $nil). These transactions were recorded at the exchange amount.
- During the year ended December 31, 2019, the Company received $300 million from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. The Company also received $6.9 million of dividends from these preferred shares for the year ended December 31, 2019 (year ended December 31, 2018 - $21.1 million). These transactions were recorded at the exchange amount.
- During the year ended December 31, 2019, the Company purchased $300.0 million of preferred shares of Brookfield International Ltd., a subsidiary of BAM. During the year ended December 31, 2019, the company earned $13.9 million of preferred share dividends, where $1.8 million was collected and $12.1 million was recorded as a receivable from BAM. The transactions were recorded at the exchange amount.
- On September 26, 2019, the Company completed the Reorganization Transaction (see Note 5 "Reorganization Transaction" for details) with BUSI, a wholly-owned subsidiary of BAM, whereby the Company transferred its investment in its U.S. land development and homebuilding operations for a 12.3% economic interest and a 50% voting interest in BUSI. This transaction has been treated as a common control transaction.
- During the year ended December 31, 2019, the Company sold 34% of its Homebuilder Finance program to a wholly-owned subsidiary of BAM for consideration of $60.0 million. The transaction was recorded at the exchange amount.
- During the year ended December 31, 2019, the Company paid $0.2 million to BAM for Canadian tax credits (year ended December 31, 2018 - $0.2 million). These transactions were recorded at the exchange amount.

Note 29. Subsequent Events

The Company performed an evaluation of subsequent events through March 3, 2020, which is the date these consolidated financial statements were approved, and has determined that there is a subsequent event that requires disclosure in these consolidated financial statements.

On February 26, 2020, the Company and BRUS LLC co-issued a private placement of $500.0 million of unsecured senior notes. The notes bear interest at a rate of 4.875% per annum and have been issued at a price of 100% of the aggregate principal amount. The Company intends to use the net proceeds from this offering, together with cash on hand, to fund the redemption price of our existing 6.125% Senior Notes due July 1, 2022 (the "Existing Notes"), and pay fees and expenses associated with that transaction and this offering. On February 11, 2020, the Company issued a notice for the redemption in full of these Existing Notes, conditioned on the closing of this offering or other financing with sufficient proceeds to redeem such notes.

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 over $540 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.