2020 | Q2

June 30, 2020

Chief Executive Officer's Report

Brookfield Residential's second quarter of 2020 was a tale of two halves with the first half of the quarter being significantly impacted by the COVID-19 pandemic and the stay-at-home orders enacted. As restrictions began to ease in the second half, we saw a strong return of the homebuyer across all our markets. The consumer has shown great resiliency in pursuing a home purchase where in June 2020, we have seen net new home orders increase 18%, with further improvement in July as net new orders increased by 66%, primarily from our U.S. markets, when compared to the prior year.

For the three months ended June 30, 2020, income before tax was $22 million, which is similar to the same period of 2019. Despite the uncertainties and challenges due to COVID-19, we delivered 634 homes and 164 lots in Q2 2020, compared to 763 homes and 756 lots in the prior year. The prior year lot closings included 398 closings from our Homebuilder Finance Program, which are now being reported through Other Income.

Although many prime weeks of the selling season between March and May were heavily impacted by the COVID-19 pandemic, our net new homes sales for the first six months of the year are only down 5% when compared to the prior year as a result of strong activity in January, February and June. Our backlog remains robust as we have experienced fewer cancellations than initially predicted after a rise in cancellation rates in April. At June 30, 2020, we had 1,638 units in backlog valued at $771 million, representing an increase from June 30, 2019 of 18% and 6%, respectively. Our land development business continues to perform well as we have four communities listed in RCLCo's mid-year report of top selling U.S. master-planned communities, which includes Eastmark in Mesa, Arizona ranked #9, New Haven, which is part of the Ontario Ranch masterplan community in Southern California ranked #15, Easton Park in Austin, Texas ranked #24 and Spencer's Crossing in Southern California ranked #49.

COVID-19 Operational Response

During the second quarter, in response to the impact of COVID-19 on the economy and our business, we have prioritized the following operating initiatives that focus on protecting and optimizing our existing investments:

- Continue to maintain a disciplined approach regarding land and housing expenditures and key decisions on vertical housing starts and new community launches.
- Continue to prioritize the health and safety of our team members, trade partners, and customers through appropriate health and safety standards and protocols for our office spaces, job sites, sales centers and model homes.
- Intensive focus towards the transition of marketing our homes and communities, utilizing a digital format for engagement with current and future prospective homebuyers. This includes a shift to have every community equipped with virtual model home tours, as well as offering our homes to be toured at a time of the homebuyer's choosing through our MyTime system.

Our View Looking Forward

Over the past two months, the housing industry has been performing better than expected with indications in several markets that there is pent up demand with some degree of a flight to the suburbs as consumers seek larger homes. However, we will continue to closely monitor market conditions in both Canada and U.S. when government assistance programs expire and the economy starts to normalize to a new reality. We believe that interest rates should remain at historic lows which will continue to be favourable for homebuyers, but we anticipate that there will be significant unemployment going forward with certain industries struggling to survive. It remains to be seen how these conflicting realities will impact the housing market in 2021 and beyond.

Since our last report in May, our outlook for the remainder of the year has improved, building on the momentum of the positive sales rates in June and July. However, as a result of the business interruption from the COVID-19 pandemic affecting the core weeks of our spring selling season combined with a conservative approach at the time for speculative home construction and land development, we anticipate that our overall results will be substantially reduced when compared to the previous year. Assuming no further restrictions or significant business interruptions in the second half of the year, we anticipate closing approximately 1,650 homes and 1,300 lots in the U.S. in 2020, excluding our share of unconsolidated entities. For our Canadian markets, we expect to close approximately 850 homes and 350 lots. We anticipate that the remaining home closings will occur evenly between the third and fourth quarter and lot closings will primarily occur in the fourth quarter.

We extend our sincere appreciation to all our team members, trade partners and supporting stakeholders for your continued support of Brookfield Residential as we continue to navigate through these unprecedented times.

Alan Norris
Chairman & Chief Executive Officer
August 6, 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 June 30, 2020 were $5.7 billion.

As of June 30, 2020, we controlled 83,063 single family lots (serviced lots and future lot equivalents) and 146 multi-family, industrial and commercial serviced parcel acres. Controlled lots and acres include those we directly own and our share of those owned by unconsolidated entities. Our controlled lots and acres provide a strong foundation for our future lot and acre sales and homebuilding business, as well as visibility on our future cash flow. The number of building lots and acre parcels we control in each of our primary markets as of June 30, 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 6/30/2020		Total Acres	
	Owned	Options	Owned	Options	6/30/2020	12/31/2019	Entitled	Unentitled	6/30/2020	12/31/2019
Calgary	16,534	—	2,447	—	18,981	19,045	10,868	8,113	62	70
Edmonton	10,621	—	—	—	10,621	10,797	5,411	5,210	22	22
Ontario	7,315	—	992	—	8,307	8,293	2,753	5,554	1	1
Canada	34,470	—	3,439	—	37,909	38,135	19,032	18,877	85	93
Northern California	2,960	7,255	253	—	10,468	10,474	3,213	7,255	—	—
Southern California	5,628	—	860	1,001	7,489	7,597	6,263	1,226	—	—
Hawaii	20	—	—	—	20	48	20	—	—	—
California	8,608	7,255	1,113	1,001	17,977	18,119	9,496	8,481	—	—
Denver	7,198	—	—	—	7,198	7,328	7,198	—	10	10
Austin	11,738	—	—	—	11,738	12,120	11,738	—	37	37
Phoenix	2,235	—	2,474	—	4,709	4,032	4,709	—	14	14
Washington, D.C. Area	2,477	1,055	—	—	3,532	3,732	3,495	37	—	—
Central and Eastern U.S.	23,648	1,055	2,474	—	27,177	27,212	27,140	37	61	61
Corporate and Other	—	—	—	—	—	4,180	—	—	—	—
Total	66,726	8,310	7,026	1,001	83,063	87,646	55,668	27,395	146	154
Entitled lots	48,796	1,055	5,817	—	55,668					
Unentitled lots	17,930	7,255	1,209	1,001	27,395					
Total June 30, 2020	66,726	8,310	7,026	1,001	83,063					
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; rising unemployment levels; the duration, impact and effectiveness of government measures including orders, stimulus, aid, assistance and other government programs in response to COVID-19; 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; 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 "Impact of COVID-19" in this report, and “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 June 30, 2020 and has been prepared with an effective date of August 6, 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 $515 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. 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.

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

Consumer Deliverables

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

RESULTS OF OPERATIONS

Key financial results and operating data for the three and six months ended June 30, 2020 compared to the three and six months ended June 30, 2019 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2020	**2019**	**2020**	**2019**
Key Financial Results				
Housing revenue	$ 306	$ 405	$ 600	$ 724
Land revenue	17	71	35	99
Gross margin ($)	55	79	109	145
Gross margin (%)(1)	17%	17%	17%	18%
Income / (loss) before income taxes	22	23	(4)	30
Income tax expense	(5)	(6)	(1)	(2)
Consolidated net income / (loss)	17	17	(5)	28
Net income / (loss) attributable to Brookfield Residential	12	16	(3)	26
Basic earnings / (loss) per share	$ 0.10	$ 0.12	$ (0.02)	$ 0.20
Diluted earnings / (loss) per share	$ 0.10	$ 0.12	$ (0.02)	$ 0.20
Key Operating Data				
Home closings for Brookfield Residential (units)	634	763	1,178	1,374
Average home selling price for Brookfield Residential (per unit)	$ 483,000	$ 531,000	$ 509,000	$ 527,000
Net new home orders for Brookfield Residential (units)	622	867	1,543	1,627
Backlog for Brookfield Residential (units)	1,638	1,390	1,638	1,390
Backlog value for Brookfield Residential	$ 771	$ 730	$ 771	$ 730
Lot closings for Brookfield Residential (single family units)	164	756	331	1,014
Lot closings for unconsolidated entities (single family units)	58	257	122	535
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	—	3	3	13
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	—	—	1	1
Average lot selling price for Brookfield Residential (single family units)	$ 105,000	$ 91,000	$ 98,000	$ 92,000
Average lot selling price for unconsolidated entities (single family units)	$ 178,000	$ 172,000	$ 153,000	$ 105,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ —	$ 581,000	$ 819,000	$ 396,000
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 and six months ended June 30, 2020 and 2019.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2020**	**2019**	**2020**	**2019**
Housing revenue				
Canada	$ 60	$ 110	$ 116	$ 193
California	119	174	258	311
Central and Eastern U.S.	127	121	226	220
Total	$ 306	$ 405	$ 600	$ 724
Land revenue				
Canada	$ 6	$ 19	$ 21	$ 33
California	6	6	6	6
Central and Eastern U.S.	5	11	8	20
Corporate and Other	—	35	—	40
Total	$ 17	$ 71	$ 35	$ 99
Housing gross margin				
Canada	$ 9	$ 16	$ 18	$ 29
California	21	30	46	54
Central and Eastern U.S.	19	20	33	35
Total	$ 49	$ 66	$ 97	$ 118
Land gross margin				
Canada	$ 3	$ 9	$ 8	$ 18
California	1	2	2	4
Central and Eastern U.S.	2	2	2	5
Total	$ 6	$ 13	$ 12	$ 27
Home closings (units)				
Canada	180	291	338	506
California	176	227	349	420
Central and Eastern U.S.	278	245	491	448
Total	634	763	1,178	1,374
Average home selling price				
Canada	$ 332,000	$ 378,000	$ 343,000	$ 381,000
California	678,000	765,000	739,000	740,000
Central and Eastern U.S.	457,000	495,000	460,000	491,000
Average	$ 483,000	$ 531,000	$ 509,000	$ 527,000

	As at June 30	
	2020	2019
Active housing communities		
Canada	36	36
California	22	24
Central and Eastern U.S.	31	30
Total	89	90

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Lot closings (single family units)				
Canada	53	171	176	291
California	51	47	51	47
Central and Eastern U.S.	60	140	104	220
Corporate and Other	—	398	—	456
	164	756	331	1,014
Unconsolidated entities	58	257	122	535
Total	222	1,013	453	1,549
Acre closings (multi-family, industrial and commercial)				
Canada	—	2	3	2
California	—	—	—	—
Central and Eastern U.S.	—	1	—	11
	—	3	3	13
Unconsolidated entities	—	—	1	1
Total	—	3	4	14
Average lot selling price (single family units)				
Canada	$ 115,000	$ 103,000	$ 103,000	$ 107,000
California	126,000	131,000	125,000	132,000
Central and Eastern U.S.	80,000	72,000	77,000	75,000
Corporate and Other	—	88,000	—	86,000
	105,000	91,000	98,000	92,000
Unconsolidated entities	178,000	172,000	153,000	105,000
Average	$ 124,000	$ 112,000	$ 113,000	$ 97,000
Average per acre selling price (multi-family, industrial and commercial)				
Canada	$ —	$ 611,000	$ 819,000	$ 647,000
California	—	—	—	—
Central and Eastern U.S.	—	510,000	—	338,000
	—	581,000	819,000	396,000
Unconsolidated entities	—	—	297,000	106,000
Average	$ —	$ 581,000	$ 613,000	$ 385,000

	As at June 30	
	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 June 30 2020	As at December 31 2019
Total assets		
Canada	$ 1,096	$ 1,095
California	1,205	1,198
Central and Eastern U.S.	2,006	1,870
Corporate and other	811	762
Equity Investment in BUSI	611	634
Total	$ 5,729	$ 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 and Six Months Ended June 30, 2020 Compared with Three and Six Months Ended June 30, 2019

Net Income / (Loss)

Consolidated net income / (loss) for the three and six months ended June 30, 2020 was $17 million and $(5) million, compared to net income of $17 million and $28 million for the same periods in 2019.

(US$ millions, except per share amounts)	Three Months Ended June 30 2020	Three Months Ended June 30 2019	Six Months Ended June 30 2020	Six Months Ended June 30 2019
Consolidated net income / (loss)	$ 17	$ 17	$ (5)	$ 28
Net income / (loss) attributable to Brookfield Residential	$ 12	$ 16	$ (3)	$ 26
Basic earnings / (loss) per share	$ 0.10	$ 0.12	$ (0.02)	$ 0.20
Diluted earnings / (loss) per share	$ 0.10	$ 0.12	$ (0.02)	$ 0.20

Consolidated net income remained consistent for the three months ended June 30, 2020 compared to the same period in 2019. This was primarily the result of a decrease in gross margin of $24 million due to lower housing and land gross margins, and a decrease in earnings from land and housing unconsolidated entities of $8 million. This was partially offset by a decrease in selling, general and administrative expense of $12 million, a decrease in interest expense of $7 million, earnings from affiliate unconsolidated entities of $2 million, and a decrease in tax expense of $1 million, and an increase in other income of $10 million.

The decrease of $33 million in consolidated net income for the six months ended June 30, 2020, compared to the same period in 2019 was primarily the result of a decrease in gross margin of $36 million due to lower housing and land gross margins, a $23 million loss from affiliate unconsolidated entities, and a decrease in earnings from land and housing unconsolidated entities of $10 million. This was partially offset by a decrease in selling, general and administrative expense of $20 million, a decrease in interest expense of $14 million, a decrease in tax expense of $1 million, and an increase in other income of $1 million.

A breakdown of the revenue and gross margin for the three and six months ended June 30, 2020 and 2019 is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except percentages)	**2020**	**2019**	**2020**	**2019**
Revenue				
Housing	$ 306	$ 405	$ 600	$ 724
Land	17	71	35	99
	$ 323	$ 476	$ 635	$ 823
Gross Margin				
Housing	$ 49	$ 66	$ 97	$ 118
Land	6	13	12	27
	$ 55	$ 79	$ 109	$ 145
Gross Margin (%)				
Housing	16%	16%	16%	16%
Land	35%	18%	34%	27%
	17%	17%	17%	18%

For the three months ended June 30, 2020, total revenue decreased by $153 million and total gross margin decreased by $24 million, when compared to the same period in 2019. The decrease in total revenue was primarily the result of 129 fewer home closings at a lower average selling price, and 592 fewer single family lot closings, partially offset by an increase in average lot selling price. The decrease in single family lot closings was primarily due to the inclusion of lot sales from the Homebuilder Finance program in revenues, cost of sales and gross margin in 2019, compared to 2020 where the activity is recorded through other income in the current period as a result of reclassifying the Homebuilder Finance operations to better align with the requirements of ASC 946 *Financial Services - Investment Companies.* Based on this reclassification, Homebuilder Finance operations are excluded from revenues, cost of sales and gross margin in the three and six months ended June 30, 2020. Also contributing to the decrease was three fewer multi-family, industrial and commercial acre sales when compared to the same period in 2019. Total gross margin decreased as a result of lower housing and land gross margins across all of our operating segments. Gross margin percentage remained consistent at 17%, primarily due to similar housing gross margins, which represented the majority of the contribution to overall margin percentage.

For the six months ended June 30, 2020, total revenue decreased by $188 million and total gross margin decreased by $36 million when compared to the same period in 2019. The decrease in total revenue was primarily the result of 196 fewer home closings at a lower average selling price and 683 fewer single family lot closings, partially offset by an increase in average lot selling price. The decrease in single family lot closings was primarily due to the reclassification of our Homebuilder Finance program discussed above. Also contributing to the decrease was 10 fewer multi-family, industrial and commercial acre sales when compared to the same period in 2019, partially offset by an increase in average acre selling price. Total gross margin decreased as a result of lower housing and land gross margins across all of our operating segments. Gross margin percentage decreased 1% when compared to the six month prior period primarily due to a reduction in lot and acre closings with higher margins.

Results of Operations – Housing

Housing revenue and gross margin were $306 million and $49 million, respectively, for the three months ended June 30, 2020, compared to $405 million and $66 million for the same period in 2019. The decrease in revenue and gross margin were primarily the result of 162 fewer home closings in our Canadian and California operating segments and an 8% lower average selling price primarily due to the mix of homes sold across the Company, partially offset by 33 additional home closings in our Central and Eastern U.S operating segment when compared to the same period in 2019. 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.

Housing revenue and gross margin were $600 million and $97 million, respectively, for the six months ended June 30, 2020, compared to $724 million and $118 million for the same period in 2019. The decrease in total revenue was primarily the result of 239 fewer home closings in our Canadian and California operating segments and a 3% lower average selling price overall, partially offset by 43 additional home closings in our Central and Eastern U.S. operating segment. 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, which have an impact on the selling price per home.

A breakdown of our results from housing operations for the three and six months ended June 30, 2020 and 2019 is as follows:

Consolidated

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended June 30 2020	Three Months Ended June 30 2019	Six Months Ended June 30 2020	Six Months Ended June 30 2019
Home closings	634	763	1,178	1,374
Revenue	$ 306	$ 405	$ 600	$ 724
Gross margin	$ 49	$ 66	$ 97	$ 118
Gross margin (%)	16%	16%	16%	16%
Average home selling price	$483,000	$531,000	$509,000	$527,000

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

Canada

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended June 30 2020	Three Months Ended June 30 2019	Six Months Ended June 30 2020	Six Months Ended June 30 2019
Home closings	180	291	338	506
Revenue	$ 60	$ 110	$ 116	$ 193
Gross margin	$ 9	$ 16	$ 18	$ 29
Gross margin (%)	15%	15%	16%	15%
Average home selling price	$332,000	$378,000	$343,000	$381,000

Housing revenue in our Canadian segment for the three months ended June 30, 2020 decreased by $50 million when compared to the same period in 2019, primarily due to 111 fewer home closings and 12% lower average home selling prices. The decrease in home closings was primarily the result of fewer closings across all Canadian markets. When comparing the average home selling price in Canadian dollars for the three months ended June 30, 2020 and 2019, the average home selling price was C$460,000 and C$505,000, respectively, representing a decrease of 9%. The decrease was primarily due to the product and geographic mix of homes closed which included a lower proportion of homes closed in the Ontario market, which typically have a higher average selling price than our Calgary and Edmonton markets. Our Calgary and Ontario markets had 15% and 9% lower average home selling prices, respectively, compared to the same period in 2019, partially offset by a 5% increase in average home selling prices in our Edmonton market. Gross margin decreased $7 million for the three months ended June 30, 2020 when compared to the same period in 2019 primarily as a result of fewer home closings at lower average home selling prices, where gross margin percentage remained consistent.

Housing revenue in our Canadian segment for the six months ended June 30, 2020 decreased by $77 million when compared to the same period in 2019, primarily due to 168 fewer home closings and 10% lower average home selling prices. The decrease in home closings was primarily the result of fewer closings across all markets within the operating segment. When comparing the average home selling price in Canadian dollars for the six months ended June 30, 2020 and 2019, the average home selling price was C$468,000 and C$509,000, respectively, representing a decrease of 8%. 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 $11 million for the six months ended June 30, 2020 when compared to the same period in 2019 primarily as a result of fewer home closings at lower average home selling prices. Gross margin percentage for the six months ended June 30, 2020 increased 1% primarily as a result of geographic and product mix, and decreased incentives on homes closed when compared to the same period in 2019.

California

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended June 30 2020	Three Months Ended June 30 2019	Six Months Ended June 30 2020	Six Months Ended June 30 2019
Home closings	176	227	349	420
Revenue	$ 119	$ 174	$ 258	$ 311
Gross margin	$ 21	$ 30	$ 46	$ 54
Gross margin (%)	18%	17%	18%	17%
Average home selling price	$678,000	$765,000	$739,000	$740,000

Housing revenue in our California segment for the three months ended June 30, 2020 decreased by $55 million when compared to the same period in 2019. The decrease in revenue was primarily due to 51 fewer home closings and 11% lower average home selling prices. The decrease in average home selling price reflects the continued shift of product mix to more entry-level homes in our Southern California market. Gross margin decreased $9 million as a result of fewer home closings and lower average home selling prices, and gross margin percentage increased 1% as a result of lower incentives provided when compared to the same period in 2019.

Housing revenue in our California segment for the six months ended June 30, 2020 decreased by $53 million when compared to the same period in 2019. The decrease in revenue was primarily due to 71 fewer home closings, while average home selling prices remained consistent with the same period in 2019. Gross margin decreased $8 million as a result of fewer home closings, 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 June 30 2020	Three Months Ended June 30 2019	Six Months Ended June 30 2020	Six Months Ended June 30 2019
Home closings	278	245	491	448
Revenue	$ 127	$ 121	$ 226	$ 220
Gross margin	$ 19	$ 20	$ 33	$ 35
Gross margin (%)	15%	17%	15%	16%
Average home selling price	$457,000	$495,000	$460,000	$491,000

Housing revenue in our Central and Eastern U.S. segment for the three months ended June 30, 2020 increased by $6 million when compared to the same period in 2019. The increase in revenue was primarily due to 33 additional home closings, mainly coming from our Austin market, partially offset by 8% lower average home selling prices, primarily due to product mix within our Austin market. Gross margin decreased $1 million as a result of lower average home selling prices, and gross margin percentage decreased 2% as a result of geographic and product mix.

Housing revenue in our Central and Eastern U.S. segment for the six months ended June 30, 2020 increased by $6 million when compared to the same period in 2019. The increase in revenue was primarily due to 43 additional home closings, mainly coming from our Austin market, partially offset by 6% lower average home selling prices, primarily due to mix of homes closed in our Denver and Austin markets. Gross margin decreased $2 million as a result of lower average home selling prices, and gross margin percentage decreased 1% 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 June 30, 2020, total incentives recognized as a percentage of gross revenues decreased 1%, primarily due to decreased incentives in our Ontario market. For the six months ended June 30, 2020, total incentives remained consistent when compared to the same period in 2019.

Our incentives on homes closed by operating segment for the three and six months ended June 30, 2020 and 2019 were as follows:

	Three Months Ended June 30			
	2020		2019	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 3	5%	$ 10	8%
California	3	2%	5	3%
Central and Eastern U.S.	6	5%	5	4%
	$ 12	4%	$ 20	5%

	Six Months Ended June 30			
	2020		2019	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 6	5%	$ 13	6%
California	6	2%	10	3%
Central and Eastern U.S.	12	5%	10	4%
	$ 24	4%	$ 33	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 and six months ended June 30, 2020 totaled 622 units and 1,543 units, a decrease of 245 units or 28%, and a decrease of 84 units or 5%, respectively, when compared to the same period in 2019. For the three months ended June 30, 2020, the decrease in net new home orders was a result of fewer net new orders across all of our operating segments, primarily as a result of precautionary measures related to COVID-19, such as stay-at-home-orders, that impacted our prime selling weeks in April and May. As restrictions began to ease in mid-May, we saw a strong return of the homebuyer across all our operating segments. For the six months ended June 30, 2020, the decrease in net new home orders was primarily a result of fewer net new orders in our Canadian segment, partially offset by higher net new orders in our Central and Eastern U.S. segment, while our California segment remained relatively consistent with the same period in 2019. Average monthly sales per community by reportable segment for the three and six months ended June 30, 2020 were: Canada – 2 and 2 units (2019 – 3 and 3 units); California – 3 and 4 units (2019 – 4 and 4 units); Central and Eastern U.S. – 2 and 3 units (2019 – 3 and 3 units). We were selling from 89 active housing communities at June 30, 2020 compared to 90 at June 30, 2019.

The net new home orders for the three and six months ended June 30, 2020 and 2019 by our three land and housing operating segments were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(Units)	2020	2019	2020	2019
Canada	177	318	463	558
California	230	300	535	536
Central and Eastern U.S.	215	249	545	533
	622	867	1,543	1,627

Home Sales – Cancellations

The overall cancellation rates for the three and six months ended June 30, 2020 were 20% and 17%, respectively, compared to 14% and 13% during the same period in 2019. The increase in the cancellation rates for the three and six months ended June 30, 2020 was driven by a higher number of cancellations across all of our operating segments as a result of the COVID-19 pandemic. Although cancellation rates for the three months ended June 30, 2020 were 6% higher than during the same period in 2019, this was primarily due to a decrease in the number of gross home orders, where Canada and California both had minimal changes in cancelled units compared to the same period in 2019, with one fewer and one additional, respectively. Central and Eastern U.S. had an increase for the three months ended June 30, 2020, with 16 more cancellations than during the same period in 2019. The cancellation rates for the three and six months ended June 30, 2020 and 2019 for our three land and housing operating segments were as follows:

	Three Months Ended June 30			
	2020		2019	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	61	26%	62	16%
California	31	12%	30	9%
Central and Eastern U.S.	67	24%	51	17%
	159	20%	143	14%

	Six Months Ended June 30			
	2020		2019	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	141	23%	106	16%
California	63	11%	53	9%
Central and Eastern U.S.	107	16%	91	15%
	311	17%	250	13%

Home Sales – Backlog

Our backlog, which represents the number of new homes subject to sales contracts, as at June 30, 2020 and 2019 by operating segment, was as follows:

	As at June 30			
	2020		2019	
(US$ millions, except unit activity)	**Units**	**Value**	**Units**	**Value**
Canada	681	$ 276	503	$ 192
California	405	245	377	299
Central and Eastern U.S.	552	250	510	239
Total	1,638	$ 771	1,390	$ 730

We expect all of our backlog to close between 2020 and 2022, subject to future cancellations. The units in our backlog for the six months ended June 30, 2020 increased when 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 increased backlog entering 2020 and fewer closings during the first two quarters of the year. Total backlog value increased by $41 million when compared to the same period in 2019 mainly due to higher units in backlog overall.

Results of Operations – Land

Land revenue totaled $17 million and land gross margin totaled $6 million for three months ended June 30, 2020, a decrease of $54 million and $7 million, respectively, when compared to the same period in 2019. The decrease in land revenue was primarily due to 592 fewer single family lot closings, partially offset by 15% higher average single family lot selling prices. The decrease in single family lot closings was primarily due to the inclusion of lot sales from the Homebuilder Finance program in revenues, cost of sales and gross margin in 2019, where these have been reclassified to other income in the current period. Gross margin declined primarily due to fewer single family lot sales, with the decrease mainly coming from our Canadian operating segment. Gross margin percentage increased 17% compared to the same period in 2019, primarily due to the inclusion of lot sales from the Homebuilder Finance program in 2019 which had a low margin percentage. Taking the above into account, when excluding the Homebuilder Finance lot closings, our operating segments had 194 fewer single family lot closings and a decrease in gross margin percentage of 3% when compared to the prior period. Revenues are affected by geographic mix, product mix and market conditions, which have an impact on the selling price of land.

Land revenue totaled $35 million and land gross margin totaled $12 million for the six months ended June 30, 2020, a decrease of $64 million and $15 million, respectively, when compared to the same period in 2019. The decrease in land revenue was primarily due to 683 fewer single family lot closings, partially offset by 7% higher average single family lot selling prices. The decrease in single family lot closings was primarily due to the reclassification of our Homebuilder Finance program discussed above. Gross margin declined primarily due to fewer single family lot sales, with the decrease mainly coming from our Canadian and Central and Eastern U.S. operating segments. Gross margin percentage increased 7% compared to the same period in 2019, primarily due to the inclusion of lot sales from the Homebuilder Finance program in 2019 which had a low margin percentage. Taking the above into account, when excluding the Homebuilder Finance lot closings, our operating segments had 227 fewer single family lot closings and a decrease in gross margin percentage of 11% when compared to the prior period. Revenues are affected by geographic mix, product mix and market conditions, which have an impact on the selling price of land.

A breakdown of our results from land operations for the three and six months ended June 30, 2020 and 2019 is as follows:

Consolidated

	Three Months Ended June 30		**Six Months Ended June 30**	
(US$ millions, except unit activity, percentages and average selling price)	**2020**	**2019**	**2020**	**2019**
Lot closings (single family units)	164	756	331	1,014
Acre closings (multi-family, industrial and commercial)	—	3	3	13
Revenue	$ 17	$ 71	$ 35	$ 99
Gross margin	$ 6	$ 13	$ 12	$ 27
Gross margin (%)	35%	18%	34%	27%
Average lot selling price (single family units)	$ 105,000	$ 91,000	$ 98,000	$ 92,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ 581,000	$ 819,000	$ 396,000

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

Canada

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended June 30 2020	Three Months Ended June 30 2019	Six Months Ended June 30 2020	Six Months Ended June 30 2019
Lot closings (single family units)	53	171	176	291
Acre closings (multi-family, industrial and commercial)	—	2	3	2
Revenue	$ 6	$ 19	$ 21	$ 33
Gross margin	$ 3	$ 9	$ 8	$ 18
Gross margin (%)	50%	47%	38%	55%
Average lot selling price (single family units)	$ 115,000	$ 103,000	$ 103,000	$ 107,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ 611,000	$ 819,000	$ 647,000

Land revenue in our Canadian segment for the three months ended June 30, 2020 was $6 million, a decrease of $13 million when compared to the same period in 2019. The decrease was primarily the result of 118 fewer single family lot closings in our Calgary and Edmonton markets, partially offset by 12% higher single family lot selling prices due to the mix of land sold during the period. Gross margin decreased $6 million compared to the same period during 2019 mainly as a result of fewer closings, and gross margin percentage increased 3% mainly due to the mix of land sold.

Land revenue in our Canadian segment for the six months ended June 30, 2020 was $21 million, a decrease of $12 million when compared to the same period in 2019. The decrease was primarily the result of 115 fewer single family lot closings in our Calgary and Edmonton markets and 4% lower single family lot selling prices due to the mix of lots sold during the period. Gross margin decreased $10 million compared to the same period during 2019 mainly as a result of fewer closings, and gross margin percentage decreased 17% mainly due to the mix of land sold.

California

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended June 30 2020	Three Months Ended June 30 2019	Six Months Ended June 30 2020	Six Months Ended June 30 2019
Lot closings (single family units)	51	47	51	47
Revenue	$ 6	$ 6	$ 6	$ 6
Gross margin	$ 1	$ 2	$ 2	$ 4
Gross margin (%)	17%	33%	33%	67%
Average lot selling price (single family units)	$ 126,000	$ 131,000	$ 125,000	$ 132,000

Land revenue in our California segment for the three months ended June 30, 2020 remained consistent and gross margin decreased $1 million when compared to the same period in 2019. The decrease in gross margin was primarily due to 4% lower average single family lot selling prices, partially offset by four additional single family lot closings during the period. Gross margin percentage decreased 16% compared to the same period in 2019 mainly as a result of the geographic mix of land sold, where current period sales came from our Southern California market and sales in the prior period were concentrated in our Northern California market.

Land revenue in our California segment for the six months ended June 30, 2020 remained consistent and gross margin decreased $2 million when compared to the same period in 2019. The decrease in gross margin was primarily due to 5% lower average single family lot selling prices, partially offset by four additional single family lot closings during the period. Gross margin percentage decreased 34% compared to the same period in 2019 mainly as a result of the geographic mix of land sold and the recognition of lower land gross margin on Brookfield Residential's home closings in 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 June 30 2020	Three Months Ended June 30 2019	Six Months Ended June 30 2020	Six Months Ended June 30 2019
Lot closings (single family units)	60	140	104	220
Acre closings (multi-family, industrial and commercial)	—	1	—	11
Revenue	$ 5	$ 11	$ 8	$ 20
Gross margin	$ 2	$ 2	$ 2	$ 5
Gross margin (%)	40%	18%	25%	25%
Average lot selling price (single family units)	$ 80,000	$ 72,000	$ 77,000	$ 75,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ 510,000	$ —	$ 338,000

Land revenue in our Central and Eastern U.S. segment for the three months ended June 30, 2020 was $5 million, a decrease of $6 million when compared to the same period in 2019. The decrease was primarily the result of 80 fewer single family lot closings, mainly coming from our Austin market, partially offset by 11% higher single family lot selling prices primarily due to the geographic mix of lots sold during the period. Gross margin remained consistent compared to the same period in 2019, and gross margin percentage increased 22% as a result of the mix of land sold within the operating segment.

Land revenue in our Central and Eastern U.S. segment for the six months ended June 30, 2020 was $8 million, a decrease of $12 million when compared to the same period in 2019. The decrease was primarily the result of 116 fewer single family lot closings, mainly coming from our Austin and Denver markets, partially offset by 3% higher single family lot selling prices primarily due to the geographic mix of lots sold during the period. Additionally, there were 11 multi-family, industrial and commercial acre closings in 2019 with no comparative sale in 2020. Gross margin decreased by $3 million due to the mix of land sold within the operating segment, while gross margin percentage remained consistent with the same period in 2019.

Earnings from Unconsolidated Entities - Land and Housing

Earnings from land and housing unconsolidated entities for the three and six months ended June 30, 2020 totaled $3 million and $5 million, compared to $11 million and $15 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 June 30 2020	Three Months Ended June 30 2019	Six Months Ended June 30 2020	Six Months Ended June 30 2019
Lot closings (single family units)	58	257	122	535
Acre closings (multi-family, industrial and commercial)	—	—	1	1
Revenue	10	45	19	57
Gross margin	$ 4	$ 16	$ 6	$ 20
Gross margin (%)	40%	36%	32%	35%
Average lot selling price (single family units)	$ 178,000	$ 172,000	$ 153,000	$ 105,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ —	$ 297,000	$ 106,000

Land revenue within unconsolidated entities decreased $35 million and gross margin decreased $12 million for the three months ended June 30, 2020 when compared to the same period in 2019. This was primarily the result of 199 fewer single family lot closings, mainly from our Phoenix joint ventures, partially offset by 3% higher single family lot selling prices due to the mix of land sold within our unconsolidated land and housing entities.

Land revenue within unconsolidated entities decreased $38 million and gross margin decreased $14 million for the six months ended June 30, 2020 compared to the same period in 2019. This was primarily the result of 413 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.

Earnings / (Loss) from Unconsolidated Entities - Affiliate

A summary of Brookfield Residential's share of earnings / (loss) from unconsolidated entities - affiliate is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2020**	**2019**	**2020**	**2019**
Earnings / (Loss) from Unconsolidated Entities - Affiliate	2	—	(23)	—

For the three and six months ended June 30, 2020, earnings / (loss) from affiliate unconsolidated entities was $2 million and $(23) million, respectively, which was primarily a result of changes in the fair value of the underlying investments. There were no comparable transactions for the same periods in 2019 as the Reorganization Transaction that led to this equity investment occurred in the third quarter of 2019 (see Note 8 "Reorganization Transaction" for additional information relating to the transaction).

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three and six months ended June 30, 2020 and 2019 are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2020**	**2019**	**2020**	**2019**
General and administrative expense	$ 28	$ 33	$ 59	$ 70
Sales and marketing expense	23	28	47	53
Share-based compensation	2	4	5	8
	$ 53	$ 65	$ 111	$ 131

Selling, general and administrative expense was $53 million for the three months ended June 30, 2020, a decrease of $12 million when compared to the same period in 2019. General and administrative expense decreased $5 million for the three months ended June 30, 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 June 30, 2020 decreased $5 million when compared to the same period in 2019, primarily due to lower housing activity. Share-based compensation expense decreased $2 million primarily resulting from the change in fair value of our share-based compensation liabilities for the three months ended June 30, 2020 compared to the same period in 2019.

Selling, general and administrative expense was $111 million for the six months ended June 30, 2020, a decrease of $20 million when compared to the same period in 2019. General and administrative expense decreased $11 million for the six months ended June 30, 2020 primarily due to cost efficiencies as a result of entering into the management agreement with Brookfield Properties Development. Sales and marketing expense for the six months ended June 30, 2020 decreased $6 million when compared to the same period in 2019, primarily due to lower housing activity. Share-based compensation decreased by $3 million primarily resulting from the change in fair value of our share-based compensation liabilities for the six months ended June 30, 2020 compared to the same period in 2019.

Other (Income) / Expense

The components of other (income) / expense for the three and six months ended June 30, 2020 and 2019 are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2020**	**2019**	**2020**	**2019**
Investment income	$ (7)	$ (5)	$ (15)	$ (10)
Preferred share dividend income	(6)	(4)	(12)	(9)
Other	(5)	1	(8)	—
Joint venture management fee income	(3)	(3)	(6)	(6)
Loss on extinguishment of debt	—	—	15	—
	$ (21)	$ (11)	$ (26)	$ (25)

For the three months ended June 30, 2020, other income increased $10 million when compared to the same period in 2019. This was the result of a $2 million increase in investment income primarily from higher interest earned from our Homebuilder Finance program, an increase of $2 million in dividend income on our preferred share investments in the current period, and a $6 million increase in other income mainly due to recovery of office lease expenditures from our Manager, Brookfield Properties Development and write-offs of prospective projects and VTB receivables during the same period in 2019 with no comparable write-offs in the current period.

For the six months ended June 30, 2020, other income increased $1 million when compared to the same period in 2019. This was the result of a $5 million increase in investment income primarily from higher interest earned from our Homebuilder Finance program, a $3 million increase in dividend income on our preferred share investments in the current period, and an $8 million increase in other income primarily due to decreased write-off of prospective projects and recovery of office lease expenditures from our Manager, Brookfield Properties Development. This was partially offset by the loss on extinguishment of the 2022 senior unsecured notes, where $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 15 "Notes Payable" in the condensed consolidated financial statements for additional information relating to the loss on extinguishment of the 2022 unsecured senior notes.

Income Tax (Recovery) / Expense

Income tax expense for the three and six months ended June 30, 2020 was $5 million and $1 million, respectively, compared to $6 million and $2 million for the same periods in 2019. The components of current and deferred income tax expense / (recovery) are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	**2020**	**2019**	**2020**	**2019**
Current income tax expense	$ 8	$ —	$ 8	$ 2
Deferred income tax (recovery) / expense	(3)	6	(7)	—
	$ 5	$ 6	$ 1	$ 2

For the three and six months ended June 30, 2020, current income tax expense increased $8 million and $6 million, respectively, when compared to the same period in 2019. This was primarily the result of an income tax expense of $8 million recognized in the current period due to the impact of the release of certain final U.S. tax regulations in the quarter.

For the three and six months ended June 30, 2020, deferred income tax recovery was $3 million and $7 million, respectively, compared to a deferred income tax expense of $6 million and $nil for the same period in 2019. The increase in deferred income tax recovery primarily relates to an overall decrease in net income before tax compared to the same period in 2019 and an income tax expense of $5 million recognized in the second quarter of 2019 due to the effect of a change in the Alberta corporate tax rate.

Foreign Exchange Translation

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

Assets and liabilities of subsidiaries or unconsolidated entities having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at June 30, 2020, the rate of exchange was C$1.3576 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 June 30, 2020, the average rate of exchange was C$1.3851 equivalent to US$1 (June 30, 2019 – 1.3377 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 gain of $26 million and a loss of $34 million, respectively for the three and six months ended June 30, 2020, compared to a gain of $14 million and $29 million, respectively, in the same period in 2019.

QUARTERLY OPERATING AND FINANCIAL DATA

(US$ millions, except unit activity and per share amounts)	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3
Quarterly Operating Data								
Home closings (units)	634	544	882	674	763	611	1,107	827
Lot closings (single family units)	164	167	1,578	578	756	258	1,655	552
Acre closings (multi-family, industrial and commercial)	—	3	20	10	3	10	27	42
Acre closings (raw and partially finished)	—	—	18	134	—	—	—	—
Net new home orders (units)	622	921	671	768	867	760	506	644
Backlog (units)	1,638	1,650	1,273	1,484	1,390	1,286	1,137	1,738
Backlog value	$ 771	$ 750	$ 603	$ 744	$ 730	$ 685	$ 612	$ 955
Quarterly Financial Data								
Revenue	$ 323	$ 312	$ 656	$ 461	$ 476	$ 346	$ 796	$ 502
Direct cost of sales	(268)	(257)	(520)	(356)	(397)	(279)	(619)	(388)
Gross margin	55	55	136	105	79	67	177	114
Gain on sale of commercial properties	—	—	—	—	—	—	6	—
Selling, general and administrative expense	(53)	(58)	(53)	(60)	(65)	(66)	(93)	(72)
Interest expense	—	(3)	(10)	(9)	(8)	(9)	(9)	(8)
Earnings / (Loss) from unconsolidated entities	4	(22)	34	9	11	4	5	4
Other income	19	4	15	12	9	14	15	18
Lease expense	(3)	(3)	(3)	(3)	(3)	(3)	—	—
Income / (Loss) before income taxes	22	(27)	119	54	23	7	101	56
Income tax (expense) / recovery	(5)	4	2	(5)	(6)	4	(22)	(8)
Net income / (loss)	17	(23)	121	49	17	11	79	48
Net income / (loss) attributable to non-controlling interest	5	(8)	41	1	1	1	2	4
Net income / (loss) attributable to Brookfield Residential	$ 12	$ (15)	$ 80	$ 48	$ 16	$ 10	$ 77	$ 44
Foreign currency translation	27	(60)	15	(8)	14	15	(42)	14
Comprehensive income / (loss)	$ 39	$ (75)	$ 95	$ 40	$ 30	$ 25	$ 35	$ 58
Basic	$ 0.10	$ (0.12)	$ 0.61	$ 0.37	$ 0.12	$ 0.08	$ 0.59	$ 0.34
Diluted	$ 0.10	$ (0.12)	$ 0.61	$ 0.37	$ 0.12	$ 0.08	$ 0.59	$ 0.34

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 Brookfield US Inc. ("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 8 "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 June 30, 2020 and December 31, 2019:

	As at	
(US$ millions)	**June 30 2020**	**December 31 2019**
Cash and restricted cash	$ 112	$ 124
Receivables and other assets	690	488
Land and housing inventory	2,890	3,059
Investments in unconsolidated entities - land and housing	342	330
Investment in unconsolidated entities - affiliate	611	634
Held-to-maturity investment	300	300
Commercial properties	628	469
Operating and financing lease right-of-use asset	85	90
Deferred income tax assets	55	49
Goodwill	16	16
	$ 5,729	$ 5,559
Accounts payable and other liabilities	$ 553	$ 577
Bank indebtedness and other financings	477	228
Notes payable	1,607	1,617
Operating and financing lease liability	90	93
Total equity	3,002	3,044
	$ 5,729	$ 5,559

Assets

Our assets as at June 30, 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 and lower than normal spending on land and housing development activity as a result of the COVID-19 pandemic, partially offset by land acquisitions of $100 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 June 30, 2020 compared with December 31, 2019 is as follows:

	As at			
	June 30, 2020		**December 31, 2019**	
(US$ millions, except units)	**Units**	**Book Value**	**Units**	**Book Value**
Land held for development (lot equivalents)	66,687	$ 1,368	67,008	$ 1,386
Land under development and finished lots (single family units)	6,221	795	10,492	952
Housing units, including models	2,127	668	2,054	615
	75,035	$ 2,831	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 June 30 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)	184	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	—
	1,634	1,642
Transaction costs (f)	(27)	(25)
	$ 1,607	$ 1,617

(a) On June 25, 2013, the Company and Brookfield Residential US LLC ("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 six months ended June 30, 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 for the six months ended June 30, 2020.

All unsecured senior 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 tangible net 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 June 30, 2020.

Our actual fixed charge coverage, indebtedness to consolidated tangible net worth, and net indebtedness to tangible net worth ratio as at June 30, 2020 are reflected in the table below:

	Covenant	Actual as at June 30 2020
Minimum fixed charge coverage	2.0 to 1	2.57 to 1
Maximum indebtedness to consolidated tangible net worth	2.25 to 1	0.71 to 1
Maximum net indebtedness to consolidated tangible net worth	3.0 to 1	0.69 to 1

Bank Indebtedness and Other Financings

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. Our bank indebtedness and other financings as at June 30, 2020 were $477 million, an increase of $249 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. As of June 30, 2020, the weighted average interest rate on our bank indebtedness and other financings was 4.1% (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 June 30, 2020, we had bank indebtedness capacity of $467 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:

	As at	
(US$ millions)	June 30 2020	December 31 2019
Project-specific financings (a)	$ 270	$ 180
Bank indebtedness (b)	135	—
Secured VTB mortgages (c)	79	55
Due to affiliates (d)	—	—
	484	235
Transaction costs (a)(b)	(7)	(7)
	$ 477	$ 228

(a) Project-specific financings

(i) As at June 30, 2020, the Company has two Canadian project-specific financings totaling $47 million (C$64 million) provided by various lenders (December 31, 2019 - $47 million (C$62 million)).

Project-specific financing totaling $40 million (C$54 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 June 30, 2020.

The following table reflects the debt to equity ratio covenant:

	Covenant	Actual as at June 30 2020
Maximum debt to equity ratio	1.50 to 1	0.65

Project-specific financing totaling $7 million (C$10 million) (December 31, 2019 - $7 million (C$9 million)) is 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 June 30, 2020, there were $223 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% subject to a LIBOR rate floor of 1.80%, 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 June 30, 2020. The following table reflects the covenants:

(US$ millions)	**Covenant**	**Actual as at June 30 2020**
Minimum liquidity	$ 36	$ 519
Minimum net worth	$ 360	$ 1,134

The transaction costs are costs related to the issuance of the project facility, and are amortized using the effective interest rate 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 June 30, 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 June 30, 2020. The following table reflects the covenants:

(US$ millions)	**Covenant**	**Actual as at June 30 2020**
Minimum liquidity	$ 75	$ 519
Minimum net worth	$ 250	$ 1,302

The transaction costs are costs related to the issuance of the project facility, and are amortized using the effective interest rate 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 June 30, 2020, the total borrowings outstanding under the North American unsecured credit facility were $135 million (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 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 June 30, 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 June 30 2020
Minimum tangible net worth	$ 1,378	$ 2,985
Maximum total debt to capitalization	65%	42%

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 $79 million (December 31, 2019 – $55 million).

11 secured VTB mortgages (December 31, 2019 – eight secured VTB mortgages) in the amount of $64 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$87 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 2% and the debt is secured by the related land. As at June 30, 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 June 30 2020
Minimum shareholder's equity	$ 200	$ 572

As at June 30, 2020, the remaining borrowings are not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2019 – five secured VTB mortgages) in the amount of $16 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 0% to 6% and the debt is secured by the related land. As at June 30, 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 June 30, 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 June 30, 2020 and December 31, 2019 was as follows:

	As at	
(US$ millions, except percentages)	June 30 2020	December 31 2019
Bank indebtedness and other financings	$ 477	$ 228
Notes payable	1,607	1,617
Total interest bearing debt	2,084	1,845
Less: cash	(92)	(110)
	1,992	1,735
Total equity	3,002	3,044
Total capitalization	$ 4,994	$ 4,779
Net debt to total capitalization	40%	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 June 30, 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. On July 27, 2020 S&P downgraded our corporate rating to B with a negative outlook. There have been no changes to Moody's ratings subsequent to June 30, 2020.

Cash Flow

Our principal uses of working capital include acquisitions of land, land development, home construction and mixed-use development. Cash flows for each of our communities depend upon the applicable stage of the development cycle and can differ substantially from reported earnings. Early stages of development require significant cash outlays for land acquisitions, site approvals and entitlements, construction of model homes, roads, certain utilities and other amenities and general landscaping. As these costs are capitalized, earnings reported for financial statement purposes during such early stages may significantly exceed cash flows. Later, cash flows can exceed earnings reported for financial statement purposes as cost of sales includes charges for substantial amounts of previously expended costs.

We believe that we currently have sufficient access to capital resources and will continue to use our available capital resources to fund our operations. Our future capital resources include cash flow from operations, borrowings under project-specific and other credit facilities and proceeds from potential future debt issues or equity offerings, if required.

At June 30, 2020, we had cash and cash equivalents, including restricted cash, of $112 million, compared to $124 million at December 31, 2019.

The net cash flows for the six months ended June 30, 2020 and 2019 were as follows:

	Six Months Ended June 30	
(US$ millions)	2020	2019
Cash flows used in operating activities	$ (180)	$ (154)
Cash flows (used in) / provided by investing activities	(38)	9
Cash flows provided by financing activities	209	186
Effect of foreign exchange rates on cash	(3)	(1)
	$ (12)	$ 40

Cash Flow Used in Operating Activities

Cash flows used in operating activities during the six months ended June 30, 2020 totaled $180 million, compared to $154 million for the same period 2019. During the six months ended June 30, 2020, cash used in operating activities was primarily impacted by our net loss, an increase in commercial properties, an increase in land and housing inventory due to land development, home construction and strategic land purchases, a decrease 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 six months ended June 30, 2020 totaled $100 million, consisting of $62 million in Canada, $25 million in California and $13 million in Central and Eastern U.S. The increase in commercial properties of $131 million was largely due to construction at our Nashville and Honolulu mixed-use development projects. During the six months ended June 30, 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, an decrease in operating lease liabilities, and a decrease in accounts payable and other liabilities. Acquisitions for the six months ended June 30, 2019 totaled $183 million, consisting of $41 million in Canada, $80 million in California and $40 million in Central and Eastern U.S and $22 million in Corporate and Other. 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 six months ended June 30, 2020, cash flows used in investing activities totaled $38 million compared to cash flows provided by our investing activities of $9 million for the same period in 2019. During the six months ended June 30, 2020, we had an increase in our loan receivables of $27 million and had an investment of $18 million in land and housing unconsolidated entities primarily in our joint ventures in Southern California. This was partially offset by receiving $7 million distributions from our unconsolidated entities. During the six months ended June 30, 2019, we received $300 million from the full redemption of our held-to-maturity investment in Brookfield BPY Holdings Inc., invested $300 million for our held-to-maturity investment in Brookfield International Limited and received dividend income relating to these investments of $8 million. We also received $9 million in distributions from our unconsolidated entities and had a decrease in our loan receivables of $15 million. This was partially offset by our investment of $23 million in unconsolidated entities primarily in our joint ventures in Southern California.

Cash Flow Provided by Financing Activities

Cash flows provided by our financing activities for the six months ended June 30, 2020 totaled $209 million, compared to $186 million for the same period in 2019. The cash provided by our financing activities during the six months ended June 30, 2020 was primarily from drawings on bank indebtedness of $135 million and $97 million net borrowing under project-specific and other financings, partially offset by net contributions to non-controlling interest of $5 million, $9 million of costs related to the extinguishment of the unsecured senior notes due in 2022, and $9 million of costs related to the issuance of the unsecured senior notes due in 2030. 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. For the six months ended June 30, 2019 we received $200 million under a due to affiliates deposit agreement. Additionally, there were net borrowings under project-specific and other financings of $79 million. This was partially offset by repayments under bank indebtedness of $90 million and net distributions from non-controlling interest of $3 million.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at June 30, 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]	$ 1,634	$ —	$ 184	$ 350	$ 1,100
Interest on notes payable	746	125	237	168	216
Secured VTB mortgages[2][3]	79	32	39	8	—
Bank indebtedness[2][3]	135	135	—	—	—
Project-specific financings[2][3]	270	47	—	223	—
Accounts payable and other liabilities[4]	553	553	—	—	—
Operating and financing lease obligations[5]	405	5	20	17	363
Purchase agreements and other obligations[6]	158	22	118	10	8

(1) Amounts are included on the condensed consolidated balance sheets and exclude transaction costs. See Note 15 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 14 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 14 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 11 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 August 6, 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 August 6, 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 six months ended June 30, 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 June 30, 2020, we had $89 million of primarily non-refundable option deposits and entitlement costs. The total remaining exercise price of these options was $76 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 6 “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 7,026 lots and control under option 1,001 lots through our proportionate share of land and housing unconsolidated entities. As of June 30, 2020, our investment in land and housing unconsolidated entities totaled $342 million. We have provided varying levels of guarantees of debt in our land and housing unconsolidated entities. As of June 30, 2020, we had recourse guarantees of $28 million with respect to debt in our land and housing unconsolidated entities. During the six months ended June 30, 2020, we did not make any loan re-margin repayments on the debt in our land and housing unconsolidated entities. Please refer to Note 7 “Investments in Unconsolidated Entities” to our condensed consolidated financial statements included later in this interim report for additional information about our investments in unconsolidated entities.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of June 30, 2020, we had $75 million in letters of credit outstanding and $541 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds as at June 30, 2020 are $48 million and $169 million, respectively.

Transactions Between Related Parties

Related parties include the directors, executive officers, director nominees or shareholders, and their respective immediate family members. There are agreements among our affiliates to which we are a party or subject to, including a name license. The Company’s significant related party transactions as at and for the three and six months ended June 30, 2020 and 2019 were as follows:

- During the six months ended June 30, 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 and six months ended June 30, 2020, the Company incurred $17 million and $38 million, respectively, of management fees (three and six months ended June 30, 2019 - $9 million and $18 million, respectively). These transactions were recorded at the exchange amount within selling, general and administrative expense and commercial properties.
- During the six months ended June 30, 2020, the Company entered into an agreement with Brookfield Properties Development to provide financing of up to $50 million. As at June 30, 2020, the loan had an outstanding balance of $36 million that was recorded within receivables and other assets.
- During the three and six months ended June 30, 2020, the company earned $6 million and $12 million, respectively, of dividends from the preferred shares (three and six months ended June 30, 2019 - $2 million) of Brookfield International Ltd. ("BIL") that have been recorded within other income, where $nil was collected and a total of $24 million is recorded within receivables and other assets. The transactions were recorded at the exchange amount.
- During the six months ended June 30, 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 within commercial properties.

- During the three and six months ended June 30, 2019, the Company received $150 million and $300 million, respectively, from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. that was recorded in the condensed consolidated balance sheets. The Company also received $2 million and $7 million of dividends from these preferred shares for the three and six months ended June 30, 2019, respectively, that were recorded within other income. These transactions were recorded at the exchange amount.
- During the three months ended June 30, 2019, the Company entered into a $300 million deposit agreement with a subsidiary of Brookfield Asset Management Inc. As at June 30, 2020, there were no borrowings outstanding (June 30, 2019 - $200 million). During the three and six months ended June 30, 2020, the Company paid no interest (three and six months ended June 30, 2019 - $0.6 million).
- During the three months ended June 30, 2019, the Company purchased $300 million of preferred shares of Brookfield International Ltd, a subsidiary of Brookfield Asset Management Inc., that have been recorded within held-to-maturity investments. The transaction was recorded at the exchange amount.
- During the six months ended June 30, 2019, the Company paid $0.2 million to Brookfield Asset Management Inc. for Canadian tax credits. The 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. Actions to date include (but are not limited to), the implementation of worksite and office safety protocols, cost control measures and contingency plans from both an operational and financial perspective. 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, public health authorities and guidance issued by federal, provincial, state and municipal governments. 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 decreased demand for residential, retail or commercial real estate products and material reductions in the value of our property and occupancy rates;
- 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;
- Increased risk of sales contract cancellations;

- 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 or satisfy 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)

		(Unaudited)	
		As at	
	Note	**June 30 2020**	**December 31 2019**
Assets			
Cash and cash equivalents		$ 92,048	$ 109,923
Restricted cash	4	19,460	13,818
Receivables and other assets	5	690,351	488,716
Land and housing inventory	6	2,889,726	3,058,624
Investments in unconsolidated entities - land and housing	7	342,382	330,597
Investment in unconsolidated entities - affiliate	7	611,402	634,028
Held-to-maturity investment	9	300,000	300,000
Commercial properties	10	627,671	468,519
Operating and financing lease right-of-use asset	11	85,302	89,750
Deferred income tax assets	12	54,509	49,392
Goodwill		16,479	16,479
Total assets		$ 5,729,330	$ 5,559,846
Liabilities and Equity			
Accounts payable and other liabilities	13	$ 553,238	$ 577,074
Bank indebtedness and other financings	14	476,908	228,147
Notes payable	15	1,607,372	1,616,545
Operating and financing lease liability	11	90,140	92,834
Total liabilities		2,727,658	2,514,600
Common shares	18	626,594	626,594
Additional paid-in-capital	8	—	—
Retained earnings		1,384,852	1,382,130
Non-controlling interest - affiliate	17	1,005,080	1,012,242
Non-controlling interest - land and housing	16,17	144,378	149,574
Accumulated other comprehensive loss		(159,232)	(125,294)
Total equity		3,001,672	3,045,246
Total liabilities and equity		$ 5,729,330	$ 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 June 30		**Six Months Ended June 30**	
	Note	**2020**	**2019**	**2020**	**2019**
Revenue					
Housing	3	$ 306,134	$ 404,908	$ 600,055	$ 723,676
Land	3	17,294	71,044	35,034	98,500
Total revenue		323,428	475,952	635,089	822,176
Direct Cost of Sales					
Housing		(257,358)	(339,502)	(502,843)	(605,295)
Land		(11,500)	(57,815)	(23,099)	(71,576)
Total direct cost of sales		(268,858)	(397,317)	(525,942)	(676,871)
Gross margin		54,570	78,635	109,147	145,305
Selling, general and administrative expense		(52,921)	(64,921)	(110,710)	(131,296)
Interest expense		(102)	(8,165)	(2,233)	(16,704)
Earnings from unconsolidated entities - land & housing	7	2,505	10,661	4,592	15,069
Earnings / (Loss) from unconsolidated entities - affiliate	7	1,592	—	(22,889)	—
Other income	21	20,745	11,108	26,275	25,459
Lease expense	11	(3,243)	(3,047)	(6,475)	(5,833)
Depreciation		(1,098)	(1,144)	(2,159)	(2,204)
Income / (Loss) Before Income Taxes		22,048	23,127	(4,452)	29,796
Current income tax expense	12	(7,530)	(321)	(7,897)	(1,864)
Deferred income tax recovery / (expense)	12	2,601	(5,882)	7,345	(340)
Net Income / (Loss)		17,119	16,924	(5,004)	27,592
Other Comprehensive Income / (Loss)					
Unrealized foreign exchange gain / (loss) on:					
Translation of the net investment in Canadian subsidiaries and unconsolidated entities - affiliate		32,795	17,702	(42,263)	36,629
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		(6,350)	(3,625)	8,325	(7,600)
Comprehensive Income / (Loss)		$ 43,564	$ 31,001	$ (38,942)	$ 56,621
Net Income / (Loss) Attributable To:					
Consolidated		$ 17,119	$ 16,924	$ (5,004)	$ 27,592
Non-controlling interest - land and housing	17	3,105	768	6,365	1,110
Non-controlling interest - affiliate	16,17	1,592	—	(8,481)	—
Brookfield Residential		$ 12,422	$ 16,156	$ (2,888)	$ 26,482
Comprehensive Income / (Loss) Attributable To:					
Consolidated		$ 43,564	$ 31,001	$ (38,942)	$ 56,621
Non-controlling interest - land and housing	17	3,105	768	6,365	1,110
Non-controlling interest - affiliate	16,17	1,592	—	(8,481)	—
Brookfield Residential		$ 38,867	$ 30,233	$ (36,826)	$ 55,511
Common Shareholders Earnings / (Loss) Per Share					
Basic	20	$ 0.10	$ 0.12	$ (0.02)	$ 0.20
Diluted	20	$ 0.10	$ 0.12	$ (0.02)	$ 0.20
Weighted Average Common Shares Outstanding *(in thousands)*					
Basic	20	129,757	129,757	129,757	129,757
Diluted	20	129,786	129,923	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)	
		Six months ended June 30	
	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		(2,888)	26,482
Other		5,610	—
Ending balance		1,384,852	1,262,574
Accumulated Other Comprehensive Loss			
Opening balance		(125,294)	(161,356)
Other comprehensive (loss) / income		(33,938)	29,029
Ending balance		(159,232)	(132,327)
Total Brookfield Residential Equity		1,852,214	2,124,274
Non-Controlling Interest	16,17		
Opening balance		$ 1,161,816	$ 53,832
Net (loss) / income attributable to non-controlling interest		(2,116)	1,110
Distributions		(4,632)	(3,245)
Other		(5,610)	—
Ending balance		$ 1,149,458	$ 51,697
Total Equity		$ 3,001,672	$ 2,175,971

See accompanying notes to the condensed consolidated financial statements

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

	(Unaudited) Six Months Ended June 30	
Cash Flows (Used in) Operating Activities	**2020**	**2019**
Net (loss) / income	$ (5,004)	$ 27,592
Adjustments to reconcile net (loss) / income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities - land and housing	(4,592)	(9,399)
Undistributed loss from unconsolidated entities - affiliate	22,889	—
Deferred income tax (recovery) / expense	(7,345)	340
Share-based compensation expense	5,042	8,492
Depreciation	2,159	2,204
Right-of-use asset depreciation	3,886	2,577
Amortization of non-cash interest	3,749	3,237
Loss on extinguishment of debt	15,030	—
Dividend income on held-to-maturity investment	(11,968)	(8,648)
Changes in operating assets and liabilities:		
Decrease in receivables and other assets	17,321	17,573
Increase in land and housing inventory	(64,633)	(43,387)
Increase in commercial properties	(130,812)	(92,706)
Decrease in operating lease liabilities	(1,973)	(1,210)
Decrease in accounts payable and other liabilities	(24,067)	(60,605)
Net cash used in operating activities	(180,318)	(153,940)
Cash Flows (Used in) / Provided by Investing Activities		
Investments in unconsolidated entities - land and housing	(17,642)	(23,154)
Distributions from unconsolidated entities - land and housing	7,104	8,617
Redemption of held-to-maturity investments	—	300,000
Purchase of held-to-maturity investments	—	(300,000)
Dividend income on held-to-maturity investment	—	8,648
(Increase) / Decrease in loan receivable	(27,276)	15,090
Net cash (used in) / provided by investing activities	(37,814)	9,201
Cash Flows Provided by Financing Activities		
Deposits from affiliates	—	200,000
Drawings under project-specific and other financings	118,284	80,770
Repayments under project-specific and other financings	(20,832)	(1,702)
Net drawings on bank indebtedness	134,500	—
Net repayments on bank indebtedness	—	(90,072)
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 to non-controlling interest	(4,632)	(3,245)
Payments made on the principal of financing leases	(102)	(68)
Net cash provided by financing activities	209,305	185,683
Effect of foreign exchange rates on cash and cash equivalents	(3,406)	(688)
Change in cash, cash equivalents and restricted cash	(12,233)	40,256
Cash, cash equivalents and restricted cash at beginning of period	123,741	73,132
Cash, cash equivalents and restricted cash at end of period	$ 111,508	$ 113,388
Supplemental Cash Flow Information		
Cash interest paid	$ 59,693	$ 56,921
Cash taxes paid	$ 3,337	$ 14,862

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 5 "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 11 “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, 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, and contingent liabilities including litigation. 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 6 "Land and Housing Inventory", Note 7 (a) "Investments in Unconsolidated Entities - Land and Housing", Note 7 (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 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 5 "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".

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.

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

(z) Reclassification

Certain amounts in the condensed consolidated balance sheets and statements of operations have been reclassified to conform with the June 30, 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 and six months ended June 30, 2020, the Company recognized $0.2 million (June 30, 2019 - $0.4 million and $0.5 million, respectively) in revenue from performance obligations satisfied in prior 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. Restricted Cash

At June 30, 2020, the Company has restricted cash consisting of (i) $19.4 million (December 31, 2019 – $13.7 million) of restricted cash relating to funds reserved for guarantees on completion of certain improvements, and guarantees on future insurance loss deductible payments and (ii) $0.1 million (December 31, 2019 – $0.1 million) relating to cash collateralization of development letters of credit.

Note 5. Receivables and Other Assets

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

	As at	
	June 30 2020	**December 31 2019**
Receivables (a)	$ 398,568	$ 373,988
Other assets (b)	291,783	114,728
	$ 690,351	$ 488,716

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

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

	As at	
	June 30 2020	**December 31 2019**
Development recovery receivables (i)	$ 116,317	$ 113,980
Loan receivables (ii)	103,530	76,254
Real estate receivables (iii)	90,788	119,002
Sundry receivables (iv)	43,833	24,297
Preferred shares dividends receivable (v)	24,066	12,099
Proceeds and escrow receivables (vi)	12,374	20,611
Refundable deposits	7,660	7,745
	$ 398,568	$ 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) 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 14% and matures in 2021. During the three and six months ended June 30, 2020, $8.5 million of principal was collected (three and six months ended June 30, 2019 - $15.1 million). As at June 30, 2020, the loan had an outstanding balance of $67.8 million (December 31, 2019 - $76.3 million).

During the six months ended June 30, 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 $50.0 million. The loan bears interest at Canadian prime plus 0.75% or U.S. prime plus 0.75%, as applicable. As at June 30, 2020, the loan had an outstanding balance of $35.7 million.

(iii) Real estate receivables include VTB mortgage receivables. The VTB collection terms range from two months to five years and bear interest at Canadian prime plus 2.0% to 3.0% or a fixed interest rate of 0.0% to 8.75% (December 31, 2019 – Canadian prime plus 2.0% to 3.0% or a fixed interest rate of 0.0% to 6.0%).

(iv) Sundry receivables are comprised of lot interest receivables, homeowners association receivables, and other miscellaneous amounts.

(v) Preferred shares dividends receivable are comprised of $24.1 million of preferred share dividends receivable from the BIL preferred shares (December 31, 2019 - $12.1 million) (see Note 9 "Held-to-Maturity Investment" for details).

(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 June 30, 2020, allowances for doubtful accounts were $nil (December 31, 2019 - $nil).

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

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

	As at	
	June 30 2020	**December 31 2019**
Homebuilder finance assets (i)	$ 189,047	$ —
Capitalized sales and marketing costs (ii)	30,774	31,115
Other	21,814	15,168
Non-refundable earnest funds and investigation fees (iii)	21,441	27,124
Capital assets (iv)	16,601	26,878
Prepaid expenses	12,106	14,443
	$ 291,783	$ 114,728

(i) Homebuilder finance assets represents the Company's Homebuilder Finance program's investment in land assets of $189.0 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) 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 $29.0 million (December 31, 2019 – $25.4 million).

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

(iv) Capital assets are recorded at cost less accumulated depreciation. The Company provides for depreciation using the straight-line method. Leasehold improvements are depreciated over the term of the lease and equipment is depreciated over three to five years. Included in capital assets is accumulated depreciation of $21.7 million (December 31, 2019 – $21.5 million).

Note 6. Land and Housing Inventory

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

The following summarizes the components of land and housing inventory:

	As at	
	June 30 2020	**December 31 2019**
Land held for development	$ 1,368,173	$ 1,386,340
Land under development	853,359	1,056,884
Housing inventory	556,858	504,643
Model homes	111,336	110,757
	$ 2,889,726	$ 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 lots are sold. Interest capitalized and expensed during the three and six months ended June 30, 2020 and 2019 was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	**2019**	**2020**	**2019**
Interest capitalized, beginning of period	$ 184,415	$ 171,614	$ 173,352	$ 163,236
Interest capitalized	22,696	17,619	43,660	35,278
Interest expensed to cost of sales	(11,928)	(12,715)	(21,829)	(21,996)
Interest capitalized, end of period	$ 195,183	$ 176,518	$ 195,183	$ 176,518

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 $89.4 million (December 31, 2019 – $99.0 million) in connection with options that are not required to be consolidated in accordance with the guidance incorporated in ASC Topic 810. The total remaining exercise price of these options is $76.0 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	$ 5,055
2021	27	1,978
2022	27	7,221
2023	1,234	3,093
2024	75	1,578
Thereafter	6,070	57,028
	8,310	$ 75,953

The Company holds agreements for a further 3,267 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 $72.4 million (December 31, 2019 – $79.5 million). The Company has evaluated these options in accordance with ASC Topic 810, and has concluded that they are not the primary beneficiary. As such, they are not required to be consolidated.

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

Note 7. 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 June 30, 2020, the Company invested in 13 unconsolidated entities (December 31, 2019 – 12 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities include $21.6 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 $41.4 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	
	June 30 2020	December 31 2019
Assets		
Land and housing inventory	$ 736,734	$ 720,970
Investments in unconsolidated entities	151,175	151,524
Other assets	145,740	138,837
	$ 1,033,649	$ 1,011,331
Liabilities and Equity		
Bank indebtedness and other financings	$ 118,787	$ 113,194
Accounts payable and other liabilities	115,320	117,408
Brookfield Residential's interest	342,382	330,597
Others' interest	457,160	450,132
	$ 1,033,649	$ 1,011,331

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Revenue and Expenses				
Revenue	$ 32,496	$ 100,304	$ 54,885	$ 124,556
Direct cost of sales	(22,346)	(61,636)	(36,484)	(76,449)
Other income and expenses	(1,941)	(1,639)	(2,896)	(2,237)
Net income	$ 8,209	$ 37,029	$ 15,505	$ 45,870
Brookfield Residential's share of net income	$ 2,505	$ 10,661	$ 4,592	$ 15,069

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

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

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt of its unconsolidated entities. At June 30, 2020, the Company had recourse guarantees of $28.3 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 8 "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.

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

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 on September 30, 2019 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.

Summarized activity in the balance of our investment in unconsolidated entities - affiliate for the current and prior period is as follows:

	For the Period Ended	
	June 30 2020	**December 31 2019**
Equity Investment in BUSI		
Opening balance, beginning of period	$ 634,028	$ —
Additions	—	444,986
Dilution gain	—	165,660
(Loss) / Earnings in unconsolidated entities	(22,889)	23,382
OCI	263	—
Closing balance, end of period	$ 611,402	$ 634,028

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	
	June 30 2020	**December 31 2019**
Assets		
Investments	$ 5,632,370	$ 5,029,025
Investments in unconsolidated entities	4,693,208	4,652,721
Other assets	4,283,013	4,630,511
	$ 14,608,591	$ 14,312,257
Liabilities and Equity		
Loans payable	$ 3,312,263	$ 3,672,568
Other liabilities	582,263	465,988
Non-controlling interest	4,481,955	3,485,813
Brookfield Residential's interest	611,402	634,028
Others' Interest	5,620,708	6,053,860
	$ 14,608,591	$ 14,312,257

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

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Revenue and Expenses				
Income	$ 229,903	$ —	$ 573,680	$ —
Expenses	(213,149)	—	(869,463)	—
Net income / (loss)	$ 16,754	$ —	$ (295,783)	$ —
Other comprehensive income / (loss)	$ 2,410	$ —	$ (1,368)	$ —
Comprehensive income / (loss)	$ 19,164	$ —	$ (297,151)	$ —

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 8. Reorganization Transaction

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

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

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

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

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

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

Note 9. Held-to-Maturity Investment

	As at	
	June 30 2020	December 31 2019
Brookfield International Ltd. Series I Class A Preference Shares ("BIL preferred shares")	$ 300,000	$ 300,000
	$ 300,000	$ 300,000

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

(a) Brookfield International Ltd.

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 and six months ended June 30, 2020, the Company earned $6.0 million and $12.0 million of preferred share dividends, respectively, of which $nil was collected. As at June 30, 2020 a total of $24.1 million of accrued dividends is recorded in the condensed consolidated balance sheets within receivables and other assets. See Note 5 "Receivables and Other Assets" for details (three and six months ended June 30, 2019, $1.8 million of dividends were earned and collected).

(b) Brookfield BPY Holdings Inc.

During the six months ended June 30, 2019, the Company held preferred shares in Brookfield BPY Holdings Inc., a subsidiary of Brookfield Asset Management Inc.

During the three and six months ended June 30, 2019, Brookfield BPY Holdings Inc. made a redemption of the preferred shares the Company held of $150.0 million and $300.0 million, respectively, and the Company recorded $1.6 million and $6.9 million of dividends, respectively, in the condensed consolidated statement of operations as other income.

Note 10. Commercial Properties

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

	As at	
	June 30 2020	**December 31 2019**
Work in progress	$ 594,213	$ 436,842
Finished properties	36,137	34,075
	630,350	470,917
Less: accumulated depreciation	(2,679)	(2,398)
	$ 627,671	$ 468,519

Note 11. Leases

The nature of the Company's 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 less than 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 are expenses for operating leases, financing lease interest and financing lease amortization. The Company has sublease income for the three and six months ended June 30, 2020 of $0.5 million and $1.0 million, respectively, included in other income (three and six months ended June 30, 2019 - $0.2 million and $0.3 million, respectively).

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

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

Years of Expiry	Operating Leases	Financing Leases
2020	$ 4,440	$ 165
2021	9,849	292
2022	9,656	207
2023	9,032	130
2024	8,003	37
Thereafter	363,019	—
Total lease payments	403,999	831
Less imputed interest	(314,626)	(64)
Total	$ 89,373	$ 767

Note 12. Income Taxes

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the six months ended June 30, 2020 and 2019 is as follows:

	Six months ended June 30	
	2020	**2019**
Statutory rate	25.0%	26.5%
Non-temporary differences	(28.4)	9.1
Rate difference from statutory rate	196.0	(32.4)
Deferred tax asset valuation allowance impact	(126.1)	—
Return to provision	(168.2)	—
Change in statutory tax rate	—	15.6
Non-taxable preferred share dividends	71.2	(8.0)
Taxable income attributable to non-controlling interests	22.2	—
Other	(4.1)	(3.1)
Effective tax rate	(12.4%)	7.7%

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, an increase in non-taxable preferred share dividends and 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. This was partially offset by the establishment of a valuation allowance for the outside basis difference in our investment in unconsolidated entities – affiliate and the impact of a return-to-provision adjustment recorded due to the release of certain final U.S. tax regulations.

The provision for income taxes by jurisdiction for the three and six months ended June 30, 2020 and 2019 is set forth below:

	Three months ended June 30		Six months ended June 30	
	2020	**2019**	**2020**	**2019**
Current				
Canada	$ (19)	$ (34)	$ (25)	$ (34)
U.S.	(7,303)	(14)	(7,469)	(1,156)
International	(208)	(273)	(403)	(674)
Current income tax expense	(7,530)	(321)	(7,897)	(1,864)
Deferred				
Canada	2,996	(4,474)	7,286	2
U.S.	(395)	(1,408)	59	(342)
Deferred income tax recovery / (expense)	2,601	(5,882)	7,345	(340)
Total income tax expense	$ (4,929)	$ (6,203)	$ (552)	$ (2,204)

(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	
	June 30 2020	**December 31 2019**
Net deferred tax assets / (liabilities)		
Differences relating to land and housing inventory	$ (8,838)	$ (9,746)
Compensation deductible for tax purposes when paid	5,574	6,426
Operating loss carryforwards	54,364	49,752
Capital loss carryforwards	17,195	17,985
Impact of foreign exchange	6,732	778
Investment in unconsolidated entities - affiliate	36,835	31,179
Other	3,409	2,960
Net deferred tax assets before valuation allowance	115,271	99,334
Cumulative valuation allowance	(60,762)	(49,942)
Net deferred tax assets	$ 54,509	$ 49,392

The Company has Canadian federal non-capital loss carryforwards of approximately $225.2 million (C$305.7 million) as at June 30, 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 June 30, 2020, the Company has Canadian capital loss carryforwards of $153.4 million (C$208.3 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 June 30, 2020, the Company considered all available and objectively verifiable positive and negative evidence. The valuation allowance of $60.8 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 June 30, 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 13. Accounts Payable and Other Liabilities

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

	As at	
	June 30 2020	December 31 2019
Accounts payable (a)	$ 374,389	$ 400,888
Other liabilities (b)	178,849	176,186
	$ 553,238	$ 577,074

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

	As at	
	June 30 2020	December 31 2019
Trade payables and other accruals	$ 149,370	$ 156,313
Customer deposits	98,136	97,633
Development costs payable (i)	63,285	72,807
Real estate payables	31,191	32,104
Interest on notes payable	23,636	9,513
Accrued and deferred compensation	8,590	36,908
Current income taxes payable / (receivable)	181	(4,390)
	$ 374,389	$ 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	
	June 30 2020	December 31 2019
Share-based compensation (Note 19)	$ 66,469	$ 61,427
Other	38,627	44,105
Deferred revenue (i)	25,666	20,125
Purchase price consideration payable	20,296	23,869
Warranty costs (Note 22 (a))	19,677	18,546
Consolidated land option contracts (ii)	8,114	8,114
	$ 178,849	$ 176,186

(i) Of the $20.1 million deferred revenue balance at December 31, 2019, the amount recognized during the six months ended June 30, 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 6 “Land and Housing Inventory”.

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

Note 14. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	June 30 2020	December 31 2019
Project-specific financings (a)	$ 270,465	$ 180,352
Bank indebtedness (b)	134,500	—
Secured VTB mortgages (c)	79,390	54,796
Due to affiliates (d)	—	—
	484,355	235,148
Transaction costs (a)(b)	(7,447)	(7,001)
	$ 476,908	$ 228,147

(a) Project-specific financings

(i) As at June 30, 2020, the Company has two Canadian project-specific financings totaling $47.4 million (C $64.4 million) provided by various lenders (December 31, 2019 - $47.4 million (C$61.6 million)).

Project-specific financing totaling $39.9 million (C$54.1 million) has an interest rate of Canadian Prime + 0.50%, matures in 2021, 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 June 30, 2020.

Project-specific financing totaling $7.6 million (C$10.2 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 Fifth + Broadway mixed-used project in Nashville. The loan allows OliverMcMillan Spectrum Emery LLC to borrow up to $360.0 million. As at June 30, 2020, the Company has $223.0 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%, subject to a LIBOR rate floor of 1.80%, 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 June 30, 2020.

The transaction costs are costs related to the issuance of the project facility, and are amortized using the effective interest rate 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 $155.7 million. As at June 30, 2020, there were 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 June 30, 2020.

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

(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 June 30, 2020, the Company had total borrowings of $134.5 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 June 30, 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 $79.4 million (December 31, 2019 – $54.8 million). Secured VTB mortgages are repayable as follows: 2021 – $31.6 million; 2022 – $33.1 million, 2023 – $6.1 million; 2024 – $6.5 million, and $2.1 million thereafter.

11 secured VTB mortgages (December 31, 2019 – eight secured VTB mortgages) in the amount of $63.8 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$86.6 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 June 30, 2020.

Two secured VTB mortgages (December 31, 2019 – five secured VTB mortgages) in the amount of $15.6 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 0% to 6.0% and the debt is secured by related land. As at June 30, 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%. As at June 30, 2020, the Company had no borrowings outstanding (December 31, 2019 – no borrowings outstanding). These borrowings are not subject to financial covenants.

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

Note 15. Notes Payable

	As at	
	June 30 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)	184,150	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	—
	1,634,150	1,642,475
Transaction costs (f)	(26,778)	(25,930)
	$ 1,607,372	$ 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
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 15 (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 six months ended June 30, 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 in the first quarter of 2020, 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 tangible net 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 June 30, 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 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 June 30, 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 and six months ended June 30, 2020 was net income of $4.7 million and a net loss of $2.1 million, respectively (June 30, 2019 – net income of $0.8 million and $1.1 million, respectively).

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

	As at June 30, 2020
Affiliate	$ 1,005,080
Land and housing	144,378

The non-controlling interest held by the Company's affiliate, BUSI, of $1.0 billion represents a total of 81.1% not held by the Company as at June 30, 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 $144.4 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 June 30, 2020.

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 six months ended June 30, 2020 and the year ended December 31, 2019.

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

	For the Period Ended	
	June 30 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 June 30, 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 using the Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of the Company's stock option awards is expensed over the vesting period of the stock options. Expected volatility is measured using the historical volatility of the Company's publicly traded peer group. The risk-free rate for periods within the contractual life of the option award is based on the yield curve of a zero-coupon U.S. Treasury bond with a maturity equal to the expected term of the option award granted. The Company uses historical Brookfield Residential data to estimate option exercises and forfeitures within its valuation model. The expected term of the option awards granted is derived from historical exercise experience under the Company's option plan and represents the period of time that option awards granted are expected to be outstanding.

During the three and six months ended June 30, 2020, there were no options granted to eligible employees (three and six months ended June 30, 2019 - nil and 887,000 options granted). The significant weighted average assumptions relating to the valuation of the Company's options outstanding during the six months ended June 30, 2020 and 2019 are as follows:

	June 30 2020	**June 30 2019**
Dividend yield	—%	—%
Volatility rate	36.88%	29.22%
Risk-free interest rate	0.21%	2.48%
Expected option life (years)	3.2	4.7
Liquidity discount	25%	—%

The liability of $37.1 million (December 31, 2019 - $32.2 million) relating to stock options is included in accounts payable and other liabilities. The total stock based 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 and six months ended June 30, 2020 was an expense of $2.2 million and $5.1 million, respectively (June 30, 2019 - $4.3 million and $8.5 million, respectively).

(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 six months ended June 30, 2020 and 2019:

	June 30, 2020		June 30, 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 six months ended June 30, 2020 and 2019 are as follows:

	June 30, 2020		June 30, 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	5,644,756	$ 7.21
Granted	—	—	887,000	8.73
Vested	(1,389,780)	3.34	(1,228,378)	5.86
Cancelled	—	—	—	—
Unvested options outstanding, end of period	2,809,600	$ 4.57	5,303,378	$ 7.78

At June 30, 2020, there was $9.7 million (June 30, 2019 - $33.5 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 2.5 years (June 30, 2019 - 2.9 years).

(b) Deferred Share Unit Plan

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

The following table sets out changes in and the number of deferred share units that executives, directors and senior operating management employees may redeem under Brookfield Residential's DSUP at June 30, 2020 and December 31, 2019:

	For the Period Ended	
	June 30 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 and six months ended June 30, 2020 and 2019.

Note 20. (Loss) / Earnings Per Share

Basic and diluted earnings per share for the three and six months ended June 30, 2020 and 2019 were calculated as follows:

	Three Months Ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Numerator:				
Net income / (loss) attributable to Brookfield Residential	$ 12,422	$ 16,156	$ (2,888)	$ 26,482
Denominator (in '000s of shares):				
Basic weighted average shares outstanding	129,757	129,757	129,757	129,757
Diluted weighted average shares outstanding	129,786	129,923	129,786	129,923
Basic (loss) / earnings per share	$ 0.10	$ 0.12	$ (0.02)	$ 0.20
Diluted (loss) / earnings per share	$ 0.10	$ 0.12	$ (0.02)	$ 0.20

Note 21. Other (Income) / Expense

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

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Investment income	$ (7,321)	$ (5,226)	$ (14,700)	$ (10,235)
Preferred share dividend income	(5,984)	(3,345)	(11,968)	(8,648)
Other	(4,527)	642	(7,993)	(259)
Joint venture management fee income	(2,913)	(3,179)	(6,644)	(6,317)
Loss on extinguishment of debt (i)	—	—	15,030	—
	$ (20,745)	$ (11,108)	$ (26,275)	$ (25,459)

(i) As a result of the redemption of the $500 million unsecured senior notes due in 2022 in the first quarter of 2020 (see Note 15(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.

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 six months ended June 30, 2020 and 2019:

	Six months ended June 30	
	2020	**2019**
Balance, beginning of period	$ 18,545	$ 21,515
Payments and other adjustments made during the period	(3,366)	(5,690)
Warranties issued during the period	4,858	5,282
Adjustments due to change in estimates	(360)	418
Balance, end of period	$ 19,677	$ 21,525

(b) As at June 30, 2020, $10.7 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 $158.3 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 June 30, 2020, these guarantees amounted to $615.7 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 six months ended June 30, 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 and six months ended June 30, 2020 and 2019, no impairment charges were recognized.

The locations of the projects reviewed are as follows:

	Number of Projects
Canada	42
California	49
Central and Eastern U.S.	35
	126
Unconsolidated entities	14
Total	140

Fair Value Hierarchy

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

As at June 30, 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, which are recorded at their fair values. These balances are included in receivables and other assets on the condensed consolidated balance sheet. See Note 5 "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	(8,460)
Balance as of June 30, 2020	67,794

The following table summarizes the quantitative inputs and assumptions used to determine the loan receivable fair value as of June 30, 2020:

Financial Instrument	Fair value as of 6/30/2020	Valuation technique	Unobservable inputs	Rate
Receivable	67,794	Discounted cash flow	Interest rate	14%

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

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	**Six Months Ended June 30, 2020**
Purchases / Land Development Spend	$ 55,435

The following table summarizes the quantitative inputs and assumptions used to determine the investment fair value as of June 30, 2020:

Financial Instrument	**Fair value as of 6/30/2020**	**Valuation technique**	**Unobservable inputs**	**Ranges**
Land and land improvements	189,047	Discounted cash flow	Rate of return	12.9% - 14.9%

Net Investment Hedges

The Company uses foreign currency denominated debt instruments to manage its foreign currency exposures arising from net investments in foreign operations. For the three and six months ended June 30, 2020, unrealized pre-tax loss of $6.4 million and gain of $8.3 million, respectively (June 30, 2019 – loss of $3.6 million and $7.6 million, respectively), were recorded in other comprehensive income for hedges of net investments in foreign operations.

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. Some of the interest-bearing assets and liabilities of the Company are at floating rates and, accordingly, their fair values approximate their carrying value. The Company would be negatively impacted on balance, if interest rates were to increase. Based on net debt levels as at June 30, 2020, a 1% change in interest rates would have a $4.4 million impact on the Company's cash flows.

The fair value of debt with fixed interest rates is determined by discounting contractual principal and interest payments at estimated current market interest rates determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at June 30, 2020, the book value of all outstanding debt exceeded its fair value by $110.5 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 June 30, 2020 (December 31, 2019 – $2.5 million gain). See Note 24 "Fair Value Measurements" for additional disclosure.

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

Other Price Risk

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

(b) Credit Risk

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

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

(c) Liquidity Risk

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

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

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

A summary of the Company's contractual obligations and purchase agreements as at June 30, 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)	$ 1,634,150	$ —	$ 184,150	$ 350,000	$ 1,100,000
Interest on notes payable	746,218	125,347	236,871	168,375	215,625
Secured VTB mortgages(2)(3)	79,390	31,616	39,140	8,634	—
Bank indebtedness(2)(3)	134,500	134,500	—	—	—
Project-specific financings(2)(3)	270,465	47,419	—	223,046	—
Accounts payable and other liabilities(4)	553,238	553,238	—	—	—
Operating and financing lease obligations(5)	404,830	4,605	20,004	17,202	363,019
Purchase agreements and other obligations(6)	158,328	22,347	118,214	10,081	7,686

(1) Amounts are included on the condensed consolidated balance sheets and exclude transaction costs. See Note 15 for additional information regarding notes payable.

(2) Amounts are included on the condensed consolidated balance sheets. See Note 14 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 14 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 11 for additional information regarding lease agreements.

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

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

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.

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

	Three Months Ended June 30, 2020					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Revenues	$ 65,939	$ 125,785	$ 131,704	$ —	$ —	$ 323,428
Direct cost of sales	(54,344)	(103,387)	(111,127)	—	—	(268,858)
	11,595	22,398	20,577	—	—	54,570
Earnings from unconsolidated entities - land and housing	1,728	(236)	1,013	—	—	2,505
Earnings from unconsolidated entities - affiliate	—	—	—	—	1,592	1,592
(Expenses) / Income	(8,699)	(16,573)	(19,969)	8,622	—	(36,619)
Income / (loss) before income taxes	$ 4,624	$ 5,589	$ 1,621	$ 8,622	$ 1,592	$ 22,048

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

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

	Six Months Ended June 30, 2020					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Revenues	$ 136,650	$ 264,366	$ 234,073	$ —	$ —	$ 635,089
Direct cost of sales	(110,494)	(216,292)	(199,156)	—	—	(525,942)
	26,156	48,074	34,917	—	—	109,147
Earnings from unconsolidated entities - land and housing	2,278	289	2,025	—	—	4,592
Earnings from unconsolidated entities - affiliate	—	—	—	—	(22,889)	(22,889)
Expenses	(18,578)	(34,343)	(39,431)	(2,950)	—	(95,302)
Income / (loss) before income taxes	$ 9,856	$ 14,020	$ (2,489)	$ (2,950)	$ (22,889)	$ (4,452)

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

(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 June 30, 2020					
	Canada	**California**	**Central and Eastern U.S.**	**Corporate and Other**	**Equity Investment in BUSI**	**Total**
Land held for development	$ 428,852	$ 292,752	$ 646,569	$ —	$ —	$1,368,173
Land under development	224,867	267,542	357,802	3,148	—	853,359
Housing inventory	159,012	211,399	186,447	—	—	556,858
Model homes	23,053	60,863	27,420	—	—	111,336
Total land and housing inventory	835,784	832,556	1,218,238	3,148	—	2,889,726
Commercial properties	53,441	65,174	509,056	—	—	627,671
Investments in unconsolidated entities - land and housing	51,726	204,632	86,024	—	—	342,382
Investments in unconsolidated entities - affiliate	—	—	—	—	611,402	611,402
Held-to-maturity investment	—	—	—	300,000	—	300,000
Operating and financing lease right-of use asset	12,690	41,233	21,509	9,870	—	85,302
Goodwill	—	—	—	16,479	—	16,479
Other assets (1)	142,736	61,674	171,551	480,407	—	856,368
Total assets	$1,096,377	$1,205,269	$2,006,378	$ 809,904	$ 611,402	$5,729,330

(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 inventory	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 our affiliates to which we are a party or subject to, including a name license. The Company's significant related party transactions as at and for the three and six months ended June 30, 2020 and 2019 were as follows:

- During the six months ended June 30, 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 and six months ended June 30, 2020, the Company incurred $17.4 and $38.4 million, respectively, of management fees (three and six months ended June 30, 2019 - $8.8 million and $17.5 million, respectively). These transactions were recorded at the exchange amount within selling, general and administrative expense and commercial properties.
- During the six months ended June 30, 2020, the Company entered into an agreement with Brookfield Properties Development to provide financing of up to $50.0 million. As at June 30, 2020, the loan had an outstanding balance of $35.7 million that was within receivables and other assets.
- During the three and six months ended June 30, 2020, the company earned $6.0 million and $12.0 million, respectively, of dividends from the preferred shares (three and six months ended June 30, 2019 - $1.8 million) of Brookfield International Ltd. that have been recorded in the condensed consolidated statements of operations within other income, where $nil was collected and a total of $24.1 million is recorded within receivables and other assets**.** These transactions were recorded at the exchange amount.
- During the six months ended June 30, 2020, the Company entered into an agreement for the management of the retail operations at our Nashville mixed-use project and during the three and six months ended June 30, 2020, paid management fees of $nil and $1.4 million, respectively, to Brookfield Properties Retail Inc., a subsidiary of BAM. This transaction was recorded at the exchange amount within commercial properties.
- During the three and six months ended June 30, 2019, the Company received $150.0 million and $300.0 million, respectively, from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. that was recorded in the condensed consolidated balance sheets. The Company also received $1.6 million and $6.9 million of dividends from these preferred shares for the three and six months ended June 30, 2019, respectively, that were recorded in the condensed consolidated statement of operations within other income. These transactions were recorded at the exchange amount.
- During the three months ended June 30, 2019, the Company entered into a $300.0 million deposit agreement with a subsidiary of Brookfield Asset Management Inc. As at June 30, 2020, there were no borrowings outstanding (June 30, 2019 - $200.0 million). During the three and six months ended June 30, 2020, the Company paid no interest (three and six months ended June 30, 2019 - $0.6 million).
- During the three months ended June 30, 2019, the Company purchased $300.0 million of preferred shares of Brookfield International Ltd, a subsidiary of Brookfield Asset Management Inc., that have been recorded in the condensed consolidated balance sheets in held-to-maturity investments. The transaction was recorded at the exchange amount.
- During the six months ended June 30, 2019, the Company paid $0.2 million to Brookfield Asset Management Inc. for Canadian tax credits. The transactions were recorded at the exchange amount.

Note 28. Subsequent Events

In July 2020, the Company committed $76.5 million, representing a 25.5% interest in the Brookfield Single Family Rental fund. As of August 6, 2020, the Company has made capital contributions of $8.9 million.

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 $515 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.