

2019 | Q3

September 30, 2019

Chief Executive Officer's Report

Brookfield Residential had an active third quarter of 2019 with continued land development and home construction activities, improvement in net new home orders and the accomplishments of several strategic corporate and capital initiatives. However, our overall results for the first nine months of 2019 were down from the prior year due to the slower U.S. housing market conditions experienced in the latter half of 2018 and early 2019 which produced lower backlog entering the year combined with the ongoing economic and regulatory challenges in the Canadian market.

For the nine months ended September 30, 2019, Brookfield Residential recorded income before income taxes of \$84 million compared to \$121 million in the same period of 2018. During this period, we closed 2,048 homes, 1,592 single family lots and 134 raw and partially finished acres at a total gross margin of 19%. In the third quarter, we were able to monetize some of our higher margin land holdings with the sale of single family lots at our Playa Vista community in Southern California and a large raw and partially finished acre parcel sale in Calgary. Our backlog continued to build as of September 30, 2019 consisting of 1,484 units with a total value of \$744 million.

With the fourth quarter historically giving us the greatest contribution of activity in the year, we anticipate that 2019 will be no different and will represent approximately half of the year's income before income taxes. Based on our current forecasts, we reaffirm our previously provided limited guidance of closing 950 homes and 850 lots in Canada and 1,950 homes and 1,650 lots in the U.S. We continue to project a number of additional multi-family, commercial and industrial parcel sales in both countries.

Market Overview

U.S. housing market conditions are similar to the previous quarter and we are encouraged by the return of the market, but continue to remain cautious as affordability is a key consideration in markets such as California and Denver. In addition, consumer confidence continues to be affected with trade tensions and potential tariffs providing some degree of uncertainty. Overall, activity in our housing operations reflect an improvement in all our U.S. housing markets where for the third quarter of 2019, we had net new home orders of 501 homes, a 11% increase over the same period of 2018. In addition, we are seeing positive activity in our communities where New Haven, which is part of Ontario Ranch masterplan community in Southern California's Inland Empire, was ranked number seven and Eastmark in Mesa, Arizona was ranked number eight in U.S. masterplan communities listed in the mid-year report from RCLCo.

Our Canadian operations continue to be impacted by different market conditions in Alberta and Ontario. The federal election was held in October, and with a minority government formed, it is expected that the Alberta economic environment will remain challenged with limited future investments in the energy sector. In Ontario, the housing market has produced an increase in home orders where interest in new communities has been positive with terra firma on house prices. As a result, our net new home orders in Canada for the third quarter of 2019 increased 40% with orders of 267 homes.

Strategic Corporate Initiatives

During the third quarter, we completed the previously announced reorganization transaction, which combined all of the direct U.S. investments of our parent, Brookfield Asset Management Inc. ("BAM"), into one corporate group to facilitate operational and administrative synergies. The reorganization transaction had Brookfield Residential contribute the capital stock of its U.S. land and housing holding company in exchange for a minority economic interest in the capital stock of Brookfield US Inc., a subsidiary of BAM. The Company received consent to amend the indentures of our senior unsecured notes due 2022, 2023 and 2025 and our credit facility to implement the reorganization transaction.

The Company also continued to execute on our capital plan with the issuance of \$600 million unsecured senior notes due in 2027. The proceeds from the offering, together with cash on hand, were used to fund the redemption of our unsecured senior notes due in 2020. In addition, we repaid the \$200 million on deposit from BAM with funds drawn on its unsecured revolving credit facility.

On behalf of Brookfield Residential, I'd like to extend our sincere thanks to all our supportive stakeholders for your continued support of Brookfield Residential in our endeavors relating to the strategic corporate initiatives and the execution of our capital plan.

Alan Norris
Chairman & Chief Executive Officer
November 12, 2019

BROOKFIELD RESIDENTIAL PROPERTIES PORTFOLIO

Our business is focused on land development and single family and multi-family homebuilding in the markets in which we operate. Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at September 30, 2019 were \$5.6 billion.

As of September 30, 2019, we controlled 86,866 single family lots (serviced lots and future lot equivalents) and 159 multi-family, industrial and commercial serviced parcel acres. Controlled lots and acres include those we directly own and our share of those owned by unconsolidated entities. Our controlled lots and acres provide a strong foundation for our future lot and acre sales and homebuilding business, as well as visibility on our future cash flow. The number of building lots and acre parcels we control in each of our primary markets as of September 30, 2019 is as follows:

	Single Family Housing & Land Under and Held for Development ⁽¹⁾								Multi-Family, Industrial & Commercial Parcels Under Development	
	Unconsolidated				Status of Lots				Total Acres	
	Housing & Land		Entities		Total Lots		9/30/2019		9/30/2019	12/31/2018
	Owned	Options	Owned	Options	9/30/2019	12/31/2018	Entitled	Unentitled	9/30/2019	12/31/2018
Calgary	16,984	—	2,458	—	19,442	20,954	11,329	8,113	66	65
Edmonton	11,031	—	—	—	11,031	11,442	5,821	5,210	30	27
Ontario	7,261	—	1,042	—	8,303	8,241	2,749	5,554	1	—
Canada	35,276	—	3,500	—	38,776	40,637	19,899	18,877	97	92
Northern California	2,902	4,435	253	—	7,590	7,590	3,155	4,435	—	—
Southern California	6,169	—	1,312	1,001	8,482	8,977	7,248	1,234	—	—
Hawaii	82	—	—	—	82	127	82	—	—	3
Other	—	—	—	—	—	100	—	—	—	—
California	9,153	4,435	1,565	1,001	16,154	16,794	10,485	5,669	—	3
Denver	7,508	—	—	—	7,508	7,786	7,508	—	10	15
Austin	12,349	172	—	—	12,521	12,439	12,521	—	37	60
Phoenix	745	788	2,552	—	4,085	4,073	4,085	—	14	14
Washington, D.C. Area	2,838	1,004	—	—	3,842	4,074	3,805	37	1	4
Other	—	—	—	—	—	2,881	—	—	—	3
Central and Eastern U.S.	23,440	1,964	2,552	—	27,956	31,253	27,919	37	62	96
Corporate and Other	3,980	—	—	—	3,980	—	3,980	—	—	—
Total	71,849	6,399	7,617	1,001	86,866	88,684	62,283	24,583	159	191
Entitled lots	53,919	1,964	6,400	—	62,283					
Unentitled lots	17,930	4,435	1,217	1,001	24,583					
Total September 30, 2019	71,849	6,399	7,617	1,001	86,866					
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 interim report, including the Chief Executive Officer's Report, incorporated herein by reference, contains "forward-looking statements" within the meaning of applicable Canadian securities laws and United States ("U.S.") federal securities laws. Forward-looking statements can be identified by the words "may," "believe," "will," "anticipate," "expect," "plan," "intend," "estimate," "project," "future," and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters. Such statements are neither historical facts nor assurances of future performance. Instead, they reflect management's current beliefs and are based on information currently available to management as of the date on which they are made. The forward-looking statements in this interim report include, among others, statements with respect to:

- the current business environment and outlook, including statements regarding: economic and market conditions in the U.S. and Canadian housing markets and our ability to respond to such conditions; the effect of seasonality on the homebuilding business; the impact of changes to Canadian mortgage rules affecting the ability of prospective homebuyers to qualify for mortgage financing; the potential offset of the 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 2019 and beyond;
- possible or assumed future results, including our outlook and limited guidance for 2019 and any updates thereto, how we intend to use and the availability of additional cash flow, the operative cycle of our business and expected timing of income and expected performance and features of our projects, the continued strategic expansion of our business operations, our assumptions regarding normalized sales, our projections regarding revenue and housing inventory, the impact of acquisitions on our operations in certain markets;
- the expected closing of transactions;
- the expected exercise of options contracts and lease options;
- the effect on our business of business acquisitions;
- business goals, strategy and growth plans;
- trends in home prices in our various markets and generally;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the homebuilding industry;
- the ability to generate sufficient cash flow from our assets to repay maturing bank indebtedness and project specific financings and take advantage of new opportunities;
- the ability to meet our covenants and re-pay interest payments on our unsecured senior notes and the requirement to make payments under our construction guarantees;
- the ability to create value in our land development business and meet our development plans;
- the visibility of our future cash flow;
- social and environmental conditions, policies and risks;
- governmental policies and risks;
- expected backlog and closings and the timing thereof;
- the sufficiency of our access to and the sources of our capital resources;
- the impact of foreign exchange rates on our financial performance and market opportunities;
- the impact of credit rating agencies' rating on our business;
- the timing of the effect of interest rate changes on our cash flows;
- the effect of debt and leverage on our business and financial condition; and

- the effect on our business of existing lawsuits.

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

Various factors, in addition to those discussed elsewhere in this interim report, that could affect the future results of Brookfield Residential and could cause actual results, performance, or achievements to differ materially from those expressed in the forward-looking statements and information include, but are not limited to, those factors included under the sections entitled “Cautionary Statements Regarding Forward-Looking Statements” and “Business Environment and Risks” of the Annual Report for the fiscal year ended December 31, 2018.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis relates to the period ended September 30, 2019 and has been prepared with an effective date of November 12, 2019. It should be read in conjunction with the quarterly condensed consolidated financial statements and the related notes thereto included elsewhere in this interim report. All dollar amounts discussed herein are in U.S. dollars, unless otherwise stated. Amounts in Canadian dollars are identified as "C\$." The condensed consolidated financial statements referenced herein have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

OVERVIEW

Brookfield Residential Properties Inc. (unless the context requires otherwise, references in this interim report to "we," "our," "us," the "Company" and "Brookfield Residential" refer to Brookfield Residential Properties Inc. and the subsidiaries through which it conducts all of its homebuilding and land development operations) is a wholly-owned subsidiary of Brookfield Asset Management Inc. ("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 \$500 billion of assets under management.

Brookfield Residential is a leading North American homebuilder and land developer with operations in Canada and the United States. We entitle and develop land to create master-planned communities to create shared value for our stakeholders through a balanced mix of revenue-generating consumer and commercial deliverables. We build and sell lots to third-party builders, conduct our own homebuilding operations and, in select developments, establish commercial areas. We also participate in select strategic real estate opportunities, including infill projects, mixed-use developments, infrastructure projects and joint ventures.

Our disciplined land entitlement process, synergistic operations and capital flexibility allow us to pursue land investment, traditional homebuilding and mixed-use development in typically supply-constrained markets where we have strategically invested. We currently focus on the following three operating segments: Canada, California and Central and Eastern U.S. Our Canadian operations are primarily in the Alberta (Calgary and Edmonton) and Ontario (Toronto) markets. Our California operations include Northern California (San Francisco Bay Area and Sacramento), Southern California (Los Angeles / Southland and San Diego / Riverside) and Hawaii. Our Central and Eastern U.S. operations include Washington, D.C. Area, Colorado (Denver), Texas (Austin), Arizona (Phoenix) and Tennessee (Nashville).

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

Principal Business Activities

Through the activities of our operating subsidiaries, we develop land for our own communities and sell lots to other homebuilders and third parties. We may also design, construct and market single family and multi-family homes in our own and others' communities. In each of our markets, we operate through local business units which are involved in all phases of the planning and building of our master-planned communities, infill projects and mixed-use developments. These operations include sourcing and evaluating land acquisitions, site planning, obtaining entitlements, developing the land, product design, constructing, marketing and selling homes and providing homebuyer customer service. These business units may also develop or sell land for the construction of commercial shopping centers in our communities. Through this flexible, integrated operating model, we maintain balanced and diversified operations offering value at the various stages of the land development process while also being responsive to the economic conditions within each market where we do business.

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

Home Construction

We construct homes on lots that have been developed by us or that we purchase from others. Having a homebuilding operation allows us the opportunity to extract value from the land and provides us with market knowledge through our direct contact with the homebuyers.

Land Acquisition

Our traditional land development and homebuilding industry involves converting raw or undeveloped land into residential housing built by us and/or like-minded building partners, as well as commercial areas to add to the community placemaking strategy and provide added value creation. This process begins with the purchase or control of raw land and is followed by the entitlement and development of the land, and the marketing and sale of homes constructed on the land.

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

Entitlement Process & Land Development

Our unique approach to land development begins with our disciplined approach to acquiring land in the path of growth in dynamic and resilient markets in North America that have barriers to entry caused by infrastructure or entitlement processes. We create value through the planning and entitlement process, developing and marketing residential lots and commercial sites and working with industry partners who share the same vision and values. We plan to continue to grow this business over time by selectively acquiring land that either enhances our existing inventory or provides attractive projects that are consistent with our overall strategy and management expertise.

These larger tracts held for development afford us a true “master-planned” development opportunity that, following entitlement and assuming market conditions allow, creates a multi-year stream of cash flow. Creating this type of community requires a long-term view of how each piece of land should be developed with a vision of how our customers live in each of our communities. Through strong relationships with the jurisdictions and key stakeholders where we operate, we create shared value and infrastructure that supports great places.

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

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

Mixed-use development is a growing focus of the Company. We have been developing commercial properties within our master-planned communities for decades. Seton, in Calgary, Alberta, is a prime example of adding value to a master plan through appropriate mixed-use planning and building on our own land. A shift in consumer behavior has resulted in further demand for infill/brownfield locations. With many municipalities also focused on urban intensification, we believe these trends will create a significant pipeline of redevelopment opportunities. Our 2018 acquisition of OliverMcMillan Inc. (“OliverMcMillan”), including its premier mixed-use projects under development in Tennessee (Nashville) and Hawaii (Waikiki), allows us to design and build leading-edge mixed-use developments in some of the most vibrant urban centers in the U.S. Through this strategic acquisition, we increased our position in this area and set the stage for this additional growth strategy.

Our core land and homebuilding operations 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 three and nine months ended September 30, 2019 compared to the three and nine months ended September 30, 2018 were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<i>(US\$ millions, except percentages, unit activity, average selling price and per share amounts)</i>				
Key Financial Results				
Housing revenue	\$ 348	\$ 429	\$ 1,072	\$ 1,198
Land revenue	113	73	211	168
Gross margin (\$)	105	114	250	296
Gross margin (%) ⁽¹⁾	23%	23%	19%	22%
Income before income taxes	54	56	84	121
Income tax expense	(5)	(8)	(7)	(18)
Net income attributable to Brookfield Residential	48	44	75	97
Basic earnings per share	\$ 0.37	\$ 0.34	\$ 0.58	\$ 0.75
Diluted earnings per share	\$ 0.37	\$ 0.34	\$ 0.58	\$ 0.75
Key Operating Data				
Home closings for Brookfield Residential (units)	674	827	2,048	2,304
Home closings for unconsolidated entities (units)	—	1	—	4
Average home selling price for Brookfield Residential (per unit)	\$ 516,000	\$ 518,000	\$ 523,000	\$ 520,000
Average home selling price for unconsolidated entities (per unit)	\$ —	\$ 1,103,000	\$ —	\$ 1,328,000
Net new home orders for Brookfield Residential (units)	768	644	2,395	2,349
Net new home orders for unconsolidated entities (units)	—	(1)	—	3
Backlog for Brookfield Residential (units)	1,484	1,738	1,484	1,738
Backlog value for Brookfield Residential	\$ 744	\$ 955	\$ 744	\$ 955
Lot closings for Brookfield Residential (single family units)	578	552	1,592	1,183
Lot closings for unconsolidated entities (single family units)	251	193	786	315
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	10	42	23	52
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	—	—	1	16
Acre closings for Brookfield Residential (raw and partially finished)	134	—	134	19
Average lot selling price for Brookfield Residential (single family units)	\$ 147,000	\$ 106,000	\$ 112,000	\$ 122,000
Average lot selling price for unconsolidated entities (single family units)	\$ 208,000	\$ 111,000	\$ 138,000	\$ 124,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	\$ 870,000	\$ 349,000	\$ 607,000	\$ 424,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	\$ —	\$ —	\$ 106,000	\$ 350,000
Average per acre selling price for Brookfield Residential (raw and partially finished)	\$ 138,000	\$ —	\$ 138,000	\$ 94,000

(1) Gross margin percentage is a non-GAAP measure and has been presented as we find it useful in evaluating our performance and believe that it helps readers of our financial statements compare our operations with those of our competitors. However, gross margin percentage as presented may not be fully comparable to similarly-titled measures reported by our competitors. See the Non-GAAP Measures section on page 32.

Segmented Information

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<i>(US\$ millions, except unit activity and average selling price)</i>				
Housing revenue				
Canada	\$ 85	\$ 108	\$ 278	\$ 314
California	153	202	464	581
Central and Eastern U.S.	110	119	330	303
Total	<u>\$ 348</u>	<u>\$ 429</u>	<u>\$ 1,072</u>	<u>\$ 1,198</u>
Land revenue				
Canada	\$ 52	\$ 36	\$ 85	\$ 90
California	47	18	53	49
Central and Eastern U.S.	5	19	25	29
Corporate and Other	9	—	48	—
Total	<u>\$ 113</u>	<u>\$ 73</u>	<u>\$ 211</u>	<u>\$ 168</u>
Housing gross margin				
Canada	\$ 13	\$ 20	\$ 42	\$ 63
California	30	45	85	115
Central and Eastern U.S.	18	23	53	53
Total	<u>\$ 61</u>	<u>\$ 88</u>	<u>\$ 180</u>	<u>\$ 231</u>
Land gross margin				
Canada	\$ 23	\$ 17	\$ 41	\$ 43
California	21	6	24	18
Central and Eastern U.S.	—	3	5	4
Corporate and Other	—	—	—	—
Total	<u>\$ 44</u>	<u>\$ 26</u>	<u>\$ 70</u>	<u>\$ 65</u>
Home closings (units)				
Canada	235	283	741	856
California	218	284	638	799
Central and Eastern U.S.	221	260	669	649
	674	827	2,048	2,304
Unconsolidated entities	—	1	—	4
Total	<u>674</u>	<u>828</u>	<u>2,048</u>	<u>2,308</u>
Average home selling price				
Canada	\$ 362,000	\$ 380,000	\$ 375,000	\$ 367,000
California	700,000	711,000	726,000	727,000
Central and Eastern U.S.	499,000	458,000	494,000	467,000
	516,000	518,000	523,000	520,000
Unconsolidated entities	—	1,103,000	—	1,328,000
Average	<u>\$ 516,000</u>	<u>\$ 519,000</u>	<u>\$ 523,000</u>	<u>\$ 521,000</u>

	As at September 30			
	2019		2018	
Active housing communities				
Canada	35		31	
California	21		27	
Central and Eastern U.S.	35		29	
	91		87	
Unconsolidated entities	—		—	
Total	91		87	
	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Lot closings (single family units)				
Canada	214	213	505	538
California	203	129	250	305
Central and Eastern U.S.	55	210	275	340
Corporate and Other	106	—	562	—
	578	552	1,592	1,183
Unconsolidated entities	251	193	786	315
Total	829	745	2,378	1,498
Acres closings (multi-family, industrial and commercial)				
Canada	8	16	10	26
California	—	24	—	24
Central and Eastern U.S.	2	2	13	2
	10	42	23	52
Unconsolidated entities	—	—	1	16
Total	10	42	24	68
Acres closings (raw and partially finished)				
Canada	134	—	134	19
California	—	—	—	—
Central and Eastern U.S.	—	—	—	—
Total	134	—	134	19
Average lot selling price (single family units)				
Canada	\$ 121,000	\$ 116,000	\$ 113,000	\$ 129,000
California	229,000	125,000	211,000	155,000
Central and Eastern U.S.	79,000	85,000	76,000	82,000
Corporate and Other	80,000	—	85,000	—
	147,000	106,000	112,000	122,000
Unconsolidated entities	208,000	111,000	138,000	124,000
Average	\$ 166,000	\$ 108,000	\$ 121,000	\$ 122,000
Average per acre selling price (multi-family, industrial and commercial)				
Canada	\$ 960,000	\$ 720,000	\$ 890,000	\$ 725,000
California	—	94,000	—	94,000
Central and Eastern U.S.	493,000	495,000	363,000	495,000
	870,000	349,000	607,000	424,000
Unconsolidated entities	—	—	106,000	350,000
Average	\$ 870,000	\$ 349,000	\$ 584,000	\$ 407,000

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Average per acre selling price (raw and partially finished)				
Canada	\$ 138,000	\$ —	\$ 138,000	\$ 94,000
California	—	—	—	—
Central and Eastern U.S.	—	—	—	—
Average	\$ 138,000	\$ —	\$ 138,000	\$ 94,000

	As at September 30	
	2019	2018
Active land communities		
Canada	12	12
California	4	5
Central and Eastern U.S.	11	11
	27	28
Unconsolidated entities	7	6
Total	34	34

	As at	
	September 30 2019	December 31 2018
(US\$ millions)		
Total assets		
Canada	\$ 1,087	\$ 1,057
California	1,333	1,253
Central and Eastern U.S.	1,833	1,666
Corporate and other	1,325	546
Total	\$ 5,578	\$ 4,522

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

Three and Nine Months Ended September 30, 2019 Compared with Three and Nine Months Ended September 30, 2018

Net Income

Net income attributable to Brookfield Residential for the three and nine months ended September 30, 2019 was \$48 million and \$75 million, respectively, compared to \$44 million and \$97 million for the same periods in 2018.

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
(US\$ millions, except per share amounts)				
Net income attributable to Brookfield Residential	\$ 48	\$ 44	\$ 75	\$ 97
Basic earnings per share	\$ 0.37	\$ 0.34	\$ 0.58	\$ 0.75
Diluted earnings per share	\$ 0.37	\$ 0.34	\$ 0.58	\$ 0.75

The increase of \$4 million in net income attributable to Brookfield Residential for the three months ended September 30, 2019, compared to the same period in 2018 was primarily the result of a decrease in general and administrative expense of \$12 million and an increase in equity earnings from land and housing unconsolidated entities of \$5 million. This was partially offset by a decrease in gross margin of \$9 million due to lower housing gross margins, an increase in lease expense of \$3 million and an increase in interest expense of \$1 million.

The decrease of \$22 million in net income attributable to Brookfield Residential for the nine months ended September 30, 2019, compared to the same period in 2018 was primarily the result of a decrease in gross margin of \$46 million due to lower housing gross margins. Additionally, there was a decrease in other income of \$8 million and an increase

in lease expense of \$9 million. This was partially offset by a decrease in selling, general and administrative expense of \$12 million, an increase in equity earnings from land and housing unconsolidated entities of \$11 million, a decrease in income tax expense of \$11 million, a decrease in net income attributable to land and housing non-controlling interests of \$4 million, and a decrease in interest expense of \$3 million.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<i>(US\$ millions, except percentages)</i>				
Revenue				
Housing	\$ 348	\$ 429	\$ 1,072	\$ 1,198
Land	113	73	211	168
	<u>\$ 461</u>	<u>\$ 502</u>	<u>\$ 1,283</u>	<u>\$ 1,366</u>
Gross Margin				
Housing	\$ 61	\$ 88	\$ 180	\$ 231
Land	44	26	70	65
	<u>\$ 105</u>	<u>\$ 114</u>	<u>\$ 250</u>	<u>\$ 296</u>
Gross Margin (%)				
Housing	18%	21%	17%	19%
Land	39%	36%	33%	39%
	<u>23%</u>	<u>23%</u>	<u>19%</u>	<u>22%</u>

For the three months ended September 30, 2019, total revenue decreased by \$41 million and total gross margin decreased by \$9 million, when compared to the same period in 2018. The decrease in total revenue was primarily the result of 153 fewer home closings. This was partially offset by a \$40 million increase in land revenue as a result of 26 additional single family lot closings with 39% higher average selling prices and closing 134 raw and partially finished acres in 2019 with no comparative sale in the same period in 2018. Total gross margin decreased as a result of lower housing gross margins due to lower activity and increased sales incentives, partially offset by higher land gross margins due to the mix of land sold during the period. Total gross margin percentage remained consistent when compared to the same period in 2018. Housing gross margins decreased as a result of fewer home closings and a lower gross margin percentage across all of our operating segments primarily due to product mix. Land gross margins increased as a result of higher gross margin percentage due to the geographic mix and type of land sold.

For the nine months ended September 30, 2019, total revenue decreased by \$83 million and total gross margin decreased by \$46 million when compared to the same period in 2018. The decrease in total revenue was primarily the result of 256 fewer home closings. The decrease in home closings was partially due to lower home closings in our Canadian and California operating segments, partially offset by higher closings in our Central and Eastern U.S. operating segment. The decrease in total revenue was also partially due to an 8% decrease in the average single family lot selling price. This was partially offset by 409 additional single family lot closings. Total gross margin decreased primarily as a result of lower housing gross margins due to lower activity and increased incentives, partially offset by higher land gross margins due to the product mix of land sold. 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 \$348 million and \$61 million, respectively, for the three months ended September 30, 2019, compared to \$429 million and \$88 million for the same period in 2018. The decrease in revenue and gross margin was primarily the result of 153 fewer home closings and a 1% decrease in the Canadian to U.S. dollar foreign exchange rate for the three months ended September 30, 2019 when compared to the same period in 2018. The decrease in gross margin was also impacted by a decrease in the gross margin percentage in all of our operating segments, primarily as a result of the geographic and product mix of homes sold combined with higher sales incentives. Revenues are also affected by the mix of homes closed and market conditions, which have an impact on the selling price per home.

Housing revenue and gross margin were \$1.1 billion and \$180 million, respectively, for the nine months ended September 30, 2019, compared to \$1.2 billion and \$231 million for the same period in 2018. The decrease in revenue and gross margin was primarily the result of 256 fewer home closings, particularly in our Canadian and California operating segments, partially offset by additional home closings in our Central and Eastern U.S. operating segment. Gross margin percentage decreased as a result of a decrease in gross margin percentage across all of our operating segments due to the mix of homes closed. Revenues are also affected by the geographic mix of homes closed, local product mix and market conditions, which have an impact on the selling price per home.

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

Consolidated

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Home closings	674	827	2,048	2,304
Revenue	\$ 348	\$ 429	\$ 1,072	\$ 1,198
Gross margin	\$ 61	\$ 88	\$ 180	\$ 231
Gross margin (%)	18%	21%	17%	19%
Average home selling price	\$ 516,000	\$ 518,000	\$ 523,000	\$ 520,000

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

Canada

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Home closings	235	283	741	856
Revenue	\$ 85	\$ 108	\$ 278	\$ 314
Gross margin	\$ 13	\$ 20	\$ 42	\$ 63
Gross margin (%)	15%	19%	15%	20%
Average home selling price	\$ 362,000	\$ 380,000	\$ 375,000	\$ 367,000

Housing revenue in our Canadian segment for the three months ended September 30, 2019 decreased by \$23 million when compared to the same period in 2018, primarily due to 48 fewer home closings and a 5% decrease in the average home selling price. The decrease in home closings and the average home selling price was primarily the result of fewer closings and lower average home selling prices in our Calgary market due to the mix of homes closed and continued impact of poor market conditions. When comparing the average home selling price in Canadian dollars for the three months ended September 30, 2019 and 2018, the average home selling price was C\$478,000 and C\$497,000, respectively, representing a decrease of 4%, primarily due to product mix in our Calgary market. Gross margin decreased \$7 million and gross margin percentage decreased 4% for the three months ended September 30, 2019 when compared to the same period in 2018 primarily as a result of fewer closings, increased sales incentives, and product mix of homes sold.

Housing revenue for the nine months ended September 30, 2019 decreased by \$36 million when compared to the same period in 2018, primarily due 115 fewer home closings, partially offset by a 2% increase in the average home selling price. The decrease in home closings was primarily the result of fewer closings from our Edmonton and Ontario markets. When comparing the average home selling price in Canadian dollars for the nine months ended September 30, 2019 and 2018, the average home selling price was C\$499,000 and C\$474,000, respectively, representing an increase of 5%, primarily due to geographic and product mix of homes closed. Gross margin decreased \$21 million for the nine months ended September 30, 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 nine months ended September 30, 2019 decreased 5% when compared to the same period in 2018 primarily as a result of geographic mix and increased incentives on the homes closed.

California

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Home closings	218	284	638	799
Revenue	\$ 153	\$ 202	\$ 464	\$ 581
Gross margin	\$ 30	\$ 45	\$ 85	\$ 115
Gross margin (%)	20%	22%	18%	20%
Average home selling price	\$ 700,000	\$ 711,000	\$ 726,000	\$ 727,000

Housing revenue in our California segment was \$153 million for the three months ended September 30, 2019, a decrease of \$49 million when compared to the same period in 2018. The decrease in housing revenue was primarily due to 66 fewer home closings with 2% lower average home selling prices as a result of the product mix in Southern California. Gross margin decreased \$15 million in the three months ended September 30, 2019 when compared to 2018, primarily as a result of fewer home closings. Gross margin percentage decreased 2% as a result of product mix when compared to 2018.

Housing revenue for the nine months ended September 30, 2019 was \$464 million, a decrease of \$117 million when compared to the same period in 2018. The decrease in revenue was primarily due to 161 fewer home closings with the largest decrease coming from our Southern California operations as a result of weaker market conditions for home orders in the last half of 2018 and early 2019. Gross margin decreased \$30 million primarily as a result of fewer home closings and gross margin percentage decreased 2% primarily as a result of product mix when compared to the same period in 2018.

Central and Eastern U.S.

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Home closings	221	260	669	649
Revenue	\$ 110	\$ 119	\$ 330	\$ 303
Gross margin	\$ 18	\$ 23	\$ 53	\$ 53
Gross margin (%)	16%	19%	16%	17%
Average home selling price	\$ 499,000	\$ 458,000	\$ 494,000	\$ 467,000

The Central and Eastern U.S. housing revenue for the three months ended September 30, 2019 decreased \$9 million compared to the same period in 2018 primarily due to 39 fewer home closings, partially offset by a 9% increase in the average home selling price due to product mix and higher average home selling prices in our Austin market. Gross margin decreased \$5 million and gross margin percentage decreased 3% when compared to the same period in 2018 primarily as a result of geographic and product mix, particularly in our Washington D.C. market.

Housing revenue increased by \$27 million for the nine months ended September 30, 2019 when compared to the same period in 2018. The increase in revenue was primarily the result of 20 additional home closings and a 6% increase in the average home selling price. The increase in home closings was primarily due to our Washington D.C. market, while the increase in the average home selling price was primarily due to an increase in average selling prices in our Austin market as a result of product mix of homes sold. Gross margin remained consistent when compared to the same period in 2018 while gross margin percentage decreased 1% primarily as a result of geographic mix of homes closed.

Home Sales – Incentives

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

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

	Three Months Ended September 30			
	2019		2018	
	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
<i>(US\$ millions, except percentages)</i>				
Canada	\$ 5	5%	\$ 2	2%
California	6	4%	4	2%
Central and Eastern U.S.	4	4%	4	4%
	\$ 15	4%	\$ 10	2%

	Nine Months Ended September 30			
	2019		2018	
	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
<i>(US\$ millions, except percentages)</i>				
Canada	\$ 18	6%	\$ 6	2%
California	16	3%	9	2%
Central and Eastern U.S.	14	4%	13	4%
	\$ 48	4%	\$ 28	2%

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders, including our share of unconsolidated entities, for the three and nine months ended September 30, 2019 totaled 768 units and 2,395 units, an increase of 125 units or 19% and an increase of 43 units or 2% respectively, as compared to the same periods in 2018. For the nine months ended September 30, 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 in Ontario 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 half of 2019 when compared to 2018, but recent third quarter sales pace has improved when compared to the third quarter of 2018. 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 three and nine months ended September 30, 2019 were: Canada – 3 and 3 units (2018 – 2 and 2 units); California – 4 and 4 units (2018 – 3 and 4 units); Central and Eastern U.S. – 2 and 3 units (2018 – 3 and 4 units); and unconsolidated entities – nil units (2018 – nil units). We were selling from 91 active housing communities, including our share of unconsolidated entities, at September 30, 2019 compared to 87 at September 30, 2018.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
	<i>(Units)</i>			
Canada	267	191	825	535
California	243	232	779	884
Central and Eastern U.S.	258	221	791	930
	768	644	2,395	2,349
Unconsolidated entities	—	(1)	—	3
	768	643	2,395	2,352

The overall cancellation rates for the three and nine months ended September 30, 2019 were 16% and 14%, respectively, compared to 15% and 11% in 2018. The increase in the cancellation rates for the three and nine months ended September 30, 2019 were primarily driven by a higher number of cancellations in our Alberta market as a result of market conditions. The cancellation rates for the three and nine months ended September 30, 2019 and 2018 by our three operating segments were as follows:

	Three Months Ended September 30			
	2019		2018	
	Units	% of Gross Home Orders	Units	% of Gross Home Orders
<i>(Units, except percentages)</i>				
Canada	66	20%	11	5 %
California	30	11%	52	18 %
Central and Eastern U.S.	52	17%	47	18 %
	148	16%	110	15 %
Unconsolidated entities	—	—%	1	(100)%
	148	16%	111	15 %

	Nine Months Ended September 30			
	2019		2018	
	Units	% of Gross Home Orders	Units	% of Gross Home Orders
<i>(Units, except percentages)</i>				
Canada	172	17%	36	6%
California	83	10%	119	12%
Central and Eastern U.S.	143	15%	133	13%
	398	14%	288	11%
Unconsolidated entities	—	—%	1	29%
	398	14%	289	11%

Home Sales – Backlog

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

	As at September 30			
	2019		2018	
	Units	Value	Units	Value
<i>(US\$ millions, except unit activity)</i>				
Canada	535	\$ 198	628	\$ 295
California	402	296	500	364
Central and Eastern U.S.	547	250	610	296
	1,484	744	1,738	955
Unconsolidated entities	—	—	—	—
Total	1,484	\$ 744	1,738	\$ 955

We expect all of our backlog to close between 2019 and 2022, subject to future cancellations. The units in our backlog for the nine months ended September 30, 2019 decreased compared to the same period in 2018, primarily due to lower net new home orders, primarily from our California and Central & Eastern U.S. operating segments. Our units in backlog in our Canadian operating segment decreased by 93 units at September 30, 2019, when compared to September 30, 2018, mainly due to the execution of our backlog with lower net new home orders in 2018 from our Ontario market. Our California segment's units in backlog decreased 98 units mainly due to a decrease in net new home orders in 2019 compared to the same period in 2018. The decrease of 63 units in the Central and Eastern U.S. operating segment was primarily the result of a decrease in net new orders in 2019 compared to the same period in 2018 primarily in our Washington market. Total backlog value decreased by \$211 million when compared to the same period in 2018 primarily as a result of fewer backlog units, as well as product mix of homes in backlog.

Results of Operations – Land

Land revenue totaled \$113 million for the three months ended September 30, 2019, and land gross margin totaled \$44 million, an increase of \$40 million and an increase of \$18 million, respectively, when compared to the same period in 2018. The increase in land revenue was primarily attributable to closing higher margin single family lots in our Playa Vista community in Southern California and closing a sale of 134 raw and partially finished acres in our Calgary operations. Additionally, there were 106 single family lot closings from our Homebuilder Finance program as part of the Corporate and Other non-operating segment. Gross margin increased primarily due to higher single family lot selling prices as a result of the geographic mix of single family lots sold as well as raw and partially finished acres sold in 2019 compared to none in 2018. Gross margin percentage increased by 2% 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 operating segments had 80 fewer single family lot closings and an increase in gross margin percentage of 6% when compared to the prior period primarily due to the lots sold in Southern California. Revenues are affected by geographic mix, product mix and market conditions, which have an impact on the selling price of land.

Land revenue totaled \$211 million for the nine months ended September 30, 2019, and land gross margin totaled \$70 million, an increase of \$43 million and \$5 million, respectively, when compared to the same period in 2018. The increase in land revenue was primarily due to an additional 562 single family lot closings from our Homebuilder Finance program as part of the Corporate and Other non-operating segment. Gross margin increased primarily due to higher gross margin on our Playa Vista community lot closings in Southern California and the large raw and partially finished acre sale in our Calgary market. Gross margin percentage decreased by 6% due to the mix of land sold. Single family lots closed as part of the Homebuilder Finance program had gross margins of 1% as interest income is recorded during the period that lots are owned by the Company. Taking the above into account, when excluding the Corporate and Other lot closings, our operating segments had 153 fewer single family lot closings and an increase in gross margin percentage of 4% when compared to the prior period. Revenues are affected by geographic mix, product mix and market conditions, which have an impact on the selling price of land.

A breakdown of our results from land operations for the three and nine months ended September 30, 2019 and 2018 is as follows:

Consolidated

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Lot closings (single family units)	578	552	1,592	1,183
Acre closings (multi-family, industrial and commercial)	10	42	23	52
Acre closings (raw and partially finished)	134	—	134	19
Revenue	\$ 113	\$ 73	\$ 211	\$ 168
Gross margin	\$ 44	\$ 26	\$ 70	\$ 65
Gross margin (%)	39%	36%	33%	39%
Average lot selling price (single family units)	\$ 147,000	\$ 106,000	\$ 112,000	\$ 122,000
Average per acre selling price (multi-family, industrial and commercial)	\$ 870,000	\$ 349,000	\$ 607,000	\$ 424,000
Average per acre selling price (raw and partially finished)	\$ 138,000	\$ —	\$ 138,000	\$ 94,000

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

Canada

<i>(US\$ millions, except unit activity, percentages and average selling price)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Lot closings (single family units)	214	213	505	538
Acre closings (multi-family, industrial and commercial)	8	16	10	26
Acre closings (raw and partially finished)	134	—	134	19
Revenue	\$ 52	\$ 36	\$ 85	\$ 90
Gross margin	\$ 23	\$ 17	\$ 41	\$ 43
Gross margin (%)	44%	47%	48%	48%
Average lot selling price (single family units)	\$ 121,000	\$ 116,000	\$ 113,000	\$ 129,000
Average per acre selling price (multi-family, industrial and commercial)	\$ 960,000	\$ 720,000	\$ 890,000	\$ 725,000
Average per acre selling price (raw and partially finished)	\$ 138,000	\$ —	\$ 138,000	\$ 94,000

Land revenue in Canada for the three months ended September 30, 2019 was \$52 million, an increase of \$16 million when compared to the same period in 2018. The increase was primarily the result of closing 134 raw and partially finished acres in our Calgary market for \$19 million (C\$24 million) with no comparative sale in 2018. This was partially offset by eight multi-family, industrial and commercial acres sold in 2019 versus 16 acres in the same period in 2018. Gross margin increased \$6 million primarily as a result of the raw and partially finished acre closing in 2019. Gross margin percentage decreased 3% when compared to 2018, primarily due to the mix of land sold.

Land revenue in Canada for the nine months ended September 30, 2019 was \$85 million, a decrease of \$5 million when compared to the same period in 2018. The decrease was primarily the result of 33 fewer single family lot closings with a 12% lower average single family lot selling prices primarily due to the mix of land sold during the period and 16 fewer multi-family, industrial and commercial acre sales. This was partially offset by closing 134 raw and partially finished acres in 2019 with no comparative sale in 2018. Gross margin decreased \$2 million primarily as a result of the mix of land sold. Gross margin percentage remained consistent with the same period in 2018.

California

<i>(US\$ millions, except unit activity, percentages and average selling price)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Lot closings (single family units)	203	129	250	305
Acre closings (multi-family, industrial and commercial)	—	24	—	24
Revenue	\$ 47	\$ 18	\$ 53	\$ 49
Gross margin	\$ 21	\$ 6	\$ 24	\$ 18
Gross margin (%)	45%	33%	45%	37%
Average lot selling price (single family units)	\$ 229,000	\$ 125,000	\$ 211,000	\$ 155,000
Average per acre selling price (multi-family, industrial and commercial) ..	\$ —	\$ 94,000	\$ —	\$ 94,000

Land revenue in California for the three months ended September 30, 2019 increased \$29 million and gross margin increased \$15 million when compared to the same period in 2018. This was primarily due to 74 additional single family lot closings when compared to the same period in 2018. Gross margin increased as a result of higher activity while gross margin percentage increased 12% primarily as a result of the 14 single family lot closings at Playa Vista in Southern California.

Land revenue in California for the nine months ended September 30, 2019 increased \$4 million and gross margin increased \$6 million when compared to the same period in 2018. This was primarily due to 36% higher single family lot selling prices primarily due to the 14 single family lot closings at Playa Vista in Southern California, partially offset by 55 fewer single family lot closings due to the timing of lots sold during the same period in 2018. Gross margin increased \$6 million as a result of higher single family lot selling prices and gross margin percentage increased 8% as a result of product mix.

Central and Eastern U.S.

<i>(US\$ millions, except unit activity, percentages and average selling price)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Lot closings (single family units)	55	210	275	340
Acre closings (multi-family, industrial and commercial)	2	2	13	2
Revenue	\$ 5	\$ 19	\$ 25	\$ 29
Gross margin	\$ —	\$ 3	\$ 5	\$ 4
Gross margin (%)	4%	16%	20%	14%
Average lot selling price (single family units)	\$ 79,000	\$ 85,000	\$ 76,000	\$ 82,000
Average per acre selling price (multi-family, industrial and commercial) ..	\$ 493,000	\$ 495,000	\$ 363,000	\$ 495,000

For the three months ended September 30, 2019, Central and Eastern U.S. land revenue decreased by \$14 million and gross margin decreased \$3 million compared to the same period in 2018. The decrease in revenue was primarily from 155 fewer single family lot closings mainly due to the timing of closings from our Denver market. There was also a 7% decrease in the average single family lot selling price due to the geographic mix of lots sold. Gross margin percentage decreased 12% as a result of the geographic mix of land sold within the operating segment.

For the nine months ended September 30, 2019, Central and Eastern U.S. land revenue decreased \$4 million and gross margin increased by \$1 million when compared to 2018. The decrease in revenue was primarily from 65 fewer single family lot closings and a 7% lower average single family lot selling prices. Gross margin percentage increased 6% as a result of the geographic mix of land sold within the operating segment.

Equity in Earnings from Unconsolidated Entities - Land and Housing

Equity in earnings from land and housing unconsolidated entities for the three and nine months ended September 30, 2019 totaled \$9 million and \$24 million, respectively, compared to \$4 million and \$13 million, respectively, for the same periods in 2018. The housing and land operations of our unconsolidated entities are discussed below.

Housing

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

<i>(US\$ millions, except unit activity, percentages and average selling price)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Home closings	—	1	—	4
Revenue	\$ —	\$ 1	\$ —	\$ 5
Gross margin	\$ —	\$ —	\$ —	\$ 1
Gross margin (%)	—%	—%	—%	20%
Average home selling price	\$ —	\$ 1,103,000	\$ —	\$ 1,328,000

Housing revenue within unconsolidated entities decreased \$1 million, while there was no change in gross margin for the three and nine months ended September 30, 2019 compared to the same period in 2018. The decrease in housing revenue and home closings is a result of acquiring the remaining 50% of our housing joint venture in Hawaii during the third quarter of 2018 where results subsequent to the acquisition are included in the condensed consolidated financial statements.

Land

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

<i>(US\$ millions, except unit activity, percentages and average selling price)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Lot closings (single family units)	251	193	786	315
Acre closings (multi-family, industrial and commercial)	—	—	1	16
Revenue	\$ 52	\$ 21	\$ 109	\$ 44
Gross margin	\$ 14	\$ 4	\$ 34	\$ 12
Gross margin (%)	27%	19%	31%	27%
Average lot selling price (single family units)	\$ 208,000	\$ 111,000	\$ 138,000	\$ 124,000
Average per acre selling price (multi-family, industrial and commercial)	\$ —	\$ —	\$ 106,000	\$ 350,000

Land revenue within unconsolidated entities increased \$31 million and gross margin increased \$10 million for the three months ended September 30, 2019 when compared to the same period in 2018. This was primarily the result of 58 additional single family lot closings and an 87% increase in the average selling price for single family lot closings primarily from our Phoenix joint ventures.

Land revenue within unconsolidated entities increased \$65 million and gross margin increased \$22 million for the nine months ended September 30, 2019 compared to the same period in 2018. This was primarily the result of 471 additional single family lot closings primarily from our Phoenix joint ventures with 11% overall higher average selling prices. This was partially offset by 15 fewer multi-family, industrial and commercial acre sales in 2019, compared to the same period in 2018.

Selling, General and Administrative Expense

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

<i>(US\$ millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
General and administrative expense	\$ 28	\$ 40	\$ 97	\$ 114
Sales and marketing expense	28	28	82	78
Share-based compensation	4	4	12	11
	\$ 60	\$ 72	\$ 191	\$ 203

Selling, general and administrative expense was \$60 million for the three months ended September 30, 2019, a decrease of \$12 million when compared to the same period in 2018. General and administrative expense decreased \$12 million for the three months ended September 30, 2019 primarily due to cost efficiencies as a result of entering into a management agreement with Brookfield Properties Development for services starting on January 1, 2019 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. Share-based compensation in 2019 remained consistent with 2018.

Selling, general and administrative expense was \$191 million for the nine months ended September 30, 2019, a decrease of \$12 million when compared to the same period in 2018. General and administrative expense decreased \$17 million for the nine months ended September 30, 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 nine months ended September 30, 2019 increased \$4 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 increased by \$1 million when compared to the same period in 2018.

Other (Income) / Expense

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

<i>(US\$ millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Investment income	\$ (11)	\$ (9)	\$ (31)	(26)
Other	(8)	(7)	(8)	(10)
Joint venture management fee income	(3)	(3)	(9)	(11)
Loss on extinguishment of debt	3	—	3	—
Consent solicitation costs	6	—	6	—
	\$ (13)	\$ (19)	\$ (39)	\$ (47)

For the three months ended September 30, 2019, other income decreased \$6 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 and consent solicitation costs relating to legal and agent fees of \$6 million, partially offset by a \$3 million increase in investment and other income primarily from our preferred share dividends. Refer to Note 12 "Notes Payable" in the condensed consolidated financial statements for additional information about the consent solicitation costs and loss on extinguishment of the 2020 unsecured senior notes.

For the nine months ended September 30, 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, a decrease in joint venture management fee income and a decrease in other income of \$2 million. This was partially offset by a \$5 million increase in investment income primarily from our preferred share dividends. Refer to Note 12 "Notes Payable" in the condensed consolidated financial statements for additional information about the consent solicitation costs and loss on extinguishment of the 2020 unsecured senior notes.

Income Tax Expense / (Recovery)

Income tax expense for the three and nine months ended September 30, 2019 was \$5 million and \$7 million, respectively, compared to \$8 million and \$18 million, for the same periods in 2018. The components of current and deferred income tax expense are summarized as follows:

<i>(US\$ millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Current income tax expense	\$ 10	\$ 9	\$ 12	\$ 18
Deferred income tax recovery	(5)	(1)	(5)	—
	\$ 5	\$ 8	\$ 7	\$ 18

For the three and nine months ended September 30, 2019, current income tax expense increased \$1 million and decreased \$6 million, respectively, when compared to the same periods in 2018. The decrease in current income taxes for the nine months period was primarily due to the decrease in taxable income in our U.S. operations when compared to the same period in 2018.

For the three and nine months ended September 30, 2019, deferred income tax recovery increased \$4 million and \$5 million, respectively when compared to the same periods in 2018. The change in deferred income taxes primarily relates to the change in geographic mix of income offset by a deferred income tax expense of \$5 million recognized due to the effect of a change in the Alberta corporate tax rate during the nine months ended September 30, 2019.

Foreign Exchange Translation

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

Assets and liabilities of subsidiaries or unconsolidated entities having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at September 30, 2019, the rate of exchange was C\$1.3240 equivalent to US\$1 (December 31, 2018 – C\$1.3641 equivalent to US\$1). Revenues and expenses are

translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the three months ended September 30, 2019, the average rate of exchange was C\$1.3202 equivalent to US\$1 (September 30, 2018 – C\$1.3069 equivalent to US\$1). The resulting foreign currency translation adjustments are recognized in other comprehensive income (“OCI”). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the condensed consolidated statements of operations as other income / (expense), except for those related to monetary liabilities qualifying as hedges of the Company’s investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

The financial results of our Canadian operations are translated into U.S. dollars for financial reporting purposes. Foreign currency translation gains and losses are recorded as the exchange rate between the two currencies fluctuates. These gains and losses are included in OCI and accumulated OCI. The translation of our Canadian operations resulted in a loss of \$8 million and a gain of \$21 million, respectively, for the three and nine months ended September 30, 2019, compared to a gain of \$14 million and a loss of \$22 million, respectively, in the same periods of 2018.

QUARTERLY OPERATING AND FINANCIAL DATA

<i>(US\$ millions, except unit activity and per share amounts)</i>	2019			2018				2017
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Quarterly Operating Data								
Home closings (units)	674	763	611	1,107	827	1,019	458	1,168
Lot closings (single family units)	578	756	258	1,655	552	367	264	1,076
Acre closings (multi-family, industrial and commercial)	10	3	10	27	42	1	9	59
Acre closings (raw and partially finished)	134	—	—	—	—	19	—	61
Net new home orders (units)	768	867	760	506	644	782	923	679
Backlog (units at end of period)	1,484	1,390	1,286	1,137	1,738	1,921	2,158	1,693
Backlog value	\$ 744	\$ 730	\$ 685	\$ 612	\$ 955	\$ 1,038	\$ 1,182	\$ 928
Quarterly Financial Data⁽¹⁾⁽²⁾								
Revenue	\$ 461	\$ 476	\$ 346	\$ 796	\$ 502	\$ 589	\$ 274	\$ 818
Direct cost of sales	(356)	(397)	(279)	(619)	(388)	(463)	(218)	(610)
Gross margin	105	79	67	177	114	126	56	208
Gain on sale of commercial properties ...	—	—	—	6	—	—	—	—
Selling, general and administrative expense	(60)	(65)	(66)	(93)	(72)	(71)	(60)	(74)
Interest expense	(9)	(8)	(9)	(9)	(8)	(9)	(12)	(13)
Equity in earnings from unconsolidated entities - land and housing	9	11	4	5	4	4	5	7
Other income	12	9	14	15	18	14	12	8
Lease expense	(3)	(3)	(3)	—	—	—	—	—
Income before income taxes	54	23	7	101	56	64	1	136
Income tax (expense) / recovery	(5)	(6)	4	(22)	(8)	(12)	2	(42)
Net income	49	17	11	79	48	52	3	94
Net income attributable to non-controlling interest - land and housing	1	1	1	2	4	2	—	—
Net income attributable to Brookfield Residential	\$ 48	\$ 16	\$ 10	\$ 77	\$ 44	\$ 50	\$ 3	\$ 94
Foreign currency translation	(8)	14	15	(42)	14	(15)	(21)	(8)
Comprehensive income / (loss)	\$ 40	\$ 30	\$ 25	\$ 35	\$ 58	\$ 35	\$ (18)	\$ 86
Basic	\$ 0.37	\$ 0.12	\$ 0.08	\$ 0.59	\$ 0.34	\$ 0.38	\$ 0.02	\$ 0.72
Diluted	\$ 0.37	\$ 0.12	\$ 0.08	\$ 0.59	\$ 0.34	\$ 0.38	\$ 0.02	\$ 0.72

- (1) *The Company applied ASC Topic 606 Revenue from Contracts with Customers, ("ASC Topic 606") with an initial application date of January 1, 2018. ASC Topic 606 was applied using the modified retrospective approach and therefore, the comparative information has not been adjusted and continues to be reported under ASC Topic 605 Revenue Recognition.*
- (2) *The Company applied ASC Topic 842 Leases, ("ASC Topic 842") with an initial application date of January 1, 2019. ASC Topic 842 was applied using the Comparatives under 840 Option approach and therefore, the comparative information has not been adjusted and continues to be reported under ASC Topic 840 Leases.*

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

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's condensed consolidated balance sheets as at September 30, 2019 and December 31, 2018:

<i>(US\$ millions)</i>	As at	
	September 30, 2019	December 31, 2018
Land and housing inventory	\$ 3,144	\$ 2,974
Investments in unconsolidated entities - land and housing..	376	347
Investment in unconsolidated entity - affiliate	617	—
Commercial properties	416	270
Held-to-maturity investment	300	300
Receivables and other assets	492	480
Operating and financing lease right-of-use asset	92	—
Cash and restricted cash	75	73
Deferred income tax assets	50	62
Goodwill	16	16
	\$ 5,578	\$ 4,522
Notes payable	\$ 1,612	\$ 1,620
Bank indebtedness and other financings	424	143
Accounts payable and other liabilities	626	636
Operating and financing lease liability	95	—
Total equity	2,821	2,123
	\$ 5,578	\$ 4,522

Assets

Our assets as at September 30, 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 \$3.5 billion, or approximately 63% of our total assets. The land and housing assets increased when compared to December 31, 2018 due to land acquisitions of \$290 million, land development and home construction activity, partially offset by sales activity. Our land and housing assets include land under development and land held for development, finished lots ready for construction, homes completed and under construction and model homes.

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

<i>(US\$ millions, except units)</i>	As at			
	September 30, 2019		December 31, 2018	
	Units	Book Value	Units	Book Value
Land held for development (lot equivalents)	65,479	\$ 1,452	67,104	\$ 1,417
Land under development and finished lots (single family units)	10,469	882	10,225	839
Housing units, including models	2,300	721	1,980	654
	78,248	\$ 3,055	79,309	\$ 2,910
Multi-family, industrial and commercial parcels (acres)	145	\$ 89	172	\$ 64

Notes Payable

Notes payable consist of the following:

(US\$ millions)	As at	
	September 30 2019	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)	189	183
6.375% unsecured senior notes due May 15, 2025 (d)	350	350
6.250% unsecured senior notes due September 15, 2027 (e)	600	—
	<u>\$ 1,639</u>	<u>\$ 1,633</u>
Transaction costs (f)	(27)	(13)
	<u>\$ 1,612</u>	<u>\$ 1,620</u>

(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 senior notes due in 2027.

(b) On June 25, 2013, the Company and Brookfield Residential US LLC ("BRUS LLC") (formerly known as Brookfield Residential US Corporation) 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 C\$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 three months ended September 30, 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 in the condensed 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 of the unsecured senior notes due in 2023 and 2025.

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 September 30, 2019. Our actual fixed charge coverage, indebtedness to consolidated net tangible worth, and net indebtedness to tangible net worth ratio as at September 30, 2019 are reflected in the table below:

	Covenant	Actual as at September 30 2019
Minimum fixed charge coverage	2.0 to 1	2.80 to 1
Maximum indebtedness to consolidated net tangible worth	2.25 to 1	0.74 to 1
Maximum net indebtedness to consolidated net tangible worth	3.0 to 1	0.74 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings as at September 30, 2019 were \$424 million, an increase of \$281 million from December 31, 2018. The increase was primarily the result of borrowings to fund land development, home construction, and strategic acquisitions. Our bank indebtedness and other financings represent construction and development loans and facilities that are used to fund the operations of our communities as land is developed and homes and commercial property are constructed. As of September 30, 2019, the weighted average interest rate on our bank indebtedness and other financings was 5.0% (December 31, 2018 – 4.4%).

The debt maturing in 2019 and onwards is expected to either be refinanced or repaid from home and/or lot closings over this period. Additionally, as at September 30, 2019, we had bank indebtedness capacity of \$374 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	
	September 30 2019	December 31 2018
<i>(US\$ millions)</i>		
Bank indebtedness (a)	\$ 243	\$ 89
Project-specific financings (b)	134	35
Secured VTB mortgages (c)	55	29
	432	153
Transaction costs (a)(b)	(8)	(10)
	\$ 424	\$ 143

(a) 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 September 30, 2019, the Company had \$243 million 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 \$1.3 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at September 30, 2019, the Company was in compliance with all of our covenants relating to this facility. The following table reflects consolidated tangible net worth and consolidated net debt to capitalization covenants:

<i>(US\$ millions, except percentages)</i>	Covenant	Actual as at September 30 2019
Minimum tangible net worth	\$ 1,300	\$ 2,805
Maximum total debt to capitalization	65%	43%

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

(b) Project-specific financings

- (i) At September 30, 2019, the Company has two Canadian project-specific financings totaling \$37 million (C\$49 million) provided by various lenders (December 31, 2018 - \$35 million (C\$48 million)).

Project-specific financing totaling \$30 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. This debt is repayable in Canadian dollars of C\$39 million (December 31, 2018 - C\$37 million). This borrowing includes a minimum debt to equity covenant for South Seton Limited Partnership of no greater than 1.50 to 1. The Company was in compliance with these covenants as at September 30, 2019. The following table reflects the debt to equity ratio covenant:

	Covenant	Actual as at September 30 2019
Maximum debt to equity ratio	1.50 to 1	0.44 to 1

Project-specific financing totaling \$7 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. The debt is repayable in Canadian dollars of C\$10 million (December 31, 2018 - C\$11 million).

- (ii) On November 29, 2018, OliverMcMillan Spectrum Emery LLC entered into a five-year secured construction loan with a Canadian federal corporation for the Nashville mixed-used project. The loan allows OliverMcMillan Spectrum Emery LLC to borrow up to \$360 million. As at September 30, 2019, there were \$98 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, as the parent company to the borrower, 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 September 30, 2019. The following table reflects the covenants:

<i>(US\$ millions)</i>	Covenant	Actual as at September 30 2019
Minimum liquidity	\$ 36	\$ 400
Minimum net worth	\$ 360	\$ 1,210

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

(c) Secured VTB mortgages

Eight secured VTB mortgages (December 31, 2018 – nine secured VTB mortgages) in the amount of \$23 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\$31 million (December 31, 2018 – C\$34 million). The interest rate on this debt ranges from fixed rates of 2% to 6% and variable rates of Canadian prime plus 1% to prime plus 2% and the debt is secured by related land. As at September 30, 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:

<i>(US\$ millions)</i>	Covenant	Actual as at September 30 2019
Minimum Shareholder's Equity	\$ 200	\$ 609

As at September 30, 2019, the remaining borrowings are not subject to any financial covenants.

Four secured VTB mortgages (December 31, 2018 – three secured VTB mortgages) in the amount of \$32 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 September 30, 2019, these borrowings are not subject to any financial covenants.

Net Debt to Capitalization Calculation

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

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

<i>(US\$ millions, except percentages)</i>	As at	
	September 30 2019	December 31 2018
Bank indebtedness and other financings	\$ 424	\$ 143
Notes payable	1,612	1,620
Total interest bearing debt	2,036	1,763
Less: cash	(64)	(70)
	1,972	1,693
Total equity	2,821	2,123
Total capitalization	\$ 4,793	\$ 3,816
Net debt to total capitalization	41%	44%

Credit Ratings

Our access to financing depends on, among other things, suitable market conditions and the maintenance of suitable long-term credit ratings. Our credit ratings may be adversely affected by various factors, including but not limited to, increased debt levels, decreased earnings, declines in our customer demand, increased competition, a further deterioration in general economic and business conditions and adverse publicity. Any downgrades in our credit rating may impede our access to capital markets or raise our borrowing rates. We are currently rated by two credit rating agencies, Moody's and Standard & Poor's ("S&P"). We are committed to maintaining these ratings and improving them further over time. Our credit ratings at September 30, 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 September 30, 2019, we had cash and cash equivalents, including restricted cash, of \$75 million, compared to \$73 million at December 31, 2018.

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

<i>(US\$ millions)</i>	Nine Months Ended September 30	
	2019	2018
Cash flows used in operating activities	\$ (271)	\$ (303)
Cash flows provided by / (used) in investing activities	25	(51)
Cash flows provided by financing activities	250	332
Effect of foreign exchange rates on cash	(2)	(1)
	<u>\$ 2</u>	<u>\$ (23)</u>

Cash Flow Used in Operating Activities

Cash flows used in operating activities during the nine months ended September 30, 2019 totaled \$271 million, compared to \$303 million for the same period in 2018. During the nine months ended September 30, 2019, cash used in operating activities was primarily impacted by our net income, an increase in land and housing inventory due to land development, home construction and strategic land purchases, an increase in commercial properties, an increase in receivables and other assets, operating and financing right-of-use assets obtained in exchange for a lease obligation, a decrease in accounts payable and other liabilities and payments for amounts included in the measurement of the lease liabilities. Acquisitions of land and housing inventory for the nine months ended September 30, 2019 totaled \$290 million, consisting of \$47 million in Canada, \$116 million in California, \$47 million in Central and Eastern U.S and \$80 million in Corporate and Other. The increase in commercial properties of \$145 million was largely due to continued construction at our Nashville mixed-use development project. During the nine months ended September 30, 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 nine months ended September 30, 2018 totaled \$241 million, consisting of \$56 million in Canada, \$158 million in California and \$28 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 Investing Activities

During the nine months ended September 30, 2019, cash flows provided by investing activities totaled \$25 million compared to cash flows used in our investing activities of \$51 million for the same period in 2018. During the nine months ended September 30, 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 dividend income relating to these investments of \$15 million. We also received \$20 million in distributions from our land and housing unconsolidated entities, collected \$17 million on our real-estate loan receivables, and acquired \$5 million of cash from common control transactions. This was partially offset by our investment of \$32 million in land and housing unconsolidated entities primarily in our joint ventures in Southern California. During the nine months ended September 30, 2018, we invested \$83 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 dividend

income 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 nine months ended September 30, 2019 totaled \$250 million, compared to \$332 million for the same period in 2018. The cash provided by our financing activities during the nine months ended September 30, 2019 was primarily from \$154 million net drawings on our bank indebtedness and net borrowings under project-specific and other financings of \$120 million. This was partially offset by net contributions to non-controlling interest of \$6 million. Additionally, during the quarter, 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 relating to the senior notes due in 2022, 2023 and 2025. The Company also repaid the \$200 million that was received under a deposit agreement with a subsidiary of BAM. For the nine months ended September 30, 2018 there were borrowings under bank indebtedness of \$311 million, net borrowings under project-specific and other financings of \$27 million. This was partially offset by the payment of debt issuance costs of \$3 million and contributions to non-controlling interest of \$3 million.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at September 30, 2019 is as follows:

<i>(US\$ millions)</i>	Payment Due By Period				
	Total	Less than 1 Years	1 – 3 Years	3 – 5 Years	More than 5 Years
Notes payable ⁽¹⁾	\$ 1,639	\$ —	\$ 500	\$ 189	\$ 950
Interest on notes payable	571	101	204	131	135
Secured VTB mortgages ⁽²⁾⁽³⁾	55	45	8	2	—
Bank indebtedness ⁽²⁾⁽³⁾	243	—	243	—	—
Project-specific financings ⁽²⁾⁽³⁾	135	30	7	98	—
Accounts payable and other liabilities ⁽⁴⁾ ..	626	626	—	—	—
Operating and financing lease obligations ⁽⁵⁾	95	1	8	9	77
Purchase agreements and other obligations ⁽⁶⁾	128	28	78	9	13

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

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

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

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

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

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

Shareholders' Equity

At November 12, 2019, 129,756,910 Common Shares in the capital of the Company were issued and outstanding. In addition, Brookfield Residential has a stock option plan under which key officers and employees are granted options to purchase Non-Voting Class B Common Shares or settle the options in cash at the option of the holder. Each option granted can be exercised for one Non-Voting Class B Common Share or settled in cash for the fair value of one Common Share at the date of exercise. At November 12, 2019, 12,404,886 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the nine months ended September 30, 2019.

Off-Balance Sheet Arrangements

In the ordinary course of business, and where market conditions permit, we enter into land and lot option contracts and invest in unconsolidated entities to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time until the options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of September 30, 2019, we had \$102 million of primarily non-refundable option deposits and advanced costs. The total remaining exercise price of these options was \$103 million. Pursuant to the guidance in the United States Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810 *Consolidation*, as described in Note 4 "Land and Housing Inventory" to our condensed consolidated financial statements included elsewhere in this interim report, we have consolidated \$8 million of these option contracts where we consider the Company holds the majority economic interest in the assets held under the options.

We also own 7,617 lots and control under option 1,001 lots through our proportionate share of land and housing unconsolidated entities. As of September 30, 2019, our investment in land and housing unconsolidated entities totaled \$376 million. We have provided varying levels of guarantees of debt in our land and housing unconsolidated entities. As of September 30, 2019, we had recourse guarantees of \$23 million with respect to debt in our land and housing unconsolidated entities. During the nine months ended September 30, 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 condensed consolidated financial statements included later in this interim report for additional information about our investments in unconsolidated entities.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of September 30, 2019, we had \$66 million in letters of credit outstanding and \$657 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds as at September 30, 2019 are \$36 million and \$207 million, respectively.

Transactions Between Related Parties

Related parties include the directors, executive officers, director nominees or shareholders, and their respective immediate family members. There are agreements among our affiliates to which we are a party or subject to, including a name license. The Company's significant related party transactions as at and for the three and nine months ended September 30, 2019 and 2018 were as follows:

- During the nine months ended September 30, 2019, the Company entered into a \$300 million deposit agreement with a subsidiary of BAM and no borrowings were outstanding under the facility at September 30, 2019 as the Company repaid \$200 million during the three months ended September 30, 2019. During the three and nine months ended September 30, 2019, the company paid \$2 million and \$2 million of interest, respectively.
- During the nine months ended September 30, 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 three and nine months ended September 30, 2019, the Company incurred \$1 million and \$19 million, respectively, of management fees. Of this amount, \$nil and \$18 million was paid (three and nine months ended September 30, 2018 - \$nil). These transactions were recorded at the exchange amount.
- During the nine months ended September 30, 2019, the Company purchased \$300 million of preferred shares of Brookfield International Ltd., a subsidiary of BAM. During the three and nine months ended September 30, 2019, the Company earned \$6 and \$8 million, respectively, of preferred share dividends where \$nil and \$2 million were collected (three and nine months ended September 30, 2018 - \$nil). The transactions were recorded at the exchange amount.
- During the nine months ended September 30, 2019, the Company received \$300 million from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. The Company also received \$nil and \$7 million of dividends from these preferred shares for the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 - \$4 million and \$13 million, respectively). These transactions were recorded at the exchange amount.
- On September 26, 2019, the Company completed a reorganization with Brookfield US Inc. ("BUSI"), a wholly-owned subsidiary of BAM "(the Reorganization Transaction)", whereby the Company transferred its investment in its U.S. homebuilding operations for a 12.3% economic interest and a 50% voting interest in BUSI. The Company has now consolidated Brookfield Holdings (Meadows) LLC and Brookfield Holdings (Hayden I) LLC that were previously owned by BUSI as part of the Reorganization Transaction. The transaction has been treated as a common control transaction. See Note 5 to the condensed consolidated financial statements.

- During the nine months ended September 30, 2019, the Company paid \$0.2 million to BAM for Canadian tax credits (nine months ended September 30, 2018 - \$0.2 million). These transactions were recorded at the exchange amount.

Non-GAAP Financial Measures

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

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

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BROOKFIELD RESIDENTIAL PROPERTIES INC. CONDENSED CONSOLIDATED BALANCE SHEETS

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

	Note	(Unaudited)	
		As at	
		September 30 2019	December 31 2018
Assets			
Land and housing inventory	4	\$ 3,143,502	\$ 2,974,249
Investments in unconsolidated entities - land and housing	6	375,666	347,325
Investment in unconsolidated entity - affiliate	6	616,920	—
Commercial properties	7	416,340	269,829
Held-to-maturity investment	9	300,000	300,000
Receivables and other assets	10	491,773	478,932
Operating and financing lease right-of-use asset	22	92,466	—
Restricted cash	11	10,873	3,200
Cash and cash equivalents		64,249	69,932
Deferred income tax assets	16	50,040	61,847
Goodwill	8	16,479	16,479
Total assets		<u>\$ 5,578,308</u>	<u>\$ 4,521,793</u>
Liabilities and Equity			
Notes payable	12	\$ 1,611,902	\$ 1,619,918
Bank indebtedness and other financings	13	424,310	143,480
Accounts payable and other liabilities	14	626,064	635,800
Operating and financing lease liability	22	94,810	—
Total liabilities		<u>2,757,086</u>	<u>2,399,198</u>
Common Shares – 129,756,910 shares outstanding (December 31, 2018 – 129,756,910 shares outstanding)	19	626,594	626,594
Additional paid-in-capital		—	367,433
Retained earnings		1,309,074	1,236,092
Non-controlling interest - affiliate	17,18	975,823	—
Non-controlling interest - land and housing	18	50,097	53,832
Accumulated other comprehensive loss		(140,366)	(161,356)
Total equity		<u>2,821,222</u>	<u>2,122,595</u>
Total liabilities and equity		<u>\$ 5,578,308</u>	<u>\$ 4,521,793</u>
Commitments, contingent liabilities and other	23		
Guarantees	24		

See accompanying notes to the condensed consolidated financial statements

BROOKFIELD RESIDENTIAL PROPERTIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(all dollar amounts are in thousands of U.S. dollars, except per share amounts)

		(Unaudited)			
		Three Months Ended September 30		Nine Months Ended September 30	
Note		2019	2018	2019	2018
Revenue					
	Housing	\$ 347,963	\$ 428,717	\$ 1,071,639	\$ 1,197,771
	Land	112,688	73,238	211,188	168,212
	Total revenue	<u>460,651</u>	<u>501,955</u>	<u>1,282,827</u>	<u>1,365,983</u>
Direct Cost of Sales					
	Housing	(286,649)	(340,895)	(891,944)	(966,777)
	Land	(68,847)	(46,732)	(140,423)	(102,761)
	Total direct cost of sales	<u>(355,496)</u>	<u>(387,627)</u>	<u>(1,032,367)</u>	<u>(1,069,538)</u>
	Gross margin	105,155	114,328	250,460	296,445
	Selling, general and administrative expense	(60,152)	(72,060)	(191,448)	(203,085)
	Interest expense	(9,256)	(8,232)	(25,960)	(29,344)
	Equity in earnings from unconsolidated entities - land and housing	6	8,679	4,330	23,749
	Other income	15	13,722	18,533	39,181
	Lease expense	22	(2,679)	—	(8,512)
	Depreciation		(1,127)	(1,034)	(3,332)
	Income Before Income Taxes	<u>54,342</u>	<u>55,865</u>	<u>84,138</u>	<u>121,013</u>
	Current income tax expense	16	(9,834)	(9,726)	(11,698)
	Deferred income tax recovery / (expense)	16	5,014	1,377	4,674
	Net Income	<u>49,522</u>	<u>47,516</u>	<u>77,114</u>	<u>102,615</u>
Other Comprehensive Income / (Loss)					
Unrealized foreign exchange gain / (loss) on:					
	Translation of the net investment in Canadian subsidiaries	(10,090)	17,492	26,540	(27,275)
	Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries	2,050	(3,300)	(5,550)	5,200
	Comprehensive Income	<u>\$ 41,482</u>	<u>\$ 61,708</u>	<u>\$ 98,104</u>	<u>\$ 80,540</u>
Net Income Attributable To:					
	Consolidated	\$ 49,522	\$ 47,516	\$ 77,114	\$ 102,615
	Non-controlling interest - land and housing	18	1,197	3,081	2,307
	Brookfield Residential	<u>\$ 48,325</u>	<u>\$ 44,435</u>	<u>\$ 74,807</u>	<u>\$ 97,367</u>
Comprehensive Income Attributable To:					
	Consolidated	\$ 41,482	\$ 61,708	\$ 98,104	\$ 80,540
	Non-controlling interest - land and housing	18	1,197	3,081	2,307
	Brookfield Residential	<u>\$ 40,285</u>	<u>\$ 58,627</u>	<u>\$ 95,797</u>	<u>\$ 75,292</u>
Common Shareholders Earnings Per Share					
	Basic	21	\$ 0.37	\$ 0.34	\$ 0.58
	Diluted	21	\$ 0.37	\$ 0.34	\$ 0.58
Weighted Average Common Shares Outstanding (in thousands)					
	Basic	21	129,757	129,757	129,757
	Diluted	21	129,923	129,767	129,923

See accompanying notes to the condensed consolidated financial statements

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

		<i>(Unaudited)</i>	
		Nine Months Ended September 30	
	Note	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	(1,825)	—
Net income attributable to Brookfield Residential		74,807	97,367
Ending balance		1,309,074	1,159,057
Accumulated Other Comprehensive Loss			
Opening balance		(161,356)	(97,393)
Other comprehensive income / (loss)		20,990	(22,075)
Ending balance		(140,366)	(119,468)
Total Brookfield Residential Equity		\$ 1,795,302	\$ 2,033,616
Non-Controlling Interest	17,18		
Opening balance		\$ 53,832	\$ 54,216
Non-controlling interest attributable to common control transactions	5	975,823	—
Acquisitions		—	174
Net income attributable to land and housing non-controlling interest.		2,307	5,248
Contributions		(6,042)	(2,698)
Ending balance		\$ 1,025,920	\$ 56,940
Total Equity		\$ 2,821,222	\$ 2,090,556

See accompanying notes to the condensed consolidated financial statements

BROOKFIELD RESIDENTIAL PROPERTIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	<i>(Unaudited)</i>	
	Nine Months Ended September 30	
	2019	2018
Cash Flows Provided by / (Used in) Operating Activities		
Net income	\$ 77,114	\$ 102,615
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities - land and housing	(13,238)	(10,668)
Deferred income tax (recovery) / expense	(4,674)	351
Share-based compensation costs	12,506	11,437
Depreciation	3,332	3,146
Amortization of non-cash interest	4,518	3,246
Loss on extinguishment of debt	3,578	—
Dividend income on held-to-maturity investment	(14,697)	(12,760)
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(21,296)	(55,573)
Increase in land and housing inventory	(145,968)	(269,862)
Increase in commercial properties	(145,493)	(154,434)
Operating and financing ROU assets obtained in the exchange for a lease obligation	3,955	—
Payments for amounts included in the measurement of the lease liabilities	(1,083)	—
(Decrease) / Increase in accounts payable and other liabilities	(29,982)	80,158
Net cash used in operating activities	<u>(271,428)</u>	<u>(302,344)</u>
Cash Flows Provided by / (Used in) Investing Activities		
Investments in unconsolidated entities - land and housing	(32,439)	(82,769)
Distributions from unconsolidated entities - land and housing	19,956	13,381
Dividend income on held-to-maturity investment	14,697	12,760
Decrease in loan receivable	17,023	5,569
Cash acquired from common control Reorganization Transaction	5,989	—
Net cash provided by / (used in) investing activities	<u>25,226</u>	<u>(51,059)</u>
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	122,286	48,026
Repayments under project-specific and other financings	(1,959)	(21,007)
Net drawings on bank indebtedness	154,479	311,000
Drawings under unsecured senior notes payable	600,000	—
Repayments under unsecured senior notes payable	(600,000)	—
Payments of debt issuance costs	(18,349)	(3,703)
Net contributions to non-controlling interest	(6,042)	(2,524)
Payments made on the principal of financing leases	(154)	—
Net cash provided by financing activities	<u>250,261</u>	<u>331,792</u>
Effect of foreign exchange rates on cash and cash equivalents	(2,069)	(1,446)
Change in cash and cash equivalents	1,990	(23,057)
Cash and cash equivalents at beginning of period	73,132	107,855
Cash and cash equivalents at end of period	<u>\$ 75,122</u>	<u>\$ 84,798</u>
Supplemental Cash Flow Information		
Cash interest paid	\$ 85,204	\$ 73,727
Cash taxes paid	\$ 25,718	\$ 37,627

See accompanying notes to the condensed consolidated financial statements

Note 1. Significant Accounting Policies

(a) *Basis of Presentation*

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

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

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

(b) *Revenue Recognition*

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

Land sales are recognized when title passes to the purchaser upon closing, all material conditions of the sales contract have been met and a significant cash down payment or appropriate security is received and collectability is reasonably assured. Revenues from the sale of homes are recognized when title passes to the purchaser upon closing, wherein all proceeds are received or collectability is reasonably assured. In certain circumstances, when title transfers but material future development is required, revenue will either be recognized at a point in time or as the performance obligation is satisfied.

The Company grants homebuyers sales incentives from time-to-time in order to promote sales of its homes. These incentives will vary by type and by amount on a community-by-community and home-by-home basis. Incentives that impact the value of the home or the sales price paid, such as additional options, are reflected as a reduction to sales revenue. Incentives that are paid to an outside party, such as paying some or all of a homebuyer's closing costs, are recorded as cost of sales. Incentives are recognized at the time title passes to the homebuyer and the sale is recognized.

The following are descriptions of principal activities, from which the Company generates its revenue. See Note 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 likely that a significant reversal in the amount of cumulative revenue recognized will not occur. Certain contracts may have a significant financing component in the form of a vendor take back ("VTB") mortgage receivable. These amounts are recognized as receivables, see Note 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.

BROOKFIELD RESIDENTIAL PROPERTIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(all dollar amounts are in thousands of U.S. dollars)

(c) *Land and Housing Inventory*

- (i) *Carrying values:* Inventories consist of land held for development, land under development, homes under construction, completed homes and model homes and are stated at cost, net of impairment losses. In accordance with the United States Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 360 *Property, Plant and Equipment*, land and housing assets owned directly by the Company are reviewed for recoverability on a regular basis; the Company assesses these assets no less than quarterly for recoverability and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Indicators of impairment include, but are not limited to: significant decreases in local housing market values and selling prices of comparable homes; significant decreases in gross margins and sales absorption rates; accumulation of costs in excess of budget; actual or projected operating or cash flow losses; and current expectations that a real estate asset will more likely than not be sold before its previously estimated useful life. For communities where the current competitive and market dynamics indicate that these factors may be other than temporary, which may call into question the recoverability of the Company’s investment, a formal impairment analysis is performed. The formal impairment analysis consists of both qualitative competitive market analysis and a quantitative analysis reflecting market and asset specific information.

The qualitative competitive market analysis includes review of factors such as the target buyer and the macroeconomic characteristics that impact the performance of the Company’s assets, such as unemployment and the availability of mortgage financing, among other things. Based on this qualitative competitive market analysis, adjustments to sales prices may be required in order to make the Company’s communities competitive. The Company incorporates these adjusted prices in the quantitative analysis for the specific community.

Recoverability is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. To arrive at the estimated fair value of land and housing inventory, the Company estimates the cash flow for the life of each project. Specifically, on a land project, the Company estimates the timing of future land sales and the estimated revenue per lot, as well as estimated margins with respect to future land sales. On a housing project, the Company evaluates the margins on homes that have been closed, margins on sales contracts which are in backlog and estimated margins with regard to future home sales over the life of the project. For the land and housing inventory, the Company continuously evaluates projects where inventory is turning over more slowly than expected or whose average sales price and margins are declining and are expected to continue to decline. These projections take into account the specific business plans for each project and management’s best estimate of the most probable set of economic conditions anticipated to prevail in the market area. Such projections generally assume current home selling prices, cost estimates and sales rates for short-term projects are consistent with recent sales activity. For longer-term projects, planned sales rates for 2019 generally assume recent sales activity and normalized sales rates beyond 2019. In some instances, the Company may incorporate a certain level of inflation or deflation into the projected revenue and cost assumptions for these longer term projects. Management identifies potentially impaired land and housing projects based on these quantitative factors as well as qualitative factors obtained from the local market areas. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired and is then written down to fair value less estimated selling costs using a discounted cash flow methodology which incorporates market participant assumptions.

Due to uncertainties in the estimation process, particularly with respect to projected home sales prices and absorption rates, the timing and amount of the estimated future cash flows and discount rates, it is reasonably possible that actual results could differ from the estimates used in the impairment analysis. Assumptions about future home sales prices and absorption rates require significant judgment because the residential homebuilding industry is cyclical and is highly sensitive to changes in economic conditions. Because the projected cash flows used to evaluate the fair value of inventory are significantly impacted by changes in market conditions including reduced sales prices, a change in sales prices or changes in absorption estimates based on current market conditions and management’s assumptions relative to future results could lead to additional impairments in certain communities during any given period.

The Company has also entered into a number of option contracts to acquire land or lots in the future in accordance with specific terms and conditions. The majority of the option contracts require a non-refundable cash deposit based on a percentage of the purchase price of the property. Option contracts are recorded at cost. In determining whether to pursue an option contract, the Company estimates the option primarily based upon the expected cash flows from the optioned property. If the intent is to no longer pursue an option contract, the Company records a charge to earnings of the deposit amounts and any other related pre-acquisition entitlement costs in the period the decision is made.

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- (ii) *Capitalized costs:* In addition to direct land acquisitions, land development and improvement costs and home construction costs, costs also include interest, real estate taxes and direct overhead related to development and construction, which are capitalized to inventory during the period beginning with the commencement of development and ending with the completion of construction or development.

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

(d) *Commercial Properties*

Commercial properties include any properties that are currently leased out by Brookfield Residential and produce leasing revenue for the Company, or are being developed to produce leasing revenue. Acquisitions of operating commercial properties are accounted for utilizing the acquisition method of accounting. Estimates of future cash flows and other valuation techniques are used to allocate the purchase price of acquired property between land, buildings and improvements, equipment, debt, liabilities assumed and identifiable intangible assets and liabilities, if applicable. Expenditures for significant betterments and improvements are capitalized. Maintenance and repairs are charged to expense when incurred. Construction and improvement costs incurred in connection with the development of new properties or the redevelopment of existing properties are capitalized. Completed commercial properties are carried at the cost basis less accumulated depreciation. Commercial properties under development are stated at cost and are not depreciated until available for use. Real estate taxes and interest costs incurred during development periods are capitalized. Capitalized interest costs are based on qualified expenditures and interest rates in place during the development period. Capitalized real estate taxes and interest costs are amortized over lives which are consistent with the developed assets.

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

Depreciation of completed commercial properties 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 condensed 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. The Company has applied the practical expedient for short term leases; short-term leases are recognized on a straight-line basis over the life of the lease, and are not recognized on the balance sheet.

For lease agreements where the Company is a sub-lessor, the Company has presented the lease expense on a gross basis on the condensed consolidated statements of operations, and has recognized sub-lease income within "other income". See Note 22 "Leases" for sub-lease income recognized.

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(f) Loans and notes receivable

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

(g) Assets Held for Sale

Long-lived assets and groups of assets and liabilities which are considered to be disposal groups are presented as assets held for sale when the criteria in ASC Topic 360 *Property, Plant and Equipment* are met. Assets are reclassified as held for sale when management commits to a plan to sell the asset, the asset is available for immediate sale in its present condition subject to usual and customary terms, an active program to find a buyer is in place, the sale of the asset is probable within one year, the asset is being actively marketed at a price that is reasonable in relation to its fair value and it is unlikely that significant changes to the plan will be made.

While classified as held for sale, assets are carried at the lower of their carrying value and the fair value less costs to sell. Assets held for sale are not depreciated.

(h) Unconsolidated Entities

The Company participates in a number of unconsolidated entities in which it has less than a controlling interest to build homes or to develop and sell land to the unconsolidated entity members and other third parties. These unconsolidated entities are accounted for using the equity method. The Company recognizes its proportionate share of the earnings from the sale of lots and homes to other third parties. The Company does not recognize earnings from the purchase of lots from its unconsolidated entities and reduces its cost basis of the land purchased accordingly.

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

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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 self-sustaining Canadian operations are translated into U.S. dollars using the current rate method.

Assets and liabilities of subsidiaries or unconsolidated entities having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI").

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Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the condensed consolidated statements of operations as other income / (expense), except for those related to monetary liabilities qualifying as hedges of the Company's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

(o) Earnings Per Share

Earnings per share is computed in accordance with ASC Topic 260 *Earnings Per Share*. Basic earnings per share is calculated by dividing net income attributable to Brookfield Residential by the weighted average number of Common Shares outstanding for the period. Diluted earnings per share is calculated by dividing net income attributable to Brookfield Residential for the period by the average number of Common Shares outstanding including all potentially dilutive issuable Non-Voting Class B Common Shares under the option plan.

(p) Advertising Costs

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

(q) Warranty Costs

Estimated future warranty costs are accrued and charged to cost of sales at the time the revenue associated with the sale of each home is recognized. Factors that affect the Company's warranty liability include the number of homes sold, historical and anticipated rates of warranty claims, and cost per claim. Costs are accrued based upon historical experience.

(r) Variable Interest Entities

The Company accounts for its variable interest entities ("VIE") in accordance with ASC Topic 810 *Consolidation*. The decision to consolidate a VIE begins with establishing that a VIE exists. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investor lacks one of three characteristics associated with owning a controlling financial interest. Those characteristics (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 effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings (i.e. in "interest expense" when the hedged transactions are interest cash flows associated with floating-rate debt). The remaining gain or loss on the derivative instrument in excess of the cumulative changes in the present value of future cash flows of the hedged item, if any, is recognized in the realized and unrealized gain / (loss) on derivatives in current earnings during the period of change. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in realized and unrealized gain / (loss) on derivatives in current earnings during the period of change. Income and/or expense from changes in fair value on interest rate swaps are recognized as an adjustment to other income. The exchanges of payments on interest rate swap contracts are recorded as an adjustment to interest expense.

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For hedges of net investments in foreign operations, any foreign exchange gains or losses on the hedging instrument relating to the effective portion of the hedge are initially recorded in other comprehensive income. Gains and losses are recognized in current earnings on the ineffective portion of the hedge, or when there is a disposal or partial disposal of a foreign operation being hedged.

(t) Held-to-Maturity Investment

Held-to-maturity investments are recorded initially at fair value and are subsequently measured at amortized cost using the effective interest method, less any applicable provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Dividends received on held-to-maturity investments are recorded as other income.

(u) Fair Value Instruments

The FASB's authoritative guidance for fair value measurements establishes a three-level hierarchy based upon the inputs to the valuation model of an asset or liability. The fair value hierarchy and its application to the Company's assets and liabilities is as follows:

- Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.
- Level 2 – Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, or by model-based techniques in which all significant inputs are observable in the market.
- Level 3 – Valuation is derived from model-based techniques in which at least one significant input is unobservable and based on management's estimates about the assumptions that market participants would use to value the asset or liability.

When available, the Company uses quoted market prices in active markets to determine fair value. The Company considers the principal market and non-performance risks associated with its counterparties when determining the fair value measurements, if applicable. Fair value measurements are used for its interest rate and equity swaps, as well as for inventories when events and circumstances indicate that the carrying value may not be recoverable.

(v) Common Control Transactions

The Company accounts for the purchase and sale of assets between entities under common control in accordance with ASC Topic 805 *Business Combinations*, which requires the Company to record assets and liabilities transferred between entities under common control at carrying value. Differences between the carrying amount of the consideration given or received and the carrying amount of the assets and liabilities transferred are recorded directly in additional paid-in-capital and retained earnings.

The transfer of consolidated entities under common control is reflected as 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 condensed 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) Recent Accounting Pronouncements

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

Note 2. Change in Accounting Policies

ASC Topic 842 "Leases"

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

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

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

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

The Company has elected the following package of 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, and the Company has not reassessed initial direct costs for any existing leases.

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

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

Note 3. Revenue from Contracts with Customers

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

For the three and nine months ended September 30, 2019, the Company recognized \$0.6 million and \$1.1 million, respectively, (September 30, 2018 - \$nil and \$1.5 million, respectively) in revenue from performance obligations satisfied in prior periods. This cumulative catch-up adjustment resulted from a change in transaction price related to variable consideration that was constrained in previous periods. For amounts not recognized due to constraints, the Company has determined the amounts cannot be reliably estimated due to the following factors outside of the Company's control: economic volatility, period of time between the lot sale and the ultimate home closing, fluctuations and difficult prediction of profits and pricing of the ultimate home closing.

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

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Note 4. Land and Housing Inventory

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

The following summarizes the components of land and housing inventory:

	As at	
	September 30 2019	December 31 2018
Land held for development	\$ 1,452,403	\$ 1,417,372
Land under development	970,583	903,315
Housing inventory	613,559	554,140
Model homes	106,957	99,422
	\$ 3,143,502	\$ 2,974,249

The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. For the three and nine months ended September 30, 2019 and 2018, no impairment charges were recognized. Refer to Note 25 "Fair Value Measurements".

The Company capitalizes interest which is expensed as housing units and building lots are sold. Interest capitalized and expensed during the three and nine months ended September 30, 2019 and 2018 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Interest capitalized, beginning of the period	\$ 210,969	\$ 197,517	\$ 197,687	\$ 180,650
Interest capitalized	17,478	19,717	52,757	56,481
Interest expensed to cost of sales	(13,000)	(11,837)	(34,997)	(31,734)
Interest capitalized, end of the period	\$ 215,447	\$ 205,397	\$ 215,447	\$ 205,397

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 \$102.1 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 \$102.6 million (December 31, 2018 – \$110.1 million), including the non-refundable deposits and other entitlement costs identified above.

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The number of lots in which the Company has obtained an option to purchase, excluding those already consolidated and those held through investment in unconsolidated entities, and their respective dates of expiry and aggregate exercise prices follow:

Years of Expiry	Number of Lots	Total Exercise Price
2019	62	\$ 2,300
2020	697	28,801
2021	151	10,731
2022	106	3,427
2023	1,235	6,080
Thereafter	3,360	51,257
	<u>5,611</u>	<u>\$ 102,596</u>

The Company holds agreements for a further 3,461 acres (December 31, 2018 – 3,641 acres) of longer-term land, with non-refundable deposits and other entitlement costs of \$17.0 million (December 31, 2018 – \$18.6 million), which is included in land and housing inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of \$79.1 million (December 31, 2018 – \$87.9 million). However, given that the Company is in the initial stage of land entitlement, the Company has concluded at this time that the level of uncertainty in entitling these properties does not warrant including them in the above totals.

Note 5. 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, equals the fair value of the capital stock of BRUSC. The Company also holds a 50% voting interest in BUSI’s capital stock.

The impact on the Company’s condensed consolidated financial statements resulting from the Reorganization Transaction are as follows:

	As at
	September 30
	2019
Increase in net assets of Meadows and Hayden I contributed	\$ 7,718
Increase in equity investment in BUSI	616,920
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	1,825

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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 September 30, 2019, the Company was involved with 12 unconsolidated entities (December 31, 2018 – 12 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities include \$21.5 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 \$40.0 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	
	September 30 2019	December 31 2018
Assets		
Land and housing inventory	\$ 847,849	\$ 840,418
Investments in unconsolidated entities	149,371	131,260
Other assets	88,266	70,450
	\$ 1,085,486	\$ 1,042,128
Liabilities and Equity		
Bank indebtedness and other financings	\$ 148,671	\$ 127,376
Accounts payable and other liabilities	72,897	112,584
Brookfield Residential's interest	375,666	347,325
Others' interest	488,252	454,843
	\$ 1,085,486	\$ 1,042,128

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Revenue and Expenses				
Revenue	\$ 59,426	\$ 21,247	\$ 183,981	\$ 86,458
Direct cost of sales	(44,656)	(14,825)	(121,104)	(57,906)
Other income	4,993	2,951	2,756	4,655
Net income	\$ 19,763	\$ 9,373	\$ 65,633	\$ 33,207
Brookfield Residential's share of net income	\$ 8,679	\$ 4,330	\$ 23,749	\$ 12,987

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

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

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt of its unconsolidated entities. At September 30, 2019, the Company had recourse guarantees of \$23.2 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. BUSI is considered a VIE in accordance with ASC Topic 810. 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, for this entity, it is not the primary beneficiary of this VIE.

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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 24, 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. On September 30, 2019, 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 9.6%.

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

	Nine Months Ended September 30
Equity Investment in BUSI	
Investment at September 24, 2019	\$ 444,986
Dilution gain	171,934
Investment at September 30, 2019	<u>\$ 616,920</u>

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 September 30 2019
Assets	
Investments	\$ 6,126,683
Equity accounted investments	5,258,669
Other assets	4,096,857
	<u>\$ 15,482,209</u>
Liabilities and Equity	
Loans payable	\$ 5,290,075
Other liabilities	952,927
Non-controlling interest	2,816,762
Brookfield Residential's interest	616,920
Others' Interest	5,805,525
	<u>\$ 15,482,209</u>

	Nine Months Ended September 30, 2019
Revenue and Expenses	
Income	\$ 872,118
Expenses	(273,490)
Net income	<u>\$ 598,628</u>

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.

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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	
	September 30 2019	December 31 2018
Commercial properties	\$ 418,533	\$ 271,428
Less: accumulated depreciation	(2,193)	(1,599)
	\$ 416,340	\$ 269,829

Commercial properties consists of the following properties:

	As at	
	September 30 2019	December 31 2018
Commercial properties under development	\$ 385,107	\$ 239,271
Commercial properties producing leasing revenue	33,426	32,157
	\$ 418,533	\$ 271,428

Note 8. Business Combinations

The Company had no business combinations during the three and nine months ended September 30, 2019.

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

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

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

Note 9. Held-to-Maturity Investment

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

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(a) Brookfield International Ltd. ("BIL")

During the nine months ended September 30, 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%, paid quarterly. The BIL preferred shares are redeemable and retractable at any time and must be redeemed on the tenth anniversary of their issuance.

During the three and nine months ended September 30, 2019, the Company earned \$6.0 million and \$7.8 million, respectively, of preferred share dividends, of which \$nil and \$1.8 million were collected (three and nine months ended September 30, 2018 - \$nil were 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 nine months ended September 30, 2019, the Company received \$300 million from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. During the three and nine months ended September 30, 2019, \$nil and \$6.9 million, respectively, of dividends were recorded in the statement of operations as other income (three and nine months ended September 30, 2018 - \$4.3 million and \$12.8 million, respectively).

Note 10. Receivables and Other Assets

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

	As at	
	September 30 2019	December 31 2018
Receivables (a)	\$ 388,800	\$ 371,197
Other assets (b)	102,973	107,735
	\$ 491,773	\$ 478,932

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

	As at	
	September 30 2019	December 31 2018
Development recovery receivables (i)	\$ 105,671	\$ 105,905
Real estate receivables (ii)	102,010	104,507
Loan receivables (iii)	77,876	94,899
Sundry receivables (iv)	73,220	30,812
Proceeds and escrow receivables (v)	20,834	24,950
Refundable deposits	9,189	10,124
	\$ 388,800	\$ 371,197

(i) The Company has entered into development and cost sharing arrangements for the recovery of development expenditures with certain metropolitan districts and developers whereby the Company has undertaken to put in place the infrastructure for certain communities. These receivables will be collected over the development life of the community and bear interest rates ranging from Canadian prime or U.S. prime plus 0.5% to 1.0% to a fixed rate of 0.0% to 8.5% (December 31, 2018 – U.S. prime plus 0.5% to a fixed rate of 6.0%).

(ii) Real estate receivables include 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 7.0% (December 31, 2018 – Canadian prime plus 3.0% or a fixed interest rate of 0.0% to 6.0%).

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- (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 three and nine months ended September 30, 2019, \$1.4 million and \$17.0 million, respectively, of principal was collected (three and nine months ended September 30, 2018 - \$4.5 million and \$5.6 million).
- (iv) Sundry receivables are comprised of lot interest receivables and miscellaneous amounts.
- (v) Proceeds and escrow receivables relate to receivables held in trust due to timing of homes and lots closed at the period end date. The collections of these receivables typically occur shortly after the period end once the funds are released by the trust or escrow company.

As at September 30, 2019, allowances for doubtful accounts were \$nil (December 31, 2018 - \$nil).

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

	As at	
	September 30 2019	December 31 2018
Capitalized sales and marketing costs (i)	\$ 33,323	\$ 21,209
Capital assets (ii)	25,929	23,532
Non-refundable earnest funds and investigation fees (iii)	15,050	29,148
Other	15,138	21,836
Prepaid expenses	13,533	12,010
	\$ 102,973	\$ 107,735

- (i) Capitalized sales and marketing costs are recorded at cost less accumulated amortization. Capitalized sales and marketing costs are amortized over unit closings and are included in selling, general and administrative expense on the condensed consolidated statement of operations. Included in capitalized sales and marketing is accumulated amortization of \$24.3 million (December 31, 2018 – \$16.9 million).
- (ii) Capital assets are recorded at cost less accumulated depreciation. The Company provides for depreciation using the straight-line method. Leasehold improvements are depreciated over the term of the lease and equipment is depreciated over three to five years. Included in capital assets is accumulated depreciation of \$22.4 million (December 31, 2018 – \$21.1 million).
- (iii) Non-refundable earnest funds and investigation fees relate to non-refundable deposits and due-diligence costs on potential acquisitions and options that are incurred prior to taking title of a property.

Note 11. Restricted Cash

At September 30, 2019, the Company has restricted cash consisting of (i) \$0.1 million (December 31, 2018 – \$0.2 million) relating to cash collateralization of development letters of credit and (ii) \$10.8 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	
	September 30 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)	188,825	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	—
	1,638,825	1,633,275
Transaction costs (f)	(26,923)	(13,357)
	\$ 1,611,902	\$ 1,619,918

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- (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%

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- (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 6.25%. 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.

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 three months ended September 30, 2019, the Company capitalized \$10.6 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 \$5.7 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 September 30, 2019.

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

Note 13. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	September 30 2019	December 31 2018
Bank indebtedness (a)	\$ 242,600	\$ 88,822
Project-specific financings (b)	134,631	34,834
Secured VTB mortgages (c)	54,773	29,247
Due to affiliates (d)	—	—
	432,004	152,903
Transaction costs (a)(b)	(7,694)	(9,423)
	<u>\$ 424,310</u>	<u>\$ 143,480</u>

(a) 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 September 30, 2019, the Company had \$242.6 million 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 \$1.3 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at September 30, 2019, the Company was in compliance with all of its covenants relating to this facility.

The transaction costs are costs related to the issuance of the Company's facility, and are amortized using the effective interest rate method over the life of the facility. During the three and nine months ended September 30, 2019, the Company capitalized \$0.3 million of transaction costs related to the consent solicitation process to the credit facility.

(b) Project-specific financings

- (i) As at September 30, 2019, the Company has two Canadian project-specific financings totaling \$36.8 million (C\$48.7 million) provided by various lenders (December 31, 2018 - \$34.8 million (C\$47.5 million)).

Project-specific financing totaling \$29.5 million (C\$39.0 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 nine months ended September 30, 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 September 30, 2019.

Project-specific financing totaling \$7.2 million (C\$9.6 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 with a Canadian federal corporation for the Nashville mixed-used project. The loan allows OliverMcMillan Spectrum Emery LLC to borrow up to \$360.0 million. As at September 30, 2019, the Company has \$97.9 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.

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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 September 30, 2019.

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

(c) Secured VTB mortgages

The Company has 12 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: 2019 - \$44.7 million; 2020 – \$6.5 million; 2021 – \$1.3 million, 2022 – \$nil and thereafter – \$2.3 million.

Eight secured VTB mortgages (December 31, 2018 – nine secured VTB mortgages) in the amount of \$23.3 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\$30.9 million (December 31, 2018 – C\$33.7 million). The interest rates on the debt range from fixed rates of 2.2% to 6.0% and variable rates of Canadian prime plus 1% to 2% and the debt is secured by the related land. 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 September 30, 2019.

Four secured VTB mortgages (December 31, 2018 – three secured VTB mortgages) in the amount of \$31.5 million (December 31, 2018 – \$4.6 million) relate to raw land held for development by various 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 September 30, 2019, these borrowings are not subject to any financial covenants.

(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%. During the three months ended September 30, 2019, the \$200 million outstanding deposit from June 30, 2019 was repaid, and as at September 30, 2019, the Company had no borrowings outstanding. These borrowings are not subject to financial covenants.

For the three and nine months ended September 30, 2019, the Company paid \$1.8 million and \$2.4 million of interest, respectively.

Note 14. Accounts Payable and Other Liabilities

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

	As at	
	September 30 2019	December 31 2018
Accounts payable (a)	\$ 426,656	\$ 410,593
Other liabilities (b)	199,408	225,207
	<u>\$ 626,064</u>	<u>\$ 635,800</u>

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

	As at	
	September 30 2019	December 31 2018
Trade payables and other accruals	\$ 167,395	\$ 169,554
Customer deposits	95,154	76,407
Development costs payable (i)	84,158	77,897
Real estate payables	34,682	6,218
Accrued and deferred compensation	23,527	45,187
Interest on notes payable	21,373	21,021
Current income taxes payable	367	14,309
	\$ 426,656	\$ 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	
	September 30 2019	December 31 2018
Share-based compensation (Note 20)	\$ 89,490	\$ 78,513
Other (i)	71,471	67,215
Warranty costs (Note 23 (a))	21,665	21,515
Deferred revenue (ii)	8,668	13,407
Consolidated land option contracts (iii)	8,114	44,557
	\$ 199,408	\$ 225,207

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

(ii) The amount of deferred revenue recognized as revenue in the nine months ended September 30, 2019 was \$12.2 million (December 31, 2018 - \$89.9 million).

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

Note 15. Other (Income) / Expense

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Investment income	\$ (11,629)	\$ (8,878)	\$ (30,512)	\$ (26,252)
Other	(8,302)	(7,024)	(8,561)	(9,453)
Joint venture management fee income	(3,039)	(2,631)	(9,356)	(11,451)
Loss on extinguishment of debt (Note 12(f))	3,578	—	3,578	—
Consent solicitation costs (Note 12(f))	5,670	—	5,670	—
	\$ (13,722)	\$ (18,533)	\$ (39,181)	\$ (47,156)

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Note 16. Income Taxes

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

	Nine months ended September 30	
	2019	2018
Statutory rate	26.5%	27.0%
Non-temporary differences	2.6	3.1
Rate difference from statutory rate	(16.6)	(9.9)
Change in statutory tax rate	5.5	—
Realized capital loss on foreign exchange	(24.4)	—
Change in valuation allowance	24.1	—
Non-taxable preferred share dividends	(4.6)	(2.9)
Other	(4.8)	(1.4)
Effective tax rate	<u>8.3%</u>	<u>15.9%</u>

The Company currently operates in 15 different states in the U.S. and is subject to various state tax jurisdictions. The Company also operates in Alberta and Ontario, Canada, and is therefore subject to provincial tax as well as federal tax legislation. Based on the Company's estimate of the allocation of income or loss, as the case may be, among the various taxing jurisdictions, the estimated effective tax rate for the Company is 8.3% for the nine months ended September 30, 2019 (September 30, 2018 - 15.9%). The decrease in the 2019 effective tax rate when compared to the same period in 2018 was primarily due to an overall decrease in net income before tax, partially offset by an increase in tax expense of \$4.6 million due to the effect of a change in the Alberta corporate tax rate during the nine months ended September 30, 2019. 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 three and nine months ended September 30, 2019 and 2018 is set forth below:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Current				
Canada	\$ (219)	\$ (189)	\$ (253)	\$ (189)
U.S.	(9,395)	(9,017)	(10,551)	(15,695)
International	(220)	(520)	(894)	(2,163)
Current income tax expense	<u>(9,834)</u>	<u>(9,726)</u>	<u>(11,698)</u>	<u>(18,047)</u>
Deferred				
Canada	411	(1,547)	413	(3,261)
U.S.	4,603	2,924	4,261	2,910
Deferred income tax recovery / (expense).....	<u>5,014</u>	<u>1,377</u>	<u>4,674</u>	<u>(351)</u>
Total income tax expense	<u>\$ (4,820)</u>	<u>\$ (8,349)</u>	<u>\$ (7,024)</u>	<u>\$ (18,398)</u>

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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	
	September 30 2019	December 31 2018
Net deferred tax assets / (liabilities)		
Differences relating to land and housing inventory	\$ (8,753)	\$ (4,888)
Compensation deductible for tax purposes when paid	7,314	12,471
Operating loss carry-forwards	47,542	46,657
Capital loss carry-forwards	17,724	2,501
Impact of foreign exchange	3,651	28,180
Investment in unconsolidated entity - affiliate	35,456	—
Other	3,937	7,607
Net deferred tax assets before valuation allowance	106,871	92,528
Cumulative valuation allowance	(56,831)	(30,681)
Net deferred tax assets	\$ 50,040	\$ 61,847

The Company has Canadian federal non-capital loss carryforwards of approximately \$194.4 million (C\$257.4 million) as at September 30, 2019 (December 31, 2018 – \$170.3 million (C\$232.3 million)). Federal non-capital loss carryforwards attributable to Canada may be carried forward up to 20 years to offset future taxable income and expire between 2032 and 2039. At September 30, 2019, the Company has Canadian and U.S. capital loss carryforwards of \$154.1 million and \$nil, respectively (December 31, 2018 - \$nil and \$9.3 million, respectively). Capital loss carryforwards attributable to Canada do not expire.

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

In evaluating the need for a valuation allowance against the Company's deferred tax assets at September 30, 2019, the Company considered all available and objectively verifiable positive and negative evidence. The valuation allowance of \$56.8 million mainly relates to the realized and unrealized foreign exchange capital losses in Canada and its investment in unconsolidated entity 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.

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.

Undistributed earnings of the Company's non-Canadian corporate affiliates as of September 30, 2019 were considered to be permanently reinvested. A determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable.

Note 17. Consolidated VIE & Non-Controlling Interest

Through the internal 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 (9.6%) in BUSI.

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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 September 30, 2019, the assets and liabilities of BRUSH totaled \$3.5 billion and \$2.3 billion, respectively. In addition, the Company's direct and indirect interest in BRUSH is \$229.2 million and the non-controlling interest in BRUSH is \$975.8 million, which is reported as non-controlling interest on the accompanying condensed 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 condensed 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 condensed consolidated statements of operations have been adjusted to include the net income attributable to non-controlling interest, which for the three and nine months ended September 30, 2019 was \$1.2 million and \$2.3 million (September 30, 2018 – \$3.1 million and \$5.2 million, respectively).

The following table provides additional information regarding non-controlling interests as presented in our Statement of Financial Position:

	As at
	September 30
	2019
Affiliate	\$ 975,823
Land and housing	50,097

The non-controlling interest held by the Company's affiliate, BUSI, of \$975.8 million represents a total of 81.0% not held by the Company as at September 30, 2019. This represents the 89.6% interest held by BUSI adjusted for the Company's 9.6% indirect interest in BRUSH held through its equity investment in BUSI. The non-controlling interest of land and housing includes third-party investments in our land and housing consolidated entities of \$50.1 million at September 30, 2019 (December 31, 2018 – \$53.8 million).

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 nine months ended September 30, 2019 and the year ended December 31, 2018.

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	For the Period Ended	
	September 30 2019	December 31 2018
Common Shares issued, beginning of the period	129,756,910	129,756,910
Common Shares issued	—	—
Common Shares issued and outstanding, end of the period	129,756,910	129,756,910

The Company had no Non-Voting Class B Common Shares issued and outstanding as at September 30, 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 three and nine months ended September 30, 2019, there were nil and 887,000 options granted to eligible employees (three and nine months ended September 30, 2018 - no options granted). The significant weighted average assumptions relating to the valuation of the Company's options outstanding during the nine months ended September 30, 2019 and 2018 are as follows:

	September 30 2019	September 30 2018
Dividend yield	—%	—%
Volatility rate	29.22%	30.61%
Risk-free interest rate	2.48%	2.23%
Expected option life (years)	4.7	5.7

The liability of \$57.7 million (December 31, 2018 - \$45.2 million) relating to stock options is included in accounts payable and other liabilities. The total compensation cost recognized in selling, general and administrative expense relating to normal course vesting of the Company's options during the three and nine months ended September 30, 2019 was \$4.0 million and \$12.5 million, respectively (2018 - \$3.8 million and \$11.4 million, respectively).

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

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	September 30, 2019		September 30, 2018	
	Options	Weighted Average Per Share Exercise Price	Options	Weighted Average Per Share Exercise Price
Outstanding, beginning of the period	11,581,886	\$ 22.15	11,581,866	\$ 22.15
Granted	887,000	22.98	—	—
Exercised	(64,000)	22.96	—	—
Cancelled	—	—	—	—
Outstanding, end of the period	12,404,886	22.21	11,581,866	22.15
Options exercisable, end of the period	7,101,508	\$ 22.44	4,849,130	\$ 22.59

A summary of the status of the Company's unvested options for the nine months ended September 30, 2019 and 2018 are as follows:

	September 30, 2019		September 30, 2018	
	Options	Weighted Average Fair Value Per Option	Options	Weighted Average Fair Value Per Option
Unvested options outstanding, beginning of the period	5,644,756	\$ 7.21	7,961,132	\$ 6.84
Granted	887,000	8.73	—	—
Vested	(1,228,378)	5.86	(1,228,376)	5.73
Cancelled	—	—	—	—
Unvested options outstanding, end of the period	5,303,378	\$ 7.78	6,732,756	\$ 7.05

At September 30, 2019, there was \$29.1 million (September 30, 2018 - \$36.7 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 2.8 years (September 30, 2018 - 2.9 years).

(b) Deferred Share Unit Plan

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

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

	For the Period Ended	
	September 30 2019	December 31 2018
Outstanding, beginning of the period	1,448,638	1,448,638
Granted and reinvested	—	—
Redeemed	(66,504)	—
Outstanding, end of the period	1,382,134	1,448,638
Deferred share units vested	1,382,134	1,448,638

The liability of \$31.8 million (December 31, 2018 – \$33.3 million million) relating to the DSUP is included in accounts payable and other liabilities. There was no financial statement impact relating to the DSUP for the three and nine months ended September 30, 2019 and 2018 which has been included in selling, general, and administrative expense.

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Note 21. Earnings Per Share

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Numerator:				
Net income attributable to Brookfield Residential....	\$ 48,325	\$ 44,435	\$ 74,807	\$ 97,367
Denominator (in '000s of shares):				
Basic weighted average shares outstanding	129,757	129,757	129,757	129,757
Diluted weighted average shares outstanding	129,923	129,767	129,923	129,767
Basic earnings per share	\$ 0.37	\$ 0.34	\$ 0.58	\$ 0.75
Diluted earnings per share	\$ 0.37	\$ 0.34	\$ 0.58	\$ 0.75

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 includes extension terms that are reasonably expected to be exercised.

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

Included in lease expense is lease expenses for operating leases, financing lease interest and financing lease amortization. The Company has sublease income for the three and nine months ended September 30, 2019 of \$0.1 million and \$0.3 million, respectively, included in other income.

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

Years of Expiry	Operating Leases	Financing Leases
2019	\$ 786	\$ 86
2020	3,649	297
2021	4,105	273
2022	4,180	188
2023	3,859	122
Thereafter	77,232	33
Total lease payments	93,811	999
Less imputed interest (i)	(315,463)	(40)
Total	\$ (221,652)	\$ 959

(i) The Company has two land leases with a 99 year lease term, one land lease with a 65 year term, and rent free periods. As a result, the impact of the discounting is greater and the imputed interest for most of the life of the lease exceeds the appreciation and depreciation of the lease obligation.

Note 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

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sold, historical and anticipated rates of warranty claims, and cost per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

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

	Nine months ended September 30	
	2019	2018
Balance, beginning of the period	\$ 21,515	\$ 20,862
Payments and other adjustments made during the period	(7,701)	(6,837)
Warranties issued during the period	7,325	10,595
Adjustments made for pre-existing warranties	526	817
Balance, end of the period	<u>\$ 21,665</u>	<u>\$ 25,437</u>

(b) As at September 30, 2019, \$32.3 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 \$127.6 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 September 30, 2019, these guarantees amounted to \$722.6 million (December 31, 2018 – \$720.0 million) and have not been recognized in the condensed consolidated financial statements. However, the proportionate development costs that relate to lots that have been sold are accrued in accounts payable and other liabilities. Such guarantees are required by the municipalities in which the Company operates before construction permission is granted.

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

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

Note 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 nine months ended September 30, 2019, the Company estimated the cash flow for the life of each project. Specifically, project by project, the Company evaluated the margins on homes that have been closed, margins on sales contracts which are in backlog and estimated margins with regard to future home sales over the life of the projects, as well as estimated margins with respect to future land sales. The Company evaluated and continues to evaluate projects where inventory is turning over more slowly than expected or whose average sales price and margins are declining and are expected to continue to decline. These projections take into account the specific business plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area. Such projections generally assume current home selling prices, with cost estimates and sales rates

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for short-term projects consistent with recent sales activity. For longer-term projects, planned sales rates for 2019 generally assume recent sales activity and normalized sales rates beyond 2019. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired and is then written down to fair value less estimated selling costs.

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

The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. For the three and nine months ended September 30, 2019 and 2018, no impairment charges were recognized.

The locations of the projects reviewed are as follows:

	Number of Projects
Canada	37
California	49
Central and Eastern U.S.	34
	<hr/> 120
Unconsolidated entities	14
Total	<hr/> 134

Hedging Activities

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

Net Investment Hedges

The Company uses foreign currency denominated debt instruments to manage its foreign currency exposures arising from net investments in foreign operations. For the three and nine months ended September 30, 2019, unrealized pre-tax gain of \$2.1 million and pre-tax loss of \$5.6 million, respectively (September 30, 2018 – loss of \$3.3 million and gain of \$5.2 million, respectively), were recorded in other comprehensive income for the effective portion of hedges of net investments in foreign operations.

Fair Value Hierarchy

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

As at September 30, 2019, all of the Company's financial assets and liabilities are recorded at their carrying value as it approximates fair value due to their short term nature. We had no assets and liabilities measured at fair value on a recurring basis.

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.

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

Interest Rate Risk

The Company is exposed to financial risk that arises from fluctuations in interest rates. The interest-bearing assets and liabilities of the Company are at floating rates and, accordingly, their fair values approximate their carrying value. The Company would be negatively impacted on balance, if interest rates were to increase. Based on net debt levels as at September 30, 2019, a 1% change in interest rates would have a \$3.9 million impact on the Company's cash flows.

The fair value of debt with fixed interest rates is determined by discounting contractual principal and interest payments at estimated current market interest rates determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at September 30, 2019, the fair value of all outstanding debt exceeded its book value by \$20.7 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 September 30, 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.

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A summary of the Company's contractual obligations and purchase agreements as at September 30, 2019 is as follows:

	Payment Due by Period				
	Total	Less than 1 Year	1 – 3 Years	3 – 5 Years	More than 5 Years
Notes payable ⁽¹⁾	\$ 1,638,825	\$ —	\$ 500,000	\$ 188,825	\$ 950,000
Interest on notes payable	571,283	101,274	204,006	131,191	134,812
Secured VTB mortgages ⁽²⁾⁽³⁾	54,773	44,700	7,761	2,312	—
Bank indebtedness ⁽²⁾⁽³⁾	242,600	—	242,600	—	—
Project-specific financings ⁽²⁾⁽³⁾	134,631	29,534	7,232	97,865	—
Accounts payable and other liabilities ⁽⁴⁾ ..	626,064	626,064	—	—	—
Operating and financing lease obligations ⁽⁵⁾	94,810	872	8,324	8,349	77,265
Purchase agreements and other obligations ⁽⁶⁾	127,562	28,313	78,246	8,420	12,583

- (1) Amounts are included on the condensed consolidated balance sheets and exclude transaction costs. See Note 12 for additional information regarding notes payable.
- (2) Amounts are included on the condensed 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 condensed 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 the following operating segments: Canada, California, and Central and Eastern U.S.

The Company is a land developer and residential homebuilder. The Company is organized and manages its business based on the geographical areas in which it operates. Each of the Company's operating segments specializes in lot entitlement and development for master-planned communities and mixed-use properties and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of other risk factors. Earnings performance is measured using income before income taxes. The accounting policies of the segments are the same as those referred to in Note 1, "Significant Accounting Policies."

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

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

Three Months Ended September 30, 2019					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	\$ 137,468	\$ 199,185	\$ 115,526	\$ 8,472	\$ 460,651
Direct cost of sales	(101,628)	(148,332)	(97,224)	(8,312)	(355,496)
	35,840	50,853	18,302	160	105,155
Equity in earnings - land and housing ..	474	2,431	5,774	—	8,679
Expenses	(14,022)	(21,369)	(14,481)	(9,620)	(59,492)
Income / (loss) before income taxes ...	\$ 22,292	\$ 31,915	\$ 9,595	\$ (9,460)	\$ 54,342

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

Nine Months Ended September 30, 2019					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	\$ 363,086	\$ 516,029	\$ 355,802	\$ 47,910	\$ 1,282,827
Direct cost of sales	(280,095)	(407,231)	(297,707)	(47,334)	(1,032,367)
	82,991	108,798	58,095	576	250,460
Equity in earnings - land and housing ..	4,161	4,724	14,864	—	23,749
Expenses	(43,979)	(62,225)	(55,910)	(27,957)	(190,071)
Income / (loss) before income taxes ...	\$ 43,173	\$ 51,297	\$ 17,049	\$ (27,381)	\$ 84,138

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

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

As at September 30, 2019					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	\$ 420,414	\$ 421,841	\$ 610,148	\$ —	\$ 1,452,403
Land under development.....	238,384	214,425	350,266	167,508	970,583
Housing inventory	121,158	304,308	188,093	—	613,559
Model homes	23,489	56,302	27,166	—	106,957
Total land and housing inventory.	803,445	996,876	1,175,673	167,508	3,143,502
Investments in unconsolidated entities - land and housing	49,666	232,994	93,006	—	375,666
Investment in unconsolidated entity - affiliate	—	—	—	616,920	616,920
Commercial properties	53,707	—	362,633	—	416,340
Held-to-maturity investment.....	—	—	—	300,000	300,000
Operating and financing lease right-of use asset.....	15,166	43,193	22,692	11,415	92,466
Goodwill	—	—	—	16,479	16,479
Other assets ⁽¹⁾	164,823	60,105	179,068	212,939	616,935
Total assets	\$ 1,086,807	\$ 1,333,168	\$ 1,833,072	\$ 1,325,261	\$ 5,578,308

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

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

Note 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 three and nine months ended September 30, 2019 and 2018 were as follows:

- During the nine months ended September 30, 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 September 30, 2019 as the Company repaid \$200.0 million during the three months ended September 30, 2019. During the three and nine months ended September 30, 2019, the company paid \$1.8 million and \$2.4 million of interest, respectively.
- During the nine months ended September 30, 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 three and nine months ended September 30, 2019, the Company incurred \$1.3 million and \$18.8 million, respectively, of management fees. Of this amount, \$nil and \$17.5 million, respectively, was paid (three and nine months ended September 30, 2018 - \$nil). These transactions were recorded at the exchange amount.
- During the nine months ended September 30, 2019, the Company purchased \$300.0 million of preferred shares of Brookfield International Ltd., a subsidiary of BAM. During the three and nine months ended September 30, 2019, the Company earned \$6.0 million and \$7.8 million, respectively, of preferred share dividends where \$nil and \$1.8 million were collected (three and nine months ended September 30, 2018 - \$nil). The transactions were recorded at the exchange amount.
- During the nine months ended September 30, 2019, the Company received \$300.0 million from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. The Company also received \$nil and \$6.9 million of dividends from these preferred shares for the three and nine months ended September 30, 2019 (three and nine months ended September 30, 2018 - \$4.3 million and \$12.8 million). These transactions were recorded at the exchange amount.
- On September 26, 2019, the Company completed a reorganization with BUSI, a wholly-owned subsidiary of BAM, whereby the Company transferred its investment in its U.S. homebuilding operations for a 12.3% economic interest and a 50% voting interest in BUSI. The Company has now consolidated Meadows and Hayden I that were previously owned by BUSI as part of the Reorganization Transaction. This transaction has been treated as a common control transaction.
- During the nine months ended September 30, 2019, the Company paid \$0.2 million to BAM for Canadian tax credits (nine months ended September 30, 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 November 12, 2019, which is the date these condensed consolidated financial statements were approved, and has determined that there are no subsequent events that require disclosure in these condensed consolidated financial statements.

CORPORATE INFORMATION

CORPORATE PROFILE

Brookfield Residential Properties Inc. is a leading land developer and homebuilder in North America. We entitle and develop land to create master-planned communities, build and sell lots to third-party builders, and conduct our own homebuilding operations. We also participate in select, strategic real estate opportunities, including infill projects, mixed-use developments, and joint ventures. We are the flagship North American residential property company of Brookfield Asset Management Inc., a leading global alternative asset manager with over \$500 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.