Brookfield Residential Properties Inc.

Brookfield Residential

2020 | Q3

September 30, 2020

Chief Executive Officer's Report

Brookfield Residential had an active third quarter of 2020 with the continued execution of our backlog and continued sales momentum in both the U.S. and Canada. With the pent up demand for housing across our markets, we continue to improve on our operational results and have a strong backlog projected at the end of the year heading into 2021.

For the three months ended September 30, 2020, income before taxes was $44 million, which is similar to the prior year. Included in our Q3 2020 results was a $9 million loss from our unconsolidated equity investment in affiliates with no comparable loss in the same period in 2019. During the quarter, we delivered 850 homes and 726 lots, representing an increase of 26% and 54% (when adjusted for the 106 lot closings from the prior year relating to the Homebuilder Finance Program, which is now recorded in Other Income) respectively, when compared to the same period in 2019.

Despite missing many prime weeks of the selling season between March and May, our U.S. and Ontario markets continue to be supported by positive underlying fundamentals including low interest rates and a change in demand pattern with some degree of a flight to the suburbs as consumers seek larger homes. For the three months ended September 30, 2020, we saw our overall net new home orders increase 49%, with an increase in our U.S. operations of 60% and our Canadian operations seeing an increase of 28%. The increase from our Canadian operations was primarily from our Ontario market with a slight increase from Alberta as well. However, we are recently seeing some leveling off in Alberta as a result of the economic conditions. Our backlog at September 30, 2020 reflected the positive sales activity with 1,935 units with a value of $973 million, both increasing 31% when compared to September 30, 2019.

Strategic Corporate Initiatives

In September, Brookfield Residential amended and extended its North American $675 million unsecured revolving credit facility until September 2022 on substantially the same terms and conditions. We believe that this further enhances our capital structure, providing adequate liquidity of $658 million at September 30, 2020 as well as enhancing the laddering of our revolving credit facility and unsecured senior note maturities with no additional maturities until 2022.

Our View Looking Forward

Our outlook for the remainder of the year continues to improve. With the sustained sales momentum starting in June, we were able to recover from some of the lost activity as a result of the business interruption from the COVID-19 pandemic affecting the core weeks of our spring selling season that would traditionally make up a significant portion of our fourth quarter closings. In addition, our recent cancellation rate for the third quarter of 9% has continued to be lower than anticipated and an improvement when compared to 16% in the prior year.

Our land development business is also seeing increased demand for developed lots as U.S. homebuilders look to replenish their land inventory ahead of the 2021 and 2022 spring selling seasons.

As a result of the positive conditions we have been experiencing, we have updated our 2020 guidance to reflect the increased activity across our operations. Assuming no further restrictions or significant business interruptions in the fourth quarter, we anticipate our U.S. operations to close approximately 1,850 homes and 1,750 lots, excluding our share of unconsolidated entities. For our Canadian markets, we expect to close approximately 900 homes and 500 lots. While historically the fourth quarter of the year makes up the majority of the year's activity, we expect that home closings will be approximately a quarter of the year's closings and half of the year's lot closings will be in the fourth quarter of 2020.

Alan Norris
Chairman & Chief Executive Officer
November 4, 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 September 30, 2020 were $5.7 billion.

As of September 30, 2020, we controlled 81,138 single family lots (serviced lots and future lot equivalents) and 155 multi-family, industrial and commercial serviced parcel acres. Controlled lots and acres include those we directly own and our share of those owned by unconsolidated entities. Our controlled lots and acres provide a strong foundation for our future lot and acre sales and homebuilding business, as well as visibility on our future cash flow. The number of building lots and acre parcels we control in each of our primary markets as of September 30, 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 9/30/2020		Total Acres	
	Owned	Options	Owned	Options	9/30/2020	12/31/2019	Entitled	Unentitled	9/30/2020	12/31/2019
Calgary	15,892	—	2,568	—	18,460	19,045	10,347	8,113	72	70
Edmonton	10,581	—	—	—	10,581	10,797	5,371	5,210	21	22
Ontario	7,215	—	979	—	8,194	8,293	2,640	5,554	1	1
Canada	33,688	—	3,547	—	37,235	38,135	18,358	18,877	94	93
Northern California	2,898	7,255	240	—	10,393	10,474	3,138	7,255	—	—
Southern California	5,517	—	782	1,001	7,300	7,597	6,074	1,226	—	—
Hawaii	10	—	—	—	10	48	10	—	—	—
California	8,425	7,255	1,022	1,001	17,703	18,119	9,222	8,481	—	—
Denver	7,112	—	—	—	7,112	7,328	7,112	—	10	10
Austin	11,465	—	—	—	11,465	12,120	11,465	—	37	37
Phoenix	2,046	—	2,130	—	4,176	4,032	4,176	—	14	14
Washington, D.C. Area	2,473	974	—	—	3,447	3,732	3,410	37	—	—
Central and Eastern U.S.	23,096	974	2,130	—	26,200	27,212	26,163	37	61	61
Corporate and Other	—	—	—	—	—	4,180	—	—	—	—
Total	65,209	8,229	6,699	1,001	81,138	87,646	53,743	27,395	155	154
Entitled lots	47,279	974	5,490	—	53,743					
Unentitled lots	17,930	7,255	1,209	1,001	27,395					
Total September 30, 2020	65,209	8,229	6,699	1,001	81,138					
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 the results of the 2020 US federal election; 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;
- cyber-security related 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 September 30, 2020 and has been prepared with an effective date of November 4, 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 $550 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 nine months ended September 30, 2020 compared to the three and nine months ended September 30, 2019 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2020	**2019**	**2020**	**2019**
Key Financial Results				
Housing revenue	$ 380	$ 348	$ 981	$ 1,072
Land revenue	73	113	108	211
Gross margin ($)	92	105	201	250
Gross margin (%)(1)	20%	23%	18%	19%
Income before income taxes	44	54	39	84
Income tax expense	—	(5)	(1)	(7)
Consolidated net income	44	49	38	77
Net income attributable to Brookfield Residential	14	48	11	75
Basic earnings per share	$ 0.11	$ 0.37	$ 0.09	$ 0.58
Diluted earnings per share	$ 0.11	$ 0.37	$ 0.09	$ 0.58
Key Operating Data				
Home closings for Brookfield Residential (units)	850	674	2,028	2,048
Average home selling price for Brookfield Residential (per unit)	$ 448,000	$ 516,000	$ 483,000	$ 523,000
Net new home orders for Brookfield Residential (units)	1,144	768	2,689	2,395
Backlog for Brookfield Residential (units)	1,935	1,484	1,935	1,484
Backlog value for Brookfield Residential	$ 973	$ 744	$ 973	$ 744
Lot closings for Brookfield Residential (single family units)	726	578	1,057	1,592
Lot closings for unconsolidated entities (single family units)	408	251	530	786
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	—	10	3	23
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	—	—	1	1
Acre closings for Brookfield Residential (raw and partially finished)	—	134	—	134
Average lot selling price for Brookfield Residential (single family units)	$ 100,000	$ 147,000	$ 99,000	$ 112,000
Average lot selling price for unconsolidated entities (single family units)	$ 88,000	$ 208,000	$ 103,000	$ 138,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ —	$ 870,000	$ 819,000	$ 607,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ —	$ —	$ 297,000	$ 106,000
Average per acre selling price for Brookfield Residential (raw and partially finished)	$ —	$ 138,000	$ —	$ 138,000

(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 nine months ended September 30, 2020 and 2019.

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity and average selling price)	**2020**	**2019**	**2020**	**2019**
Housing revenue				
Canada	$ 107	$ 85	$ 224	$ 278
California	125	153	383	464
Central and Eastern U.S.	148	110	374	330
Total	$ 380	$ 348	$ 981	$ 1,072
Land revenue				
Canada	$ 27	$ 52	$ 48	$ 85
California	13	47	19	53
Central and Eastern U.S.	33	5	41	25
Corporate and Other	—	9	—	48
Total	$ 73	$ 113	$ 108	$ 211
Housing gross margin				
Canada	$ 18	$ 13	$ 36	$ 42
California	27	30	73	85
Central and Eastern U.S.	26	18	60	53
Total	$ 71	$ 61	$ 169	$ 180
Land gross margin				
Canada	$ 10	$ 23	$ 18	$ 41
California	1	21	3	24
Central and Eastern U.S.	10	—	11	5
Total	$ 21	$ 44	$ 32	$ 70
Home closings (units)				
Canada	319	235	657	741
California	202	218	551	638
Central and Eastern U.S.	329	221	820	669
Total	850	674	2,028	2,048
Average home selling price				
Canada	$ 337,000	$ 362,000	$ 340,000	$ 375,000
California	616,000	700,000	694,000	726,000
Central and Eastern U.S.	451,000	499,000	457,000	494,000
Average	$ 448,000	$ 516,000	$ 483,000	$ 523,000

	As at September 30	
	2020	2019
Active housing communities		
Canada	35	35
California	19	21
Central and Eastern U.S.	30	35
Total	84	91

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Lot closings (single family units)				
Canada	230	214	406	505
California	87	203	138	250
Central and Eastern U.S.	409	55	513	275
Corporate and Other[(1)]	—	106	—	562
	726	578	1,057	1,592
Unconsolidated entities	408	251	530	786
Total	1,134	829	1,587	2,378
Acre closings (multi-family, industrial and commercial)				
Canada	—	8	3	10
California	—	—	—	—
Central and Eastern U.S.	—	2	—	13
	—	10	3	23
Unconsolidated entities	—	—	1	1
Total	—	10	4	24
Acre closings (raw and partially finished)				
Canada	—	134	—	134
California	—	—	—	—
Central and Eastern U.S.	—	—	—	—
Total	—	134	—	134
Average lot selling price (single family units)				
Canada	$ 118,000	$ 121,000	$ 112,000	$ 113,000
California	151,000	229,000	141,000	211,000
Central and Eastern U.S.	79,000	79,000	79,000	76,000
Corporate and Other[(1)]	—	80,000	—	85,000
	100,000	147,000	99,000	112,000
Unconsolidated entities	88,000	208,000	103,000	138,000
Average	$ 96,000	$ 166,000	$ 101,000	$ 121,000
Average per acre selling price (multi-family, industrial and commercial)				
Canada	$ —	$ 960,000	$ 819,000	$ 890,000
California	—	—	—	—
Central and Eastern U.S.	—	493,000	—	363,000
	—	870,000	819,000	607,000
Unconsolidated entities	—	—	297,000	106,000
Average	$ —	$ 870,000	$ 613,000	$ 584,000

(1) Prior period amounts for the Corporate and Other segment include lot closings from the Homebuilder Finance Program, where these have been reclassified in the current period. See Note 1 (z) "Significant Accounting Policies - Reclassification" in the condensed consolidated financial statements for additional information.

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Average per acre selling price (raw and partially finished)				
Canada	$ —	$ 138,000	$ —	$ 138,000
California	—	—	—	—
Central and Eastern U.S.	—	—	—	—
Average	$ —	$ 138,000	$ —	$ 138,000

	As at September 30	
	2020	2019
Active land communities		
Canada	10	12
California	4	4
Central and Eastern U.S.	11	11
	25	27
Unconsolidated entities	7	7
Total	32	34

	As at	
(US$ millions)	September 30 2020	December 31 2019
Total assets		
Canada	$ 1,066	$ 1,095
California	1,188	1,198
Central and Eastern U.S.	2,008	1,870
Corporate and other	861	762
Equity Investment in BUSI	602	634
Total	$ 5,725	$ 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 Nine Months Ended September 30, 2020 Compared with Three and Nine Months Ended September 30, 2019

Net Income

Consolidated net income for the three and nine months ended September 30, 2020 was $44 million and $38 million, compared to net income of $49 million and $77 million for the same periods in 2019.

	Three Months Ended September 30		Nine Months Ended September 30, 2020	
(US$ millions, except per share amounts)	2020	2019	2020	2019
Consolidated net income	$ 44	$ 49	$ 38	$ 77
Net income attributable to Brookfield Residential	$ 14	$ 48	$ 11	$ 75
Basic earnings per share	$ 0.11	$ 0.37	$ 0.09	$ 0.58
Diluted earnings per share	$ 0.11	$ 0.37	$ 0.09	$ 0.58

The decrease of $5 million in consolidated net income for the three months ended September 30, 2020 compared to the same period in 2019 was primarily the result of a decrease in gross margin of $13 million due to lower land gross margin, a $9 million loss from affiliate unconsolidated entities, an increase in selling, general and administrative expenses of $1 million, and an increase in lease expense of $1 million. This was partially offset by an increase in other income of $7 million, a decrease in interest expense of $7 million, and a decrease in income tax expense of $5 million.

The decrease of $39 million in consolidated net income for the nine months ended September 30, 2020, compared to the same period in 2019 was primarily the result of a decrease in both land and housing gross margin of $49 million, a $32 million loss from affiliate unconsolidated entities, a decrease in earnings from land and housing unconsolidated entities of $10 million, and an increase in lease expense of $1 million. This was partially offset by a decrease in interest expense of $21 million, a decrease in selling, general and administrative expense of $19 million, an increase in other income of $7 million, and a decrease in tax expense of $6 million.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except percentages)	**2020**	**2019**	**2020**	**2019**
Revenue				
Housing	$ 380	$ 348	$ 981	$ 1,072
Land	73	113	108	211
	$ 453	$ 461	$ 1,089	$ 1,283
Gross Margin				
Housing	$ 71	$ 61	$ 169	$ 180
Land	21	44	32	70
	$ 92	$ 105	$ 201	$ 250
Gross Margin (%)				
Housing	19%	18%	17%	17%
Land	29%	39%	30%	33%
	20%	23%	18%	19%

For the three months ended September 30, 2020, total revenue decreased by $8 million and total gross margin decreased by $13 million, when compared to the same period in 2019. The decrease in total revenue was primarily the result of closing 134 raw and partially finished acres and 10 multi-family and industrial acres in 2019 with no comparative closings during the current period. Also contributing to the decrease were lower average single family lot selling prices when compared to the same period in 2019, due to geographic mix of land sold. This was partially offset by a $32 million increase in housing revenue as a result of 176 additional home closings. Total gross margin decreased as a result of lower land gross margins due to the mix of land sold during the period, which was partially offset by an increase in housing gross margins due to increased activity. Gross margin percentage decreased by 3% primarily due to lower land gross margin percentage as a result of the geographic and product mix of land sold.

For the nine months ended September 30, 2020, total revenue decreased by $194 million and total gross margin decreased by $49 million when compared to the same period in 2019. The decrease in total revenue was primarily the result of 535 fewer single family lot closings at a lower average lot selling price, and 20 fewer home closings at a lower average 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 the current period where the activity is recorded through other income 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 nine months ended September 30, 2020. Also contributing to the decrease was closing 134 raw and partially finished acres in 2019 with no comparative closings in the current period, and 20 fewer multi-family, industrial and commercial acre closings. Total gross margin decreased as a result of lower housing and land gross margins, due to decreased activity and mix of land and homes sold when compared to 2019. Gross margin percentage decreased 1% when compared to the nine month prior period primarily due to a reduction in lot and acre closings with higher margins as a result of the geographic mix of land sold.

Results of Operations – Housing

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

Consolidated

	Three Months Ended September 30		**Nine Months Ended September 30**	
(US$ millions, except unit activity, percentages and average selling price)	**2020**	**2019**	**2020**	**2019**
Home closings	850	674	2,028	2,048
Revenue	$ 380	$ 348	$ 981	$ 1,072
Gross margin	$ 71	$ 61	$ 169	$ 180
Gross margin (%)	19%	18%	17%	17%
Average home selling price	$448,000	$516,000	$483,000	$523,000

Housing revenue and gross margin were $380 million and $71 million, respectively, for the three months ended September 30, 2020, compared to $348 million and $61 million for the same period in 2019. The increase in revenue and gross margin were primarily the result of 192 additional home closings in our Canadian and Central and Eastern U.S. operating segments, partially offset by a 13% lower average selling price overall due to the mix of homes sold across the Company. The increase in home closings in Canada and Central and Eastern U.S. was partially offset by 16 fewer home closings in our California operating segment when compared to the same period in 2019. Gross margin percentage increased 1% when compared to the same period in 2019 primarily as a result of increased activity, and geographic and product mix of homes closed.

Housing revenue and gross margin were $981 million and $169 million, respectively, for the nine months ended September 30, 2020, compared to $1,072 million and $180 million for the same period in 2019. The decrease in revenue and gross margin were primarily the result of 171 fewer home closings in our Canadian and California operating segments and an 8% lower average selling price overall, partially offset by 151 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.

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

Canada

	Three Months Ended September 30		**Nine Months Ended September 30**	
(US$ millions, except unit activity, percentages and average selling price)	**2020**	**2019**	**2020**	**2019**
Home closings	319	235	657	741
Revenue	$ 107	$ 85	$ 224	$ 278
Gross margin	$ 18	$ 13	$ 36	$ 42
Gross margin (%)	17%	15%	16%	15%
Average home selling price	$337,000	$362,000	$340,000	$375,000

Housing revenue in our Canadian segment for the three months ended September 30, 2020 increased by $22 million when compared to the same period in 2019, primarily due to 84 additional home closings, partially offset by 7% lower average home selling prices. The increase in home closings was primarily the result of additional closings in our Calgary and Ontario markets. When comparing the average home selling price in Canadian dollars for the three months ended September 30, 2020 and 2019, the average home selling price was C$449,000 and C$478,000 respectively, representing a decrease of 6%. The decrease was primarily due to the product and geographic mix of homes closed, with the highest proportion of closings in the current period coming from our Calgary market, where there was an 18% decrease in average selling price when compared to the same period in 2019, primarily due to a number of closings from an apartment building, where the units have lower average selling prices compared to single family homes. Gross margin increased $5 million for the three months ended September 30, 2020 when compared to the same period in 2019 primarily as a result of additional home closings, partially offset by lower average home selling prices. Gross margin percentage increased 2% as a result of both geographic and product mix of homes closed.

Housing revenue in our Canadian segment for the nine months ended September 30, 2020 decreased by $54 million when compared to the same period in 2019, primarily due to 84 fewer home closings and 9% 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 nine months ended September 30, 2020 and 2019, the average home selling price was C$459,000 and C$499,000, respectively, representing a decrease of 8%. The decrease was primarily due to the product and geographic mix of homes closed, with the highest proportion of closings in the current period coming from our Calgary market, where there was an 12% decrease in average selling price when compared to the same period in 2019 due to the product mix of homes closed. Gross margin decreased $6 million for the nine months ended September 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 nine months ended September 30, 2020 increased 1% primarily as a result of the product mix and lower incentives provided on homes closed when compared to the same period in 2019.

California

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2020**	**2019**	**2020**	**2019**
Home closings	202	218	551	638
Revenue	$ 125	$ 153	$ 383	$ 464
Gross margin	$ 27	$ 30	$ 73	$ 85
Gross margin (%)	22%	20%	19%	18%
Average home selling price	$616,000	$700,000	$694,000	$726,000

Housing revenue in our California segment for the three months ended September 30, 2020 decreased by $28 million when compared to the same period in 2019. The decrease in revenue was primarily due to 16 fewer home closings and 12% lower average home selling prices. The decrease in average home selling reflects the continued shift of product mix to more entry-level and first move-up homes in our Southern California market. Gross margin decreased $3 million as a result of fewer home closings and lower average home selling prices, and gross margin percentage increased 2% primarily as a result of mix of homes closed, as well as lower incentives provided when compared to the same period in 2019.

Housing revenue in our California segment for the nine months ended September 30, 2020 decreased by $81 million when compared to the same period in 2019. The decrease in revenue was primarily due to 87 fewer home closings and 4% lower average 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 $12 million as a result of fewer home closings and lower average selling prices, and gross margin percentage increased 1% as a result of cost savings in our Northern California and Hawaii markets, as well as lower incentives provided when compared to the same period in 2019.

Central and Eastern U.S.

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions, except unit activity, percentages and average selling price)	**2020**	**2019**	**2020**	**2019**
Home closings	329	221	820	669
Revenue	$ 148	$ 110	$ 374	$ 330
Gross margin	$ 26	$ 18	$ 60	$ 53
Gross margin (%)	18%	16%	16%	16%
Average home selling price	$451,000	$499,000	$457,000	$494,000

Housing revenue in our Central and Eastern U.S. segment for the three months ended September 30, 2020 increased by $38 million when compared to the same period in 2019. The increase in revenue was primarily due to 108 additional home closings, mainly coming from our Austin market, partially offset by 10% lower average home selling prices, primarily due to both the geographic and product mix of homes closed within the operating segment as homes closed in Austin typically have a lower average selling price, and current period closings were more entry-level products. Gross margin increased $8 million as a result of additional homes closings when compared to the same period in 2019, and gross margin percentage increased 2% as a result of geographic and product mix.

Housing revenue in our Central and Eastern U.S. segment for the nine months ended September 30, 2020 increased by $44 million when compared to the same period in 2019. The increase in revenue was primarily due to 151 additional home closings, mainly coming from our Austin market, partially offset by 7% lower average home selling prices, primarily due to geographic and product mix of homes closed within the operating segment. Gross margin increased $7 million as a result of additional homes closings when compared to the same period in 2019, and gross margin percentage remained consistent.

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 and nine months ended September 30, 2020, total incentives recognized as a percentage of gross revenues remained consistent at 4% when compared to the same periods in 2019.

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

	Three Months Ended September 30			
	2020		2019	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 5	5%	$ 5	5%
California	3	2%	6	4%
Central and Eastern U.S.	8	5%	4	4%
	$ 16	4%	$ 15	4%

	Nine Months Ended September 30			
	2020		2019	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 11	5%	$ 18	6%
California	8	2%	16	3%
Central and Eastern U.S.	21	5%	14	4%
	$ 40	4%	$ 48	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 nine months ended September 30, 2020 totaled 1,144 units and 2,689 units, an increase of 376 units or 49%, and an increase of 294 units or 12%, respectively, when compared to the same periods in 2019. For the three months ended September 30, 2020, the increase in net new home orders was a result of higher net new orders across all of our operating segments, representing a strong increase in demand following easing of precautionary COVID-19 measures during the latter part of the second quarter. For the nine months ended September 30, 2020, the increase in net new home orders was primarily a result of higher net new orders in our California and Central and Eastern U.S. operating segments, partially offset by fewer net new orders in our Canadian operating segment when compared to the same period in 2019. Average monthly sales per community by reportable segment for the three and nine months ended September 30, 2020 were: Canada – 4 and 3 units (2019 – 3 and 3 units); California – 7 and 5 units (2019 – 4 and 4 units); Central and Eastern U.S. – 4 and 3 units (2019 – 2 and 3 units). We were selling from 84 active housing communities at September 30, 2020 compared to 91 at September 30, 2019.

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Units)	2020	2019	2020	2019
Canada	343	267	806	825
California	413	243	950	779
Central and Eastern U.S.	388	258	933	791
	1,144	768	2,689	2,395

Home Sales – Cancellations

The overall cancellation rates for the three and nine months ended September 30, 2020 were 9% and 14%, respectively, compared to 16% and 14% during the same period in 2019. The decrease in the cancellation rate for the three months ended September 30, 2020 was driven by a lower number of cancellations and higher net new orders across all of our operating segments, while overall cancellation rates for the nine months ended September 30, 2020 remained consistent when compared to the same period in 2019. The cancellation rates for the three and nine months ended September 30, 2020 and 2019 for our three land and housing operating segments were as follows:

	Three Months Ended September 30			
	2020		2019	
(Units, except percentages)	Units	% of Gross Home Orders	Units	% of Gross Home Orders
Canada	57	14%	66	20%
California	18	4%	30	11%
Central and Eastern U.S.	40	9%	52	17%
	115	9%	148	16%

	Nine Months Ended September 30			
	2020		2019	
(Units, except percentages)	Units	% of Gross Home Orders	Units	% of Gross Home Orders
Canada	198	20%	172	17%
California	81	8%	83	10%
Central and Eastern U.S.	147	14%	143	15%
	426	14%	398	14%

Home Sales – Backlog

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

	As at September 30			
	2020		2019	
(US$ millions, except unit activity)	Units	Value	Units	Value
Canada	705	$ 321	535	$ 198
California	619	375	402	296
Central and Eastern U.S.	611	277	547	250
Total	1,935	$ 973	1,484	$ 744

We expect all of our backlog to close between 2020 and 2022, subject to future cancellations. The units in our backlog for the nine months ended September 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 increased net new home orders from our California and Central and Eastern U.S. operating segments, partially offset by fewer net new home orders in our Canadian operating segment resulting from ongoing market conditions in Alberta. Total backlog value increased by $229 million when compared to the same period in 2019 mainly due to higher units in backlog overall and the product mix of the homes closed under contract.

Results of Operations – Land

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

Consolidated

	Three Months Ended September 30		**Nine Months Ended September 30**	
(US$ millions, except unit activity, percentages and average selling price)	**2020**	**2019**	**2020**	**2019**
Lot closings (single family units)	726	578	1,057	1,592
Acre closings (multi-family, industrial and commercial)	—	10	3	23
Acre closings (raw and partially finished)	—	134	—	134
Revenue	$ 73	$ 113	$ 108	$ 211
Gross margin	$ 21	$ 44	$ 32	$ 70
Gross margin (%)	29%	39%	30%	33%
Average lot selling price (single family units)	$ 100,000	$ 147,000	$ 99,000	$ 112,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ 870,000	$ 819,000	$ 607,000
Average per acre selling price (raw and partially finished)	$ —	$ 138,000	$ —	$ 138,000

Land revenue totaled $73 million and land gross margin totaled $21 million for three months ended September 30, 2020, a decrease of $40 million and $23 million, respectively, when compared to the same period in 2019. The decrease in land revenue was primarily the result of closing 134 raw and partially finished acres and 10 multi-family, industrial and commercial acres in 2019 with no comparative closings during the current period. Also contributing to the decrease were 32% lower average single family lot selling prices as a result of geographic mix of land sold, partially offset by 148 additional single family lot closings when compared to the same period in 2019, both mix and volume mainly from our Austin and Arizona markets. Gross margin declined primarily due to fewer multi-family, industrial and commercial acre sales, lower average single family lot selling prices, and geographic mix of land sold, as Austin and Arizona closings have a lower margin than Southern California where lot closings were concentrated from during the same period in 2019. Gross margin percentage decreased 10% compared to the same period in 2019, primarily due to the geographic mix of land sold.

Land revenue totaled $108 million and land gross margin totaled $32 million for the nine months ended September 30, 2020, a decrease of $103 million and $38 million, respectively, when compared to the same period in 2019. The decrease in land revenue was primarily due to 535 fewer single family lot closings and 12% lower 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. Also contributing to the decrease was closing 134 raw and partially finished acres in 2019 with no comparative closings in the current period, and 20 fewer multi-family, industrial and commercial acre closings. Gross margin declined primarily due to fewer single family lot sales at lower average selling prices, and geographic and product mix of land sold, as Austin and Arizona closings have a lower margin than Southern California where closings were concentrated during the prior period. Gross margin percentage decreased 3% compared to the same period in 2019, primarily due to the mix of land sold.

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 September 30		Nine Months Ended September 30	
	2020	**2019**	**2020**	**2019**
Lot closings (single family units)	230	214	406	505
Acre closings (multi-family, industrial and commercial)	—	8	3	10
Acre closings (raw and partially finished)	—	134	—	134
Revenue	$ 27	$ 52	$ 48	$ 85
Gross margin	$ 10	$ 23	$ 18	$ 41
Gross margin (%)	37%	44%	38%	48%
Average lot selling price (single family units)	$ 118,000	$ 121,000	$ 112,000	$ 113,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ 960,000	$ 819,000	$ 890,000
Average per acre selling price (raw and partially finished)	$ —	$ 138,000	$ —	$ 138,000

Land revenue in our Canadian segment for the three months ended September 30, 2020 was $27 million, a decrease of $25 million when compared to the same period in 2019. The decrease was primarily the result of closing 134 raw and partially finished acres and eight multi-family, industrial and commercial acres in 2019 with no comparative sales during the current period. Gross margin decreased $13 million compared to the same period during 2019 mainly as a result of fewer acre closings, and gross margin percentage decreased 7% due to the mix of land sold.

Land revenue in our Canadian segment for the nine months ended September 30, 2020 was $48 million, a decrease of $37 million when compared to the same period in 2019. The decrease was primarily the result of closing 134 raw and partially finished acres in 2019 with no comparative sale in the current period, 99 fewer single family lot closings, mainly in our Edmonton market, and seven fewer multi-family, industrial and acre closings. Gross margin decreased $23 million compared to the same period during 2019 mainly as a result of fewer closings, and gross margin percentage decreased 10% mainly due to the mix of land sold.

California

(US$ millions, except unit activity, percentages and average selling price)	Three Months Ended September 30		Nine Months Ended September 30	
	2020	**2019**	**2020**	**2019**
Lot closings (single family units)	87	203	138	250
Revenue	$ 13	$ 47	$ 19	$ 53
Gross margin	$ 1	$ 21	$ 3	$ 24
Gross margin (%)	8%	45%	16%	45%
Average lot selling price (single family units)	$ 151,000	$ 229,000	$ 141,000	$ 211,000

Land revenue in our California segment for the three months ended September 30, 2020 was $13 million, a decrease of $34 million when compared to the same period in 2019. The decrease was primarily the result of 167 fewer single family lot closings due to the timing of land sales and 34% lower average selling prices due to mix of land sold in our Southern California market. There were 14 lot closings at our Playa Vista community in 2019 with an average selling price of over $1 million, with no comparative closings in the current year. This was partially offset by 51 additional lot closings in our Northern California market. Gross margin decreased $20 million compared to the same period in 2019 mainly as a result of fewer lot closings, and gross margin percentage decreased 37% as a result of the geographic mix of land sold and the recognition of lower land gross margin on closings in our Southern California master-planned communities during the period.

Land revenue in our California segment for the nine months ended September 30, 2020 was $19 million, a decrease of $34 million when compared to the same period in 2019. The decrease was primarily the result of 112 fewer single family lot closings and 33% lower average selling prices due to mix of land sold in our Southern California market. Lot closings at our Playa Vista community in Southern California had a higher average selling price during 2019, while there were no such closings in the current period. Gross margin decreased $21 million compared to the same period in 2019 mainly as a result of fewer lot closings, and gross margin percentage decreased 29% as a result of the geographic mix of land sold and the recognition of lower land gross margin on 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 September 30 2020	Three Months Ended September 30 2019	Nine Months Ended September 30 2020	Nine Months Ended September 30 2019
Lot closings (single family units)	409	55	513	275
Acre closings (multi-family, industrial and commercial)	—	2	—	13
Revenue	$ 33	$ 5	$ 41	$ 25
Gross margin	$ 10	$ —	$ 11	$ 5
Gross margin (%)	30%	4%	27%	20%
Average lot selling price (single family units)	$ 79,000	$ 79,000	$ 79,000	$ 76,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ 493,000	$ —	$ 363,000

Land revenue in our Central and Eastern U.S. segment for the three months ended September 30, 2020 was $33 million, an increase of $28 million when compared to the same period in 2019. The increase was primarily the result of 354 additional single family lot closings, mainly coming from our Austin and Arizona markets. In our Arizona market, 189 lot closings came from the launch of a new wholly-owned community, where there were no wholly-owned communities in Arizona during 2019. Gross margin increased $10 million when compared to the same period in 2019 due to the additional closings, and gross margin percentage increased 27% 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 nine months ended September 30, 2020 was $41 million, an increase of $16 million when compared to the same period in 2019. The increase was primarily the result of 238 additional single family lot closings, mainly coming from our Austin and Arizona markets, and 4% higher average single family lot selling prices primarily due to the geographic mix of lots sold during the period. This was partially offset by 13 multi-family, industrial and commercial acre closings in 2019 with no comparative closings in the current period. Gross margin increased by $6 million due to additional lot closings at a higher average selling price, while gross margin percentage increased 8% as a result of the mix of land sold within the operating segment.

Earnings from Unconsolidated Entities - Land and Housing

Earnings from land and housing unconsolidated entities for the three and nine months ended September 30, 2020 totaled $9 million and $14 million, compared to $9 million and $24 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 September 30 2020	Three Months Ended September 30 2019	Nine Months Ended September 30 2020	Nine Months Ended September 30 2019
Lot closings (single family units)	408	251	530	786
Acre closings (multi-family, industrial and commercial)	—	—	1	1
Revenue	36	52	55	109
Gross margin	$ 10	$ 14	$ 15	$ 34
Gross margin (%)	28%	27%	27%	31%
Average lot selling price (single family units)	$ 88,000	$ 208,000	$ 103,000	$ 138,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ —	$ 297,000	$ 106,000

Land revenue within unconsolidated entities decreased $16 million and gross margin decreased $4 million for the three months ended September 30, 2020 when compared to the same period in 2019. This was primarily the result of lower average single family lot selling prices due to the mix of land sold within our unconsolidated land and housing entities, partially offset by 157 additional single family lot closings, with both changes mainly coming from our Phoenix joint ventures.

Land revenue within unconsolidated entities decreased $54 million and gross margin decreased $19 million for the nine months ended September 30, 2020 compared to the same period in 2019. This was primarily the result of 256 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, and a 25% decrease in average single family lot selling price due to mix of land sold within our unconsolidated land and housing entities when compared to the prior period.

Loss from Unconsolidated Entities - Affiliate

A summary of Brookfield Residential's share of loss from affiliate unconsolidated entities is as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
(US$ millions)	**2020**	**2019**	**2020**	**2019**
Loss from Unconsolidated Entities - Affiliate	(9)	—	(32)	—

For the three and nine months ended September 30, 2020, loss from affiliate unconsolidated entities was $9 million and $32 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 at the end of the third quarter of 2019 and no earnings pickup was recorded at that time (see Note 8 "Reorganization Transaction" of the condensed consolidated financial statements for additional information relating to the transaction).

Selling, General and Administrative Expense

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

	Three Months Ended September 30		**Nine Months Ended September 30**	
(US$ millions)	**2020**	**2019**	**2020**	**2019**
General and administrative expense	$ 33	$ 28	$ 92	$ 97
Sales and marketing expense	27	28	74	82
Share-based compensation	1	4	6	12
	$ 61	$ 60	$ 172	$ 191

Selling, general and administrative expense was $61 million for the three months ended September 30, 2020, an increase of $1 million when compared to the same period in 2019. General and administrative expense increased $5 million for the three months ended September 30, 2020 primarily due to an increase in management fees charged by Brookfield Properties Development when compared to the prior period. The 2020 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 September 30, 2020 decreased $1 million when compared to the same period in 2019, primarily due to a decrease in the number of active communities and decreased marketing spend. Share-based compensation expense decreased $3 million primarily resulting from the change in fair value of our share-based compensation liabilities for the three months ended September 30, 2020 compared to the same period in 2019.

Selling, general and administrative expense was $172 million for the nine months ended September 30, 2020, a decrease of $19 million when compared to the same period in 2019. General and administrative expense decreased $5 million for the nine months ended September 30, 2020 primarily due to cost efficiencies as a result of entering into the management agreement with Brookfield Properties Development, partially offset by an increase in management fees during the current period. Sales and marketing expense for the nine months ended September 30, 2020 decreased $8 million when compared to the same period in 2019, primarily due to lower housing activity and fewer active communities. Share-based compensation decreased by $6 million primarily resulting from the change in fair value of our share-based compensation liabilities for the nine months ended September 30, 2020 compared to the same period in 2019.

Other (Income) / Expense

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

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions)	**2020**	**2019**	**2020**	**2019**
Investment income	$ (8)	$ (5)	$ (23)	$ (16)
Preferred share dividend income	(6)	(6)	(18)	(15)
Joint venture management fee income	(3)	(3)	(10)	(9)
Other	(3)	(8)	(11)	(8)
Consent solicitation costs	—	6	—	6
Loss on extinguishment of debt	—	3	15	3
	$ (20)	$ (13)	$ (47)	$ (39)

For the three months ended September 30, 2020, other income increased $7 million when compared to the same period in 2019. This was the result of a $3 million increase in investment income primarily from higher interest earned from our Homebuilder Finance program, and $9 million in consent solicitation and debt extinguishment costs during 2019 with no comparative amounts during the current period. This was partially offset by a $5 million decrease in other income, which is primarily related to an increase in write-offs of prospective projects, and the recognition of a metro receivable in the prior period with no comparable income during 2020.

For the nine months ended September 30, 2020, other income increased $8 million when compared to the same period in 2019. This was the result of a $7 million increase in investment income primarily from higher interest earned from our Homebuilder Finance program, $6 million in consent solicitation costs during 2019 with no comparative amounts during the current period, a $3 million increase in dividend income from our preferred share investments, a $3 million increase in other income primarily due to recovery of office lease expenditures from Brookfield Properties Development, and a $1 million increase in joint venture management fee income. This was partially offset by a $12 million increase in debt extinguishment costs related to 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 in 2020. 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 nine months ended September 30, 2020 was $nil and $1 million, respectively, compared to $5 million and $7 million for the same periods in 2019. The components of current and deferred income tax expense are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(US$ millions)	**2020**	**2019**	**2020**	**2019**
Current income tax (recovery) / expense	$ (2)	$ 10	$ 6	$ 12
Deferred income tax expense / (recovery)	2	(5)	(5)	(5)
	$ —	$ 5	$ 1	$ 7

For the three and nine months ended September 30, 2020, current income tax expense decreased $12 million and $6 million, respectively, when compared to the same periods in 2019. The decrease in current income taxes for the nine months ended September 30, 2020 is primarily due to the impact of the Reorganization Transaction that occurred in September 2019 which resulted in our investment in Brookfield Residential US LLC ("BRUS LLC") to be held in a limited liability company treated as a partnership for tax purposes that is 10% held by the Company and 90% held by Brookfield US Inc. ("BUSI"). As a result, the Company recorded current income tax expense on 10% of the taxable income from our U.S. operations in 2020. This was partially offset by an increase in current tax expense due to the impact of the release of certain final U.S. tax regulations in the second quarter of 2020.

For the three and nine months ended September 30, 2020, deferred income tax recovery decreased $7 million and $nil, respectively, when compared to the same periods in 2019. The change in deferred income taxes for the nine months ended September 30, 2020 primarily relates to an increase in tax recovery of $3 million as a result of lower taxable income in Canada when compared to the same periods in 2019 and a deferred 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. This was partially offset by an increase in valuation allowance of $8 million relating to the outside basis difference in our investment in affiliate unconsolidated entities. There was no comparable transaction for the same periods in 2019.

Foreign Exchange Translation

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

Assets and liabilities of subsidiaries or unconsolidated entities having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at September 30, 2020, the rate of exchange was C$1.3319 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 September 30, 2020, the average rate of exchange was C$1.3320 equivalent to US$1 (September 30, 2019 – C$1.3202 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 $15 million and a loss of $19 million, respectively for the three and nine months ended September 30, 2020, compared to a loss of $8 million and a gain of $21 million, respectively, in the same periods of 2019.

QUARTERLY OPERATING AND FINANCIAL DATA

(US$ millions, except unit activity and per share amounts)	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4
Quarterly Operating Data								
Home closings (units)	850	634	544	882	674	763	611	1,107
Lot closings (single family units)	726	164	167	1,578	578	756	258	1,655
Acre closings (multi-family, industrial and commercial)	—	—	3	20	10	3	10	27
Acre closings (raw and partially finished)	—	—	—	18	134	—	—	—
Net new home orders (units)	1,144	622	921	671	768	867	760	506
Backlog (units)	1,935	1,638	1,650	1,273	1,484	1,390	1,286	1,137
Backlog value	$ 973	$ 771	$ 750	$ 603	$ 744	$ 730	$ 685	$ 612
Quarterly Financial Data								
Revenue	$ 453	$ 323	$ 312	$ 656	$ 461	$ 476	$ 346	$ 796
Direct cost of sales	(361)	(268)	(257)	(520)	(356)	(397)	(279)	(619)
Gross margin	92	55	55	136	105	79	67	177
Gain on sale of commercial properties	—	—	—	—	—	—	—	6
Selling, general and administrative expense	(61)	(53)	(58)	(53)	(60)	(65)	(66)	(93)
Interest expense	(2)	—	(3)	(10)	(9)	(8)	(9)	(9)
Earnings / (Loss) from unconsolidated entities	—	4	(22)	34	9	11	4	5
Other income	19	19	4	15	12	9	14	15
Lease expense	(4)	(3)	(3)	(3)	(3)	(3)	(3)	—
Income / (Loss) before income taxes	44	22	(27)	119	54	23	7	101
Income tax (expense) / recovery	—	(5)	4	2	(5)	(6)	4	(22)
Net income / (loss)	44	17	(23)	121	49	17	11	79
Net income / (loss) attributable to non-controlling interest	30	5	(8)	41	1	1	1	2
Net income / (loss) attributable to Brookfield Residential	$ 14	$ 12	$ (15)	$ 80	$ 48	$ 16	$ 10	$ 77
Foreign currency translation	15	27	(60)	15	(8)	14	15	(42)
Comprehensive income / (loss)	$ 29	$ 39	$ (75)	$ 95	$ 40	$ 30	$ 25	$ 35
Basic	$ 0.11	$ 0.10	$ (0.12)	$ 0.61	$ 0.37	$ 0.12	$ 0.08	$ 0.59
Diluted	$ 0.11	$ 0.10	$ (0.12)	$ 0.61	$ 0.37	$ 0.12	$ 0.08	$ 0.59

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 in exchange 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 September 30, 2020 and December 31, 2019:

	As at			
(US$ millions)		September 30 2020		December 31 2019
Cash and restricted cash	$	109	$	124
Receivables and other assets		726		488
Land and housing inventory		2,813		3,059
Investments in unconsolidated entities - land and housing		344		330
Investment in unconsolidated entities - affiliate		602		634
Held-to-maturity investment		300		300
Commercial properties		679		469
Operating and financing lease right-of-use asset		83		90
Deferred income tax assets		53		49
Goodwill		16		16
	$	5,725	$	5,559
Accounts payable and other liabilities	$	558	$	577
Bank indebtedness and other financings		414		228
Notes payable		1,612		1,617
Operating and financing lease liability		89		93
Total equity		3,052		3,044
	$	5,725	$	5,559

Assets

Our assets as at September 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 lower land acquisitions in 2020, partially offset by continued 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 September 30, 2020 compared with December 31, 2019 is as follows:

	As at					
	September 30, 2020			December 31, 2019		
(US$ millions, except units)	Units	Book Value		Units	Book Value	
Land held for development (lot equivalents)	65,180	$	1,362	67,008	$	1,386
Land under development and finished lots (single family units)	6,237		729	10,492		952
Housing units, including models	2,021		662	2,054		615
	73,438	$	2,753	79,554	$	2,953
Multi-family, industrial and commercial parcels (acres)	136	$	60	140	$	105

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at September 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)	188	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	—
	1,638	1,642
Transaction costs (f)	(26)	(25)
	$ 1,612	$ 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 nine months ended September 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.

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. The Company was in compliance with these financial incurrence covenants as at September 30, 2020.

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

	Covenant	Actual as at September 30 2020
Minimum fixed charge coverage	2.0 to 1	2.52 to 1
Maximum indebtedness to consolidated tangible net worth	2.25 to 1	0.68 to 1
Maximum net indebtedness to consolidated tangible net worth	3.0 to 1	0.66 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 September 30, 2020 were $414 million, an increase of $186 million from December 31, 2019. The increase was primarily the result of borrowings from our project-specific facilities to fund the construction at our Nashville and Honolulu mixed-use projects, and our bank indebtedness to fund our land development, home construction, and strategic acquisitions. As of September 30, 2020, the weighted average interest rate on our bank indebtedness and other financings was 4.4% (December 31, 2019 – 4.8%).

Future debt maturities are expected to either be refinanced or repaid from home closings, lot closings, or proceeds from mixed-use developments over this period. Additionally, as at September 30, 2020, we had bank indebtedness capacity of $566 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)	September 30 2020	December 31 2019
Project-specific financings (a)	$ 314	$ 180
Secured VTB mortgages (b)	75	55
Bank indebtedness (c)	34	—
Due to affiliates (d)	—	—
	423	235
Transaction costs (a)(c)	(9)	(7)
	$ 414	$ 228

(a) Project-specific financings

(i) As at September 30, 2020, the Company has two Canadian project-specific financings totaling $45 million (C$60 million) provided by various lenders (December 31, 2019 - $47 million (C$62 million)).

Project-specific financing totaling $38 million (C$50 million) (December 31, 2019 - $40 million (C$52 million)) has an interest rate of Canadian Prime + 0.5%, 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. 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 September 30, 2020.

The following table reflects the debt to equity ratio covenant:

	Covenant	Actual as at September 30 2020
Maximum debt to equity ratio	1.50 to 1	0.60 to 1

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 2021, is secured and without 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 September 30, 2020, there were $259 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 September 30, 2020. The following table reflects the covenants:

(US$ millions)	**Covenant**	**Actual as at September 30 2020**
Minimum liquidity	$ 36	$ 594
Minimum net worth	$ 360	$ 1,160

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 September 30, 2020, there were $10 million of 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 September 30, 2020. The following table reflects the covenants:

(US$ millions)	**Covenant**	**Actual as at September 30 2020**
Minimum liquidity	$ 75	$ 594
Minimum net worth	$ 250	$ 1,329

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) Secured VTB mortgages

The Company has 13 secured VTB mortgages (December 31, 2019 – 13 secured VTB mortgages) in the amount of $75 million (December 31, 2019 – $55 million).

11 secured VTB mortgages (December 31, 2019 – eight secured VTB mortgages) in the amount of $59 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$79 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 1.0% to 2.0% and the debt is secured by the related land. As at September 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 September 30 2020**
Minimum shareholder's equity	$ 200	$ 586

As at September 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 4% and the debt is secured by the related land. As at September 30, 2020, these borrowings are not subject to any financial covenants.

(c) Bank indebtedness

On September 4, 2020, the Company and BRUS LLC finalized the amendment and extension of the North American unsecured revolving credit facility. The unsecured revolving credit facility was extended through September 2022 on substantially the same terms and conditions, allowing the Company to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

As at September 30, 2020, the total borrowings outstanding under the North American unsecured revolving credit facility were $34 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 2.50% and 3.00% per annum or an alternative base rate ("ABR") plus an applicable rate between 1.50% and 2.50% 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 2.50% and 3.00% per annum or the Canadian prime rate plus an applicable rate between 1.50% and 2.00% 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 $2.3 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at September 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 September 30 2020**
Minimum tangible net worth	$ 2,270	$ 3,035
Maximum total debt to capitalization	65%	41%

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

(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 September 30, 2020, the Company had no borrowings outstanding (December 31, 2019 - $nil). 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 September 30, 2020 and December 31, 2019 was as follows:

	As at	
(US$ millions, except percentages)	**September 30 2020**	**December 31 2019**
Bank indebtedness and other financings	$ 414	$ 228
Notes payable	1,612	1,617
Total interest bearing debt	2,026	1,845
Less: cash	(92)	(110)
	1,934	1,735
Total equity	3,052	3,044
Total capitalization	$ 4,986	$ 4,779
Net debt to total capitalization	39%	36%

Credit Ratings

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

Cash Flow

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

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

At September 30, 2020, we had cash and cash equivalents, including restricted cash, of $109 million, compared to $124 million at December 31, 2019.

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

	Nine Months Ended September 30	
(US$ millions)	2020	2019
Cash flows used in operating activities	$ (118)	$ (271)
Cash flows (used in) / provided by investing activities	(32)	25
Cash flows provided by financing activities	135	250
Effect of foreign exchange rates on cash	—	(2)
	$ (15)	$ 2

Cash Flow Used in Operating Activities

Cash flows used in operating activities during the nine months ended September 30, 2020 totaled $118 million, compared to $271 million for the same period 2019. During the nine months ended September 30, 2020, cash used in operating activities was primarily impacted by our net income, an increase in commercial properties, a decrease in land and housing inventory due to sales activity and turnover of inventory, an increase in receivables and other assets, a decrease in accounts payable and other liabilities and a decrease in operating lease liabilities. Acquisitions of land and housing inventory for the nine months ended September 30, 2020 totaled $123 million, consisting of $65 million in Canada, $41 million in California and $17 million in Central and Eastern U.S. The increase in commercial properties of $181 million was largely due to continued construction at our Nashville and Honolulu mixed-use development projects. During the nine months ended September 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 nine months ended September 30, 2019 totaled $290 million, consisting of $47 million in Canada, $116 million in California and $47 million in Central and Eastern U.S and $80 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 nine months ended September 30, 2020, cash flows used in investing activities totaled $32 million compared to cash flows provided by our investing activities of $25 million for the same period in 2019. During the nine months ended September 30, 2020, we had an increase in our loan receivables of $30 million and made investments of $24 million in land and housing unconsolidated entities primarily in our joint ventures in Southern California and the Brookfield Single Family Rental fund (See Note 21 "Commitments, Contingent Liabilities and Other" in the condensed consolidated financial statements for additional information surrounding the Brookfield Single Family Rental fund). This was partially offset by $22 million distributions from our unconsolidated entities. During the nine months ended September 30, 2019, we received $300 million from the full redemption of our held-to-maturity investment in Brookfield BPY Holdings Inc., invested $300 million for our held-to-maturity investment in Brookfield International Limited and received dividend income relating to these investments of $15 million. We also received $20 million in distributions from our unconsolidated entities, collected $17 million on our real-estate loan receivables, and acquired $5 million of cash from common control transactions. This was partially offset by our investment of $32 million in 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 nine months ended September 30, 2020 totaled $135 million, compared to $250 million for the same period in 2019. The cash provided by our financing activities during the nine months ended September 30, 2020 was primarily from $134 million net borrowings under project-specific and other financings, drawings on bank indebtedness of $34 million, and contributions from non-controlling interest of $18 million, partially offset by distributions to non-controlling interest of $31 million, $9 million of costs related to the extinguishment of the unsecured senior notes due in 2022, $9 million of costs related to the issuance of the unsecured senior notes due in 2030, and $2 million of costs related to the amendment and extension of the Company's unsecured revolving credit facility. 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 nine months ended September 30, 2019 cash provided by our financing activities was primarily from $154 million net drawings on our bank indebtedness and net borrowings under project-specific and other financings of $120 million. This was partially offset by net contributions to non-controlling interest of $6 million. Additionally, the Company's unsecured senior notes due in 2020 were redeemed in full using the net proceeds from the issuance of the unsecured senior notes due in 2027, together with cash on hand. A total of $11 million in debt issuance costs were incurred with the issuance of the unsecured senior notes due in 2027 and $8 million in consent fees relating to the senior notes due in 2022, 2023 and 2025. The Company also repaid the $200 million that was received under a deposit agreement with a subsidiary of BAM.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at September 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]	$ 1,638	$ —	$ 188	$ 350	$ 1,100
Interest on notes payable	701	126	222	168	185
Secured VTB mortgages[2][3]	75	47	22	6	—
Bank indebtedness[2][3]	34	—	34	—	—
Project-specific financings[2][3]	314	45	10	259	—
Accounts payable and other liabilities[4]	558	558	—	—	—
Operating and financing lease obligations[5]	406	5	20	17	364
Purchase agreements and other obligations[6]	415	44	351	18	2

(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 21 to the condensed consolidated financial statements for additional information regarding purchase agreements and other obligations.

Shareholders' Equity

At November 4, 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 November 4, 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 nine months ended September 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 September 30, 2020, we had $88 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 6,699 lots and control under option 1,001 lots through our proportionate share of land and housing unconsolidated entities. As of September 30, 2020, our investment in land and housing unconsolidated entities totaled $344 million. We have provided varying levels of guarantees of debt in our land and housing unconsolidated entities. As of September 30, 2020, we had recourse guarantees of $31 million with respect to debt in our land and housing unconsolidated entities. During the nine months ended September 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 September 30, 2020, we had $73 million in letters of credit outstanding and $548 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds as at September 30, 2020 are $47 million and $180 million, respectively.

Transactions Between Related Parties

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

- During the nine months ended September 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 nine months ended September 30, 2020, the Company incurred $22 and $59 million, respectively, of management fees (three and nine months ended September 30, 2019 - $1 million and $19 million, respectively). These transactions were recorded at the exchange amount within selling, general and administrative expense and commercial properties.
- During the nine months ended September 30, 2020, the Company entered into an agreement with Brookfield Properties Development to provide financing of up to $50 million. As at September 30, 2020, the loan had an outstanding balance of $40 million that was recorded within receivables and other assets.
- During the three and nine months ended September 30, 2020, the Company earned $6 million and $18 million, respectively, of dividends from the preferred shares of Brookfield International Ltd. (three and nine months ended September 30, 2019 - $6 and $8 million of dividends earned, respectively) that have been recorded in the condensed consolidated statements of operations within other income. As at September 30, 2020, a total of $30 million of accrued dividends is recorded within receivables and other assets**.** These transactions were recorded at the exchange amount.

- During the nine months ended September 30, 2020, the Company entered into an agreement for the management of the retail operations at our Nashville mixed-use project and during the nine months ended September 30, 2020, the Company paid management fees of $2 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 nine months ended September 30, 2020, the Company paid $0.1 million to Brookfield Asset Management Inc. for Canadian tax credits (nine months ended September 30, 2019 - $0.2 million). The transactions were recorded at the exchange amount.
- During the nine months ended September 30, 2019, the Company received $300 million from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. that was recorded in the condensed consolidated balance sheets. The Company also received $nil and $7 million of dividends from these preferred shares for the three and nine months ended September 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 nine months ended September 30, 2019, the Company entered into a $300 million deposit agreement with a subsidiary of BAM, and no borrowings were outstanding under the facility at September 30, 2020 or September 30, 2019 as the Company repaid $200 million during the three months ended September 30, 2019. During the three and nine months ended September 30, 2019, the Company paid $2 million of interest.
- During the nine months ended September 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 in the condensed consolidated balance sheets within held-to-maturity investments. The transaction was recorded at the exchange amount.
- On September 26, 2019, the Company completed a reorganization with BUSI, a wholly-owned subsidiary of BAM, whereby the Company transferred its investment in its U.S. homebuilding operations for a 12.3% economic interest and a 50% voting interest in BUSI. The Company consolidated Meadows and Hayden I that were previously owned by BUSI as part of the Reorganization Transaction. This transaction was treated as a common control transaction.

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	**September 30 2020**	**December 31 2019**
Assets			
Cash and cash equivalents		$ 92,189	$ 109,923
Restricted cash	4	16,705	13,818
Receivables and other assets	5	726,105	488,716
Land and housing inventory	6	2,812,559	3,058,624
Investments in unconsolidated entities - land and housing	7	343,755	330,597
Investments in unconsolidated entities - affiliate	7	602,429	634,028
Held-to-maturity investment	9	300,000	300,000
Commercial properties	10	679,034	468,519
Operating and financing lease right-of-use asset	11	82,726	89,750
Deferred income tax assets	12	53,353	49,392
Goodwill		16,479	16,479
Total assets		$ 5,725,334	$ 5,559,846
Liabilities and Equity			
Accounts payable and other liabilities	13	$ 557,680	$ 577,074
Bank indebtedness and other financings	14	414,450	228,147
Notes payable	15	1,611,901	1,616,545
Operating and financing lease liability	11	89,652	92,834
Total liabilities		2,673,683	2,514,600
Common shares	17	626,594	626,594
Additional paid-in-capital	8	—	—
Retained earnings		1,397,981	1,382,130
Non-controlling interest - affiliate	16	1,031,309	1,012,242
Non-controlling interest - land and housing	16	139,864	149,574
Accumulated other comprehensive loss		(144,097)	(125,294)
Total equity		3,051,651	3,045,246
Total liabilities and equity		$ 5,725,334	$ 5,559,846
Commitments, contingent liabilities and other	21		
Guarantees	22		
Subsequent events	27		

See accompanying notes to the condensed consolidated financial statements

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

		(Unaudited)			
		Three Months Ended September 30		**Nine Months Ended September 30**	
	Note	**2020**	**2019**	**2020**	**2019**
Revenue					
Housing	3	$ 380,456	$ 347,963	$ 980,511	$ 1,071,639
Land	3	72,554	112,688	107,589	211,188
Total revenue		453,010	460,651	1,088,100	1,282,827
Direct Cost of Sales					
Housing		(309,088)	(286,649)	(811,931)	(891,944)
Land		(52,030)	(68,847)	(75,129)	(140,423)
Total direct cost of sales		(361,118)	(355,496)	(887,060)	(1,032,367)
Gross margin		91,892	105,155	201,040	250,460
Selling, general and administrative expense		(61,274)	(60,152)	(171,984)	(191,448)
Interest expense		(2,710)	(9,256)	(4,944)	(25,960)
Earnings from unconsolidated entities - land & housing	7	9,277	8,679	13,869	23,749
Loss from unconsolidated entities - affiliate	7	(8,973)	—	(31,861)	—
Other income	20	20,325	13,722	46,600	39,181
Lease expense	11	(3,783)	(2,679)	(10,257)	(8,512)
Depreciation		(1,208)	(1,127)	(3,368)	(3,332)
Income Before Income Taxes		43,546	54,342	39,095	84,138
Current income tax recovery / (expense)	12	2,085	(9,834)	(5,812)	(11,698)
Deferred income tax (expense) / recovery	12	(2,248)	5,014	5,097	4,674
Net Income		43,383	49,522	38,380	77,114
Other Comprehensive Income / (Loss)					
Unrealized foreign exchange gain / (loss) on:					
Translation of the net investment in Canadian subsidiaries and unconsolidated entities - affiliate		18,687	(10,090)	(23,578)	26,540
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		(3,550)	2,050	4,775	(5,550)
Comprehensive Income		$ 58,520	$ 41,482	$ 19,577	$ 98,104
Net Income Attributable To:					
Consolidated		$ 43,383	$ 49,522	$ 38,380	$ 77,114
Non-controlling interest - land and housing	16	3,008	1,197	9,374	2,307
Non-controlling interest - affiliate	16	26,229	—	17,748	—
Brookfield Residential		$ 14,146	$ 48,325	$ 11,258	$ 74,807
Comprehensive Income / (Loss) Attributable To:					
Consolidated		$ 58,520	$ 41,482	$ 19,577	$ 98,104
Non-controlling interest - land and housing	16	3,008	1,197	9,374	2,307
Non-controlling interest - affiliate	16	26,229	—	17,748	—
Brookfield Residential		$ 29,283	$ 40,285	$ (7,545)	$ 95,797
Common Shareholders Earnings Per Share					
Basic	19	$ 0.11	$ 0.37	$ 0.09	$ 0.58
Diluted	19	$ 0.11	$ 0.37	$ 0.09	$ 0.58
Weighted Average Common Shares Outstanding *(in thousands)*					
Basic	19	129,757	129,757	129,757	129,757
Diluted	19	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)	
		Nine Months Ended September 30	
	Note	**2020**	**2019**
Common Shares	17		
Opening balance		$ 626,594	$ 626,594
Ending balance		626,594	626,594
Additional Paid-in-Capital			
Opening balance		—	367,433
Impact of common control Reorganization Transaction	8	—	(367,433)
Ending balance		—	—
Retained Earnings			
Opening balance		1,382,130	1,236,092
Impact of common control Reorganization Transaction		—	(1,825)
Net income attributable to Brookfield Residential		11,258	74,807
Other		4,593	—
Ending balance		1,397,981	1,309,074
Accumulated Other Comprehensive Loss			
Opening balance		(125,294)	(161,356)
Other comprehensive (loss) / income		(18,803)	20,990
Ending balance		(144,097)	(140,366)
Total Brookfield Residential Equity		$ 1,880,478	$ 1,795,302
Non-Controlling Interest	16		
Opening balance		$ 1,161,816	$ 53,832
Non-controlling interest attributable to common control transactions	8	—	975,823
Net income attributable to non-controlling interest		27,121	2,307
Distributions		(13,171)	(6,042)
Other		(4,593)	—
Ending balance		$ 1,171,173	$ 1,025,920
Total Equity		$ 3,051,651	$ 2,821,222

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)	
	Nine Months Ended September 30	
Cash Flows (Used in) Operating Activities	**2020**	**2019**
Net income	$ 38,380	$ 77,114
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities - land and housing	(9,222)	(13,238)
Undistributed loss from unconsolidated entities - affiliate	31,861	—
Deferred income tax recovery	(5,097)	(4,674)
Share-based compensation expense	6,449	12,506
Depreciation	3,368	3,332
Right-of-use asset depreciation	5,572	3,955
Amortization of non-cash interest	5,644	4,518
Loss on extinguishment of debt	15,030	3,578
Dividend income on held-to-maturity investment	(18,017)	(14,697)
Changes in operating assets and liabilities:		
Increase in receivables and other assets	(7,089)	(21,296)
Decrease / (Increase) in land and housing inventory	21,494	(145,968)
Increase in commercial properties	(181,426)	(145,493)
Decrease in operating lease liabilities	(2,093)	(1,083)
Decrease in accounts payable and other liabilities	(22,409)	(29,982)
Net cash used in operating activities	(117,555)	(271,428)
Cash Flows (Used in) / Provided by Investing Activities		
Investments in unconsolidated entities - land and housing	(24,203)	(32,439)
Distributions from unconsolidated entities - land and housing	22,564	19,956
Redemption of held-to-maturity investments	—	300,000
Purchase of held-to-maturity investments	—	(300,000)
Dividend income on held-to-maturity investment	—	14,697
(Increase) / Decrease in loan receivable	(30,288)	17,023
Cash acquired from common control Reorganization Transaction	—	5,989
Net cash (used in) / provided by investing activities	(31,927)	25,226
Cash Flows Provided by Financing Activities		
Deposits from affiliates	—	200,000
Repayments on affiliate deposits	—	(200,000)
Drawings under project-specific and other financings	161,651	122,286
Repayments under project-specific and other financings	(27,198)	(1,959)
Net drawings on bank indebtedness	34,500	154,479
Drawings under unsecured senior notes payable	500,000	600,000
Repayments under unsecured senior notes payable	(500,000)	(600,000)
Payments of debt issuance costs	(11,449)	(18,349)
Payments of debt extinguishment costs	(8,930)	—
Distributions to non-controlling interest	(31,439)	(6,210)
Contributions from non-controlling interest	18,270	168
Payments made on the principal of financing leases	(138)	(154)
Net cash provided by financing activities	135,267	250,261
Effect of foreign exchange rates on cash and cash equivalents	(632)	(2,069)
Change in cash, cash equivalents and restricted cash	(14,847)	1,990
Cash, cash equivalents and restricted cash at beginning of period	123,741	73,132
Cash, cash equivalents and restricted cash at end of period	$ 108,894	$ 75,122
Supplemental Cash Flow Information		
Cash interest paid	$ 91,803	$ 85,204
Cash taxes paid	$ 3,043	$ 25,718

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 25 "Segmented Information" for detailed information about the Company's reportable segments.

(i) *Land Sales:* The land operations of the Company principally generate revenue from developing land for its own communities and selling lots to other homebuilders and third parties. The Company's duration of land contracts vary; however, the typical length of a contract is less than one year. Revenues from land sales are recognized at a point in time when the Company's performance obligations are achieved. Performance obligations are satisfied when title has transferred and all material conditions of the sales contract have been met. Generally, all elements of the transaction price are allocated to one performance obligation. Certain components of the transaction price that are considered constrained at the time the performance obligation is satisfied are recognized when it is determined that it is 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, are being developed to produce leasing revenue at a future date, or are being developed for eventual sale. 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 18 “Share-Based Compensation” for further discussion.

(n) Foreign Currency Translation

The functional and presentation currency of the Company is the U.S. dollar. Each of the Company’s subsidiaries, affiliates and jointly controlled entities determines its own functional currency and items included in the financial statements of each subsidiary and affiliate are measured using that functional currency. The Company’s Canadian operations are self-sustaining and have a Canadian dollar functional currency. The financial statements of its 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 "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 23 "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 “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 September 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.

ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform*, was issued in March 2020, and is effective from March 12, 2020 through December 31, 2022. The update provides optional guidance for a limited period of time to ease the potential burden of reference rate reform on financial reporting, in response to concerns about structural risks of interbank offered rates (IBOR), and particularly, the risk of cessation of the London Interbank Offered Rate (LIBOR). Adoption of this 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 nine months ended September 30, 2020, the Company recognized $nil and $0.2 million (September 30, 2019 - $0.6 million and $1.1 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 September 30, 2020, the Company has restricted cash consisting of (i) $16.6 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	
	September 30 2020	**December 31 2019**
Receivables (a)	$ 404,414	$ 373,988
Other assets (b)	321,691	114,728
	$ 726,105	$ 488,716

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

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

	As at	
	September 30 2020	**December 31 2019**
Development recovery receivables (i)	$ 106,996	$ 113,980
Loan receivables (ii)	106,542	76,254
Real estate receivables (iii)	90,092	119,002
Sundry receivables (iv)	46,400	24,297
Preferred shares dividends receivable (v)	30,115	12,099
Proceeds and escrow receivables (vi)	16,648	20,611
Refundable deposits	7,621	7,745
	$ 404,414	$ 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% or 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 nine months ended September 30, 2020, $1.2 million and $9.7 million, respectively, of principal was collected (three and nine months ended September 30, 2019 - $1.4 million and $17.0 million). As at September 30, 2020, the loan had an outstanding balance of $66.6 million (December 31, 2019 - $76.3 million).

During the nine months ended September 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 September 30, 2020, the loan had an outstanding balance of $40.0 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 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 $30.1 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 September 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	
	September 30 2020	**December 31 2019**
Homebuilder finance assets (i)	$ 220,316	$ —
Non-refundable earnest funds and investigation fees (ii)	29,949	27,124
Capitalized sales and marketing costs (iii)	29,107	31,115
Other	16,701	15,168
Capital assets (iv)	15,821	26,878
Prepaid expenses	9,797	14,443
	$ 321,691	$ 114,728

(i) Homebuilder finance assets represents the Company's Homebuilder Finance program's investment in land assets of $220.3 million, which has been reclassified from inventory to other assets in accordance with ASC 946 *Financial Services - Investment Companies* (December 31, 2019 – $174.0 million was recorded in land and housing inventory).

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

(iii) 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 $31.7 million (December 31, 2019 – $25.4 million).

(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 $22.9 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	
	September 30 2020	**December 31 2019**
Land held for development	$ 1,362,418	$ 1,386,340
Land under development	788,180	1,056,884
Housing inventory	559,686	504,643
Model homes	102,275	110,757
	$ 2,812,559	$ 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 23 "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 nine months ended September 30, 2020 and 2019 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	**2019**	**2020**	**2019**
Interest capitalized, beginning of period	$ 195,183	$ 210,969	$ 173,352	$ 197,687
Interest capitalized	20,559	17,478	64,219	52,757
Interest expensed to cost of sales	(17,328)	(13,000)	(39,157)	(34,997)
Interest capitalized, end of period	$ 198,414	$ 215,447	$ 198,414	$ 215,447

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 $88.2 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 $76.2 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	$ 5,103
2021	27	1,978
2022	27	7,221
2023	1,234	3,093
2024	75	1,578
Thereafter	5,989	57,236
	8,229	$ 76,209

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 September 30, 2020, the Company invested in 14 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 $41.5 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	
	September 30 2020	December 31 2019
Assets		
Land and housing inventory	$ 705,055	$ 720,970
Investments in unconsolidated entities	146,218	151,524
Other assets	195,701	138,837
	$ 1,046,974	$ 1,011,331
Liabilities and Equity		
Bank indebtedness and other financings	$ 118,397	$ 113,194
Accounts payable and other liabilities	102,637	117,408
Brookfield Residential's interest	343,755	330,597
Others' interest	482,185	450,132
	$ 1,046,974	$ 1,011,331

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Revenue and Expenses				
Revenue	$ 77,867	$ 59,426	$ 132,751	$ 183,981
Direct cost of sales	(56,261)	(44,656)	(92,746)	(121,104)
Other income and expenses	(692)	4,993	(3,588)	2,756
Net income	$ 20,914	$ 19,763	$ 36,417	$ 65,633
Brookfield Residential's share of net income	$ 9,277	$ 8,679	$ 13,869	$ 23,749

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

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

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt of its unconsolidated entities. At September 30, 2020, the Company had recourse guarantees of $30.6 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	
	September 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	(31,861)	23,382
OCI	262	—
Closing balance, end of period	$ 602,429	$ 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	
	September 30 2020	**December 31 2019**
Assets		
Investments	$ 6,430,874	$ 5,029,025
Investments in unconsolidated entities	5,052,654	4,652,721
Other assets	4,266,706	4,630,511
	$ 15,750,234	$ 14,312,257
Liabilities and Equity		
Loans payable	$ 3,323,278	$ 3,672,568
Other liabilities	993,828	465,988
Non-controlling interest	5,153,615	3,485,813
Brookfield Residential's interest	602,429	634,028
Others' Interest	5,677,084	6,053,860
	$ 15,750,234	$ 14,312,257

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

	Nine Months Ended September 30	
	2020	**2019**
Revenue and Expenses		
Income	$ 773,945	$ 872,118
Expenses	(1,087,415)	(273,490)
Net (loss) / income	$ (313,470)	$ 598,628
Other comprehensive income	$ 2,170	$ 359,520
Comprehensive (loss) / income	$ (311,300)	$ 958,148

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 condensed 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	
	September 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 nine months ended September 30, 2020, the Company earned $6.0 million and $18.0 million of preferred share dividends, respectively (three and nine months ended September 30, 2019 - $6.0 and $7.8 million of dividends earned, respectively). As at September 30, 2020 a total of $30.1 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.

(b) Brookfield BPY Holdings Inc.

During the nine months ended September 30, 2019, the Company received $300.0 million from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. During the three and nine months ended September 30, 2019, $nil and $6.9 million, respectively, of dividends were recorded in the condensed consolidated statement of operations within other income.

Note 10. Commercial Properties

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

	As at	
	September 30 2020	December 31 2019
Work in progress	$ 645,278	$ 436,842
Finished properties	36,677	34,075
	681,955	470,917
Less: accumulated depreciation	(2,921)	(2,398)
	$ 679,034	$ 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 nine months ended September 30, 2020 of $1.1 million and $2.2 million, respectively, included in other income (three and nine months ended September 30, 2019 - $0.1 million and $0.3 million, respectively).

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

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

Years of Expiry	Operating Leases	Financing Leases
2020	$ 5,298	$ 88
2021	10,007	296
2022	9,195	209
2023	8,750	132
2024	8,063	36
Thereafter	363,499	—
Total lease payments	404,812	761
Less imputed interest	(315,864)	(57)
Total	$ 88,948	$ 704

Note 12. Income Taxes

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

	Nine Months Ended September 30	
	2020	**2019**
Statutory rate	25.0%	26.5%
Non-temporary differences	5.3	2.6
Rate difference from statutory rate	(30.9)	(16.6)
Deferred tax asset valuation allowance impact	20.0	24.1
Return to provision	16.6	(2.3)
Realized capital loss on foreign exchange	—	(24.4)
Change in statutory tax rate	—	5.5
Non-taxable preferred share dividends	(12.2)	(4.6)
Taxable income attributable to non-controlling interests	(22.7)	(0.7)
Other	0.6	(1.8)
Effective tax rate	1.7%	8.3%

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 income attributable to non-controlling interest for which the consolidated tax provision only includes our proportionate share. This was partially offset by the increase in valuation allowance for the outside basis difference in our investment in affiliate unconsolidated entities and the impact of a return-to-provision adjustment recorded due to the release of certain final U.S. tax regulations.

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	**2019**	**2020**	**2019**
Current				
Canada	$ (114)	$ (219)	$ (139)	$ (253)
U.S.	2,421	(9,395)	(5,048)	(10,551)
International	(222)	(220)	(625)	(894)
Current income tax recovery / (expense)	2,085	(9,834)	(5,812)	(11,698)
Deferred				
Canada	(1,661)	411	5,625	413
U.S.	(587)	4,603	(528)	4,261
Deferred income tax recovery / (expense)	(2,248)	5,014	5,097	4,674
Total income tax expense	$ (163)	$ (4,820)	$ (715)	$ (7,024)

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

	As at	
	September 30 2020	**December 31 2019**
Net deferred tax assets / (liabilities)		
Differences relating to land and housing inventory	$ (9,251)	$ (9,746)
Compensation deductible for tax purposes when paid	5,779	6,426
Operating loss carryforwards	54,409	49,752
Capital loss carryforwards	17,509	17,985
Impact of foreign exchange	4,277	778
Investment in unconsolidated entities - affiliate	39,165	31,179
Other	2,417	2,960
Net deferred tax assets before valuation allowance	114,305	99,334
Cumulative valuation allowance	(60,952)	(49,942)
Net deferred tax assets	$ 53,353	$ 49,392

The Company has Canadian federal non-capital loss carryforwards of approximately $226.0 million (C$301.0 million) as at September 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 September 30, 2020, the Company has Canadian capital loss carryforwards of $152.3 million (C$202.8 million) (December 31, 2019 - $156.4 million (C$203.1 million)) which do not expire.

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

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

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

In evaluating the need for a valuation allowance against the Company's deferred tax assets at September 30, 2020, the Company considered all available and objectively verifiable positive and negative evidence. The valuation allowance of $61.0 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 September 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.

Note 13. Accounts Payable and Other Liabilities

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

	As at	
	September 30 2020	December 31 2019
Accounts payable (a)	$ 387,385	$ 400,888
Other liabilities (b)	170,295	176,186
	$ 557,680	$ 577,074

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

	As at	
	September 30 2020	December 31 2019
Trade payables and other accruals	$ 146,267	$ 156,313
Customer deposits	121,229	97,633
Development costs payable (i)	63,651	72,807
Real estate payables	30,508	32,104
Interest on notes payable	17,382	9,513
Accrued and deferred compensation	10,026	36,908
Current income taxes receivable	(1,678)	(4,390)
	$ 387,385	$ 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	
	September 30 2020	December 31 2019
Share-based compensation (Note 18)	$ 67,823	$ 61,427
Other	40,302	44,105
Warranty costs (Note 21 (a))	20,040	18,546
Purchase price consideration payable	17,584	23,869
Deferred revenue (i)	16,432	20,125
Consolidated land option contracts (ii)	8,114	8,114
	$ 170,295	$ 176,186

(i) Of the $20.1 million deferred revenue balance at December 31, 2019, $14.0 million was recognized as revenue during the nine months ended September 30, 2020 (nine months ended September 30, 2019 - $12.2 million).

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

(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".

Note 14. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	September 30 2020	December 31 2019
Project-specific financings (a)	$ 313,965	$ 180,352
Secured VTB mortgages (b)	75,013	54,796
Bank indebtedness (c)	34,500	—
Due to affiliates (d)	—	—
	423,478	235,148
Transaction costs (a)(c)	(9,028)	(7,001)
	$ 414,450	$ 228,147

(a) Project-specific financings

(i) As at September 30, 2020, the Company has two Canadian project-specific financings totaling $45.0 million (C$60.0 million) provided by various lenders (December 31, 2019 - $47.4 million (C$61.6 million)).

Project-specific financing totaling $37.5 million (C$50.0 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 September 30, 2020.

Project-specific financing totaling $7.5 million (C$10.0 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 2021, 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 September 30, 2020, the Company has $259.0 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 September 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 September 30, 2020, the company has $9.9 million of 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 September 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) Secured VTB mortgages

The Company has 13 secured VTB mortgages (December 31, 2019 – 13 secured VTB mortgages) in the amount of $75.0 million (December 31, 2019 – $54.8 million). Secured VTB mortgages are repayable as follows: 2021 – $46.8 million; 2022 – $14.0 million, 2023 – $7.7 million; 2024 – $4.3 million, and $2.2 million thereafter.

11 secured VTB mortgages (December 31, 2019 – eight secured VTB mortgages) in the amount of $59.4 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$79.1 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 1.0% to 2.0% and the debt is secured by the related land. One secured VTB in our Calgary region is subject to a minimum shareholder's equity covenant of Brookfield Residential (Alberta) LP of C$200.0 million. The Company was in compliance with this covenant as at September 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 4.0% and the debt is secured by related land. As at September 30, 2020, these borrowings are not subject to any financial covenants.

(c) Bank indebtedness

On September 4, 2020, the Company and BRUS LLC finalized the amendment and extension of the North American unsecured revolving credit facility. The unsecured revolving credit facility was extended through September 2022 on substantially the same terms and conditions, allowing the Company to borrow in either Canadian or U.S. dollars with borrowings allowable up to $675 million.

As at September 30, 2020, the Company had total borrowings of $34.5 million outstanding under the North American unsecured revolving 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 2.50% and 3.00% per annum or the alternative base rate ("ABR") plus an applicable rate between 1.50% and 2.00% 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 2.50% and 3.00% per annum or the Canadian prime rate plus an applicable rate between 1.50% and 2.00% 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 $2.3 billion, as well as a consolidated total debt to consolidated total capitalization of no greater than 65%. As at September 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.

(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 September 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	
	September 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)	187,700	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	—
	1,637,700	1,642,475
Transaction costs (f)	(25,799)	(25,930)
	$ 1,611,901	$ 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 nine months ended September 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 net worth ratio of 3.0 to 1, or a fixed coverage ratio of 2.0 to 1, as applicable. The Company was in compliance with these financial covenants as at September 30, 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. Non-Controlling Interest

In accordance with ASC Topic 810, non-controlling interest has been classified as a component of total equity and the net income on the condensed consolidated statements of operations have been adjusted to include the net income attributable to non-controlling interest, which for the three and nine months ended September 30, 2020 was net income of $29.2 million and $27.1 million, respectively (September 30, 2019 – net income of $1.2 million and $2.3 million, respectively).

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

	As at September 30, 2020
Affiliate (a)	$ 1,031,309
Land and housing (b)	139,864

(a) 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 September 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.

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 September 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).

(b) The non-controlling interest of land and housing of $139.9 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 September 30, 2020.

Note 17. Equity

Common Shares

The authorized Common Share capital of the Company consists of an unlimited number of voting Common Shares and Non-Voting Class B Common Shares.

There were no Common Shares issued during the nine months ended September 30, 2020 and the year ended December 31, 2019.

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

	For the Period Ended	
	September 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 September 30, 2020 and December 31, 2019.

Note 18. Share-Based Compensation

(a) Management Share Option Plan

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

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

During the three and nine months ended September 30, 2020, there were no options granted to eligible employees (three and nine months ended September 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 nine months ended September 30, 2020 and 2019 are as follows:

	September 30 2020	**September 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 $38.6 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 nine months ended September 30, 2020 was an expense of $1.4 million and $6.5 million, respectively (September 30, 2019 - $4.0 million and $12.5 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 nine months ended September 30, 2020 and 2019:

	September 30, 2020		September 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	—	—	(64,000)	22.96
Cancelled	—	—	—	—
Outstanding, end of period	12,388,886	22.21	12,404,886	22.21
Options exercisable, end of period	9,579,286	$ 22.38	7,101,508	$ 22.44

A summary of the status of the Company's unvested options for the nine months ended September 30, 2020 and 2019 are as follows:

	September 30, 2020		September 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)	3.33	(1,228,378)	5.86
Cancelled	—	—	—	—
Unvested options outstanding, end of period	2,809,600	$ 4.55	5,303,378	$ 7.78

At September 30, 2020, there was $11.0 million (September 30, 2019 - $29.1 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 2.4 years (September 30, 2019 - 2.8 years).

(b) Deferred Share Unit Plan

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

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

	For the Period Ended	
	September 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) relating to the DSUP is included in accounts payable and other liabilities. There was no financial statement impact relating to the DSUP for the three and nine months ended September 30, 2020 and 2019.

Note 19. Earnings Per Share

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	**2019**	**2020**	**2019**
Numerator:				
Net income attributable to Brookfield Residential	$ 14,146	$ 48,325	$ 11,258	$ 74,807
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 earnings per share	$ 0.11	$ 0.37	$ 0.09	$ 0.58
Diluted earnings per share	$ 0.11	$ 0.37	$ 0.09	$ 0.58

Note 20. Other (Income) / Expense

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	**2019**	**2020**	**2019**
Investment income	$ (8,194)	$ (5,580)	$ (22,895)	$ (15,814)
Preferred share dividend income	(6,049)	(6,049)	(18,016)	(14,698)
Other	(3,138)	(8,302)	(11,130)	(8,561)
Joint venture management fee income	(2,944)	(3,039)	(9,589)	(9,356)
Consent solicitation costs	—	5,670	—	5,670
Loss on extinguishment of debt (a)	—	3,578	15,030	3,578
	$ (20,325)	$ (13,722)	$ (46,600)	$ (39,181)

(a) As a result of the redemption of the $500.0 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 21. Commitments, Contingent Liabilities and Other

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

(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 nine months ended September 30, 2020 and 2019:

	Nine months ended September 30	
	2020	**2019**
Balance, beginning of period	$ 18,545	$ 21,515
Payments and other adjustments made during the period	(4,427)	(7,701)
Warranties issued during the period	6,662	7,325
Adjustments due to change in estimates	(740)	526
Balance, end of period	$ 20,040	$ 21,665

(b) As at September 30, 2020, $19.3 million of the amounts held in other assets related to deposits on land purchase obligations (December 31, 2019 - $36.0 million). The total amount committed on these obligations is $415.0 million (December 31, 2019 - $169.4 million).

(c) The Company has committed $76.5 million, representing a 25.5% interest, in the Brookfield Single Family Rental fund. During the three and nine months ended September 30, 2020, the Company has made capital contributions of $8.9 million.

Note 22. Guarantees

In the ordinary course of business, the Company has provided construction guarantees in the form of letters of credit and performance bonds. As at September 30, 2020, these guarantees amounted to $620.3 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 23. Fair Value Measurements

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or ask prices, as appropriate. Where bid and ask prices are unavailable, the closing price of the most recent transaction of that instrument is used. In the absence of an active market, fair values are determined based on prevailing market rates for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Company looks primarily to external readily observable market inputs such as interest rate yield curves, currency rates and price and rate volatilities as applicable.

The fair value measurements for land and housing inventory were determined by comparing the carrying amount of an asset to its expected future cash flows. To arrive at the estimated fair value of land and housing inventory reviewed for impairment during the nine months ended September 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 nine months ended September 30, 2020 and 2019, no impairment charges were recognized.

The locations of the projects reviewed are as follows:

	Number of Projects
Canada	41
California	46
Central and Eastern U.S.	34
	121
Unconsolidated entities	14
Total	135

Fair Value Hierarchy

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

As at September 30, 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	(9,683)
Balance as of September 30, 2020	$ 66,571

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

Financial Instrument	Fair value as of 9/30/2020	Valuation technique	Unobservable inputs	Rate
Receivable	$ 66,571	Discounted cash flow	Interest rate	14%

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:

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

Homebuilder Finance Investment	Nine Months Ended September 30, 2020
Purchases / Land Development Spend	$ 135,280

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

Financial Instrument	Fair value as of 9/30/2020	Valuation technique	Unobservable inputs	Ranges
Land and land improvements	$ 220,316	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 nine months ended September 30, 2020, unrealized pre-tax loss of $3.6 million and gain of $4.8 million, respectively (September 30, 2019 – gain of $2.1 million and loss of $5.6 million, respectively), were recorded in other comprehensive income for hedges of net investments in foreign operations.

Note 24. Managing Risks

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

(a) Market Risk

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

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

Interest Rate Risk

The Company is exposed to financial risk that arises from fluctuations in interest rates. 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 September 30, 2020, a 1% change in interest rates would have a $3.8 impact on the Company's cash flows.

The fair value of debt with fixed interest rates is determined by discounting contractual principal and interest payments at estimated current market interest rates determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at September 30, 2020, the book value of all outstanding debt exceeded its fair value by $23.1 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 September 30, 2020 (December 31, 2019 – $2.5 million gain). See Note 23 "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 September 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]	$ 1,637,700	$ —	$ 187,700	$ 350,000	$ 1,100,000
Interest on notes payable	701,365	126,309	221,993	168,375	184,688
Secured VTB mortgages[2][3]	75,013	46,821	21,664	6,528	—
Bank indebtedness[2][3]	34,500	—	34,500	—	—
Project-specific financings[2][3]	313,965	45,042	9,902	259,021	—
Accounts payable and other liabilities[4]	557,680	557,680	—	—	—
Operating and financing lease obligations[5]	405,573	5,386	19,707	16,981	363,499
Purchase agreements and other obligations[6]	414,998	43,514	350,712	18,056	2,716

(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, land, design centers and model homes. See Note 11 for additional information regarding lease agreements.

(6) See Note 21 for additional information regarding purchase agreements and other obligations.

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

Note 25. 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 September 30, 2020					
	Canada	**California**	**Central and Eastern U.S.**	**Corporate and Other**	**Equity Investment in BUSI**	**Total**
Revenues	$ 134,618	$ 137,636	$ 180,756	$ —	$ —	$ 453,010
Direct cost of sales	(106,964)	(109,519)	(144,635)	—	—	(361,118)
Gross margin	27,654	28,117	36,121	—	—	91,892
Earnings from unconsolidated entities - land and housing	1,850	44	7,383	—	—	9,277
Loss from unconsolidated entities - affiliate	—	—	—	—	(8,973)	(8,973)
(Expenses) / Income	(12,052)	(19,565)	(23,341)	6,308	—	(48,650)
Income / (loss) before income taxes	$ 17,452	$ 8,596	$ 20,163	$ 6,308	$ (8,973)	$ 43,546

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

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

	Nine Months Ended September 30, 2020					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Revenues	$ 271,268	$ 402,003	$ 414,829	$ —	$ —	$1,088,100
Direct cost of sales	(217,456)	(325,811)	(343,793)	—	—	(887,060)
Gross margin	53,812	76,192	71,036	—	—	201,040
Earnings from unconsolidated entities - land and housing	4,128	333	9,408	—	—	13,869
Loss from unconsolidated entities - affiliate	—	—	—	—	(31,861)	(31,861)
(Expenses) / Income	(30,630)	(53,908)	(62,773)	3,358	—	(143,953)
Income / (loss) before income taxes	$ 27,310	$ 22,617	$ 17,671	$ 3,358	$ (31,861)	$ 39,095

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

(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 September 30, 2020					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Equity Investment in BUSI	Total
Land held for development	$ 418,580	$ 296,220	$ 647,618	$ —	$ —	$1,362,418
Land under development	218,966	227,960	338,185	3,069	—	788,180
Housing inventory	152,161	236,069	171,456	—	—	559,686
Model homes	18,312	56,625	27,338	—	—	102,275
Total land and housing inventory	808,019	816,874	1,184,597	3,069	—	2,812,559
Commercial properties	54,358	83,586	541,090	—	—	679,034
Investments in unconsolidated entities - land and housing	53,882	197,720	83,228	8,925	—	343,755
Investments in unconsolidated entities - affiliate	—	—	—	—	602,429	602,429
Held-to-maturity investment	—	—	—	300,000	—	300,000
Operating and financing lease right-of-use asset	12,596	39,301	21,040	9,789	—	82,726
Goodwill	—	—	—	16,479	—	16,479
Other assets [(1)]	137,571	50,342	177,916	522,523	—	888,352
Total assets	$1,066,426	$1,187,823	$2,007,871	$ 860,785	$ 602,429	$5,725,334

(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 26. Related Party Transactions

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

- During the nine months ended September 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 nine months ended September 30, 2020, the Company incurred $21.9 and $59.2 million, respectively, of management fees (three and nine months ended September 30, 2019 - $1.3 million and $18.8 million, respectively). These transactions were recorded at the exchange amount within selling, general and administrative expense and commercial properties.
- During the nine months ended September 30, 2020, the Company entered into an agreement with Brookfield Properties Development to provide financing of up to $50.0 million. As at September 30, 2020, the loan had an outstanding balance of $40.0 million that was recorded within receivables and other assets.
- During the three and nine months ended September 30, 2020, the Company earned $6.0 million and $18.0 million, respectively, of dividends from the preferred shares of Brookfield International Ltd. (three and nine months ended September 30, 2019 - $6.0 and $7.8 million of dividends earned, respectively) that have been recorded in the condensed consolidated statements of operations within other income. As at September 30, 2020, a total of $30.1 million of accrued dividends is recorded within receivables and other assets. These transactions were recorded at the exchange amount.
- During the nine months ended September 30, 2020, the Company entered into an agreement for the management of the retail operations at our Nashville mixed-use project and during the nine months ended September 30, 2020, the Company paid management fees of $1.5 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 nine months ended September 30, 2020, the Company paid $0.1 million to Brookfield Asset Management Inc. for Canadian tax credits (nine months ended September 30, 2019 - $0.2 million). The transactions were recorded at the exchange amount.
- During the nine months ended September 30, 2019, the Company received $300.0 million from the redemption of the Company's preferred shares of Brookfield BPY Holdings Inc. that was recorded in the condensed consolidated balance sheets. The Company also received $nil and $6.9 million of dividends from these preferred shares for the three and nine months ended September 30, 2019, respectively, that were recorded in the condensed consolidated statement of operations within other income. These transactions were recorded at the exchange amount.
- During the nine months ended September 30, 2019, the Company entered into a $300.0 million deposit agreement with a subsidiary of BAM, and no borrowings were outstanding under the facility at September 30, 2020 or September 30, 2019 as the Company repaid $200.0 million during the three months ended September 30, 2019. During the three and nine months ended September 30, 2019, the Company paid $1.8 million and $2.4 million of interest, respectively.
- During the nine months ended September 30, 2019, the Company 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 within held-to-maturity investments. The transaction was recorded at the exchange amount.
- On September 26, 2019, the Company completed a reorganization with BUSI, a wholly-owned subsidiary of BAM, whereby the Company transferred its investment in its U.S. homebuilding operations for a 12.3% economic interest and a 50% voting interest in BUSI. The Company consolidated Meadows and Hayden I that were previously owned by BUSI as part of the Reorganization Transaction. This transaction was treated as a common control transaction.

Note 27. Subsequent Events

The Company performed an evaluation of subsequent events through November 4, 2020, which is the date these condensed consolidated financial statements were approved, and has determined that there are no subsequent events that require disclosure in these condensed consolidated financial statements.

CORPORATE INFORMATION

CORPORATE PROFILE

Brookfield Residential Properties Inc. is a leading land developer and homebuilder in North America. We entitle and develop land to create master-planned communities, build and sell lots to third-party builders, and conduct our own homebuilding operations. We also participate in select, strategic real estate opportunities, including infill projects, mixed-use developments, and joint ventures. We are the flagship North American residential property company of Brookfield Asset Management Inc., a leading global alternative asset manager with over $550 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.