Brookfield Residential Properties Inc.

2020 | Q1

March 31, 2020

Chief Executive Officer's Report

Brookfield Residential had an active first quarter where we saw an increase in net new home orders across our operations to start the year, completed a successful senior notes offering and most recently, continued to navigate through the impacts of the COVID-19 pandemic. During Q1 2020, we closed 544 homes, 167 single-family lots and recognized savings in general and administrative expenses with the new management agreement with Brookfield Properties Development. Net new orders increased 21% for the quarter, with increases in both Canada and the U.S. during the first two months of the year before the market pause led to a drop in traffic and sales activity in March as a result of COVID-19. At March 31, 2020, our backlog was at 1,650 units with a value of $750 million, representing an increase of 28% and 9% respectively, when compared to the previous year. During the three months ended March 31, 2020, we recognized a loss before income taxes of $27 million primarily as a result of recognizing a $24 million loss in equity earnings from our investment in BUSI as well as a loss on the extinguishment of the 2022 senior notes of $15 million. Excluding our share of the equity earnings from BUSI and the loss on debt extinguishment, the Company recorded income before income taxes of $12 million.

Strategic Corporate Initiatives

As previously discussed, we entered into a management agreement with Brookfield Properties Development, to oversee and manage the current Brookfield Residential operation, where the management fee is determined by applicable rates on construction and development activity and assets under management. As a result of the new agreement, there will be some variability between the quarters in our management fee based on our construction and development activity levels, which vary throughout the year.

In February, the Company successfully issued $500 million of unsecured senior notes with an interest rate of 4.875% due in 2030. The proceeds from the offering, together with cash on hand, were used to fund the redemption of our unsecured senior notes due in 2022. At March 31, 2020, we believe that we have an appropriate capital structure and adequate liquidity which is supported by $416 million of availability on our North American unsecured revolving credit facility combined with $138 million of available cash to navigate through the impacts of the current operating environment.

COVID-19 Operational Response

In virtually all of our markets, our operations are deemed to be an essential service and we continue to construct homes and develop land. Brookfield Residential has introduced several enhanced health and safety protocols for our team, trade partners and homebuyers to ensure a safe operating environment. Our current focus is on the execution of our existing backlog and to actively manage our speculative home inventory, while limiting new construction starts for the time being. We continue to critically assess the timing of future community openings, land development spending and upcoming land acquisitions.

In April, we saw a rise in cancellation rates as a result of the current environment and sales traffic has reduced significantly. Our model homes and sales centers are open by appointment only and are being supplemented by our digital platforms to provide an opportunity for interested homebuyers to continue their journey. As restrictions are lifted, we anticipate that the U.S. and Ontario markets will see a return of the homebuyer, while the Alberta market will continue to adjust to the reality of the further decline in energy prices.

Our View Looking Forward

Typically, at this point in the year, we would provide limited guidance of our forecasted home and lot closings along with our views on the income projections for fiscal 2020. As a result of the business interruption from the COVID-19 pandemic affecting the spring selling season, which typically provides for the majority of our fourth quarter closings, we anticipate that our overall results will be substantially reduced when compared to the prior year. However, given the nature of the ongoing operating environment, we are not able to reliably provide specific unit or income guidance at this time.

We hope that you are staying safe and healthy. We sincerely appreciate your continued support of Brookfield Residential as we continue to navigate through these unprecedented times.

Alan Norris
Chairman & Chief Executive Officer
May 11, 2020

BROOKFIELD RESIDENTIAL PROPERTIES PORTFOLIO

Our business is focused on land development and single family and multi-family homebuilding in the markets in which we operate. Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at March 31, 2020 were $5.7 billion.

As of March 31, 2020, we controlled 82,880 single family lots (serviced lots and future lot equivalents) and 147 multi-family, industrial and commercial serviced parcel acres. Controlled lots and acres include those we directly own and our share of those owned by unconsolidated entities. Our controlled lots and acres provide a strong foundation for our future lot and acre sales and homebuilding business, as well as visibility on our future cash flow. The number of building lots and acre parcels we control in each of our primary markets as of March 31, 2020 is as follows:

	Single Family Housing & Land Under and Held for Development[1]								Multi-Family, Industrial & Commercial Parcels Under Development	
	Housing & Land		Unconsolidated Entities		Total Lots		Status of Lots 3/31/2020		Total Acres	
	Owned	Options	Owned	Options	3/31/2020	12/31/2019	Entitled	Unentitled	3/31/2020	12/31/2019
Calgary	16,618	—	2,447	—	19,065	19,045	10,952	8,113	63	70
Edmonton	10,703	—	—	—	10,703	10,797	5,493	5,210	22	22
Ontario	7,268	—	1,015	—	8,283	8,293	2,729	5,554	1	1
Canada	34,589	—	3,462	—	38,051	38,135	19,174	18,877	86	93
Northern California	2,997	7,255	253	—	10,505	10,474	3,250	7,255	—	—
Southern California	5,649	—	842	1,001	7,492	7,597	6,307	1,185	—	—
Hawaii	28	—	—	—	28	48	28	—	—	—
California	8,674	7,255	1,095	1,001	18,025	18,119	9,585	8,440	—	—
Denver	7,265	—	—	—	7,265	7,328	7,265	—	10	10
Austin	11,905	—	—	—	11,905	12,120	11,905	—	37	37
Phoenix	1,533	—	2,478	—	4,011	4,032	4,011	—	14	14
Washington, D.C. Area	2,638	985	—	—	3,623	3,732	3,586	37	—	—
Central and Eastern U.S.	23,341	985	2,478	—	26,804	27,212	26,767	37	61	61
Corporate and Other	—	—	—	—	—	4,180	—	—	—	—
Total	66,604	8,240	7,035	1,001	82,880	87,646	55,526	27,354	147	154
Entitled lots	48,674	985	5,867	—	55,526					
Unentitled lots	17,930	7,255	1,168	1,001	27,354					
Total March 31, 2020	66,604	8,240	7,035	1,001	82,880					
Total December 31, 2019	70,422	9,132	7,091	1,001		87,646				

(1) Land held for development will include some multi-family, industrial and commercial parcels once entitled.

BROOKFIELD RESIDENTIAL PROPERTIES INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This interim report, including the Chief Executive Officer's Report, incorporated herein by reference, contains "forward-looking statements" within the meaning of applicable Canadian securities laws and United States ("U.S.") federal securities laws. Forward-looking statements can be identified by the words "may," "believe," "will," "anticipate," "expect," "plan," "intend," "estimate," "project," "future," and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters. Such statements are neither historical facts nor assurances of future performance. Instead, they reflect management's current beliefs and are based on information currently available to management as of the date on which they are made. The forward-looking statements in this interim report include, among others, statements with respect to:

- the current business environment and outlook, including statements regarding: the duration and impact of the novel coronavirus ("COVID-19") on our financial position and homebuilding operations; 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; 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 actual, proposed or potential interest rate changes in the U.S. and Canada and resulting consumer confidence; volatility and rout in the global price of commodities, including the price of oil; the economic and regulatory uncertainty surrounding the energy industry and pipeline approvals and the impact thereof on demand in our markets including future investment, particularly in Alberta; consumer confidence and the resulting impact on the housing market; our relationship with operational jurisdictions and key stakeholders; our ability to meet our obligations under our North American unsecured credit facility; our costs to complete related to our letters of credit and performance bonds; expected project completion times; our ability to realize our deferred tax assets; our ability to grow our mixed-use development segment, identifying other mixed-use opportunities, and our ability to execute on our plans for a mixed-use operational platform and expected redevelopment opportunities resulting therefrom; home price growth rates and affordability levels generally; recovery in the housing market and the pace thereof; reduction in our debt levels and the timing thereof; our expected unit and lot sales and the timing thereof; realization of expected operational and administrative synergies from the Reorganization Transaction; expectations for 2020 and beyond;
- possible or assumed future results, including our outlook and any updates thereto, how we intend to use and the availability of additional cash flow, the operative cycle of our business and expected timing of income and expected performance and features of our projects, the continued strategic expansion of our business operations, our assumptions regarding normalized sales, our projections regarding revenue and housing inventory, the impact of acquisitions on our operations in certain markets;
- the expected closing of transactions;
- the expected exercise of options contracts and lease options;
- the effect on our business of business acquisitions;
- business goals, strategy and growth plans;
- trends in home prices in our various markets and generally;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the homebuilding industry;
- the ability to generate sufficient cash flow from our assets to repay maturing bank indebtedness and project specific financings and take advantage of new opportunities;
- the ability to meet our covenants and re-pay interest payments on our unsecured senior notes and the requirement to make payments under our construction guarantees;
- the ability to create value in our land development business and meet our development plans;
- the visibility of our future cash flow;
- social and environmental conditions, policies and risks;
- governmental policies and risks;
- expected backlog and closings and the timing thereof;
- the sufficiency of our access to and the sources of our capital resources;
- the impact of foreign exchange rates on our financial performance and market opportunities;
- the impact of credit rating agencies' rating on our business;
- the timing of the effect of interest rate changes on our cash flows;
- the effect of debt and leverage on our business and financial condition; and

- the effect on our business of existing lawsuits.

Although management of Brookfield Residential believes that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information in this 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, 2019.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis relates to the period ended March 31, 2020 and has been prepared with an effective date of May 11, 2020. 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 $540 billion of assets under management.

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

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

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

Principal Business Activities

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

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

Home Construction

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

Land Acquisition

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

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

Entitlement Process & Land Development

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

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

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

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

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

Our core land and homebuilding operations remain our focus and priority; however, we see increasing our position in mixed-use development as a significant opportunity and reflects our view of some potential shifts in our residential portfolio to continue to meet customer needs and lifestyle preferences. We believe Brookfield Residential has the necessary entitlement and re-entitlement expertise to implement this strategic focus, including the determination of appropriate future uses for a site, including retail, office, hospitality, for sale residential, and for rent residential.

Consumer Deliverables

We construct homes on lots that have been developed by us or that we purchase from others. Having a homebuilding operation allows us the opportunity to monetize our land and provides us with market knowledge through our direct contact with the homebuyers to understand customer preferences and product choices. In markets where the Company has significant land holdings, homebuilding is carried out on a portion of the land in specific market segments and the balance of lots are sold to and built on by third-party builders. Certain master-planned communities will also include the development of mixed-use space, consisting of retail or commercial assets, which we will build and add value through leasing, before selling to a third-party operator.

RESULTS OF OPERATIONS

Key financial results and operating data for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Three Months Ended March 31 2020	2019
Key Financial Results		
Housing revenue	$ 294	$ 319
Land revenue	18	27
Gross margin ($)	55	67
Gross margin (%)(1)	18%	19%
(Loss) / Income before income taxes	(27)	7
Income tax recovery	4	4
Consolidated net (loss) / income	(23)	11
Net (loss) / income attributable to Brookfield Residential	(15)	10
Basic (loss) / earnings per share	$ (0.12)	$ 0.08
Diluted (loss) / earnings per share	$ (0.12)	$ 0.08
Key Operating Data		
Home closings for Brookfield Residential (units)	544	611
Average home selling price for Brookfield Residential (per unit)	$ 540,000	$ 522,000
Net new home orders for Brookfield Residential (units)	921	760
Backlog for Brookfield Residential (units)	1,650	1,286
Backlog value for Brookfield Residential	$ 750	$ 685
Lot closings for Brookfield Residential (single family units)	167	258
Lot closings for unconsolidated entities (single family units)	65	278
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	3	10
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	1	1
Average lot selling price for Brookfield Residential (single family units)	$ 92,000	$ 94,000
Average lot selling price for unconsolidated entities (single family units)	$ 130,000	$ 43,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 819,000	$ 320,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ 297,000	$ 106,000

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

Segmented Information

We operate in three operating segments within North America related to our land and housing operations: Canada, California and Central and Eastern U.S. Each of the Company's segments specializes in land entitlement and development and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of risk factors. The following table summarizes information relating to revenues, gross margin and assets by operating segment for the three months ended March 31, 2020 and 2019.

	Three Months Ended March 31	
(US$ millions, except unit activity and average selling price)	**2020**	**2019**
Housing revenue		
Canada	$ 56	$ 83
California	139	137
Central and Eastern U.S.	99	99
Total	$ 294	$ 319
Land revenue		
Canada	$ 15	$ 13
California	—	—
Central and Eastern U.S.	3	14
Total	$ 18	$ 27
Housing gross margin		
Canada	$ 9	$ 14
California	26	24
Central and Eastern U.S.	14	15
Total	$ 49	$ 53
Land gross margin		
Canada	$ 5	$ 9
California	1	2
Central and Eastern U.S.	—	3
Total	$ 6	$ 14
Home closings (units)		
Canada	158	215
California	173	193
Central and Eastern U.S.	213	203
Total	544	611
Average home selling price		
Canada	$ 356,000	$ 386,000
California	801,000	709,000
Central and Eastern U.S.	465,000	487,000
Average	$ 540,000	$ 522,000

	As at March 31	
	2020	**2019**
Active housing communities		
Canada	36	36
California	21	27
Central and Eastern U.S.	33	26
Total	90	89

	Three Months Ended March 31	
	2020	**2019**
Lot closings (single family units)		
Canada	123	120
California	—	—
Central and Eastern U.S.	44	138
	167	258
Unconsolidated entities	65	278
Total	232	536
Acre closings (multi-family, industrial and commercial)		
Canada	3	—
California	—	—
Central and Eastern U.S.	—	10
	3	10
Unconsolidated entities	1	1
Total	4	11
Average lot selling price (single family units)		
Canada	$ 98,000	$ 112,000
California	—	—
Central and Eastern U.S.	74,000	78,000
	92,000	94,000
Unconsolidated entities	130,000	43,000
Average	$ 102,000	$ 68,000
Average per acre selling price (multi-family, industrial and commercial)		
Canada	$ 819,000	$ —
California	—	—
Central and Eastern U.S.	—	320,000
	819,000	320,000
Unconsolidated entities	297,000	106,000
Average	$ 688,000	$ 303,000

	As at March 31	
	2020	**2019**
Active land communities		
Canada	11	13
California	4	5
Central and Eastern U.S.	11	12
	26	30
Unconsolidated entities	6	7
Total	32	37

(US$ millions)	As at March 31 2020	As at December 31 2019
Total assets		
Canada	$ 1,056	$ 1,095
California	1,222	1,198
Central and Eastern U.S.	1,938	1,870
Corporate and other	841	762
Equity Investment in BUSI	610	634
Total	$ 5,667	$ 5,559

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

Three Months Ended March 31, 2020 Compared with Three Months Ended March 31, 2019

Net (Loss) / Income

Consolidated net loss for the three months ended March 31, 2020 was $23 million, compared to net income of $11 million for the three months ended March 31, 2019.

(US$ millions, except per share amounts)	Three Months Ended March 31 2020	Three Months Ended March 31 2019
Consolidated net (loss) / income	$ (23)	$ 11
Net (loss) / income attributable to Brookfield Residential	$ (15)	$ 10
Basic (loss) / earnings per share	$ (0.12)	$ 0.08
Diluted (loss) / earnings per share	$ (0.12)	$ 0.08

The decrease of $34 million in consolidated net income for the three months ended March 31, 2020 compared to the same period in 2019 was primarily the result of a $24 million equity loss from unconsolidated entities - affiliate due to changes in fair value of its underlying investments, a decrease in gross margin of $12 million due to lower housing and land gross margins, a decrease in other income of $9 million primarily due to costs incurred as a result of the extinguishment of the 2022 senior notes, and a decrease in equity earnings from land and housing unconsolidated entities of $2 million. This was partially offset by a decrease in selling, general and administrative expense of $8 million, and a decrease in interest expense of $5 million.

A breakdown of the revenue and gross margin for the three months ended March 31, 2020 and 2019 is as follows:

(US$ millions, except percentages)	Three Months Ended March 31 2020	Three Months Ended March 31 2019
Revenue		
Housing	$ 294	$ 319
Land	18	27
	$ 312	$ 346
Gross Margin		
Housing	$ 49	$ 53
Land	6	14
	$ 55	$ 67
Gross Margin (%)		
Housing	17%	17%
Land	33%	52%
	18%	19%

For the three months ended March 31, 2020, total revenue decreased by $34 million and total gross margin decreased by $12 million when compared to the same period in 2019. The decrease in total revenue was primarily the result of lower housing revenue due to 67 fewer home closings. The decrease in home closings was due to lower closings across our Canadian and California operating segments. There was also a $9 million decrease in land revenue, primarily due to 91 fewer single family lot closings. Total gross margin decreased $12 million primarily as a result of lower land gross margins due to the mix of land sold during the period as well as lower housing gross margins due to a lower number of closings. Total gross margin percentage decreased 1% due to the mix of land sold when compared to 2019.

Results of Operations – Housing

Housing revenue and gross margin were $294 million and $49 million, respectively, for the three months ended March 31, 2020, compared to $319 million and $53 million for the same period in 2019. The decrease in revenue and gross margin was primarily the result of 67 fewer home closings, where the decrease mainly came from our Canadian and California operating segments. Gross margin percentage remained consistent when compared to the same period in 2019. Revenues are also affected by the geographic mix of homes closed, local product mix and market conditions as these factors have an impact on the selling price per home.

A breakdown of our results from housing operations for the three months ended March 31, 2020 and 2019 is as follows:

Consolidated

	Three Months Ended March 31	
(US$ millions, except unit activity, percentages and average selling price)	**2020**	**2019**
Home closings	544	611
Revenue	$ 294	$ 319
Gross margin	$ 49	$ 53
Gross margin (%)	17%	17%
Average home selling price	$ 540,000	$ 522,000

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

Canada

	Three Months Ended March 31	
(US$ millions, except unit activity, percentages and average selling price)	**2020**	**2019**
Home closings	158	215
Revenue	$ 56	$ 83
Gross margin	$ 9	$ 14
Gross margin (%)	16%	17%
Average home selling price	$ 356,000	$ 386,000

Housing revenue for the three months ended March 31, 2020 decreased by $27 million when compared to the same period in 2019, primarily due to 57 fewer home closings and 8% lower average home selling prices. The decrease in home closings was primarily the result of fewer closings from our Ontario and Calgary markets. When comparing the average home selling price in Canadian dollars for the three months ended March 31, 2020 and 2019, the average home selling price was C$477,000 and C$513,000, respectively, representing a decrease of 7%. The decrease was due to the geographic and product mix of homes closed with a lower proportion of homes closed in the Ontario market, which typically have a higher average selling price than our Calgary and Edmonton markets. Gross margin decreased $5 million for the three months ended March 31, 2020 when compared to the same period in 2019 primarily as a result of the mix of homes closed and higher incentives provided on the homes closed in Calgary. Gross margin percentage for the three months ended March 31, 2020 decreased 1% primarily as a result of product mix and the increased incentives on the homes closed when compared to the same period in 2019.

California

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2020		2019	
Home closings		173		193
Revenue	$	139	$	137
Gross margin	$	26	$	24
Gross margin (%)		19%		18%
Average home selling price	$	801,000	$	709,000

Housing revenue in California for the three months ended March 31, 2020 was $139 million, an increase of $2 million when compared to the same period in 2019. The increase in revenue was primarily due to 13% higher average home selling prices, partially offset by 20 fewer home closings during the period. Gross margin increased $2 million as a result of higher average home selling prices as a result of product mix, and gross margin percentage increased 1% as a result of lower incentives provided when compared to the same period in 2019.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2020		2019	
Home closings		213		203
Revenue	$	99	$	99
Gross margin	$	14	$	15
Gross margin (%)		14%		15%
Average home selling price	$	465,000	$	487,000

Housing revenue remained consistent for the three months ended March 31, 2020 when compared to the same period in 2019. Revenue in this operating segment was impacted by 10 additional home closings, partially offset by a 5% decrease in the average home selling price. The increase in home closings was primarily due to higher closings in our Austin market as a result of an increase in the number of active communities in Austin for the three months ended March 31, 2020 compared to the same period in 2019. The decrease in average selling price was attributable to product mix in our Denver and Austin markets. Gross margin decreased $1 million and gross margin percentage decreased 1% when compared to the same period in 2019 as a result of geographic and product mix.

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 are recognized as a reduction to sales revenue at the time title passes to the homebuyer and the sale is recognized. For the three months ended March 31, 2020, total incentives recognized as a percentage of gross revenues remained consistent when compared to the same period in 2019.

Our incentives on homes closed by operating segment for the three months ended March 31, 2020 and 2019 were as follows:

	Three Months Ended March 31					
	2020			2019		
(US$ millions, except percentages)		Incentives Recognized	% of Gross Revenues		Incentives Recognized	% of Gross Revenues
Canada	$	3	5%	$	4	4%
California		3	2%		5	3%
Central and Eastern U.S.		6	6%		4	4%
	$	12	4%	$	13	4%

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 for the three months ended March 31, 2020 totaled 921 units, an increase of 161 units or 21% when compared to the same period in 2019. For the three months ended March 31, 2020, the increase in net new home orders was a result of higher net new orders across all of our land and housing operating segments, with our California segment seeing the largest increase. The increase in net new orders in our Canadian segment was primarily due to higher net new orders in our Ontario market. Net new orders in our California segment increased as a result of higher net new orders from our Southern California market. Net new orders in our Central & Eastern U.S. segment increased primarily as a result of higher net new orders in our Austin market. Average monthly sales per community by reportable segment for the three months ended March 31, 2020 were: Canada – 3 units (2019 – 2 units); California – 5 units (2019 – 3 units); Central and Eastern U.S. – 3 units (2019 – 4 units). We were selling from 90 active housing communities at March 31, 2020 compared to 89 at March 31, 2019.

The net new home orders for the three months ended March 31, 2020 and 2019 by our three land and housing operating segments were as follows:

	Three Months Ended March 31	
(Units)	**2020**	**2019**
Canada	286	240
California	305	236
Central and Eastern U.S.	330	284
	921	760

Home Sales – Cancellations

The overall cancellation rates for the three months ended March 31, 2020 and 2019 were 14% and 12%, respectively. The increase in the cancellation rates for the three months ended March 31, 2020 were primarily driven by a higher number of cancellations in our Canadian operating segment, particularly in our Calgary and Ontario markets. As a result of the COVID-19 pandemic, there has been an increase in the number of cancellations across the Company in the last half of March 2020. The cancellation rates for the three months ended March 31, 2020 and 2019 by our three land and housing operating segments were as follows:

	Three Months Ended March 31			
	2020		**2019**	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	80	22%	44	15%
California	32	9%	23	9%
Central and Eastern U.S.	40	11%	40	12%
	152	14%	107	12%

Home Sales – Backlog

Our backlog, which represents the number of new homes subject to sales contracts, as at March 31, 2020 and 2019 by operating segment, was as follows:

	As at March 31			
	2020		**2019**	
(US$ millions, except unit activity)	**Units**	**Value**	**Units**	**Value**
Canada	684	$ 260	476	$ 189
California	351	222	304	254
Central and Eastern U.S.	615	268	506	242
Total	1,650	$ 750	1,286	$ 685

We expect all of our backlog to close between 2020 and 2022, subject to future cancellations. The units in our backlog for the three months ended March 31, 2020 increased compared to the same period in 2019, due to higher units in backlog in all of our land and housing operating segments as a result of higher net new home orders. Our units in backlog in our Canadian operating segment increased by 208 units at March 31, 2020, when compared to March 31, 2019, primarily due to higher units in backlog in our Calgary and Ontario markets. Our California segment's units in backlog increased 47 units mainly due to higher units in backlog from higher net new home orders in Southern California. The increase of 109 units in the Central and Eastern U.S. operating segment was primarily the result of higher units in backlog for our Austin region. Total backlog value increased by $65 million when compared to the same period in 2019 mainly due to higher units in backlog overall.

Results of Operations – Land

Land revenue totaled $18 million and land gross margin totaled $6 million for the three months ended March 31, 2020, a decrease of $9 million and $8 million, respectively, when compared to 2019. The decrease in land revenue was primarily due to 91 fewer single family lot closings with 2% lower average single family lot selling prices. Gross margin declined primarily due to lower land gross margin in our Canadian and Central & Eastern U.S. operating segments due to the mix of land sold. Gross margin percentage decreased to 33% for the three months ended March 31, 2020 due to the mix of land sold as well as market conditions in Alberta. Revenues are affected by geographic mix, product mix and market conditions, which have an impact on the selling price of land.

A breakdown of our results from land operations for the three months ended March 31, 2020 and 2019 is as follows:

Consolidated

	Three Months Ended March 31	
(US$ millions, except unit activity, percentages and average selling price)	**2020**	**2019**
Lot closings (single family units)	167	258
Acre closings (multi-family, industrial and commercial)	3	10
Revenue	$ 18	$ 27
Gross margin	$ 6	$ 14
Gross margin (%)	33%	52%
Average lot selling price (single family units)	$ 92,000	$ 94,000
Average per acre selling price (multi-family, industrial and commercial)	$ 819,000	$ 320,000

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

Canada

	Three Months Ended March 31	
(US$ millions, except unit activity, percentages and average selling price)	**2020**	**2019**
Lot closings (single family units)	123	120
Acre closings (multi-family, industrial and commercial)	3	—
Revenue	$ 15	$ 13
Gross margin	$ 5	$ 9
Gross margin (%)	33%	69%
Average lot selling price (single family units)	$ 98,000	$ 112,000
Average per acre selling price (multi-family, industrial and commercial)	$ 819,000	$ —

Land revenue in Canada for the three months ended March 31, 2020 was $15 million, an increase of $2 million when compared to 2019. The increase was primarily the result of closing three multi-family, industrial and commercial acres during 2020 with no comparative sale during 2019 and three additional single family lot closings. This was partially offset by 13% lower average single family lot selling prices primarily due to the mix of lots sold during the period. Gross margin decreased $4 million and gross margin percentage was 33% for the three months ended March 31, 2020 compared to 69% during the same period in 2019, due to the mix of land sold as well as market conditions in Alberta with the ongoing challenges in the energy sector.

California

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2020	2019
Lot closings (single family units)	—	—
Acre closings (multi-family, industrial and commercial)	—	—
Revenue	$ —	$ —
Gross margin	$ 1	$ 2
Gross margin (%)	—%	—%
Average lot selling price (single family units)	$ —	$ —
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ —

Land revenue in California for the three months ended March 31, 2020 remained consistent with the same period in 2019 with no unit activity. Gross margin decreased $1 million for the three months ended March 31, 2020, due to recognizing lower land gross margin on Brookfield Residential's home closings on our Southern California master-planned communities during the period.

Central and Eastern U.S.

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2020	2019
Lot closings (single family units)	44	138
Acre closings (multi-family, industrial and commercial)	—	10
Revenue	$ 3	$ 14
Gross margin	$ —	$ 3
Gross margin (%)	—%	21%
Average lot selling price (single family units)	$ 74,000	$ 78,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ 320,000

For the three months ended March 31, 2020, land revenue decreased $11 million and gross margin decreased by $3 million when compared to the same period in 2019. The decrease in revenue was primarily from 94 fewer single family lot closings with 5% lower average single family lot selling prices as a result of fewer lot closings in our Denver market. Additionally, there were 10 multi-family, industrial and commercial acre closings in 2019 with no comparative sale in 2020. Gross margin percentage decreased in this operating segment mainly due to having a high gross margin multi-family, industrial and commercial acre sale in our Austin market in 2019 with no comparative sale for the same period in 2020 as well as lower gross margin percentage on single family lot closings in our Denver market as a result of fewer closings.

Equity in Earnings from Unconsolidated Entities - Land and Housing

Equity in earnings from land and housing unconsolidated entities for the three months ended March 31, 2020 totaled $2 million, compared to $4 million for the same period in 2019.

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

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended March 31 2020	2019
Lot closings (single family units)	65	278
Acre closings (multi-family, industrial and commercial)	1	1
Revenue	$ 9	$ 12
Gross margin	$ 2	$ 4
Gross margin (%)	22%	33%
Average lot selling price (single family units)	$ 130,000	$ 43,000
Average per acre selling price (multi-family, industrial and commercial)	$ 297,000	$ 106,000

Land revenue within unconsolidated entities decreased $3 million and gross margin decreased $2 million for the three months ended March 31, 2020 compared to the same period in 2019. This was primarily the result of 213 fewer single family lot closings, due to a large bulk lot closing at one of our Phoenix joint ventures in the first quarter of 2019 and no comparable bulk lot closings in 2020.

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three months ended March 31, 2020 and 2019 are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2020**	**2019**
General and administrative expense	$ 31	$ 37
Sales and marketing expense	24	25
Share-based compensation	3	4
	$ 58	$ 66

Selling, general and administrative expense was $58 million for the three months ended March 31, 2020, a decrease of $8 million when compared to the same period in 2019. General and administrative expense decreased $6 million for the three months ended March 31, 2020 primarily due to cost efficiencies as a result of entering into the management agreement with Brookfield Properties Development. The management fee is determined by applicable rates on construction and development activity and assets under management. As a result, there will be some variability between the quarters in our management fee based on construction and development activity levels, which vary throughout the year. Sales and marketing expense for the three months ended March 31, 2020 decreased $1 million when compared to the same period in 2019, primarily due to lower housing activity. Share-based compensation in 2020 decreased by $1 million primarily resulting from the change in fair value of our share-based compensation liabilities for the three months ended March 31, 2020 compared to the same period in 2019.

Other (Income) / Expense

The components of other (income) / expense for the three months ended March 31, 2020 and 2019 are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2020**	**2019**
Investment income	$ (13)	$ (10)
Joint venture management fee income	(4)	(3)
Other	(3)	(1)
Loss on extinguishment of debt	15	—
	$ (5)	$ (14)

For the three months ended March 31, 2020, other income decreased $9 million when compared to the same period in 2019. As a result of the extinguishment of the 2022 senior unsecured notes, $8 million of premiums for early redemption, $6 million of previously capitalized debt issuance costs and $1 million of accrued interest were expensed. Refer to Note 11 "Notes Payable" in the condensed consolidated financial statements for additional information relating to the loss on extinguishment of the 2022 unsecured senior notes. This was partially offset by an increase of $3 million in investment income primarily from interest income earned from the Company's Homebuilder Finance program and a $1 million increase in joint venture management fee income.

Income Tax (Recovery) / Expense

Income tax recovery remained consistent for the three months ended March 31, 2020 when compared to the same period in 2019. The components of current and deferred income tax expense / (recovery) are summarized as follows:

	Three Months Ended March 31	
(US$ millions)	**2020**	**2019**
Current income tax expense	$ —	$ 2
Deferred income tax recovery	(4)	(6)
	$ (4)	$ (4)

For the three months ended March 31, 2020, current income tax expense decreased $2 million when compared to the same period in 2019. This was primarily due to the impact of the Reorganization Transaction that occurred in September 2019 which resulted in our investment in Brookfield Residential US LLC ("BRUS LLC") (formerly known as BRUSC) to be held in a limited liability company treated as a partnership for tax purposes that is 10% held by the Company and 90% held by Brookfield US Inc. ("BUSI"). As a result, the Company recorded current income tax expense on 10% of the 2020 first quarter taxable income from our U.S. operations.

For the three months ended March 31, 2020, deferred income tax recovery decreased $2 million when compared to the same period in 2019. The decrease in deferred income tax recovery primarily relates to the change in geographic mix of income and the impact of the Reorganization Transaction.

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 March 31, 2020, the rate of exchange was C$1.4061 equivalent to US$1 (December 31, 2019 – C$1.2989 equivalent to US$1). Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the three months ended March 31, 2020, the average rate of exchange was C$1.3423 equivalent to US$1 (March 31, 2019 – C$1.3295 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 and hedging instrument resulted in a loss of $60 million, for the three months ended March 31, 2020, compared to a gain of $15 million in the same period in 2019.

QUARTERLY OPERATING AND FINANCIAL DATA

	2020	2019				2018		
(US$ millions, except unit activity and per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Quarterly Operating Data								
Home closings (units)	544	882	674	763	611	1,107	827	1,019
Lot closings (single family units)	167	1,578	578	756	258	1,655	552	367
Acre closings (multi-family, industrial and commercial)	3	20	10	3	10	27	42	1
Acre closings (raw and partially finished)	—	18	134	—	—	—	—	19
Net new home orders (units)	921	671	768	867	760	506	644	782
Backlog (units)	1,650	1,273	1,484	1,390	1,286	1,137	1,738	1,921
Backlog value	$ 750	$ 603	$ 744	$ 730	$ 685	$ 612	$ 955	$ 1,038
Quarterly Financial Data								
Revenue	$ 312	$ 656	$ 461	$ 476	$ 346	$ 796	$ 502	$ 589
Direct cost of sales	(257)	(520)	(356)	(397)	(279)	(619)	(388)	(463)
Gross margin	55	136	105	79	67	177	114	126
Gain on sale of commercial properties	—	—	—	—	—	6	—	—
Selling, general and administrative expense	(58)	(53)	(60)	(65)	(66)	(93)	(72)	(71)
Interest expense	(3)	(10)	(9)	(8)	(9)	(9)	(8)	(9)
Equity in earnings from unconsolidated entities	(22)	34	9	11	4	5	4	4
Other income	4	15	12	9	14	15	18	14
Lease expense	(3)	(3)	(3)	(3)	(3)	—	—	—
(Loss) / Income before income taxes	(27)	119	54	23	7	101	56	64
Income tax recovery / (expense)	4	2	(5)	(6)	4	(22)	(8)	(12)
Net (loss) / income	(23)	121	49	17	11	79	48	52
Net (loss) / income attributable to non-controlling interest	(8)	41	1	1	1	2	4	2
Net (loss) / income attributable to Brookfield Residential	$ (15)	$ 80	$ 48	$ 16	$ 10	$ 77	$ 44	$ 50
Foreign currency translation	(60)	15	(8)	14	15	(42)	14	(15)
Comprehensive (loss) / income	$ (75)	$ 95	$ 40	$ 30	$ 25	$ 35	$ 58	$ 35
Basic	$ (0.12)	$ 0.61	$ 0.37	$ 0.12	$ 0.08	$ 0.59	$ 0.34	$ 0.38
Diluted	$ (0.12)	$ 0.61	$ 0.37	$ 0.12	$ 0.08	$ 0.59	$ 0.34	$ 0.38

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

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

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's condensed consolidated balance sheets as at March 31, 2020 and December 31, 2019:

	As at			
(US$ millions)		March 31 2020		December 31 2019
Cash and restricted cash	$	156	$	124
Receivables and other assets		723		488
Land and housing inventory		2,841		3,059
Investments in unconsolidated entities - land and housing		335		330
Investment in unconsolidated entities - affiliate		610		634
Held-to-maturity investment		300		300
Commercial properties		549		469
Operating and financing lease right-of-use asset		87		90
Deferred income tax assets		50		49
Goodwill		16		16
	$	5,667	$	5,559
Accounts payable and other liabilities	$	515	$	577
Bank indebtedness and other financings		482		228
Notes payable		1,600		1,617
Operating and financing lease liability		91		93
Total equity		2,979		3,044
	$	5,667	$	5,559

Assets

Our assets as at March 31, 2020 totaled $5.7 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 $3.2 billion, or approximately 56% of our total assets. The land and housing assets decreased when compared to December 31, 2019 due to sales activity, partially offset by land acquisitions of $46 million and land development and home construction activity. Our land and housing assets include land under development and land held for development, finished lots ready for construction, homes completed and under construction and model homes.

A summary of our lots owned, excluding unconsolidated entities, and their stage of development as at March 31, 2020 compared with December 31, 2019 is as follows:

	As at					
	March 31, 2020			December 31, 2019		
(US$ millions, except units)	Units	Book Value		Units	Book Value	
Land held for development (lot equivalents)	66,602	$	1,402	67,008	$	1,386
Land under development and finished lots (single family units)	6,047		739	10,492		952
Housing units, including models	2,195		641	2,054		615
	74,844	$	2,782	79,554	$	2,953
Multi-family, industrial and commercial parcels (acres)	133	$	59	140	$	105

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at March 31 2020	As at December 31 2019
6.125% unsecured senior notes redeemed on March 12, 2020 (a)	$ —	$ 500
6.125% unsecured senior notes due May 15, 2023 (b)	178	192
6.375% unsecured senior notes due May 15, 2025 (c)	350	350
6.250% unsecured senior notes due September 15, 2027 (d)	600	600
4.875% unsecured senior notes due February 15, 2030 (e)	500	—
	1,628	1,642
Transaction costs (f)	(28)	(25)
	$ 1,600	$ 1,617

(a) On June 25, 2013, the Company and BRUS LLC co-issued a private placement of unsecured senior notes due July 1, 2022, at an interest rate of 6.125%. On March 12, 2020, these notes were redeemed in full at a redemption price equal to 101.531% of their aggregate principal amount, plus accrued and unpaid interest, using cash on hand and the net proceeds from the issuance of the unsecured senior notes due 2030.

(b) 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.

(c) On May 12, 2015, the Company issued $350 million of unsecured senior notes. The notes were offered in a private placement, with a ten-year term due May 15, 2025 at a fixed interest rate of 6.375%. The notes require semi-annual interest payments on May 15 and November 15 of each year until maturity. The Company's obligations to pay principal and interest on the unsecured senior notes are guaranteed by certain of the Company's subsidiaries. Upon consummation of the Reorganization Transaction, BRUS LLC became a co-issuer of the unsecured senior notes.

(d) 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.

(e) On February 26, 2020, the Company and BRUS LLC co-issued a private placement of $500 million of unsecured senior notes. The notes have a ten-year term, are due February 15, 2030 and bear interest at a fixed rate of 4.875%. The notes require semi-annual interest payments on February 15 and August 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 $500 million aggregate principal amount of the unsecured senior notes due in 2022.

(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 March 31, 2020, the Company capitalized $9 million of transaction costs associated with the unsecured senior notes due in 2030. As a result of the redemption of the unsecured senior notes due in 2022, the Company recorded a loss on extinguishment of debt, which included the write-off of net unamortized transaction costs of $6 million.

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 March 31, 2020. Our actual fixed charge coverage, indebtedness to consolidated net tangible worth, and net indebtedness to tangible net worth ratio as at March 31, 2020 are reflected in the table below:

	Covenant	Actual as at March 31 2020
Minimum fixed charge coverage	2.0 to 1	2.60 to 1
Maximum indebtedness to consolidated net tangible worth	2.25 to 1	0.71 to 1
Maximum net indebtedness to consolidated net tangible worth	3.0 to 1	0.68 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings as at March 31, 2020 were $482 million, an increase of $254 million from December 31, 2019. The increase was primarily the result of borrowings from our project-specific facility to fund the construction at our Nashville mixed-use project, and our bank indebtedness to fund our land development, home construction, and strategic acquisitions. Our bank indebtedness and other financings represent our corporate unsecured revolving credit facility and construction and development loans and facilities that are used to fund the operations of our communities as land is developed and homes and commercial properties are constructed. As of March 31, 2020, the weighted average interest rate on our bank indebtedness and other financings was 3.6% (December 31, 2019 – 4.8%).

The debt maturing in 2020 and onwards is expected to either be refinanced or repaid from home and/or lot closings over this period. Additionally, as at March 31, 2020, we had bank indebtedness capacity of $416 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 consist of the following:

(US$ millions)	As at March 31 2020	As at December 31 2019
Project-specific financings (a)	$ 234	$ 180
Bank indebtedness (b)	196	—
Secured VTB mortgages (c)	60	55
Due to affiliates (d)	—	—
	490	235
Transaction costs (a)(b)	(8)	(7)
	$ 482	$ 228

(a) Project-specific financings

(i) As at March 31, 2020, the Company has two Canadian project-specific financings totaling $43 million (C$60 million) provided by various lenders (December 31, 2019 - $47 million (C$62 million)).

Project-specific financing totaling $36 million (C$51 million) (December 31, 2019 - $40 million (C$52 million)) has an interest rate of Canadian Prime + 0.5%, matures in 2020, and is secured by certain land and housing inventory assets of the Company's Alberta operations and a general charge over the property of South Seton Limited Partnership, a consolidated subsidiary of the Company. 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 this covenant as at March 31, 2020.

The following table reflects the debt to equity ratio covenant:

	Covenant	Actual as at March 31 2020
Maximum debt to equity ratio	1.50 to 1	0.62

Project-specific financing totaling $7 million (C$9 million) (December 31, 2019 - $7 million (C$9 million)) held by a joint venture in our Alberta operations, a consolidated subsidiary of the Company, has an interest rate of Canadian Prime + 0.5%, matures in 2020, is secured and does not have any covenants.

(ii) On November 29, 2018, OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company, entered into a five-year secured construction loan for the Fifth + Broadway mixed-used project in Nashville, Tennessee. The loan allows OliverMcMillan Spectrum Emery LLC to borrow up to $360 million. As at March 31, 2020, there were $192 million of borrowings outstanding under the construction loan (December 31, 2019 - $133 million).

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

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $36 million and a minimum net worth of $360 million. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at March 31, 2020. The following table reflects the covenants:

(US$ millions)	**Covenant**	**Actual as at March 31 2020**
Minimum liquidity	$ 36	$ 527
Minimum net worth	$ 360	$ 1,195

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.

(iii) On March 20, 2020, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, entered into a three-year secured construction loan for the Lilia mixed-used project located in Honolulu, Hawaii. The loan allows OliverMcMillan Kuhio LLC to borrow up to $156 million. As at March 31, 2020, there were no borrowings outstanding under the construction loan.

Interest is charged on the loan at a rate equal to LIBOR plus 2%, with the ability to convert the interest charged to a prime rate loan.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $75 million and a minimum net worth of $250 million. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at March 31, 2020. The following table reflects the covenants:

(US$ millions)	**Covenant**	**Actual as at March 31 2020**
Minimum liquidity	$ 75	$ 527
Minimum net worth	$ 250	$ 1,324

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

(b) 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. 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 million.

As at March 31, 2020, the total borrowings outstanding under the North American unsecured credit facility were $196 million (December 31, 2019 - no borrowings outstanding).

For U.S. dollar denominated borrowings, interest is charged on the facility at a rate equal to, at the borrower's option, either the adjusted LIBOR plus an applicable rate between 1.75% and 2.25% per annum or an alternative base rate ("ABR") plus an applicable rate between 0.75% and 1.25% per annum. For Canadian dollar denominated borrowings, interest is charged on the facility at a rate equal to either the Canadian dollar offered rate ("CDOR") plus an applicable rate between 1.75% and 2.25% per annum or the Canadian prime rate plus an applicable rate between 0.75% and 1.25% per annum.

The facility contains certain restrictive covenants including limitations on liens, dividends and other distributions, investments in subsidiaries and joint ventures that are not party to the loan. The facility requires the Company to maintain a minimum consolidated tangible net worth of $1.4 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at March 31, 2020, the Company was in compliance with all of our covenants relating to this facility. The following table reflects consolidated tangible net worth and consolidated total debt to capitalization covenants:

(US$ millions, except percentages)	Covenant	Actual as at March 31 2020
Minimum tangible net worth	$ 1,371	$ 2,963
Maximum total debt to capitalization	65%	41%

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.

(c) Secured VTB mortgages

The Company has 13 secured VTB mortgages (December 31, 2019 – 13 secured VTB mortgages) in the amount of $60 million (December 31, 2019 – $55 million).

Ten secured VTB mortgages (December 31, 2019 – eight secured VTB mortgages) in the amount of $42 million (December 31, 2019 – $26 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$59 million (December 31, 2019 – C$34 million). The interest rates on this debt range from fixed rates of 4% to 6% and variable rates of Canadian prime plus 0.5% to prime plus 2% and the debt is secured by the related land. As at March 31, 2020, one secured VTB mortgage in our Alberta operations is subject to a minimum shareholder's equity covenant of Brookfield Residential (Alberta) LP of C$200 million. The following table reflects the minimum shareholder's equity covenant:

(CAD$ millions)	Covenant	Actual as at March 31 2020
Minimum shareholder's equity	$ 200	$ 570

As at March 31, 2020, the remaining borrowings are not subject to any financial covenants.

Three secured VTB mortgages (December 31, 2019 – five secured VTB mortgages) in the amount of $18 million (December 31, 2019 – $29 million) relate to raw land held for development by various U.S. subsidiaries of the Company. The interest rates on the debt range from fixed rates of 4% to 7% and the debt is secured by the related land. As at March 31, 2020, 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 million deposit agreement with a subsidiary of BAM. The principal is repayable on demand. Interest is charged on the principal at a rate of LIBOR plus 1.50%. As at March 31, 2020, the Company had no borrowings outstanding. These borrowings are not subject to financial covenants.

Net Debt to Capitalization Calculation

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

Our net debt to total capitalization ratio as at March 31, 2020 and December 31, 2019 was as follows:

	As at	
(US$ millions, except percentages)	March 31 2020	December 31 2019
Bank indebtedness and other financings	$ 482	$ 228
Notes payable	1,600	1,617
Total interest bearing debt	2,082	1,845
Less: cash	(138)	(110)
	1,944	1,735
Total equity	2,979	3,044
Total capitalization	$ 4,923	$ 4,779
Net debt to total capitalization	39%	36%

Credit Ratings

Our access to financing depends on, among other things, suitable market conditions and the maintenance of suitable long-term credit ratings. Our credit ratings may be adversely affected by various factors, including but not limited to, increased debt levels, decreased earnings, declines in our customer demand, increased competition, a further deterioration in general economic and business conditions and adverse publicity. Any downgrades in our credit rating may impede our access to capital markets or raise our borrowing rates. We are currently rated by two credit rating agencies, Moody's and Standard & Poor's ("S&P"). We are committed to maintaining these ratings and improving them further over time. Our credit ratings at March 31, 2020 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 March 31, 2020, we had cash and cash equivalents, including restricted cash, of $156 million, compared to $124 million at December 31, 2019.

The net cash flows for the three months ended March 31, 2020 and 2019 were as follows:

	Three Months Ended March 31	
(US$ millions)	**2020**	**2019**
Cash flows used in operating activities	$ (166)	$ (88)
Cash flows (used in) / provided by investing activities	(37)	144
Cash flows provided by / (used in) financing activities	239	(54)
Effect of foreign exchange rates on cash	(4)	(1)
	$ 32	$ 1

Cash Flow Used in Operating Activities

Cash flows used in operating activities during the three months ended March 31, 2020 totaled $166 million, compared to $88 million for 2019. During the three months ended March 31, 2020, cash used in operating activities was primarily impacted by our net income, an increase in commercial properties, an increase in land and housing inventory due to land development, home construction and strategic land purchases, an increase in receivables and other assets, a decrease in accounts payable and other liabilities and a decrease in operating lease liabilities. Acquisitions of land and housing inventory for the three months ended March 31, 2020 totaled $46 million, consisting of $29 million in Canada, $15 million in California and $2 million in Central and Eastern U.S. The increase in commercial properties of $53 million was largely due to construction at our Nashville and Honolulu mixed-use development projects. During the three months ended March 31, 2019, cash used in operating activities was impacted by our net income, an increase in land and housing inventory due to land development, home construction and strategic land purchases, an increase in commercial properties, a decrease in receivables and other assets, operating and financing right-of-use assets obtained in exchange for a lease obligation, a decrease in accounts payable and other liabilities and payments for amounts included in the measurement of the lease liabilities. Acquisitions for the three months ended March 31, 2019 totaled $48 million, consisting of $12 million in Canada, $15 million in California and $21 million in Central and Eastern U.S. The increase in commercial properties was largely due to continued construction at our Nashville mixed-use development project.

Cash Flow (Used In) /Provided by Investing Activities

During the three months ended March 31, 2020, cash flows used in investing activities totaled $37 million compared to cash flows provided by our investing activities of $144 million for the same period in 2019. During the three months ended March 31, 2020, we had an increase in our loan receivables of $29 million and had an investment of $12 million in land and housing unconsolidated entities primarily in our joint ventures in Southern California. This was partially offset by receiving $4 million distributions from our unconsolidated entities. During the three months ended March 31, 2019, we received $150 million from the partial retraction of our held-to-maturity investment and dividend income relating to this investment of $5 million. We also received $3 million in distributions from our unconsolidated entities. This was partially offset by our investment of $15 million in unconsolidated entities primarily in our joint ventures in Southern California.

Cash Flow Provided by / (Used In) Financing Activities

Cash flows provided by our financing activities for the three months ended March 31, 2020 totaled $239 million, compared to $54 million used in financing activities for the same period in 2019. The cash provided by our financing activities during the three months ended March 31, 2020 was primarily from drawings on bank indebtedness of $196 million, $45 million net borrowing under project-specific and other financings, and net contributions to non-controlling interest of $16 million. The Company's unsecured senior notes due in 2022 were redeemed in full using the net proceeds from the issuance of the unsecured senior notes due in 2030, together with cash on hand. In addition, a total of $9 million in debt issuance costs were incurred with the issuance of the unsecured senior notes due in 2030 and $9 of premiums were paid to redeem the notes and extinguish the debt. For the three months ended March 31, 2019 there were repayments under bank indebtedness of $48 million and net repayments under project-specific and other financings of $5 million. This was partially offset by net distributions to non-controlling interest of $1 million.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at March 31, 2020 is as follows:

	Payment Due By Period				
(US$ millions)	Total	Less than 1 Years	1 – 3 Years	3 – 5 Years	More than 5 Years
Notes payable(1)	$ 1,628	$ —	$ —	$ 178	$ 1,450
Interest on notes payable	777	140	236	174	227
Secured VTB mortgages(2)(3)	60	27	25	8	—
Bank indebtedness(2)(3)	196	196	—	—	—
Project-specific financings(2)(3)	234	43	—	191	—
Accounts payable and other liabilities(4)	515	515	—	—	—
Operating and financing lease obligations(5)	407	8	20	17	362
Purchase agreements and other obligations(6)	180	46	115	10	9

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

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

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

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

(5) Amounts relate to non-cancellable operating and financing leases involving office space, design centres and model homes. See Note 21 to the condensed consolidated financial statements for additional information regarding lease agreements.

(6) See Note 22 to the condensed consolidated financial statements for additional information regarding purchase agreements and other obligations.

Shareholders' Equity

At May 11, 2020, 129,756,910 Common Shares in the capital of the Company were issued and outstanding. In addition, Brookfield Residential has a stock option plan under which key officers and employees are granted options to purchase Non-Voting Class B Common Shares or settle the options in cash at the option of the holder. Each option granted can be exercised for one Non-Voting Class B Common Share or settled in cash for the fair value of one Common Share at the date of exercise. At May 11, 2020, 12,388,886 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the three months ended March 31, 2020.

Off-Balance Sheet Arrangements

In the ordinary course of business, and where market conditions permit, we enter into land and lot option contracts and invest in unconsolidated entities to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time until the options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of March 31, 2020, we had $98 million of primarily non-refundable option deposits and entitlement costs. The total remaining exercise price of these options was $88 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 7,035 lots and control under option 1,001 lots through our proportionate share of land and housing unconsolidated entities. As of March 31, 2020, our investment in land and housing unconsolidated entities totaled $335 million. We have provided varying levels of guarantees of debt in our land and housing unconsolidated entities. As of March 31, 2020, we had recourse guarantees of $27 million with respect to debt in our land and housing unconsolidated entities. During the three months ended March 31, 2020, 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 March 31, 2020, we had $63 million in letters of credit outstanding and $535 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds as at March 31, 2020 are $39 million and $173 million, respectively.

Transactions Between Related Parties

Related parties include the directors, executive officers, director nominees or shareholders, and their respective immediate family members. There are agreements among our affiliates to which we are a party or subject to, including a name license. The Company's significant related party transactions as at and for the three months ended March 31, 2020 and 2019 were as follows:

- During the three months ended March 31, 2020, 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 applicable rates on construction and development spending as well as assets under management, as defined in the management agreement. During the three months ended March 31, 2020, the Company incurred $23 million of management fees (three months ended March 31, 2019 - $9 million). These transactions were recorded at the exchange amount in the condensed consolidated statements of operations within selling, general and administrative expense.
- During the three months ended March 31, 2020, the Company entered into an agreement with Brookfield Properties Development to provide financing of up to $50 million. As at March 31, 2020, the loan had an outstanding balance of $29 million that was recorded in the condensed consolidated balance sheets within receivables and other assets.
- During the three months ended March 31, 2020, the company earned $6 million of dividends from the preferred shares of Brookfield International Ltd. that have been recorded in the condensed consolidated statements of operations within other income, where $nil was collected and $18 million was recorded in the condensed consolidated balance sheets within receivables and other assets**.** The transactions were recorded at the exchange amount.
- During the three months ended March 31, 2020, the Company entered into an agreement for the management of the retail operations at our Nashville mixed-use project and paid management fees of $1 million to Brookfield Properties Retail Inc., a subsidiary of BAM. This transaction was recorded at the exchange amount in the condensed consolidated statements of operations within selling, general and administrative expense.
- During the three months ended March 31, 2019, the Company received $150 million from the partial redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. that was recorded in the condensed consolidated balance sheets. The Company received $5 million of dividends from the preferred shares of Brookfield BPY Holdings Inc. during the three months ended March 31, 2019 that were recorded in the condensed consolidated statements of operations within other income. 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.

Impact of COVID-19

A detailed full set of risks applicable to the Company's business are included in the Annual Report for the fiscal year ended December 31, 2019. In addition, the Company has identified risk factors related to the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", which are further discussed below.

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. The duration and impact of the COVID-19 pandemic on the Company is unknown at this time. As such, it is not possible to reliably estimate the length and severity of COVID-19-related impacts on the financial results and operations of the Company. We have already taken and will continue to take actions to mitigate the effects of COVID-19, keeping in mind the interests of our employees and other stakeholders. Contingency planning is being advanced from both an operational and financial perspective and appropriate cost control measures are being implemented. We also continue to assess and mitigate against the risk of temporary or longer term labour shortages or disruptions, including the impact on our ongoing development projects. Our response to the COVID-19 pandemic is guided by the World Health Organization and public health authorities. Brookfield Residential continues to act according to direction provided by the federal, provincial, state and municipal governments to control the spread of COVID-19. We continue to closely monitor business operations and may take further actions in response to directives of government and public health authorities or that are in the best interests of employees or other stakeholders, as necessary. These changes and any additional changes in operations in response to COVID-19 could materially adversely impact operations and the financial performance of the Company.

The speed and extent of the spread of COVID-19, and the duration and intensity of resulting business disruption and related financial and social impact, are uncertain, and such adverse effects may be material. Potential adverse impacts of COVID-19 include, but are not limited to:

- The risk of material reduction in the value of our property, the occupancy rates in our property and an overall decreased demand for residential, retail or commercial real estate products and services;
- Issues delivering certain products and services, due to temporary or long-term supply chain disruptions and the impact of business closures, mobility restrictions, import/export restrictions, quarantine orders and other steps taken in response to COVID-19;
- Increased challenges collecting revenue or other accounts receivable from our customers and suppliers;
- Potential challenges of completing land development construction activities or transactional activities in a timely manner, or at all;
- Temporary or long-term stoppage in development projects and labour shortages or disruptions;
- Potential challenges accessing credit and capital markets and the ability to make principal and interest payments or refinance any outstanding debt under our financial covenants; and
- Increased risks to IT systems and networks;

Further, we are unable to predict with any certainty the policies that may be adopted by federal, provincial, or municipal governments in Canada or the federal or state governments in the U.S. or any central bank in response to COVID-19, or the effect of such policies or governmental regulation on the Company or on the real estate and construction industries generally. Brookfield Residential continues to monitor these developments closely and will assess the applicability, eligibility and appropriateness of any government scheme or program.

The nature, extent and severity of COVID-19's impact on our business will also depend upon future developments, which are highly uncertain, rapidly evolving and cannot be predicted, including new information which may emerge concerning the severity of this outbreak and actions taken to contain COVID-19 or its impact, among others. Such developments, depending on their nature, duration and intensity, could have a material adverse effect on our business, financial position, results of operations or cash flows.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Note	(Unaudited) As at March 31 2020	(Unaudited) As at December 31 2019
Assets			
Cash and cash equivalents		$ 138,195	$ 109,923
Restricted cash	10	17,709	13,818
Receivables and other assets	9	723,289	488,716
Land and housing inventory	4	2,841,043	3,058,624
Investments in unconsolidated entities - land and housing	6	335,329	330,597
Investment in unconsolidated entities - affiliate	6	609,581	634,028
Held-to-maturity investment	8	300,000	300,000
Commercial properties	7	548,513	468,519
Operating and financing lease right-of-use asset	21	86,301	89,750
Deferred income tax assets	15	49,995	49,392
Goodwill		16,479	16,479
Total assets		$ 5,666,434	$ 5,559,846
Liabilities and Equity			
Accounts payable and other liabilities	13	$ 514,819	$ 577,074
Bank indebtedness and other financings	12	481,851	228,147
Notes payable	11	1,600,087	1,616,545
Operating and financing lease liability	21	90,675	92,834
Total liabilities		2,687,432	2,514,600
Common shares – 129,756,910 shares outstanding (December 31, 2019 – 129,756,910 shares outstanding)	18	626,594	626,594
Additional paid-in-capital	5	—	—
Retained earnings		1,373,188	1,382,130
Non-controlling interest - land and housing	17	161,416	149,574
Non-controlling interest - affiliate	16,17	1,003,489	1,012,242
Accumulated other comprehensive loss		(185,685)	(125,294)
Total equity		2,979,002	3,045,246
Total liabilities and equity		$ 5,666,434	$ 5,559,846
Commitments, contingent liabilities and other	22		
Guarantees	23		
Subsequent events	28		

See accompanying notes to the condensed consolidated financial statements

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

		(Unaudited) Three Months Ended March 31	
	Note	2020	2019
Revenue			
Housing		$ 293,921	$ 318,768
Land		17,740	27,456
Total revenue		311,661	346,224
Direct Cost of Sales			
Housing		(245,485)	(265,793)
Land		(11,599)	(13,761)
Total direct cost of sales		(257,084)	(279,554)
Gross margin		54,577	66,670
Selling, general and administrative expense		(57,789)	(66,376)
Interest expense		(2,131)	(8,539)
Equity in earnings from unconsolidated entities - land and housing	6	2,087	4,408
Equity in earnings from unconsolidated entities - affiliate	6	(24,480)	—
Other income	14	5,530	14,351
Lease expense	21	(3,232)	(2,786)
Depreciation		(1,062)	(1,059)
(Loss) / Income Before Income Taxes		(26,500)	6,669
Current income tax expense	15	(367)	(1,543)
Deferred income tax recovery	15	4,744	5,542
Net (Loss) / Income		(22,123)	10,668
Other Comprehensive (Loss) / Income			
Unrealized foreign exchange (loss) / gain on:			
Translation of the net investment in Canadian subsidiaries and unconsolidated entities - affiliate		(75,066)	18,928
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		14,675	(3,975)
Comprehensive (Loss) / Income		$ (82,514)	$ 25,621
Net (Loss) / Income Attributable To:			
Consolidated		$ (22,123)	$ 10,668
Non-controlling interest - land and housing	17	3,260	342
Non-controlling interest - affiliate	16,17	(10,073)	—
Brookfield Residential		$ (15,310)	$ 10,326
Comprehensive (Loss) / Income Attributable To:			
Consolidated		$ (82,514)	$ 25,621
Non-controlling interest - land and housing	17	3,260	342
Non-controlling interest - affiliate	16,17	(10,073)	—
Brookfield Residential		$ (75,701)	$ 25,279
Common Shareholders (Loss) / Earnings Per Share			
Basic	20	$ (0.12)	$ 0.08
Diluted	20	$ (0.12)	$ 0.08
Weighted Average Common Shares Outstanding *(in thousands)*			
Basic	20	129,757	129,757
Diluted	20	129,786	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)

		(Unaudited)	
		Three months ended March 31	
	Note	**2020**	**2019**
Common Shares	18		
Opening balance		$ 626,594	$ 626,594
Ending balance		626,594	626,594
Additional Paid-in-Capital			
Opening balance		—	367,433
Ending balance		—	367,433
Retained Earnings			
Opening balance		1,382,130	1,236,092
Net (loss) / income attributable to Brookfield Residential		(15,310)	10,326
Other		6,368	—
Ending balance		1,373,188	1,246,418
Accumulated Other Comprehensive Loss			
Opening balance		(125,294)	(161,356)
Other comprehensive (loss) / income		(60,391)	14,953
Ending balance		(185,685)	(146,403)
Total Brookfield Residential Equity		$ 1,814,097	$ 2,094,042
Non-Controlling Interest	16,17		
Opening balance		$ 1,161,816	$ 53,832
Net (loss) / income attributable to non-controlling interest		(6,813)	342
Contributions / (Distributions)		16,270	(1,430)
Other		(6,368)	—
Ending balance		$ 1,164,905	$ 52,744
Total Equity		$ 2,979,002	$ 2,146,786

See accompanying notes to the condensed consolidated financial statements

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

	(Unaudited)	
	Three Months Ended March 31	
Cash Flows (Used in) Operating Activities	**2020**	**2019**
Net (loss) / income	$ (22,123)	$ 10,668
Adjustments to reconcile net (loss) / income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities - land and housing	(1,444)	(698)
Undistributed earnings from unconsolidated entities - affiliate	24,480	—
Deferred income tax recovery	(4,744)	(5,542)
Share-based compensation expense	2,888	4,151
Depreciation	1,062	1,059
Right-of-use asset depreciation	2,321	2,527
Amortization of non-cash interest	1,899	1,672
Loss on extinguishment of debt	15,030	—
Dividend income on held-to-maturity investment	(5,984)	(5,304)
Changes in operating assets and liabilities:		
(Increase) / decrease in receivables and other assets	(23,617)	4,755
Increase in land and housing inventory	(44,430)	(23,878)
Increase in commercial properties	(53,149)	(35,084)
Decrease in operating lease liabilities	(836)	(1,845)
Decrease in accounts payable and other liabilities	(57,525)	(40,342)
Net cash used in operating activities	(166,172)	(87,861)
Cash Flows (Used in) / Provided by Investing Activities		
Investments in unconsolidated entities - land and housing	(11,679)	(14,754)
Distributions from unconsolidated entities - land and housing	4,025	3,112
Redemption of held-to-maturity investments	—	150,000
Dividend income on held-to-maturity investment	—	5,304
(Increase) / Decrease in loan receivable	(29,355)	35
Net cash (used in) / provided by investing activities	(37,009)	143,697
Cash Flows Provided by / (Used in) Financing Activities		
Drawings under project-specific and other financings	61,901	515
Repayments under project-specific and other financings	(16,656)	(5,452)
Net drawings / (repayments) on bank indebtedness	195,500	(48,004)
Drawings under unsecured senior notes payable	500,000	—
Repayments under unsecured senior notes payable	(500,000)	—
Payments of debt issuance costs	(8,983)	—
Payments of debt extinguishment costs	(8,930)	—
Net contributions / (distributions) to non-controlling interest	16,270	(1,430)
Payments made on the principal of financing leases	(64)	(102)
Net cash provided by / (used in) financing activities	239,038	(54,473)
Effect of foreign exchange rates on cash and cash equivalents	(3,694)	(817)
Change in cash, cash equivalents and restricted cash	32,163	546
Cash, cash equivalents and restricted cash at beginning of period	123,741	73,132
Cash, cash equivalents and restricted cash at end of period	$ 155,904	$ 73,678
Supplemental Cash Flow Information		
Cash interest paid	$ 41,790	$ 19,374
Cash taxes paid	$ 2,483	$ 258

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 probable. Revenues from the sale of homes are recognized when title passes to the purchaser upon closing, wherein all proceeds are received or collectability is probable. In certain circumstances, when title transfers but material future development is required, revenue is recognized at a point in time when the performance obligation is satisfied.

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

The following are descriptions of principal activities, from which the Company generates its revenue. See Note 26 "Segmented Information" for detailed information about the Company's reportable segments.

(i) *Land Sales:* The land operations of the Company principally generate revenue from developing land for its own communities and selling lots to other homebuilders and third parties. The Company’s duration of land contracts vary; however, the typical length of a contract is less than one year. Revenues from land sales are recognized at a point in time when the Company's performance obligations are achieved. Performance obligations are satisfied when title has transferred and all material conditions of the sales contract have been met. Generally, all elements of the transaction price are allocated to one performance obligation. Certain components of the transaction price that are considered constrained at the time the performance obligation is satisfied are recognized when it is determined that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Certain contracts may have a significant financing component in the form of a vendor take back ("VTB") mortgage receivable. These amounts are recognized as receivables, see Note 9 "Receivables and Other Assets" for more detailed information. Certain contracts may have a component of variable consideration, in the form of profit participation. When a contract includes profit participation, the Company will receive consideration from the builder who purchased the land, as a percentage of the ultimate sale of the home. Profit participation is generally determined to be constrained at the time the revenue contract is recognized. The Company will reassess and recognize profit participation as appropriate at the end of each reporting period. See Note 3 "Revenue from Contracts with Customers" for recognized and constrained profit participation.

(ii) *Housing Sales:* The homebuilding operations of the Company principally generate revenue from designing, constructing, and marketing single family and multi-family homes in its own and its developers’ communities. The typical contract duration for housing contracts is less than one year. Revenues from the sale of homes are recognized at a point in time when the Company's performance obligations are achieved. Performance obligations are satisfied when the home is complete, consideration has been received, and title has transferred. All elements of the transaction price are allocated to the Company's one performance obligation.

(c) Land and Housing Inventory

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

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

Recoverability is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. To arrive at the estimated fair value of land and housing inventory, the Company estimates the future undiscounted cash flow for the life of each project. Specifically, on a land project, the Company estimates the timing of future land sales and the estimated revenue per lot, as well as estimated margins with respect to future land sales. On a housing project, the Company evaluates the margins on homes that have been closed, margins on sales contracts which are in backlog and estimated margins with regard to future home sales over the life of the project. For the land and housing inventory, the Company continuously evaluates projects where inventory is turning over more slowly than expected or whose average sales price and margins are declining and are expected to continue to decline. These projections take into account the specific business plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area. Such projections generally assume current home selling prices, cost estimates and sales rates for short-term projects are consistent with recent sales activity. For longer-term projects, planned sales rates for 2020 generally assume recent sales activity and normalized sales rates beyond 2020. Management identifies potentially impaired land and housing projects based on these quantitative factors as well as qualitative factors obtained from the local market areas. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired and is then written down to fair value using a discounted cash flow methodology which incorporates market participant assumptions.

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

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

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

The Company capitalizes certain interest costs to qualified inventory during the development and construction period in accordance with ASC Topic 835-20 *Capitalization of Interest.* Capitalized interest is charged to cost of sales when the related inventory is delivered. Interest incurred on home building indebtedness in excess of qualified inventory, as defined in ASC 835-20, is charged to the 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 at a future date. 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 typically contain terms and conditions for options to extend or terminate the lease. Leases with termination or extension options which the Company is reasonably certain to exercise have been included as part of the ROU asset and liability. Termination or extension options which the Company is reasonably certain not to exercise have been excluded in the determination of the ROU asset and liability.

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

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

For lease agreements where the Company is a sub-lessor, the Company has presented the lease expense on a gross basis on the condensed consolidated statements of operations, and has recognized sub-lease income within "other income". See Note 21 "Leases" for sub-lease income recognized.

(f) Loans and notes receivable

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

(g) Assets Held for Sale

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

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

(h) Unconsolidated Entities

The Company holds interests 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 comprehensive income or loss, 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 condensed 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 accounting bases and tax bases of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse. Additionally, for its investments in foreign or domestic partnerships, and in accordance with ASC Topic 740, the Company recognizes a deferred tax asset or liability based on the difference between the tax basis and accounting basis of their investment, this is known as the outside basis difference.

Provisions (benefits) for federal, state and provincial income taxes are calculated on reported pretax income (losses) based on current tax law and also include, in the applicable period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions (benefits) differ from the amounts currently receivable or payable because certain items of income and expense are recognized for financial reporting purposes in different periods than for income tax purposes. Significant judgment is required in determining income tax provisions (benefits) and evaluating tax positions. The Company establishes reserves for income taxes when, despite the belief that its tax positions are fully supportable, it believes that its positions may be challenged and disallowed by various tax authorities. The consolidated tax provisions (benefits) and related accruals include the impact of such reasonably estimated 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 19 "Share-Based Compensation" for further discussion.

(n) Foreign Currency Translation

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

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

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the 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 16 "Consolidated VIE & Non-Controlling Interest" for further discussion on the consolidation of land option contracts and consolidated and unconsolidated entities.

(s) Derivative Financial Instruments and Risk Management Activities

The Company accounts for its derivative and hedging activities in accordance with ASC Topic 815 *Derivatives and Hedging*, which requires the Company to recognize all derivative instruments at their fair values as either assets or liabilities on its balance sheet. The accounting for changes in fair value (i.e. gains or losses) of a derivative instrument depends on whether the Company has designated it, and whether it qualifies, as part of a hedging relationship and on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation. For derivative instruments that are designated and qualify as a cash flow hedge (i.e. hedging the exposure to variability in expected future cash flows that are attributable to a particular risk), the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings (i.e. in "interest expense" when the hedged transactions are interest cash flows associated with floating-rate debt). Changes in the fair value of cash flow hedges included in the assessment of hedge effectiveness are recorded through other comprehensive income and reclassified to earnings. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in realized and unrealized gain / (loss) on derivatives in current earnings during the period of change. The exchanges of payments on interest rate swap contracts are recorded as an adjustment to interest expense.

For hedges of net investments in foreign operations, any foreign exchange gains or losses on the hedging instrument are initially recorded in other comprehensive income as long as the hedge remains effective.

(t) Held-to-Maturity Investment

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

(u) Homebuilder Finance Assets

The Company has an interest in the Homebuilder Finance program that is an investment company in accordance with ASC Topic 946 *Financial Services - Investment Companies,* which prescribes specialized accounting and reporting requirements for investment companies. As the Company consolidates Homebuilder Finance in accordance with ASC 810 *Consolidation*, the Company is required to retain the industry specific guidance applied by this entity under ASC 946.

The Homebuilder Finance assets are carried at fair value, which may be determined using a combination of observed transaction prices, industry wide accepted valuation techniques, or other valuation methodologies based on inputs that may be directly or indirectly market observable. See Note 9 "Receivables and Other Assets" and Note 24 "Fair Value Measurements".

(v) Goodwill

We record goodwill associated with acquisitions of businesses when the purchase price of the business exceeds the fair value of the net tangible and identifiable assets acquired. In accordance with ASC Topic 350, Intangibles-Goodwill and Other ("ASC 350"), we evaluate goodwill for potential impairment on an annual basis. We evaluate potential impairment by comparing the carrying value of each of our reporting units to their estimated fair values. We estimate fair value through various valuation methods, including the use of discounted expected future cash flows of each reporting unit.

(w) Fair Value Measurements

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

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

When available, the Company uses quoted market prices in active markets to determine fair value. The Company considers the principal market and non-performance risks associated with its counterparties when determining the fair value measurements, if applicable.

(x) Common Control Transactions

The Company accounts for the purchase and sale of assets between entities under common control in accordance with ASC Topic 805-50 *Business Combinations - Related Issues,* which requires the Company to record assets and liabilities transferred between entities under common control at carrying value. Differences between the carrying amount of the consideration given or received and the carrying amount of the assets and liabilities transferred are recorded directly in additional paid-in-capital and retained earnings.

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

(y) 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 16 "Consolidated VIE & Non-Controlling Interest" and Note 17 "Non-Controlling Interest".

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

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.

(z) Reclassification

Certain amounts in the condensed consolidated balance sheets and statements of operations have been reclassified to conform with the March 31, 2020 presentation. Specifically, the Company's Homebuilder Finance assets were previously included in land and housing inventory, and are now in other assets, and earnings were previously included in land revenue and land cost of sales, and are now in other income to better align with the requirements of ASC 946 *Financial Services - Investment Companies.*

(aa) Future Accounting Pronouncements

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

Note 2. Change in Accounting Policies

On January 1, 2020, the Company retrospectively adopted Accounting Standards Update (ASU) 2018-13: *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.* The adoption of this amendment did not have a material impact on our financial position or results 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 months ended March 31, 2020, the Company recognized $nil (March 31, 2019 - $0.1 million) in revenue from performance obligations satisfied in prior periods. This cumulative catch-up adjustment resulted from a change in transaction price related to variable consideration that was constrained in previous periods. For amounts not recognized due to constraints, the Company has determined the amounts cannot be reliably estimated due to the following factors outside of the Company's control: economic volatility, period of time between the lot sale and the ultimate home closing, fluctuations and difficult prediction of profits and pricing of the ultimate home closing.

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

Note 4. Land and Housing Inventory

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

The following summarizes the components of land and housing inventory:

	As at	
	March 31 2020	**December 31 2019**
Land held for development	$ 1,402,047	$ 1,386,340
Land under development	797,775	1,056,884
Housing inventory	544,592	504,643
Model homes	96,629	110,757
	$ 2,841,043	$ 3,058,624

The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. Refer to Note 24 "Fair Value Measurements".

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

The Company capitalizes interest which is later expensed as housing units and building lots are sold. Interest capitalized and expensed during the three months ended March 31, 2020 and 2019 was as follows:

	Three Months Ended March 31	
	2020	**2019**
Interest capitalized, beginning of period	$ 207,804	$ 197,687
Interest capitalized	20,806	17,659
Interest expensed to cost of sales	(9,820)	(9,281)
Interest capitalized, end of period	$ 218,790	$ 206,065

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, 2019 – $8.1 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 totaling $98.1 million (December 31, 2019 – $99.0 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 $88.5 million (December 31, 2019 – $96.1 million), including the non-refundable deposits and other entitlement costs identified above.

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

Years of Expiry	**Number of Lots**	**Total Exercise Price**
2020	877	$ 19,670
2021	27	5,252
2022	27	952
2023	1,245	3,979
2024	75	1,578
Thereafter	5,989	57,028
	8,240	$ 88,459

The Company holds agreements for a further 3,437 acres (December 31, 2019 – 3,461 acres) of longer-term land, with non-refundable deposits and other entitlement costs of $2.1 million (December 31, 2019 – $12.2 million), which is included in land and housing inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of $79.5 million (December 31, 2019 – $79.5 million). However, given that the Company is in the initial stage of land entitlement, the Company has concluded at this time that the level of uncertainty in entitling these properties does not warrant including the exercise price in the above totals.

Note 5. Reorganization Transaction

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

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

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

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

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

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

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

Note 6. Investments in Unconsolidated Entities

(a) Land and Housing

As part of its land and housing operations, the Company participates in joint ventures and partnerships to explore opportunities while minimizing risk. As of March 31, 2020, the Company was involved with 13 unconsolidated entities (December 31, 2019 – 12 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities include $21.8 million (December 31, 2019 – $21.6 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 1,001 lots (December 31, 2019 – 1,001 lots) under option. The Company's share of the total exercise price of these options is $44.3 million (December 31, 2019 – $41.3 million). Summarized financial information on a 100% basis for the combined land and housing unconsolidated entities follows:

	As at	
	March 31 2020	December 31 2019
Assets		
Land and housing inventory	$ 724,722	$ 720,970
Investments in unconsolidated entities	152,860	151,524
Other assets	140,767	138,837
	$ 1,018,349	$ 1,011,331
Liabilities and Equity		
Bank indebtedness and other financings	$ 115,492	$ 113,194
Accounts payable and other liabilities	115,760	117,408
Brookfield Residential's interest	335,329	330,597
Others' interest	451,768	450,132
	$ 1,018,349	$ 1,011,331

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

	Three Months Ended March 31	
	2020	**2019**
Revenue and Expenses		
Revenue	$ 22,388	$ 24,251
Direct cost of sales	(14,138)	(14,812)
Other income and expenses	(955)	(598)
Net income	$ 7,295	$ 8,841
Brookfield Residential's share of net income	$ 2,087	$ 4,408

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

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

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt of its unconsolidated entities. At March 31, 2020, the Company had recourse guarantees of $26.9 million (December 31, 2019 – $6.2 million) with respect to debt of its land and housing unconsolidated entities.

(b) Affiliates

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

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

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

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

	Three Months Ended March 31, 2020
Equity Investment in BUSI	
Investment at December 31, 2019	$ 634,028
Equity in earnings	(24,480)
OCI	33
Investment at March 31, 2020	$ 609,581

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

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 March 31, 2020
Assets	
Investments	$ 4,793,448
Investments in unconsolidated entities	4,674,802
Other assets	4,250,014
	$ 13,718,264
Liabilities and Equity	
Loans payable	$ 3,309,249
Other liabilities	487,501
Non-controlling interest	3,566,819
Brookfield Residential's interest	609,581
Others' Interest	5,745,114
	$ 13,718,264

	Three Months Ended March 31, 2020
Revenue and Expenses	
Income	$ 343,777
Expenses	(656,314)
Net loss	(312,537)
Other comprehensive loss	(3,778)
Comprehensive loss	$ (316,315)

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

Note 7. Commercial Properties

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

	As at March 31 2020	As at December 31 2019
Commercial properties under development	$ 492,014	$ 436,842
Commercial properties producing leasing revenue	58,906	34,075
	550,920	470,917
Less: accumulated depreciation	(2,407)	(2,398)
	$ 548,513	$ 468,519

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

Note 8. Held-to-Maturity Investment

	As at	
	March 31 2020	**December 31 2019**
Brookfield International Ltd. Series I Class A Preference Shares ("BIL preferred shares")	$ 300,000	$ 300,000
	$ 300,000	$ 300,000

The Company holds $300.0 million of BIL preferred shares that entitle their holders to receive, when declared, dividend payments at a rate of 8.0%, accrued quarterly. The BIL preferred shares are redeemable and retractable at any time and must be redeemed on the tenth anniversary of their issuance.

During the three months ended March 31, 2020, the Company earned $6.0 million preferred share dividends, of which $nil was collected and total of $18.1 million was recorded in the consolidated balance sheets within receivables and other assets. See Note 9 "Receivables and Other Assets" for details. The Company did not hold the preferred shares during the three months ended March 31, 2019.

Note 9. Receivables and Other Assets

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

	As at	
	March 31 2020	**December 31 2019**
Receivables (a)	$ 416,667	$ 373,988
Other assets (b)	306,622	114,728
	$ 723,289	$ 488,716

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

	As at	
	March 31 2020	**December 31 2019**
Development recovery receivables (i)	$ 111,489	$ 113,980
Real estate receivables (ii)	107,848	119,002
Loan receivables (iii)	105,609	76,254
Sundry receivables (iv)	64,961	36,396
Proceeds and escrow receivables (v)	18,955	20,611
Refundable deposits	7,805	7,745
	$ 416,667	$ 373,988

(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, 2019 – Canadian prime or U.S. prime plus 0.5% to 1.0% to a fixed rate of 0.0% to 8.5%).

(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 8.75% (December 31, 2019 – Canadian prime plus 2.0% to 3.0% or a fixed interest rate of 0.0% to 6.0%).

(iii) The Company has entered into development and cost sharing arrangements for the recovery of development expenditures with certain metropolitan districts and developers whereby the Company has undertaken to put in place the infrastructure for certain communities. These receivables will be collected over the development life of the community and bear interest rates ranging from Canadian prime or U.S. prime plus 0.5% to 1.0% to a fixed rate of 0.0% to 8.5% (December 31, 2019 – Canadian prime or U.S. prime plus 0.5% to 1.0% to a fixed rate of 0.0% to 8.5%).

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

(iv) 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 months ended March 31, 2020, $nil of principal was collected (three months ended March 31, 2019 - $nil). As at March 31, 2020, the loan had an outstanding balance of $76.3 million (December 31, 2019 - $76.3 million).

During the three months ended March 31, 2020, the Company entered into an agreement with our service provider, Brookfield Properties Development, a wholly-owned subsidiary of BAM, to provide financing of up to $50 million. The loan bears interest at Canadian prime plus 0.75% or U.S. prime plus 0.75%, as applicable. As at March 31, 2020, the loan had an outstanding balance of $29.3 million.

(v) Sundry receivables are comprised of $18.1 million of preferred share dividends receivable from the BIL preferred shares (see Note 8 "Held-to-Maturity Investment" for details), lot interest receivables and other miscellaneous amounts.

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

As at March 31, 2020, allowances for doubtful accounts were $nil (December 31, 2019 - $nil).

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

	As at	
	March 31 2020	**December 31 2019**
Homebuilder finance assets (i)	$ 189,328	$ —
Capital assets (ii)	31,729	26,878
Capitalized sales and marketing costs (iii)	30,860	31,115
Non-refundable earnest funds and investigation fees (iv)	26,207	27,124
Other	16,386	15,168
Prepaid expenses	12,112	14,443
	$ 306,622	$ 114,728

(i) Homebuilder finance assets represents the Company's Homebuilder Finance program's investment in landbanking assets of $189.3 million, which has been reclassified from inventory to other assets in accordance with ASC 946 *Financial Services - Investment Companies* (December 31, 2019 – $174.0 million was recorded in land and housing inventory).

(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 $20.6 million (December 31, 2019 – $21.5 million).

(iii) 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 $26.9 million (December 31, 2019 – $25.4 million).

(iv) Non-refundable earnest funds and investigation fees relate to non-refundable deposits and due-diligence costs on potential acquisitions and options that are incurred prior to taking title of a property.

Note 10. Restricted Cash

At March 31, 2020, the Company has restricted cash consisting of (i) $0.1 million (December 31, 2019 – $0.1 million) relating to cash collateralization of development letters of credit and (ii) $17.6 million (December 31, 2019 – $13.7 million) of restricted cash relating to funds in various cash accounts reserved for guarantees on completion of certain improvements, and guarantees on future insurance loss deductible payments.

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

Note 11. Notes Payable

	As at	
	March 31 2020	December 31 2019
6.125% unsecured senior notes redeemed on March 12, 2020 (a)	$ —	$ 500,000
6.125% unsecured senior notes due May 15, 2023 (b)	177,800	192,475
6.375% unsecured senior notes due May 15, 2025 (c)	350,000	350,000
6.250% unsecured senior notes due September 15, 2027 (d)	600,000	600,000
4.875% unsecured senior notes due February 15, 2030 (e)	500,000	—
	1,627,800	1,642,475
Transaction costs (f)	(27,713)	(25,930)
	$ 1,600,087	$ 1,616,545

(a) On June 25, 2013, the Company and BRUS LLC co-issued a private placement of unsecured senior notes due July 1, 2022, at an interest rate of 6.125%. On March 12, 2020, these notes were redeemed in full at a redemption price equal to 101.531% of their aggregate principal amount, plus accrued and unpaid interest, using cash on hand and the net proceeds from the issuance of the unsecured senior notes due 2030.

(b) 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%

(c) 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%

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

(d) On September 23, 2019, the Company and BRUS LLC co-issued a private placement of $600.0 million of unsecured senior notes. The notes have an eight-year term, are due September 15, 2027 and bear interest at a fixed rate of 6.250%. The notes require semi-annual interest payments on March 15 and September 15 of each year until maturity. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries.

On or after September 15 of the years noted in the table below, the Company is entitled to redeem all or part of the notes at the redemption prices (expressed as percentages of the principal amount) set forth below, plus accrued and unpaid interest on the notes redeemed:

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

The net proceeds of the offering were used to redeem the $600.0 million aggregate principal amount of the unsecured senior notes due in 2020.

(e) On February 26, 2020, the Company and BRUS LLC co-issued a private placement of $500.0 million of unsecured senior notes. The notes have a ten-year term, are due February 15, 2030 and bear interest at a fixed rate of 4.875%. The notes require semi-annual interest payments on February 15 and August 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 February 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
2025	102.44%
2026	101.63%
2027	100.81%
2028 and thereafter	100.00%

The net proceeds of the offering were used to redeem the $500.0 million aggregate principal amount of the unsecured senior notes due in 2022 (see Note 11(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 March 31, 2020, the Company capitalized $8.9 million of transaction costs associated with the unsecured senior notes due in 2030. As a result of the redemption of the unsecured senior notes due in 2022, the Company recorded a loss on extinguishment of debt, which included the write-off of net unamortized deferred financing fees of $6.1 million.

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 March 31, 2020.

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.

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

Note 12. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	March 31 2020	December 31 2019
Project-specific financings (a)	$ 234,638	$ 180,352
Bank indebtedness (b)	195,500	—
Secured VTB mortgages (c)	59,955	54,796
Due to affiliates (d)	—	—
	490,093	235,148
Transaction costs (a)(b)	(8,242)	(7,001)
	$ 481,851	$ 228,147

(a) Project-specific financings

(i) As at March 31, 2020, the Company has two Canadian project-specific financings totaling $42.6 million (C$60.0 million) provided by various lenders (December 31, 2019 - $47.4 million (C$61.6 million)).

Project-specific financing totaling $36.0 million (C$50.6 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, 2019 - $40.2 million (C$52.2 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 this covenant as at March 31, 2020.

Project-specific financing totaling $6.7 million (C$9.4 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 secured without covenants (December 31, 2019 - $7.2 million (C$9.3 million)).

(ii) On November 29, 2018, OliverMcMillan Spectrum Emery LLC, a wholly-owned subsidiary of the Company, entered into a five-year secured construction loan for the Nashville mixed-used project. The loan allows OliverMcMillan Spectrum Emery LLC to borrow up to $360.0 million. As at March 31, 2020, the Company has $192.0 million of borrowings outstanding under the construction loan (December 31, 2019 - $132.9 million).

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

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $36.0 million and a minimum net worth of $360.0 million. The loan is secured by the assets of OliverMcMillan Spectrum Emery LLC. The Company was in compliance with these covenants as at March 31, 2020.

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.

(iii) On March 20, 2020, OliverMcMillan Kuhio LLC, a wholly-owned subsidiary of the Company, entered into a three-year secured construction loan for the Lilia mixed-used project. The loan allows OliverMcMillan Kuhio LLC to borrow up to $155.7 million. As at March 31, 2020, the Company had no borrowings outstanding under the construction loan.

Interest is charged on the loan at a rate equal to LIBOR plus 2.0%, with the ability to convert the interest charged to a prime rate loan.

The loan contains certain restrictive covenants including leasing and construction of the project. The loan requires BRUS LLC to maintain a minimum liquidity of $75.0 million and a minimum net worth of $250.0 million. The loan is secured by the assets of OliverMcMillan Kuhio LLC. The Company was in compliance with these covenants as at March 31, 2020.

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.

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

(b) 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 March 31, 2020, the Company had total borrowings of $195.5 million outstanding under the North American unsecured credit facility (December 31, 2019 - $nil).

For U.S. dollar denominated borrowings, interest is charged on the facility at a rate equal to, at the borrower's option, either an adjusted LIBOR plus an applicable rate between 1.75% and 2.25% per annum or the alternative base rate ("ABR") plus an applicable rate between 0.75% and 1.25% per annum. For Canadian dollar denominated borrowings, interest is charged on the facility at a rate equal to either the Canadian dollar offered rate ("CDOR") plus an applicable rate between 1.75% and 2.25% per annum or the Canadian prime rate plus an applicable rate between 0.75% and 1.25% per annum.

The facility contains certain restrictive covenants including limitations on liens, dividends and other distributions, investments in subsidiaries and joint ventures that are not party to the loan. The facility requires the Company to maintain a minimum consolidated tangible net worth of $1.4 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at March 31, 2020, 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.

(c) Secured VTB mortgages

The Company has 13 secured VTB mortgages (December 31, 2019 – 13 secured VTB mortgages) in the amount of $60.0 million (December 31, 2019 – $54.8 million). Secured VTB mortgages are repayable as follows: 2021 – $19.8 million; 2022 – $4.9 million, 2023 – $6.3 million and 2024 – $2.0 million.

Ten secured VTB mortgages (December 31, 2019 – eight secured VTB mortgages) in the amount of $42.1 million (December 31, 2019 – $26.0 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$59.2 million (December 31, 2019 – C$33.8 million). The interest rates on the debt range from fixed rates of 4.0% to 6.0% and variable rates of Canadian prime plus 0.5% to 2.0% and the debt is secured by the related land. One secured VTB in our Calgary region is subject to a minimum shareholder's equity covenant of Brookfield Residential (Alberta) LP of C$200.0 million. The Company was in compliance with this covenant as at March 31, 2020.

Three secured VTB mortgages (December 31, 2019 – five secured VTB mortgages) in the amount of $17.9 million (December 31, 2019 – $28.8 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 March 31, 2020, 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%. For the three month period ended March 31, 2020, the Company had no borrowings outstanding (December 31, 2019 – no borrowings outstanding). These borrowings are not subject to financial covenants.

Note 13. Accounts Payable and Other Liabilities

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

	As at	
	March 31 2020	**December 31 2019**
Accounts payable (a)	$ 344,058	$ 400,888
Other liabilities (b)	170,761	176,186
	$ 514,819	$ 577,074

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

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

	As at	
	March 31 2020	**December 31 2019**
Trade payables and other accruals	$ 128,679	$ 156,313
Customer deposits	100,516	97,633
Development costs payable (i)	65,384	72,807
Real estate payables	31,745	32,104
Interest on notes payable	16,420	9,513
Accrued and deferred compensation	7,812	36,908
Current income taxes receivable	(6,498)	(4,390)
	$ 344,058	$ 400,888

(i) Development costs payable relate to provisions accrued for costs yet to be incurred within a subdivision where sales have taken place. The provision is based on the sold lots pro rata share of costs to be incurred for specified areas within each subdivision phase.

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

	As at	
	March 31 2020	**December 31 2019**
Share-based compensation (Note 19)	$ 64,315	$ 61,427
Other	38,034	44,105
Purchase price consideration payable	21,702	23,869
Deferred revenue (i)	20,134	20,125
Warranty costs (Note 22 (a))	18,462	18,546
Consolidated land option contracts (ii)	8,114	8,114
	$ 170,761	$ 176,186

(i) Of the $20.1 million deferred revenue balance at December 31, 2019, the amount recognized during the three months ended March 31, 2020 was $0.2 million (December 31, 2019 - $12.9 million).

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

Note 14. Other (Income) / Expense

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

	Three Months Ended March 31	
	2020	**2019**
Investment income	$ (13,363)	$ (10,311)
Joint venture management fee income	(3,732)	(3,138)
Other	(3,465)	(902)
Loss on extinguishment of debt (i)	15,030	—
	$ (5,530)	$ (14,351)

(i) As a result of the redemption of the $500 million unsecured senior notes due in 2022 (see Note 11(a)), the Company recorded a loss on extinguishment of debt, which included the write-off of net unamortized deferred financing fees of $6.1 million, early call premium of $7.6 million, and accrued interest of $1.3 million paid on extinguishment.

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

Note 15. Income Taxes

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the three months ended March 31, 2020 and 2019 is as follows:

	Three months ended March 31	
	2020	**2019**
Statutory rate	25.0%	27.0 %
Non-temporary differences	(2.7)	16.6
Rate difference from statutory rate	19.5	(80.0)
Deferred tax asset valuation allowance impact	(23.0)	—
Non-taxable preferred share dividends	6.0	(22.2)
Taxable income attributable to non-controlling interests	(7.0)	—
Other	(1.3)	(4.7)
Effective tax rate	16.5%	(63.3)%

The Company recorded an income tax recovery of $4.4 million for the three months ended March 31, 2020, compared to an income tax recovery of $4.0 million in the prior year quarter. The change in the 2020 effective tax rate when compared to the same period in 2019 was primarily due to changes in the proportion of income in jurisdictions with different tax rates and an increase in non-taxable preferred share dividends. This was offset by the impact of the Reorganization Transaction that results in the consolidation of losses attributable to non-controlling interest for which the consolidated tax provision only includes our proportionate share and the establishment of a valuation allowance for the equity in earnings from unconsolidated entities - affiliate.

The provision for income taxes by jurisdiction for the three months ended March 31, 2020 and 2019 is set forth below:

	Three months ended March 31	
	2020	**2019**
Current		
Canada	$ (6)	$ —
U.S.	(166)	(1,142)
International	(195)	(401)
Current income tax expense	(367)	(1,543)
Deferred		
Canada	4,290	4,476
U.S.	454	1,066
Deferred income tax recovery	4,744	5,542
Total income tax recovery	$ 4,377	$ 3,999

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

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

	As at	
	March 31 2020	**December 31 2019**
Net deferred tax assets / (liabilities)		
Differences relating to land and housing inventory	$ (9,626)	$ (9,746)
Compensation deductible for tax purposes when paid	5,382	6,426
Operating loss carryforwards	50,477	49,752
Capital loss carryforwards	16,590	17,985
Impact of foreign exchange	4,860	778
Investment in unconsolidated entities - affiliate	37,291	31,179
Other	3,762	2,960
Net deferred tax assets before valuation allowance	108,736	99,334
Cumulative valuation allowance	(58,741)	(49,942)
Net deferred tax assets	$ 49,995	$ 49,392

The Company has Canadian federal non-capital loss carryforwards of approximately $208.8 million (C$293.6 million) as at March 31, 2020 (December 31, 2019 - $211.2 million (C$274.3 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 2040. At March 31, 2020, the Company has Canadian capital loss carryforwards of $144.3 million (C$202.8 million) (December 31, 2019 - $156.4 million (C$203.1 million)) which do not expire.

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

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

In evaluating the need for a valuation allowance against the Company's deferred tax assets at March 31, 2020, the Company considered all available and objectively verifiable positive and negative evidence. The valuation allowance of $58.7 million mainly relates to the realized and unrealized foreign exchange capital losses in Canada and its investment in unconsolidated entities that have not met the more-likely-than not realization threshold. The Company concluded it is more-likely-than-not that all of its remaining U.S. and Canadian deferred tax assets will be realized in the future.

Undistributed earnings of the Company's non-Canadian corporate affiliates as of March 31, 2020 were considered to be permanently reinvested. A determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable.

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

Note 16. Consolidated VIE & Non-Controlling Interest

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

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

The Company is required by ASC Topic 810 to qualitatively assess whether it is the primary beneficiary of a VIE based on whether it has the power to control the significant activities of the VIE and an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The Company has evaluated its investment in accordance with this guidance and determined that it is the primary beneficiary of this VIE because the 10.4% direct investment in BRUSH is sufficient and conveys power to the Company.

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

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

As at March 31, 2020, the assets and liabilities of BRUSH totaled $3.6 billion and $2.2 billion, respectively (December 31, 2019 - $3.4 billion and $2.1 billion, respectively). In addition, the Company's non-controlling interest in BRUSH is $1.0 billion, which is reported as non-controlling interest on the accompanying 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 / (loss) on the condensed consolidated statements of operations has been adjusted to include the net income / (loss) attributable to non-controlling interest (see Note 17 "Non-Controlling Interest").

Note 17. 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 / (loss) on the condensed consolidated statements of operations have been adjusted to include the net income / (loss) attributable to non-controlling interest, which for the three months ended March 31, 2020 was a loss of $6.8 million (March 31, 2019 – $0.3 million).

The following table provides additional information regarding non-controlling interests as presented in our condensed consolidated balance sheets:

	As at March 31, 2020
Land and housing	$ 161,416
Affiliate	1,003,489

The non-controlling interest held by the Company's affiliate, BUSI, of $1,003.5 million represents a total of 81.1% not held by the Company as at March 31, 2020. This represents the 89.6% direct interest held by BUSI adjusted for the Company's 9.5% indirect interest in BRUSH held through its equity investment in BUSI. The non-controlling interest of land and housing of $161.4 million (December 31, 2019 – $149.6 million) includes a 47.8% share of the Company's Homebuilder Finance program not held by the Company as at March 31, 2020.

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

Note 18. 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 three months ended March 31, 2020 and the year ended December 31, 2019.

	For the Period Ended	
	March 31 2020	**December 31 2019**
Common Shares issued, beginning of period	129,756,910	129,756,910
Common Shares issued	—	—
Common Shares issued and outstanding, end of period	129,756,910	129,756,910

The Company had no Non-Voting Class B Common Shares issued and outstanding as at March 31, 2020 and December 31, 2019.

Note 19. Share-Based Compensation

(a) Management Share Option Plan

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

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

During the three months ended March 31, 2020, there were no options granted to eligible employees (three months ended March 31, 2019 - 887,000 options granted). The significant weighted average assumptions relating to the valuation of the Company’s options outstanding during the three months ended March 31, 2020 and 2019 are as follows:

	March 31 2020	**March 31 2019**
Dividend yield	—%	—%
Volatility rate	44.81%	29.22%
Risk-free interest rate	0.31%	2.48%
Expected option life (years)	3.4	4.7
Liquidity discount	25%	—%

The liability of $35.0 million (December 31, 2019 - $32.2 million) relating to stock options is included in accounts payable and other liabilities. The total compensation cost recognized in selling, general and administrative expense resulting from the change in fair value of our share-based compensation liabilities for the three months ended March 31, 2020 was an expense of $2.9 million (March 31, 2019 - $4.2 million).

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

The following tables set out the number of Non-Voting Class B Common Shares that employees of the Company may acquire under options granted under the Company's Management Share Option Plan for the three months ended March 31, 2020 and 2019:

	March 31, 2020		March 31, 2019	
	Options	**Weighted Average Per Share Exercise Price**	**Options**	**Weighted Average Per Share Exercise Price**
Outstanding, beginning of period	12,388,886	$ 22.21	11,581,886	$ 22.15
Granted	—	—	887,000	22.98
Exercised	—	—	—	—
Cancelled	—	—	—	—
Outstanding, end of period	12,388,886	22.21	12,468,886	22.21
Options exercisable, end of period	9,579,286	$ 22.38	7,165,508	$ 22.45

A summary of the status of the Company's unvested options for the three months ended March 31, 2020 and 2019 are as follows:

	March 31, 2020		March 31, 2019	
	Options	**Weighted Average Fair Value Per Option**	**Options**	**Weighted Average Fair Value Per Option**
Unvested options outstanding, beginning of period	4,199,380	$ 4.23	5,644,758	$ 7.21
Granted	—	—	887,000	8.73
Vested	(1,389,780)	3.38	(1,228,378)	5.86
Cancelled	—	—	—	—
Unvested options outstanding, end of period	2,809,600	$ 4.22	5,303,380	$ 7.78

At March 31, 2020, there was $10.3 million (March 31, 2019 - $37.9 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 2.7 years (March 31, 2019 - 3.0 years).

(b) Deferred Share Unit Plan

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

The following table sets out changes in and the number of deferred share units that executives, directors and senior operating management employees may redeem under Brookfield Residential's DSUP at March 31, 2020 and December 31, 2019:

	For the Period Ended	
	March 31 2020	**December 31 2019**
Outstanding, beginning of period	1,382,134	1,448,638
Granted and reinvested	—	—
Redeemed	—	(66,504)
Outstanding, end of period	1,382,134	1,382,134
Deferred share units vested	1,382,134	1,382,134

The liability of $29.3 million (December 31, 2019 – $29.3 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 months ended March 31, 2020 and 2019.

Note 20. (Loss) / Earnings Per Share

Basic and diluted earnings per share for the three months ended March 31, 2020 and 2019 were calculated as follows:

	Three Months Ended March 31	
	2020	**2019**
Numerator:		
Net (loss) / income attributable to Brookfield Residential	$ (15,310)	$ 10,326
Denominator (in '000s of shares):		
Basic weighted average shares outstanding	129,757	129,757
Diluted weighted average shares outstanding	129,786	129,923
Basic (loss) / earnings per share	$ (0.12)	$ 0.08
Diluted (loss) / earnings per share	$ (0.12)	$ 0.08

Note 21. Leases

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

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

Included in lease expense is lease expenses for operating leases, financing lease interest and financing lease amortization. The Company has sublease income for the three months ended March 31, 2020 of $0.6 million, included in other income.

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

Years of Expiry	**Operating Leases**	**Financing Leases**
2020	$ 7,880	$ 236
2021	9,783	282
2022	9,585	198
2023	8,957	125
2024	7,945	35
Thereafter	362,433	—
Total lease payments	406,583	876
Less imputed interest	(316,715)	(69)
Total	$ 89,868	$ 807

Note 22. Commitments, Contingent Liabilities and Other

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

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

The following table reflects the changes in the Company's estimated warranty liability for the three months ended March 31, 2020 and 2019:

	Three months ended March 31	
	2020	**2019**
Balance, beginning of period	$ 18,545	$ 21,515
Payments and other adjustments made during the period	(6,248)	(2,950)
Warranties issued during the period	6,607	2,560
Adjustments due to change in estimates	(442)	230
Balance, end of period	$ 18,462	$ 21,355

(b) As at March 31, 2020, $11.2 million of the amounts held in other assets related to land purchase obligations (December 31, 2019 - $36.0 million). The total amount owing on these obligations is $179.9 million (December 31, 2019 - $169.4 million).

Note 23. Guarantees

In the ordinary course of business, the Company has provided construction guarantees in the form of letters of credit and performance bonds. As at March 31, 2020, these guarantees amounted to $598.7 million (December 31, 2019 – $646.5 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 24. 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 three months ended March 31, 2020, the Company estimated the cash flow for the life of each project. Specifically, project by project, the Company evaluated the margins on homes that have been closed, margins on sales contracts which are in backlog and estimated margins with regard to future home sales over the life of the projects, as well as estimated margins with respect to future land sales. The Company evaluated and continues to evaluate projects where inventory is turning over more slowly than expected or whose average sales price and margins are declining and are expected to continue to decline. These projections take into account the specific business plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area. Such projections generally assume current home selling prices, with cost estimates and sales rates for short-term projects consistent with recent sales activity. For longer-term projects, planned sales rates for 2020 generally assume recent sales activity and normalized sales rates beyond 2020. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired and is then written down to fair value less estimated selling costs.

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

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

The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. For the three months ended March 31, 2020 and 2019, no impairment charges were recognized.

The locations of the projects reviewed are as follows:

	Number of Projects
Canada	42
California	47
Central and Eastern U.S.	35
	124
Unconsolidated entities	14
Total	138

Hedging Activities

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

Net Investment Hedges

The Company uses foreign currency denominated debt instruments to manage its foreign currency exposures arising from net investments in foreign operations. For the three months ended March 31, 2020, unrealized pre-tax gain of $14.7 million (March 31, 2019 – loss of $4.0 million), was recorded in other comprehensive income for hedges of net investments in foreign operations.

Fair Value Hierarchy

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

As at March 31, 2020, all of the Company’s financial assets and liabilities are recorded at their carrying value as it approximates fair value due to their short term nature, with the exception of one of the Company's loan receivable balances and Homebuilder Finance assets. These balances are included in receivables and other assets on the condensed consolidated balance sheet. See Note 9 "Receivables and Other Assets".

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

The change in fair value of the loan receivable has used Level 3 inputs to determine fair value is as follows:

	Amounts ($)
Opening balance as of January 1, 2020	76,254
Principal payments	—
Balance as of March 31, 2020	76,254

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

The following table summarizes the quantitative inputs and assumptions used to determine the loan receivable fair value as of March 31, 2020:

Financial Instrument	Fair value as of 3/31/2020	Valuation technique	Unobservable inputs	Ranges
Receivable	76,254	Discounted cash flow	Interest rate	13.5%

The Company has determined that the valuation of the Homebuilder Finance investment under the fair value hierarchy will fall under Level 3, due to the lack of observable pricing inputs and related market activity. The purchases of investments classified as level three are as follows:

Homebuilder Finance Investment	Three Months Ended March 31, 2020
Purchases / Land Development Spend	36,215

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of March 31, 2020:

Financial Instrument	Fair value as of 3/31/2020	Valuation technique	Unobservable inputs	Ranges
Land and land improvements	189,328	Discounted cash flow	Rate of return	12.9% - 14.9%

Note 25. Managing Risks

The Company is exposed to the following risks as a result of holding financial instruments: (a) market risk (i.e. interest rate risk, currency risk and other price risk that impact the fair values of financial instruments); (b) credit risk; and (c) liquidity risk. The following is a description of these risks and how they are managed:

(a) Market Risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the Company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates, such as changes in equity prices, commodity prices or credit spreads.

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

Interest Rate Risk

The Company is exposed to financial risk that arises from fluctuations in interest rates. The interest-bearing assets and liabilities of the Company are at floating rates and, accordingly, their fair values approximate their carrying value. The Company would be negatively impacted on balance, if interest rates were to increase. Based on net debt levels as at March 31, 2020, a 1% change in interest rates would have a $4.5 million impact on the Company's cash flows.

The fair value of debt with fixed interest rates is determined by discounting contractual principal and interest payments at estimated current market interest rates determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at March 31, 2020, the book value of all outstanding debt exceeded its fair value by $249.0 million (December 31, 2019 – fair value of all outstanding debt exceeded its book value by $58.9 million).

Currency Exchange Rate Risk

The Company conducts business in both Canadian and U.S. dollars and, therefore, is exposed to currency risks. Cash flows from Canadian and U.S. operations are exposed to foreign exchange risk as sales and operating expenses are denominated in local currencies. Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than the U.S. dollar.

The Company holds financial instruments to hedge the net investment in foreign operations whose functional and reporting currencies are other than the U.S. dollar. A 1% increase in the U.S. dollar would result in a $2.5 million gain on these hedging instruments as at March 31, 2020 (December 31, 2019 – $2.5 million gain). See Note 24 “Fair Value Measurements” for additional disclosure.

Other Price Risk

Other price risk is the risk of variability in fair value due to movements in equity prices or other market prices such as commodity prices and credit spreads.

(b) Credit Risk

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations. The Company’s exposure to credit risk in respect of financial instruments relates primarily to counterparty obligations regarding derivative contracts and receivables.

The Company assesses the credit worthiness of each counterparty before entering into contracts and ensures that counterparties meet minimum credit quality requirements. The credit risk of derivative financial instruments is generally limited to the positive fair value of the instruments, which, in general, tends to be a relatively small proportion of the notional value. Substantially all of the Company’s derivative financial instruments involve either counterparties that are banks or other financial institutions in North America that have embedded credit risk mitigation features. The Company does not expect to incur credit losses in respect of any of these counterparties. The maximum exposure in respect of receivables is equal to the carrying value.

(c) Liquidity Risk

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund an obligation as it comes due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

To ensure the Company is able to react to contingencies and investment opportunities quickly, the Company maintains sources of liquidity at the corporate and subsidiary levels. The primary source of liquidity consists of cash and other financial assets, net of deposits and other associated liabilities, and undrawn committed credit facilities.

The Company is subject to the risks associated with debt financing, including the ability to refinance indebtedness at maturity. The Company believes these risks are mitigated through the use of long-term debt secured by high quality assets, maintaining debt levels that are in management’s opinion relatively conservative, and by diversifying maturities over an extended period of time. The Company also seeks to include in its agreements terms that protect the Company from liquidity issues of counterparties that might otherwise impact the Company’s liquidity.

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

A summary of the Company's contractual obligations and purchase agreements as at March 31, 2020 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]	$ 1,627,800	$ —	$ —	$ 177,800	$ 1,450,000
Interest on notes payable	776,964	140,270	236,093	173,820	226,781
Secured VTB mortgages[2][3]	59,955	26,942	24,699	8,314	—
Bank indebtedness[2][3]	195,500	195,500	—	—	—
Project-specific financings[2][3]	234,638	42,640	—	191,998	—
Accounts payable and other liabilities[4]	514,819	514,819	—	—	—
Operating and financing lease obligations[5]	407,459	8,116	19,848	17,062	362,433
Purchase agreements and other obligations[6]	179,867	45,860	114,809	10,343	8,855

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

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

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

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

(5) Amounts relate to non-cancellable operating and financing leases involving office space, design centers and model homes. See Note 21 for additional information regarding lease agreements.

(6) See Note 22 for additional information regarding purchase agreements and other obligations.

Note 26. Segmented Information

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

The Company is a land developer and residential homebuilder. The Company is organized and manages its business based on the geographical areas in which it operates. Each of the Company's land and housing operating segments specializes in lot entitlement and development and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of other risk factors.

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

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

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

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

	Three Months Ended March 31, 2020					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Revenues	$ 70,711	$ 138,581	$ 102,369	$ —	$ —	$ 311,661
Direct cost of sales	(56,150)	(112,905)	(88,029)	—	—	(257,084)
	14,561	25,676	14,340	—	—	54,577
Equity in earnings - land and housing	551	524	1,012	—	—	2,087
Equity in earnings - affiliate	—	—	—	—	(24,480)	(24,480)
Expenses	(9,880)	(17,769)	(19,461)	(11,574)	—	(58,684)
Income / (loss) before income taxes	$ 5,232	$ 8,431	$ (4,109)	$ (11,574)	$ (24,480)	$ (26,500)

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

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

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

	As at March 31, 2020					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Land held for development	$ 415,490	$ 364,933	$ 621,624	$ —	$ —	$ 1,402,047
Land under development	207,736	239,704	347,102	3,233	—	797,775
Housing inventory	129,478	213,765	201,349	—	—	544,592
Model homes	23,271	48,202	25,156	—	—	96,629
Total land and housing	775,975	866,604	1,195,231	3,233	—	2,841,043
Commercial properties	51,852	48,063	448,598	—	—	548,513
Investments in unconsolidated entities - land and housing	48,284	201,711	85,334	—	—	335,329
Investments in unconsolidated entities - affiliate	—	—	—	—	609,581	609,581
Held-to-maturity investment	—	—	—	300,000	—	300,000
Operating and financing lease right-of use asset	12,562	41,888	21,900	9,951	—	86,301
Goodwill	—	—	—	16,479	—	16,479
Other assets (1)	167,368	63,314	186,682	511,824	—	929,188
Total assets	$ 1,056,041	$ 1,221,580	$ 1,937,745	$ 841,487	$ 609,581	$ 5,666,434

(1) Other assets presented in above table within the operating segments note includes receivables and others assets, cash, restricted cash, Homebuilder Finance investment and deferred income tax assets.

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

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

Note 27. Related Party Transactions

Related parties include the directors, executive officers, director nominees or shareholders, and their respective immediate family members. There are agreements among the Company's affiliates to which it is a party or subject to, including a name license. The Company’s significant related party transactions as at and for the three months ended March 31, 2020 and 2019 were as follows:

- During the three months ended March 31, 2020, 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 applicable rates on construction and development spending as well as assets under management, as defined in the management agreement. During the three months ended March 31, 2020, the Company incurred $23.2 million of management fees (three months ended March 31, 2019 - $8.8 million). These transactions were recorded at the exchange amount in the condensed consolidated statements of operations within selling, general and administrative expense.
- During the three months ended March 31, 2020, the Company entered into an agreement with Brookfield Properties Development to provide financing of up to $50 million. As at March 31, 2020, the loan had an outstanding balance of $29.3 million that was recorded in the condensed consolidated balance sheets within receivables and other assets.
- During the three months ended March 31, 2020, the company earned $6.0 million of dividends from the preferred shares of Brookfield International Ltd. that have been recorded in the condensed consolidated statements of operations within other income, where $nil was collected and $18.1 million was recorded in the condensed consolidated balance sheets within receivables and other assets**.** The transactions were recorded at the exchange amount.
- During the three months ended March 31, 2020, the Company entered into an agreement for the management of the retail operations at our Nashville mixed-use project and paid management fees of $1.4 million to Brookfield Properties Retail Inc., a subsidiary of BAM. This transaction was recorded at the exchange amount in the condensed consolidated statements of operations within selling, general and administrative expense.
- During the three months ended March 31, 2019, the Company received $150 million from the partial redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. that was recorded in the condensed consolidated balance sheets. The Company received $5.3 million of dividends from the preferred shares of Brookfield BPY Holdings Inc. during the three months ended March 31, 2019 that were recorded in the condensed consolidated statements of operations within other income. The transactions were recorded at the exchange amount.

Note 28. Subsequent Events

The Company performed an evaluation of subsequent events through May 11, 2020, which is the date these condensed consolidated financial statements were approved, and has determined that there were no subsequent events that require disclosure.

CORPORATE INFORMATION

CORPORATE PROFILE

Brookfield Residential Properties Inc. is a leading land developer and homebuilder in North America. We entitle and develop land to create master-planned communities, build and sell lots to third-party builders, and conduct our own homebuilding operations. We also participate in select, strategic real estate opportunities, including infill projects, mixed-use developments, and joint ventures. We are the flagship North American residential property company of Brookfield Asset Management Inc., a leading global alternative asset manager with over $540 billion of assets under management. Further information is available at BrookfieldResidential.com or Brookfield.com or contact:

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BONDHOLDER INQUIRIES

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