2015 | Q2

June 30, 2015

President & Chief Executive Officer's Report

In the second quarter of 2015, we continued to build on the momentum of the first quarter, with home closings 26% higher compared to the same period last year. The increased closings were primarily fueled by a stronger U.S. housing market. More importantly, we continued to advance a number of our projects through the development cycle, positioning them for future monetization either through our own housing activity or through lot sales this year or next.

On the market front, U.S. markets continued to gain momentum in the second quarter with stronger employment and higher disposable income credited for the rise in single family home sales. Importantly, the data also showed an increase in the number of first time buyers entering the market, a healthy development that points to a more solid housing recovery going forward. This has proven to have a continued positive effect as a portion of our current product offering addresses the entry-level market, particularly in the California market, which contributed to U.S. net new home orders being up 56% thus far in 2015.

Our housing operation in Canada has generally remained stable year over year, with continued demand in the Edmonton and Ontario markets. While depressed oil prices have resulted in a reduction in activity in Calgary's energy driven market, home prices remained relatively stable across most of our Canadian operations, particularly in the affordable sub-sector of the market that we target in Alberta. Our land operations in Alberta have however been affected with lower lot sales to third party builders who tend to focus their product on more mid-market housing. Consumer confidence has been affected more negatively in this market segment than others due to the low energy prices. As we report on our overall results in U.S. dollars, we also encountered some variability through the translation of our Canadian operations with the recent decline in the Canadian dollar.

During the second quarter, we continued to execute on our capital plan with the issuance of US$350 million corporate senior unsecured notes due in 2025 and C$250 million corporate senior unsecured notes due in 2023. The proceeds from these offerings were used to reduce the amount drawn on our revolving credit facilities and place cash on the balance sheet. In addition, we extended and increased our revolving credit facility to $275 million, providing us strong liquidity as we move forward.

Overall, we believe our diversity, both geographically and in terms of product mix, continues to serve us well. We continue to advance our strategy of reducing our land inventory to an 8 to 10 year supply over time, and we plan to use the additional cash flow provided by this strategy to service debt and take advantage of new opportunities, including the expansion of our homebuilding operations.

As we move forward, we are encouraged by the momentum we are seeing in the U.S. market and the positive timing of the increase in our homebuilding operations. In Canada, we believe the combination of low interest rates and land supply constraints in the major urban areas will continue to support current pricing and counteract much of the slowdown from low energy pricing in Alberta. With over 105,000 lots controlled, approximately half of which are already entitled, we are well positioned for the future.

Alan Norris

President & Chief Executive Officer

August 5, 2015

BROOKFIELD RESIDENTIAL PROPERTIES PORTFOLIO

Our business is focused on land development and single family and multi-family homebuilding in the markets in which we operate. Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at June 30, 2015 were $3.6 billion.

As of June 30, 2015, we controlled 105,039 single family lots (serviced lots and future lot equivalents) and 233 multi-family, industrial and commercial serviced parcel acres. Controlled lots and acres include those we directly own and our share of those owned by unconsolidated entities. Our controlled lots and acres provide a strong foundation for our future lot and acre sales and homebuilding business, as well as visibility on our future cash flow. The number of building lots and acre parcels we control in each of our primary markets as of June 30, 2015 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 30-Jun-15		Total Acres	
	Owned	**Options**	**Owned**	**Options**	**30-Jun-15**	**31-Dec-14**	**Entitled**	**Unentitled**	**30-Jun-15**	**31-Dec-14**
Calgary	24,330	—	2,555	—	26,885	27,112	4,923	21,962	66	68
Edmonton	14,774	—	—	—	14,774	15,222	7,762	7,012	30	50
Ontario	10,348	—	—	—	10,348	10,041	1,856	8,492	—	—
Canada	49,452	—	2,555	—	52,007	52,375	14,541	37,466	96	118
Northern California	4,001	4,950	—	—	8,951	8,996	4,001	4,950	—	—
Southern California	9,061	—	1,588	1,483	12,132	12,512	9,251	2,881	—	—
Hawaii	191	—	36	—	227	230	227	—	—	—
California	13,253	4,950	1,624	1,483	21,310	21,738	13,479	7,831	—	—
Denver	9,197	—	—	—	9,197	9,605	9,197	—	10	10
Austin	13,181	523	—	—	13,704	13,235	6,135	7,569	—	—
Phoenix	690	—	3,904	—	4,594	4,585	4,308	286	108	103
Washington, D.C. Area	2,323	1,066	838	—	4,227	4,335	4,190	37	19	5
Central and Eastern U.S.	25,391	1,589	4,742	—	31,722	31,760	23,830	7,892	137	118
Total	88,096	6,539	8,921	1,483	105,039	105,873	51,850	53,189	233	236
Entitled lots	44,493	1,589	5,768	—	51,850					
Unentitled lots	43,603	4,950	3,153	1,483	53,189					
Total June 30, 2015	88,096	6,539	8,921	1,483	105,039					
Total December 31, 2014	89,602	6,016	8,710	1,545		105,873				

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

BROOKFIELD RESIDENTIAL PROPERTIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This interim report, including the President and Chief Executive Officer's Report, contains "forward-looking statements" within the meaning of applicable Canadian securities laws and United States federal securities laws. The words "may," "believe," "will," "anticipate," "expect," "plan," "intend," "estimate," "anticipate," "project," "future," and other expressions that are predictions of or indicate future events and trends and that do not relate to historical matters identify forward-looking statements. Such statements reflect management's current beliefs and are based on information currently available to management. The forward-looking statements in this interim report include, among others, statements with respect to:

- the current business environment and outlook, including statements regarding economic and market conditions in the U.S. and Canadian housing markets, recovery in the U.S. housing market and the pace thereof, forecasts regarding our land supply and the timing and methods of any reduction thereto, long-term fundamental demand growth in the U.S. housing market, home price growth rates and affordability levels, the effect of land supply constraints on price levels in Canada, job market improvement, expectations for 2015, the impact of energy prices on the Alberta housing markets and the homebuilding industry generally;
- possible or assumed future results;
- business goals, strategy and growth plans;
- the stability of home prices;
- effect of challenging conditions on us;
- factors affecting our competitive position within the homebuilding industry;
- 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 visibility of our future cash flow;
- social and environmental policies and risks;
- expected backlog and closings and the timing thereof;
- sufficiency of our access to capital resources;
- the impact of foreign exchange on our financial performance;
- the timing of the effect of interest rate changes on our cash flows; and
- the effect on our business of existing lawsuits.

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

Various factors, in addition to those discussed elsewhere in this interim report, that could affect the future results of Brookfield Residential and could cause actual results, performance, or achievements to differ materially from those expressed in the forward-looking statements and information include, but are not limited to, those factors included under the sections entitled "Cautionary Statements Regarding Forward-Looking Statements" and "Business Environment and Risks" of the Annual Report for the fiscal year ended December 31, 2014, and those factors included under the section entitled "Cautionary Note Regarding Forward-Looking Statements and Risks" of the Company's Management Information Circular dated January 12, 2015, filed with the securities regulators in Canada on www.sedar.com and with the Securities and Exchange Commission as part of Schedule 13E-3.

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 or information contained in this annual report, whether as a result of new information, future events or otherwise, except as required by law. However, any further disclosures made on related subjects in subsequent public disclosure should be consulted.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis relates to the quarter ended June 30, 2015 and has been prepared with an effective date of August 5, 2015. 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 financial statements referenced herein have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

OVERVIEW

Brookfield Residential Properties Inc. (unless the context requires otherwise, references in this 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. and has been developing land and building homes for over 50 years. On March 13, 2015, Brookfield Asset Management Inc. and Brookfield Residential completed the closing of the going private transaction of Brookfield Residential, pursuant to which 1927726 Ontario Inc., a wholly-owned subsidiary of Brookfield Asset Management Inc., acquired all of the issued and outstanding Common Shares of Brookfield Residential that Brookfield Asset Management Inc. did not already own by way of a plan of arrangement ("Privatization Transaction").

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 and build and sell lots to third-party builders, as well as to our own homebuilding division. We also participate in select strategic real estate opportunities, including infill projects, mixed-use developments, infrastructure projects and joint ventures.

We currently focus on the following operating segments: Canada, California and Central and Eastern United States. Our Canadian operations are primarily in the Alberta (Calgary and Edmonton) and Ontario 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 United States operations include Washington, D.C. Area, Colorado (Denver), Texas (Austin) and Arizona (Phoenix). We target these markets as we believe over the longer term they offer strong housing demand, barriers to entry and close proximity to areas where we expect strong employment growth.

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 centres in our communities.

Brookfield Residential has developed a reputation for delivering first-class master-planned communities, infill projects and mixed-use developments. Master-planned communities are new home communities that typically feature community centres, parks, recreational areas, schools, commercial areas and other amenities. In an infill development, Brookfield Residential develops land and constructs homes in previously urbanized areas.

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. 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.

Land Acquisition and Development

The residential land development and homebuilding industry involves converting raw or undeveloped land into residential housing. 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.

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 afford us a true “master-planned” development opportunity that, following entitlement and assuming market conditions allow, creates a multi-year stream of cash flow. Master-planned communities are new home communities that typically feature community centres, parks, recreational areas, schools, commercial areas and other amenities. 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.

Mixed-use development is also a 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. This 365-acre mixed-use development is one of the largest opportunities of its kind in North America. It sits in the centre of the fastest growing sector in Calgary accommodating a future trade area of over 100,000 people.

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 does 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.

RESULTS OF OPERATIONS

Key financial results and operating data for the three and six months ended June 30, 2015 compared to the three and six months ended June 30, 2014 were as follows:

(US$ millions, except percentages, unit activity, average selling price and per share amounts)	**Three Months Ended June 30**		**Six Months Ended June 30**	
	2015	**2014**	**2015**	**2014**
Key Financial Results				
Housing revenue	$ 244	$ 240	$ 458	$ 404
Land revenue	67	81	130	125
Gross margin(1) ($)	74	98	148	157
Gross margin(1) (%)	24%	31%	25%	30%
Income before income taxes	13	49	6	84
Income tax recovery / (expense)	5	(6)	—	(14)
Net income attributable to Brookfield Residential	18	42	6	67
Basic earnings per share	$ 0.16	$ 0.36	$ 0.05	$ 0.57
Diluted earnings per share	$ 0.16	$ 0.36	$ 0.05	$ 0.57
Key Operating Data				
Home closings for Brookfield Residential (units)	543	435	981	781
Home closings for unconsolidated entities (units)	17	21	37	25
Average home selling price for Brookfield Residential (per unit)	$ 449,000	$ 552,000	$ 466,000	$ 517,000
Average home selling price for unconsolidated entities (per unit)	$ 496,000	$ 487,000	$ 510,000	$ 501,000
Net new home orders for Brookfield Residential (units)	857	642	1,575	1,297
Net new home orders for unconsolidated entities (units)	19	37	38	66
Backlog for Brookfield Residential (units)	1,654	1,418	1,654	1,418
Backlog for unconsolidated entities (units)	34	54	34	54
Backlog value for Brookfield Residential	$ 776	$ 742	$ 776	$ 742
Backlog value for unconsolidated entities	$ 18	$ 21	$ 18	$ 21
Lot closings for Brookfield Residential (single family units)	568	515	1,003	839
Lot closings for unconsolidated entities (single family units)	69	82	119	204
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	3	6	23	10
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	—	—	—	2
Acre closings for Brookfield Residential (raw and partially finished parcels)	8	1	8	3
Average lot selling price for Brookfield Residential (single family units)	$ 107,000	$ 144,000	$ 113,000	$ 138,000
Average lot selling price for unconsolidated entities (single family units)	$ 94,000	$ 138,000	$ 83,000	$ 90,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	$ 725,000	$ 1,082,000	$ 524,000	$ 986,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	$ —	$ —	$ —	$ 188,000
Average per acre selling price for Brookfield Residential (raw and partially finished parcels)	$ 164,000	$ 367,000	$ 164,000	$ 263,000

(1) Gross margin is a non-GAAP financial measure and has been presented as we find it useful in evaluating our performance and believe that it helps readers of our financial statements compare our operations with those of our competitors. However, gross margin as presented may not be fully comparable to similarly-titled measures reported by our competitors. See the Non-GAAP Financial Measures section on page 28.

Segmented Information

We operate in three operating segments within North America: Canada, California and Central and Eastern U.S. Each of the Company's segments specializes in land entitlement and development and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of risk factors. The following table summarizes information relating to revenues, gross margin and assets by operating segment for the three and six months ended June 30, 2015 and 2014.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2015**	**2014**	**2015**	**2014**
Housing revenue				
Canada	$ 82	$ 84	$ 164	$ 159
California	99	118	194	186
Central and Eastern U.S	63	38	100	59
Total	$ 244	$ 240	$ 458	$ 404
Land revenue				
Canada	$ 22	$ 64	$ 44	$ 102
California	27	9	60	9
Central and Eastern U.S	18	8	26	14
Total	$ 67	$ 81	$ 130	$ 125
Housing gross margin				
Canada	$ 16	$ 19	$ 35	$ 37
California	21	30	49	48
Central and Eastern U.S	9	6	14	9
Total	$ 46	$ 55	$ 98	$ 94
Land gross margin				
Canada	$ 17	$ 39	33	$ 58
California	7	4	12	4
Central and Eastern U.S	4	—	5	1
Total	$ 28	$ 43	50	$ 63
Home closings (units)				
Canada	271	241	539	462
California	133	116	225	196
Central and Eastern U.S	139	78	217	123
	543	435	981	781
Unconsolidated Entities	17	21	37	25
Total	560	456	1,018	806
Average home selling price				
Canada	$ 303,000	$ 350,000	$ 303,000	$ 344,000
California	739,000	1,018,000	862,000	949,000
Central and Eastern U.S	455,000	483,000	461,000	478,000
	449,000	552,000	466,000	517,000
Unconsolidated Entities	496,000	487,000	510,000	501,000
Average	$ 450,000	$ 549,000	$ 468,000	$ 516,000
Active housing communities				
Canada			19	20
California			23	19
Central and Eastern U.S			18	14
			60	53
Unconsolidated Entities			4	3
Total			64	56

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Lot closings (single family units)				
Canada	138	331	244	546
California	163	94	341	94
Central and Eastern U.S	267	90	418	199
	568	515	1,003	839
Unconsolidated Entities	69	82	119	204
Total	637	597	1,122	1,043
Acre closings (multi-family, industrial and commercial)				
Canada	3	6	23	10
California	—	—	—	—
Central and Eastern U.S	—	—	—	—
	3	6	23	10
Unconsolidated Entities	—	—	—	2
Total	3	6	23	12
Acre closings (raw and partially finished parcels)				
Canada	—	1	—	3
California	—	—	—	—
Central and Eastern U.S	8	—	8	—
Total	8	1	8	3
Average lot selling price (single family lots)				
Canada	$ 142,000	$ 173,000	$ 132,000	$ 169,000
California	150,000	96,000	166,000	96,000
Central and Eastern U.S	63,000	89,000	59,000	72,000
	107,000	144,000	113,000	138,000
Unconsolidated Entities	94,000	138,000	83,000	90,000
Average	$ 106,000	$ 144,000	$ 110,000	$ 128,000
Average per acre selling price (multi-family, industrial and commercial)				
Canada	$ 725,000	$ 1,082,000	$ 524,000	$ 986,000
California	—	—	—	—
Central and Eastern U.S	—	—	—	—
	725,000	1,082,000	524,000	986,000
Unconsolidated Entities	—	—	—	188,000
Average	$ 725,000	$ 1,082,000	$ 524,000	$ 815,000
Average per acre selling price (raw and partially finished parcels)				
Canada	$ —	$ 367,000	$ —	$ 263,000
California	—	—	—	—
Central and Eastern U.S	164,000	—	164,000	—
	$ 164,000	$ 367,000	$ 164,000	$ 263,000
Active land communities				
Canada			12	12
California			6	5
Central and Eastern U.S			10	8
			28	25
Unconsolidated Entities			2	1
Total			30	26

(US$ millions)	As at June 30 2015	As at December 31 2014
Total assets		
Canada	$ 1,111	$ 1,185
California	1,175	1,062
Central and Eastern U.S	975	846
Corporate and other	323	297
Total	$ 3,584	$ 3,390

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

Three and Six Months Ended June 30, 2015 Compared with Three and Six Months Ended June 30, 2014

Net Income

Net income attributable to Brookfield Residential for the three and six months ended June 30, 2015 was $18 million and $6 million, respectively, compared to $42 million and $67 million for the same periods in 2014.

(US$ millions, except per share amounts)	Three Months Ended June 30 2015	Three Months Ended June 30 2014	Six Months Ended June 30 2015	Six Months Ended June 30 2014
Net income attributable to Brookfield Residential	$ 18	$ 42	$ 6	$ 67
Basic earnings per share	$ 0.16	$ 0.36	$ 0.05	$ 0.57
Diluted earnings per share	$ 0.16	$ 0.36	$ 0.05	$ 0.57

The decrease of $24 million in net income attributable to Brookfield Residential for the three months ended June 30, 2015, compared to the same period in 2014 was primarily the result of a $24 million decrease in gross margin due to lower housing and land gross margins. Additionally, there was a $4 million increase in sales and marketing expense, a $2 million increase in interest expense, a decrease of $3 million in equity earnings from unconsolidated entities and a $4 million decrease in other income. This was partially offset by a $1 million decrease in general and administrative costs, a decrease in income tax expense of $11 million and a decrease in net income attributable to non-controlling interests and other interests in consolidated subsidiaries of $1 million.

The decrease of $61 million in net income for the six months ended June 30, 2015 compared to the same period in 2014 was primarily the result of $26 million of share-based compensation and legal costs incurred on the Privatization Transaction that occurred in the first quarter of 2015, as well as a decrease in the gain on commercial assets held for sale of $33 million that occurred in 2014. Additionally, there was a $9 million decrease in gross margin, which resulted mainly from lower land gross margins, combined with an increase in sales and marketing expenses of $7 million, a $3 million increase in normal-course share-based compensation costs, a decrease in equity earnings from unconsolidated entities of $2 million, a decrease in other income of $4 million and an increase in interest expense of $2 million. This was partially offset by lower general and administrative expense of $3 million, change in the fair value of equity swap contracts of $5 million, a decrease in net income attributable to non-controlling interests and other interests in consolidated subsidiaries of $3 million and a decrease in income tax expense of $14 million.

A breakdown of the revenue and gross margin for the three and six months ended June 30, 2015 and 2014 is as follows:

(US$ millions, except percentages)	Three Months Ended June 30 2015	Three Months Ended June 30 2014	Six Months Ended June 30 2015	Six Months Ended June 30 2014
Revenue				
Housing	$ 244	$ 240	$ 458	$ 404
Land	67	81	130	125
	$ 311	$ 321	$ 588	$ 529
Gross Margin				
Housing	$ 46	$ 55	$ 98	$ 94
Land	28	43	50	63
	$ 74	$ 98	$ 148	$ 157
Gross Margin (%)				
Housing	19%	23%	21%	23%
Land	42%	53%	39%	50%
	24%	31%	25%	30%

Total revenue and gross margin for the three months ended June 30, 2015 decreased $10 million and $24 million, respectively, when compared to the same period in 2014. The decrease in total revenue and gross margin was primarily the result of fewer lot closings in our Canadian markets as well as lower overall average home and lot selling prices. This was partially offset by 108 additional home closings across all operating segments, as well as increased lot closings in both the California and Central and Eastern U.S. segments. Gross margin percentage for the three months ended June 30, 2015 decreased primarily as a result of lower land margins due to the mix of lots sold between operating segments with fewer lot closings in the Canadian market. Additionally, there were lower housing gross margin percentages due to a shift in product mix, primarily in our California markets with a higher proportion of sales coming from communities with lower average selling prices, compared to the same period in 2014.

Total revenue and gross margin for the six months ended June 30, 2015 increased $59 million and decreased $9 million, respectively, when compared to the same period in 2014. The increase in total revenue was primarily the result of increased activity in our housing operations with 200 additional home closings when compared to the same period in 2014. This was partially offset by lower average home selling prices due to the geographic mix of homes closed, as well as a shift in product mix, primarily in our California markets. Additionally, lot closings increased by 164 units, which was partially offset by lower average lot selling prices as a result of the mix of lots sold amongst the operating segments. Total gross margin and the gross margin percentage decreased as a result of both lower land and housing margins. Land margins decreased primarily as a result of the mix of land sold between operating segments, with fewer proportionate land sales in Canada, which typically have higher land margins. Housing gross margins decreased primarily due to lower average home selling prices, resulting primarily from product mix.

Results of Operations – Housing

Housing revenue and gross margin were $244 million and $46 million, respectively, for the three months ended June 30, 2015, compared to $240 million and $55 million for the same period in 2014. The increase in revenue was the result of 108 additional home closings with increased closings across all operating segments, partially offset by a 19% decrease in the average home selling price when compared to the same period in 2014. The decrease in gross margin was due to a decrease in the average home selling price, primarily due to a shift in product mix in our California markets.

Housing revenue and gross margin were $458 million and $98 million, respectively, for the six months ended June 30, 2015 compared to $404 million and $94 million for the same period in 2014. The increase in both revenue and gross margin was the result of 200 additional home closings partially offset by a 10% decrease in average home selling prices. Revenues are also affected by local product mix and market conditions, which have an impact on the selling price per home.

A breakdown of our results from housing operations for the three and six months ended June 30, 2015 and 2014 is as follows:

Consolidated

	Three Months Ended June 30		**Six Months Ended June 30**	
(US$ millions, except unit activity and average selling price)	**2015**	**2014**	**2015**	**2014**
Home closings	543	435	981	781
Revenue	$ 244	$ 240	$ 458	$ 404
Gross margin	$ 46	$ 55	$ 98	$ 94
Average home selling price	$ 449,000	$ 552,000	$ 466,000	$ 517,000

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

Canada

	Three Months Ended June 30		**Six Months Ended June 30**	
(US$ millions, except unit activity and average selling price)	**2015**	**2014**	**2015**	**2014**
Home closings	271	241	539	462
Revenue	$ 82	$ 84	$ 164	$ 159
Gross margin	$ 16	$ 19	$ 35	$ 37
Average home selling price	$ 303,000	$ 350,000	$ 303,000	$ 344,000

Housing revenue for the three months ended June 30, 2015 decreased $2 million when compared to the same period in 2014. This resulted primarily from a 13% decrease in average home selling prices, partially offset by the closing of

30 additional homes, for the three months ended June 30, 2015 compared to the same period in 2014. The decrease in the average home selling price was partially attributable to a higher proportion of home closings coming from the Edmonton market, which typically has lower average selling prices. Additionally, there was an 11% decline in the foreign exchange rate between the Canadian and U.S. dollar for the three months ended June 30, 2015 compared to the same period in 2014. As the Company's presentation currency is U.S dollars, this resulted in a lower translated average home selling price. When comparing the average home selling price in Canadian dollars for the three months ended June 30, 2015 to June 30, 2014, the average home selling price was C$373,000 compared to C$381,000 in the same period in 2014. Gross margin decreased $3 million for the three months ended June 30, 2015 when compared to the same period in 2014 primarily as a result of the change in foreign exchange rates, combined with an increase in incentives offered on homes closed in the Calgary market. This was partially offset by the increase in home closings.

Housing revenue for the six months ended June 30, 2015 increased $5 million when compared to the same period in 2014. This resulted from a 17% increase in home closings partially offset by a 12% decrease in the average home selling price for the six months ended June 30, 2015 compared to the same period in 2014. The decrease in the average home selling price was partially attributable to product mix, particularly due to Edmonton having a higher proportionate share of the increase in total home closings. Additionally, there was an 11% decline in the foreign exchange rate between the Canadian and U.S. dollar for the six months ended June 30, 2015 compared to the same period in 2014. When comparing the average home selling price in Canadian dollars for the six months ended June 30, 2015 to June 30, 2014, the average home selling price was C$374,000 compared to C$377,000 in the same period in 2014. As a result of a lower U.S. dollar average selling price and increased incentives provided, gross margin decreased by $2 million for the six months ended June 30, 2015 when compared to the same period in 2014.

California

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2015**	**2014**	**2015**	**2014**
Home closings	133	116	225	196
Revenue	$ 99	$ 118	$ 194	$ 186
Gross margin	$ 21	$ 30	$ 49	$ 48
Average home selling price	$ 739,000	$ 1,018,000	$ 862,000	$ 949,000

Our California segment had housing revenue of $99 million for the three months ended June 30, 2015, a decrease of $19 million when compared to the same period in 2014. The decrease in revenue was due to a 27% decrease in the average home selling price, partially offset by 17 additional home closings for the three months ended June 30, 2015 compared to the same period in 2014. Gross margin decreased $9 million when compared to the same period in 2014 as a result of the decrease in the average home selling price. The decrease in average selling price is primarily due to mix of homes sold, particularly in the Bay Area, where current active communities are selling a higher proportion of entry-level homes with lower average home selling prices, compared to previous communities with average home selling prices over $1 million in 2014.

Our California segment had housing revenue of $194 million for the six months ended June 30, 2015, an increase of $8 million when compared to the same period in 2014. The increase in revenue was due to a 15% increase in home closings, partially offset by a 9% decrease in the average home selling price for the six months ended June 30, 2015 compared to the same period in 2014. Gross margin increased $1 million when compared to the same period in 2014 as a result of higher home closings, partially offset by the decrease in the average home selling price, which was primarily driven by product mix.

Central and Eastern U.S.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2015**	**2014**	**2015**	**2014**
Home closings	139	78	217	123
Revenue	$ 63	$ 38	$ 100	$ 59
Gross margin	$ 9	$ 6	$ 14	$ 9
Average home selling price	$ 455,000	$ 483,000	$ 461,000	$ 478,000

The Central and Eastern U.S. housing revenue increased $25 million for the three months ended June 30, 2015 when compared to the same period of 2014 as a result of increased activity and the acquisition of Grand Haven Homes in the first quarter of 2015, which produced 35 home closings in our Austin, Texas market, which had no home closings in 2014. Gross margin increased $3 million when compared to the same period in 2014 due to higher home closings, partially offset by lower average selling prices. The decrease in the average home selling price is due to product mix of the homes closed in different communities across the operating segment when compared to 2014.

The Central and Eastern U.S. housing revenue increased $41 million for the six months ended June 30, 2015 when compared to the same period of 2014 as a result of increased activity and the acquisition of Grand Haven Homes, which led to 58 home closings in our Austin, Texas market, which had no home closings in 2014. Additionally, for the six months ended June 30, 2015, both our Denver and Washington markets saw an increase in home closings, when compared to the same period in 2014. Gross margin increased $5 million when compared to the same period in 2014 due to higher home closings. This was partially offset by lower average selling prices as a result of product mix of the homes closed in different communities across the operating segment when compared to 2014.

Home Sales – Incentives

We grant our homebuyers sales incentives from time-to-time in order to promote sales of our homes. The type and amount of incentives will vary on a community-by-community and home-by-home basis. Incentives that impact the value of the home or the sales price paid, such as additional options, are reflected as a reduction to sales revenue. Incentives that we pay to an outside party, such as paying some or all of a homebuyer's closing costs, are recorded as cost of sales. Incentives are recognized at the time title passes to the homebuyer and the sale is recognized. For the three and six months ended June 30, 2015, total incentives recognized as a percentage of gross revenues were relatively consistent with 2014, with an increase in incentives in our Canadian markets, primarily as a result of market conditions in the Calgary market due to the decline in energy prices.

Our incentives on homes closed by operating segment for the three and six months ended June 30, 2015 and 2014 were as follows:

	Three Months Ended June 30			
	2015		2014	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 3	4%	$ 2	2%
California	1	1%	1	1%
Central and Eastern U.S.	5	7%	3	7%
	$ 9	3%	$ 6	2%

	Six Months Ended June 30			
	2015		2014	
(US$ millions, except percentages)	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
Canada	$ 5	3%	$ 3	2%
California	2	1%	1	1%
Central and Eastern U.S.	7	7%	5	8%
	$ 14	3%	$ 9	2%

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders, including our share of unconsolidated entities, for the three and six months ended June 30, 2015 totalled 876 units and 1,613 units, respectively, an increase of 197 units and 250 units when compared to the same periods in 2014. For the six months ended June 30, 2015, the increase in net new home orders was a result of higher net new orders in both the California and Central and Eastern U.S. segments, partially offset by a slight decrease in net new orders in Canada. Average monthly sales per community by reportable segment for the three and six months ended June 30, 2015 were: Canada – 9 and 8 units (2014 – 7 and 7 units); California – 3 and 3 units (2014 – 2 and 2 units); Central and Eastern U.S. – 3 and 3 units (2014 – 2 and 2 units); and unconsolidated entities – 2 and 2 units (2014 – 4 and 4 units). We were selling from 64 active housing communities, including our share of unconsolidated entities, at June 30, 2015 compared to 56 at June 30, 2014.

The net new home orders for the three and six months ended June 30, 2015 and 2014 by operating segment were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(Units)	**2015**	**2014**	**2015**	**2014**
Canada	504	437	864	883
California	194	129	381	256
Central and Eastern U.S.	159	76	330	158
	857	642	1,575	1,297
Unconsolidated entities	19	37	38	66
	876	679	1,613	1,363

The cancellation rates for the three and six months ended June 30, 2015 and 2014 by our three operating segments were as follows:

	Three Months Ended June 30			
	2015		2014	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	4	1%	9	2%
California	23	11%	20	13%
Central and Eastern U.S.	39	20%	17	18%
	66	7%	46	7%
Unconsolidated entities	1	5%	5	12%
	67	7%	51	7%

	Six Months Ended June 30			
	2015		2014	
(Units, except percentages)	**Units**	**% of Gross Home Orders**	**Units**	**% of Gross Home Orders**
Canada	8	1%	12	1%
California	37	9%	37	13%
Central and Eastern U.S.	62	16%	39	20%
	107	6%	88	6%
Unconsolidated entities	3	7%	6	8%
	110	6%	94	6%

Home Sales – Backlog

Our backlog, which represents the number of new homes subject to sales contracts, as at June 30, 2015 and 2014 by operating segment, was as follows:

	As at June 30			
	2015		2014	
(US$ millions, except unit activity)	**Units**	**Value**	**Units**	**Value**
Canada	1,049	$ 393	1,083	$ 446
California	301	240	186	216
Central and Eastern U.S.	304	143	149	80
	1,654	776	1,418	742
Unconsolidated entities	34	18	54	21
Total	1,688	$ 794	1,472	$ 763

We expect all of our backlog to close in 2015 or 2016, subject to future cancellations. The units in our backlog increased compared to the prior period primarily due to higher net new home orders in both the California and Central and Eastern U.S. segments. The backlog value increased compared to the same period in 2014 primarily as a result of the unit increase and product mix, where there were more homes in backlog from higher priced homes sold in California communities as well as 104% higher backlog units in the Central & Eastern U.S. segment. This was partially offset by lower backlog value in the Canadian operations, primarily due to a decrease in the foreign exchange rate between the Canadian and U.S. dollar. Our Canadian operations also had a decrease of 34 units in backlog, primarily due to a decrease in net new home orders for the six months ended June 30, 2015. The California segment's increase of 115 units at June 30, 2015 was mainly due to higher net new orders in the first half of 2015. The Central and Eastern U.S. segment's increase of 155 units at June 30, 2015, when compared to the same period in 2014, was mainly due to 95 units in backlog in our Austin market from the acquisition of Grand Haven Homes in the six months ended June 30, 2015, compared to no backlog units in 2014. Additionally, backlog units in Denver increased by 57 units when compared to the same period in 2014.

Results of Operations – Land

Land revenue totalled $67 million for the three months ended June 30, 2015, a decrease of $14 million when compared to the same period in 2014 and land gross margin decreased $15 million to $28 million. The decrease in land revenue and gross margin for the three months ended June 30, 2015 was driven by a decrease in the average lot selling price as a result of product mix, where there was a decrease of 193 single family lot closings in our Canadian segment, which typically has higher average selling prices compared to most of our U.S. markets. This was partially offset by higher lot closings in our California and Central and Eastern U.S. segments combined with higher average lot selling prices in our California market.

Land revenue totalled $130 million for the six months ended June 30, 2015, an increase of $5 million when compared to the same period in 2014, however, land gross margin decreased $13 million to $50 million. The increase in land revenue was primarily due to 164 additional single family lot closings for the six months ended June 30, 2015 compared to the same period in 2014, as well as 13 additional multi-family, industrial and commercial acre sales. This was partially offset by an 18% decrease in the average lot selling price as well as a decrease in the average selling price for acre sales for the six months ended June 30, 2015 compared to 2014. Gross margin decreased for the six months ended June 30, 2015 primarily due to the mix of lots sold with fewer land sales in the Canadian segment, which typically have higher average selling prices and gross margins. Our land revenue may vary significantly from period to period due to the nature and timing of land sales. Revenues are also affected by local product mix and market conditions, which have an impact on the selling price per lot.

A breakdown of our results from land operations for the three and six months ended June 30, 2015 and 2014 is as follows:

Consolidated

(US$ millions, except unit activity and average selling price)	**Three Months Ended June 30**		**Six Months Ended June 30**	
	2015	**2014**	**2015**	**2014**
Lot closings (single family units)	568	515	1,003	839
Acre sales (multi-family, industrial and commercial)	3	6	23	10
Acre sales (raw and partially finished)	8	1	8	3
Revenue	$ 67	$ 81	$ 130	$ 125
Gross margin	$ 28	$ 43	$ 50	$ 63
Average lot selling price (single family units)	$ 107,000	$ 144,000	$ 113,000	$ 138,000
Average per acre selling price (multi-family, industrial and commercial)	$ 725,000	$ 1,082,000	$ 524,000	$ 986,000
Average per acre selling price (raw and partially finished)	$ 164,000	$ 367,000	$ 164,000	$ 263,000

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

Canada

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2015**	**2014**	**2015**	**2014**
Lot closings (single family units)	138	331	244	546
Acre sales (multi-family, industrial and commercial)	3	6	23	10
Acre sales (raw and partially finished)	—	1	—	3
Revenue	$ 22	$ 64	$ 44	$ 102
Gross margin	$ 17	$ 39	$ 33	$ 58
Average lot selling price (single family units)	$ 142,000	$ 173,000	$ 132,000	$ 169,000
Average per acre selling price (multi-family, industrial and commercial)	$ 725,000	$ 1,082,000	$ 524,000	$ 986,000
Average per acre selling price (raw and partially finished)	$ —	$ 367,000	$ —	$ 263,000

Land revenue in Canada for the three months ended June 30, 2015 was $22 million, a decrease of $42 million when compared to the same period in 2014. The decrease was primarily the result of 193 fewer single family lot sales in 2015 when compared to the same period in 2014, as well as an 18% decline in the average lot selling price. The decline in single family lot sales is primarily due to economic conditions in the Alberta market from depressed energy prices. Gross margin decreased $22 million to $17 million when compared to 2014 primarily as a result of the mix of lots sold with fewer single family lot closings, lower average single family lot selling prices and lower per acre selling prices for multi-family, industrial and commercial acre sales. The lower average selling prices for single family lots is partially due to product mix where there was a higher proportion of lot sales from the Edmonton market which typically has lower average selling prices than the Calgary market. Additionally, there was an 11% decline in the foreign exchange rate between the Canadian and U.S. dollar for the three months ended June 30, 2015 compared to the same period in 2014. As the Company's presentation currency is U.S dollars, this results in a decrease in the translated average lot selling prices for 2015 compared to 2014.

Land revenue in Canada for the six months ended June 30, 2015 was $44 million, a decrease of $58 million when compared to the same period in 2014. The decrease was primarily the result of 302 fewer single family lots being sold in 2015 when compared to the same period in 2014. This was partially offset by 13 additional multi-family, industrial and commercial acre parcel sales in 2015 when compared to 2014. Gross margin decreased $25 million to $33 million when compared to 2014 primarily as a result of lower single family lot sales in 2015, primarily due to market conditions in Alberta. Additionally, the decline in the Canadian to U.S. dollar foreign exchange rate results in a decrease in the translated average lot selling price for 2015 compared to 2014.

California

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions, except unit activity and average selling price)	**2015**	**2014**	**2015**	**2014**
Lot closings (single family units)	163	94	341	94
Revenue	$ 27	$ 9	$ 60	$ 9
Gross margin	$ 7	$ 4	$ 12	$ 4
Average lot selling price (single family units)	$ 150,000	$ 96,000	$ 166,000	$ 96,000

Land revenue in California for the three months ended June 30, 2015 increased by $18 million when compared to the same period in 2014. This was primarily the result of 69 additional single family lot closings in the three months ended June 30, 2015 compared to the same period in 2014. Gross margin increased $3 million when compared to the same period in 2014 as a result of higher lot closings combined with an increase in the average lot selling price, due to the mix of lots sold within the segment.

Land revenue in California for the six months ended June 30, 2015 increased by $51 million when compared to the same period in 2014. This was primarily the result of 247 additional single family lot closings in 2015 compared to the same period in 2014. Gross margin increased $8 million when compared to the same period in 2014 as a result of higher lot closings as well as an increase in the average lot selling price, due to the geographic mix of lots sold within the segment.

Central and Eastern U.S.

(US$ millions, except unit activity and average selling price)	Three Months Ended June 30		Six Months Ended June 30	
	2015	**2014**	**2015**	**2014**
Lot closings (single family units)	267	90	418	199
Acre sales (raw and partially finished)	8	—	8	—
Revenue	$ 18	$ 8	$ 26	$ 14
Gross margin	$ 4	$ —	$ 5	$ 1
Average lot selling price (single family units)	$ 63,000	$ 89,000	$ 59,000	$ 72,000
Average per acre selling price (raw and partially finished)	$ 164,000	$ —	$ 164,000	$ —

For the three months ended June 30, 2015, revenue in the Central and Eastern U.S. segment increased by $10 million and gross margin increased by $4 million compared to the same period in 2014. This was due to an increase of 177 additional single family lot closings across the segment, partially offset by a 29% decrease in the average lot selling price when compared to the same period in 2014. The decrease in the average lot selling price was due to product mix, with a higher proportion of lots closed in the Austin, Texas market, where our current active land communities have lower selling prices relative to other markets within the segment.

For the six months ended June 30, 2015, the Central and Eastern U.S. revenue increased by $12 million and gross margin increased by $4 million. This was due to an increase of 219 single family lots sold, primarily in our Austin, Texas market, partially offset by a decrease in the average lot selling price related to the geographic mix of lots sold within the segment.

Equity in Earnings from Unconsolidated Entities

Equity in earnings from unconsolidated entities for the three and six months ended June 30, 2015 totalled $3 million and $6 million respectively, compared to $6 million and $8 million, respectively, for the same period in 2014. The housing and land operations of our unconsolidated entities are discussed below.

Housing

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

(US$ millions, except unit activity and average selling price)	Three Months Ended June 30		Six Months Ended June 30	
	2015	**2014**	**2015**	**2014**
Home closings	17	21	37	25
Revenue	$ 8	$ 10	$ 19	$ 12
Gross margin	$ 2	$ 2	$ 5	$ 3
Average home selling price	$ 496,000	$ 487,000	$ 510,000	$ 501,000

Housing revenue within unconsolidated entities decreased $2 million and gross margin remained consistent for the three months ended June 30, 2015 compared to the same period in 2014. The decrease in revenue is the result of four fewer home closings, partially offset by a 2% increase in the average home selling price due to the mix of homes sold amongst our unconsolidated entities when compared to 2014.

Housing revenue within unconsolidated entities increased $7 million for the six months ended June 30, 2015 compared to the same period in 2014. The increase in revenue is the result of an increase of 12 home closings and a $9,000 increase in the average home selling price compared to 2014. The increase in average home selling price was due to product mix of closings.

Land

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

(US$ millions, except unit activity and average selling price)	Three Months Ended June 30		Six Months Ended June 30	
	2015	**2014**	**2015**	**2014**
Lot closings (single family units)	69	82	119	204
Acre closings (multi-family, industrial and commercial)	—	—	—	2
Revenue	$ 6	$ 11	$ 10	$ 19
Gross margin	$ 2	$ 4	$ 4	$ 7
Average lot selling price (single family units)	$ 94,000	$ 138,000	$ 83,000	$ 90,000
Average per acre selling price (multi-family, industrial and commercial)	$ —	$ —	$ —	$ 188,000

Land revenue within unconsolidated entities decreased $5 million and gross margin decreased $2 million for the three months ended June 30, 2015 compared to the same period in 2014. This was the result of a decrease of 13 single family lot closings and a 32% decrease in the average lot selling price compared to the same period in 2014. The decrease in lot closings was due to fewer closings in our Phoenix operations, partially offset by additional closings in our California operations, when compared to the same period in 2014. The decrease in average lot selling price was attributable to the mix of land sold amongst the unconsolidated entities.

Land revenue within unconsolidated entities decreased $9 million and gross margin decreased $3 million for the six months ended June 30, 2015 compared to the same period in 2014. This was the result of a decrease of 85 single family lot closings primarily from our Phoenix operations, as well as a $7,000 decrease in the average lot selling price for the six months ended June 30, 2015 compared to the same period in 2014. The decrease in average lot selling price was attributable to the mix of land sold amongst the unconsolidated entities.

Gain on Commercial Assets Held For Sale

The components of the gain on commercial assets held for sale for the three and six months ended June 30, 2015 and 2014 are summarized as follows:

(US$ millions, except unit activity)	Three Months Ended June 30		Six Months Ended June 30	
	2015	**2014**	**2015**	**2014**
Square feet	—	—	—	150,700
Proceeds	$ —	$ —	$ —	$ 83
Gain on commercial assets held for sale	$ —	$ —	$ —	$ 33

There were no sales of commercial assets held for sale for the three and six months ended June 30, 2015. Income was generated from the sale of two large commercial income producing properties that were sold during the six months ended June 30, 2014. The Canadian operating segment sold a 128,000 square foot commercial property at Seton in Calgary, Alberta for proceeds of $66 million and a gain of $32 million and the California operating segment sold a 22,700 square foot commercial property at Playa Vista in Los Angeles for proceeds of $17 million and a gain of $1 million.

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three and six months ended June 30, 2015 and 2014 are summarized as follows:

(US$ millions)	Three Months Ended June 30		Six Months Ended June 30	
	2015	**2014**	**2015**	**2014**
General and administrative expense	$ 27	$ 28	$ 54	$ 57
Sales and marketing expense	16	12	29	22
Share-based compensation	4	4	32	5
Change in fair value of equity swap contracts	—	—	—	5
	$ 47	$ 44	$ 115	$ 89

The selling, general and administrative expense was $47 million for the three months ended June 30, 2015, an increase of $3 million when compared to the same period in 2014. General and administrative expense was relatively consistent with the same period in 2014. Sales and marketing costs increased $4 million as a result of increased housing activity, resulting in increased closing costs in the three months ended June 30, 2015 compared to 2014. Share-based compensation remained consistent with the three months ended June 30, 2014.

The selling, general and administrative expense was $115 million for the six months ended June 30, 2015, an increase of $26 million when compared to the same period in 2014. General and administrative expense decreased $3 million for the six months ended June 30, 2015 due to lower compensation accrued. Sales and marketing expense for the six months ended June 30, 2015 increased $7 million, when compared to the same period in 2014, due to increased home closings. Share-based compensation increased $27 million compared to 2014, primarily as a result of $24 million of share-based compensation costs related to the settlement of share-based compensation plans due to the Privatization Transaction in the first quarter of the year. Additionally, there was an increase of $3 million in share-based compensation costs resulting from a higher mark-to-market on our share-based compensation liabilities in 2015 compared to the six months ended June 30, 2014.

Other (Income) / Expense

Other income for the three and six months ended June 30, 2015 decreased $4 million and $6 million, respectively, when compared to the same periods in 2014. The components of other income for the three and six months ended June 30, 2015 and 2014 are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	2015	2014	2015	2014
Privatization Transaction costs…………………	$ —	$ —	$ 2	$ —
Interest income	(1)	$ (1)	(2)	$ (2)
Other...	(1)	(5)	(2)	(6)
	$ (2)	$ (6)	$ (2)	$ (8)

For the three months ended June 30, 2015, other income decreased primarily as a result of certain recoveries which were realized in the three months ended June 30, 2014. There were no such recoveries in the three months ended June 30, 2014.

For the six months ended June 30, 2015, other income decreased $6 million compared to the same period in 2014. This was primarily the result of $2 million of legal and professional fees, which were related to the Privatization Transaction that occurred in the first three months of 2015, as well as various recoveries realized in 2014.

Income Tax Expense / (Recovery)

Income tax expense / (recovery) for the three and six months ended June 30, 2015 was a recovery of $5 million and an expense of $nil, respectively, compared to an expense of $6 million and $14 million, respectively, for the same periods in 2014. For the six months ended June 30, 2015, the $5 million of current income tax expense primarily relates to withholding taxes paid on distributions made from our U.S. operations. The decrease in deferred income tax expense primarily relates to a tax recovery of $7 million recognized due to the effect of a change in the Alberta corporate tax rate during the three months ended June 30, 2015.

	Three Months Ended June 30		Six Months Ended June 30	
(US$ millions)	2015	2014	2015	2014
Current income tax expense	$ —	$ 1	$ 5	$ 1
Deferred income tax (recovery) / expense	(5)	5	(5)	13
	$ (5)	$ 6	$ —	$ 14

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 equity accounted investees having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at June 30, 2015, the rate of exchange was C$1.2494 equivalent to US$1 (December 31, 2014 – C$1.1617 equivalent to US$1). Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the three months ended June 30, 2015, the average rate of exchange was C$1.2291 equivalent to US$1 (June 30, 2014 – C$1.0903 equivalent to US$1). The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI"). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the condensed consolidated statements of operations as other income / (expense), except for those related to monetary liabilities qualifying as hedges of the Company's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

The financial results of our Canadian operations are translated into U.S. dollars for financial reporting purposes. Foreign currency translation gains and losses are recorded as the exchange rate between the two currencies fluctuates. These gains and losses are included in OCI and accumulated OCI. The translation of our Canadian operations resulted in a gain of $9 million and a loss of $61 million for the three and six months ended June 30, 2015, compared to gain of $28 million and a loss of $2 million in the same periods of 2014.

QUARTERLY OPERATING AND FINANCIAL DATA

	2015		2014				2013	
(US$ millions, except unit activity and per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Quarterly Operating Data								
Home closings (units)	543	438	859	564	435	346	856	606
Lot closings (single family units)	568	435	906	368	515	324	1,177	463
Acre closings (multi-family, industrial and commercial)	3	20	7	15	6	4	8	13
Net new home orders (units)	857	718	482	495	642	655	445	540
Backlog (units at end of period)	1,654	1,339	972	1,349	1,418	1,211	902	1,311
Backlog value	$ 776	$ 629	$ 483	$ 693	$ 742	$ 609	$ 442	$ 630
Quarterly Financial Data								
Revenue	$ 311	$ 277	$ 591	$ 355	$ 321	$ 208	$ 555	$ 333
Direct cost of sales	(237)	(203)	(409)	(248)	(223)	(149)	(407)	(234)
Gross margin	74	74	182	107	98	59	148	99
Gain on commercial assets held for sale	—	—	—	—	—	33	—	—
Selling, general and administrative expense	(47)	(68)	(58)	(45)	(44)	(45)	(52)	(42)
Interest expense	(18)	(15)	(15)	(16)	(15)	(16)	(15)	(15)
Other income	4	1	29	2	10	4	9	2
Income / (loss) before taxes	13	(8)	138	48	49	35	90	44
Income tax recovery / (expense)	5	(5)	(18)	38	(6)	(8)	(7)	(8)
Net income / (loss)	18	(13)	120	86	43	27	83	36
Net income attributable to non-controlling interest and other interest in consolidated subsidiaries	—	—	—	—	(1)	(2)	(4)	(1)
Net income / (loss) attributable to Brookfield Residential	$ 18	$ (13)	$ 120	$ 86	$ 42	$ 25	$ 79	$ 35
Foreign currency translation	9	(69)	(30)	(39)	28	(29)	(23)	14
Comprehensive income / (loss)	$ 27	$ (82)	$ 90	$ 47	$ 70	$ (4)	$ 56	$ 49
Earnings / (loss) per common share attributable to Brookfield Residential								
Basic	$ 0.16	$ (0.11)	$ 1.04	$ 0.74	$ 0.36	$ 0.21	$ 0.67	$ 0.30
Diluted	$ 0.16	$ (0.11)	$ 1.03	$ 0.73	$ 0.36	$ 0.21	$ 0.67	$ 0.29

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, which are a meaningful part of our business, results are more variable from year to year given the nature of the development and monetization cycle.

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's condensed consolidated balance sheets as at June 30, 2015 and December 31, 2014:

(US$ millions)	As at June 30 2015	As at December 31 2014
Land and housing inventory	$ 2,723	$ 2,522
Investments in unconsolidated entities	264	238
Receivables and other assets	323	363
Cash and restricted cash	144	196
Deferred income tax assets	130	71
	$ 3,584	$ 3,390
Notes payable	$ 1,650	$ 1,100
Bank indebtedness and other financings	192	208
Accounts payable and other liabilities	433	463
Total equity	1,309	1,619
	$ 3,584	$ 3,390

Assets

Our assets as at June 30, 2015 totalled $3.6 billion. Our land and housing inventory and investments in unconsolidated entities are our most significant assets with a combined book value of $3.0 billion, or approximately 83% of our total assets. The land and housing assets increased when compared to December 31, 2014 due to acquisitions of $221 million, development activity and stronger backlog, partially offset by sales activity. Our land and housing assets include land under development and land held for development, finished lots ready for construction, homes completed and under construction and model homes.

A summary of our lots owned, excluding unconsolidated entities, and their stage of development as at June 30, 2015 compared with December 31, 2014 follows:

	As at			
	June 30, 2015		December 31, 2014	
(US$ millions, except units)	Units	Book Value	Units	Book Value
Land held for development (lot equivalents)	86,709	$ 1,461	87,922	$ 1,446
Land under development and finished lots (single family units)	5,970	677	6,457	664
Housing units, including models	1,956	532	1,239	357
	94,635	$ 2,670	95,618	$ 2,467
Multi-family, industrial and commercial parcels (acres)	125	$ 53	133	$ 55

Notes Payable

Notes payable consist of the following:

(US$ millions)	As at June 30 2015	As at December 31 2014
6.5% unsecured senior notes due December 15, 2020 (a)	$ 600	$ 600
6.125% unsecured senior notes due July 1, 2022 (b)	500	500
6.125% unsecured senior notes due May 15, 2023 (c)	200	—
6.375% unsecured senior notes due May 15, 2025 (d)	350	—
	$ 1,650	$ 1,100

(a) On December 14, 2012, Brookfield Residential issued $600 million of unsecured senior notes. The notes were offered in a private placement, with an eight-year term due December 15, 2020 at a fixed interest rate of 6.5%.

The notes require semi-annual interest payments on June 15 and December 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.

(b) On June 25, 2013, the Company and Brookfield Residential US Corporation, a wholly-owned subsidiary of the Company, co-issued a private placement of $500 million of unsecured senior notes. The notes have a nine-year term, are due July 1, 2022 and bear interest at a fixed rate of 6.125%. The notes require semi-annual interest payments on January 1 and July 1 each year until maturity. The Company's and Brookfield Residential US Corporation's obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries.

(c) On May 12, 2015, Brookfield Residential issued C$250 million (US$200 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.

(d) On May 12, 2015, Brookfield Residential 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.

Transaction costs are incremental costs directly related to the issuance of the unsecured senior notes and the Company classified these costs within receivables and other assets as a deferred asset. These costs are amortized using the effective interest rate method over the life of the related debt instrument.

The indenture governing the notes include covenants that, among others, place limitations on incurring additional indebtedness and making restricted payments. Under the limitation on additional indebtedness, we are permitted to incur specified categories of indebtedness but are prohibited from incurring further indebtedness if we do not satisfy either an indebtedness to consolidated net tangible worth ratio or a fixed charge coverage ratio. Brookfield Residential was in compliance with these financial incurrence covenants for the six months ended June 30, 2015. Our actual fixed charge coverage and indebtedness to consolidated net tangible worth ratio as of June 30, 2015 are reflected in the table below:

	Covenant	Actual as at June 30 2015
Minimum fixed charge coverage	2.0 to 1	3.51 to 1
Maximum indebtedness to consolidated net tangible worth	2.25 to 1	1.45 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings as of June 30, 2015 were $192 million, a decrease of $16 million from December 31, 2014. The decrease was primarily the result of the repayment of certain bank indebtedness borrowings using proceeds from the senior unsecured notes issued during the three months ended June 30, 2015, offset by borrowings to fund development activity, land acquisitions, the Grand Haven Homes acquisition, transaction costs associated with the Privatization Transaction and dividends paid to our common shareholders. Our bank indebtedness and other financings represent construction and development loans and facilities that are used to fund the operations of our communities as new homes are constructed. As of June 30, 2015, the weighted average interest rate on our bank indebtedness and other financings was 3.8% (December 31, 2014 – 4.0%).

The debt maturing in 2015 and onwards is expected to either be refinanced or repaid from home and/or lot deliveries over this period. Additionally, as of June 30, 2015, we had bank indebtedness and due to affiliates of $825 million that was available to complete land development and construction activities. The "Cash Flow" section below discusses future available capital resources should proceeds from our future home and/or lot closings not be sufficient to repay our debt obligations.

Bank indebtedness and other financings consists of the following:

(US$ millions)	As at June 30 2015	As at December 31 2014
Bank indebtedness (a)	$ 139	$ 152
Secured Vendor take back ("VTB") mortgages (b)	53	56
Due to affiliates (c)	—	—
	$ 192	$ 208

(a) Bank indebtedness

(i) The Company has six secured credit facilities (December 31, 2014 – four secured credit facilities) with various Canadian banks with outstanding amounts totalling $139 million at June 30, 2015 (December 31, 2014 – $152 million). The secured facilities are repayable in Canadian dollars in the amount of C$173 million at June 30, 2015 (December 31, 2014 – C$176 million). These facilities allow the Company to borrow up to approximately C$565 million (US$452 million) as at June 30, 2015 (December 31, 2014 – C$565 million (US$486 million)). The credit facilities bear interest between Canadian prime plus 0.5% to 1.2% for any amounts drawn. The facilities are secured by fixed and floating charges over the land and housing inventory assets of our Alberta and Ontario operations and a general charge over the property of Brookfield Residential (Alberta) LP and Brookfield Homes (Ontario) Limited, both wholly-owned subsidiaries of the Company.

Three of the credit facilities are denominated in Canadian dollars and require Brookfield Residential (Alberta) LP, a wholly-owned subsidiary of the Company, to maintain a minimum tangible net worth of C$370 million and a debt to equity ratio of no greater than 1.75 to 1. At June 30, 2015, we were in compliance with all of our covenants relating to bank indebtedness. The following table reflects Brookfield Residential (Alberta) LP's tangible net worth and debt to equity ratio covenants:

(C$ millions, except ratios)	Covenant	Actual as at June 30 2015
Minimum tangible net worth	C$ 370	C$ 722
Debt to equity	1.75 to 1	0.33 to 1

The three remaining Canadian dollar denominated facilities require Brookfield Homes (Ontario) Limited, a wholly-owned subsidiary of the Company, to maintain a minimum tangible net worth of C$75 million and a debt to equity ratio of no greater than 1.75 to 1. At June 30, 2015, we were in compliance with all of our covenants relating to bank indebtedness. The following table reflects Brookfield Homes (Ontario) Limited's tangible net worth and debt to equity ratio covenants:

(C$ millions, except ratios)	Covenant	Actual as at June 30 2015
Minimum tangible net worth	C$ 75	C$ 158
Debt to equity	1.75 to 1	0.37 to 1

(ii) Brookfield Residential US Corporation, a wholly-owned subsidiary of the Company, as borrower, and the Company, as the parent company to the borrower, has a $275 million unsecured Revolving Credit Facility with various lenders. Interest is charged on the facility at a rate equal to either the adjusted LIBOR plus the applicable rate between 1.875% and 2.25% per annum or the alternate base rate ("ABR") plus the applicable rate between 0.875% and 1.25% per annum, at the option of the borrower.

The credit 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, fundamental changes, sale leasebacks, modifications of material agreements, and certain financial covenants as discussed below.

The facility requires the Company and Brookfield Residential US Corporation to maintain a minimum consolidated tangible net worth of $970 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at June 30, 2015, the Company and Brookfield Residential US Corporation were in compliance with all of our covenants relating to this facility.

The following table reflects consolidated tangible net worth and consolidated net debt to capitalization as directed by the covenants:

(US$ millions, except ratios)	Covenant	Actual as at June 30 2015
Minimum tangible net worth	$ 970	$ 1,309
Net debt to capitalization	65%	57%

The Company had no outstanding borrowings under the Revolving Credit Facility and $275 million of borrowing availability under the facility at June 30, 2015 (2014 – no borrowings outstanding). During the three months ended June 30, 2015, the Company paid down the balance drawn on the Revolving Credit Facility using proceeds from the senior unsecured notes issued.

The transaction costs and administrative and upfront fees related to the Revolving Credit Facility are within receivables and other assets (refer to Note 6 “Receivables and Other Assets” in the condensed consolidated financial statements).

(iii) As a result of the acquisition of Grand Haven Homes during the three months ended March 31, 2015, the Company assumed seven secured credit facilities with various banks, with outstanding amounts totalling $32 million. These facilities allowed the Company to borrow up to approximately $100 million as at March 31, 2015. The credit facilities had interest at various rates between 3.0% and 30-day LIBOR plus 4.0% for amounts drawn. The secured facilities were secured by the various land and housing assets of Grand Haven Homes. During the three months ended June 30, 2015, all seven secured credit facilities were repaid in full and terminated.

(b) VTB mortgages

A total of 15 secured VTB mortgages (December 31, 2014 – 23 secured VTB mortgages) in the amount of $49 million (December 31, 2014 – $55 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Homes (Ontario) Limited. This debt is repayable in Canadian dollars of C$61 million (December 31, 2014 – C$65 million). The interest rate on this debt ranges from prime plus 1.0% to prime plus 2.0% to fixed rates ranging from 2.5% to 6.0% and the debt is secured by related lands. As at June 30, 2015, these borrowings are not subject to financial covenants.

Four secured VTB mortgages (December 31, 2014 – one secured VTB mortgage) in the amount of $4 million (December 31, 2014 – $1 million) relate to raw land held for development by Brookfield Residential (US) LLC, a wholly-owned subsidiary of the Company. The interest rate on this debt ranges from variable rates of prime plus 0.75% to fixed rates between 5% and 6% and the debt is secured by related lands. As at June 30, 2015, these borrowings are not subject to any financial covenants.

(c) Due to affiliates

There were no amounts due to affiliates at June 30, 2015 or December 31, 2014 on an unsecured revolving operating facility with a subsidiary of our sole shareholder, Brookfield Asset Management Inc. At June 30, 2015 the availability on this facility was $300 million. The revolving operating facility is in a principal amount not to exceed $300 million. This facility bears interest at LIBOR plus 4.5% and could be fully drawn upon without violation of any covenants.

At June 30, 2015, this revolving operating facility required Brookfield Residential US Corporation to maintain minimum total equity of $300 million and a consolidated net debt to capitalization ratio of no greater than 65%. At June 30, 2015, we were in compliance with all of our covenants relating to this facility. The following table reflects Brookfield Residential US Corporation’s minimum shareholders’ equity and net debt to capitalization ratio covenants:

(US$ millions, except ratios)	Covenant	Actual as at June 30 2015
Minimum shareholders’ equity	$ 300	$ 1,078
Net debt to capitalization	65%	45%

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, other interests in consolidated subsidiaries and interest bearing debt, less cash.

Our net debt to total capitalization ratio as at June 30, 2015 and December 31, 2014 is as follows:

	As at	
(US$ millions)	**June 30 2015**	**December 31 2014**
Bank indebtedness and other financings	$ 192	$ 208
Notes payable	1,650	1,100
Total interest bearing debt	1,842	1,308
Less: cash	(142)	(190)
	1,700	1,118
Total equity	1,309	1,619
Total capitalization	$ 3,009	$ 2,737
Net debt to total capitalization	56%	41%

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 increased debt levels, decreased earnings, declines in our customer demand, increased competition, a further deterioration in general economic and business conditions and adverse publicity. Any downgrades in our credit rating may impede our access to capital markets or raise our borrowing rates. We are currently rated by two credit rating agencies, Moody's and Standard & Poor's ("S&P"). We are committed to maintaining these ratings and improving them further over time. Our credit ratings at June 30, 2015 and at the date of this report 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 and home construction. Cash flows for each of our communities depend upon the applicable stage of the development cycle and can differ substantially from reported earnings. Early stages of development require significant cash outlays for land acquisitions, site approvals and entitlements, construction of model homes, roads, certain utilities and other amenities and general landscaping. As these costs are capitalized, earnings reported for financial statement purposes during such early stages may significantly exceed cash flows. Later, cash flows can exceed earnings reported for financial statement purposes as cost of sales includes charges for substantial amounts of previously expended costs.

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

At June 30, 2015, we had cash and cash equivalents of $142 million, compared to $190 million at December 31, 2014.

The net cash flows for the six months ended June 30, 2015 and 2014 were as follows:

	Six Months Ended June 30	
(US$ millions)	**2015**	**2014**
Cash flows (used in) / provided by operating activities	$ (293)	$ 6
Cash flows used in investing activities	(18)	(18)
Cash flows provided by / (used in) financing activities	267	(118)
Effect of foreign exchange rates on cash	(5)	(5)
	$ (49)	$ (135)

Cash Flow (Used in) / Provided by Operating Activities

Cash flows used in operating activities during the six months ended June 30, 2015 totalled $293 million, compared to $6 million cash flow provided by operating activities for the same period in 2014. During the six months ended June 30, 2015, cash used in operating activities was impacted by an increase in land and housing inventory due to strategic land purchases, the acquisition of Grand Haven Homes in Austin, Texas and development activity, an increase in receivables and other assets, a decrease in accounts payable and other liabilities and our net income. Acquisitions for the six months ended June 30, 2015 totalled $221 million consisting of $53 million in Canada, $73 million in California and $95 million in Central and Eastern U.S. During the six months ended June 30, 2014, cash provided by operating activities was impacted by an increase in land and housing inventory, a decrease in receivables and other assets, a decrease in commercial assets held for sale and a decrease in accounts payable. Acquisitions for the six months ended June 30, 2014 totalled $120 million, consisting of $32 million in Canada, $73 million in California and $15 million in Central and Eastern U.S.

Cash Flow Used in Investing Activities

During the six months ended June 30, 2015, cash flows used in investing activities totalled $18 million compared to $18 million for the same period in 2014. During the six months ended June 30, 2015, we invested $29 million in unconsolidated entities, which was partially offset by a reduction in restricted cash balances of $3 million and distributions from unconsolidated entities of $8 million. During the six months ended June 30, 2014, we invested $25 million in unconsolidated entities and reduced restricted cash balances by $3 million. This was partially offset by distributions of $4 million from unconsolidated entities.

Cash Flow Provided by / (Used in) Financing Activities

Cash provided by our financing activities for the six months ended June 30, 2015 was $267 million, compared to $118 million used in financing activities in the same period in 2014. The cash provided by our financing activities during the six months ended June 30, 2015 was primarily from the issuance of unsecured senior notes payable of $550 million, partially offset by net repayments under bank indebtedness of $2 million, dividends paid to our common shareholders of $177 million, settlement of share-based compensation awards of $46 million and common share repurchases of $60 million. This was in contrast to net repayments under project-specific and other financings of $36 million and net repayments under bank indebtedness of $48 million in the six months ended June 30, 2014. The draws to date in 2015 have been used to fund acquisitions and development costs as well as costs associated with the Privatization Transaction.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at June 30, 2015 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)]	$ 1,650	$ —	$ —	$ —	$ 1,650
Interest on notes payable	767	104	209	209	245
Secured VTB mortgages[(2)(3)]	53	16	16	17	4
Bank indebtedness[(2)(3)]	139	19	120	—	—
Accounts payable and other liabilities[(4)]	433	433	—	—	—
Operating lease obligations[(5)]	45	5	14	10	16
Purchase agreements[(6)]	48	21	27	—	—

(1) Amounts are included on the condensed consolidated balance sheets. See Note 8 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 9 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 our debt. See Note 9 to the condensed consolidated financial statements for additional information regarding our floating rate debt.
(4) Amounts are included on the condensed consolidated balance sheets. See Note 10 to the condensed consolidated financial statements for additional information regarding accounts payable and other liabilities.
(5) Amounts relate to non-cancellable operating leases involving office space, design centres and model homes.
(6) See Note 16 to the condensed consolidated financial statements for additional information regarding purchase agreements.

Shareholders' Equity

During the three months ended March 31, 2015, as a result of the Privatization Transaction, Brookfield Asset Management Inc. acquired 32,407,562 Common Shares of Brookfield Residential for $24.25 per Common Share. Also, as a result of the Privatization Transaction, 2,454,095 Common Shares of Brookfield Residential were tendered and purchased for $24.25 per common share for cancellation by the Company for total consideration of approximately $60 million.

Additionally, as a result of the Privatization Transaction, the escrowed stock plan was immediately settled and all awards under the plan were vested. In accordance with the escrowed plan, 933,526 Common Shares under Brookfield Residential were issued where the value of the Common Shares being issued was equal to the value of the escrowed shares being acquired.

At August 5, 2015, 113,900,674 Common Shares in the capital of the Company were issued and outstanding. In addition, Brookfield Residential has a stock option plan under which key officers and employees are granted options to purchase Non-Voting Class B Common Shares or settle the options in cash at the option of the holder. Each option granted can be exercised for one Non-Voting Class B Common Share or settled in cash for the fair value of one Common Share at the date of exercise. At August 5, 2015, 4,990,340 options were outstanding under the stock option plan.

Off-Balance Sheet Arrangements

In the ordinary course of business, and where market conditions permit, we enter into land and lot option contracts and 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 options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of June 30, 2015, we had $79 million of primarily non-refundable option deposits and advanced costs. The total remaining exercise price of these options was $109 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 2 "Land and Housing Inventory" to our condensed consolidated financial statements included elsewhere in this interim report, we have consolidated $36 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 8,921 lots and control under option 1,483 lots through our proportionate share of unconsolidated entities. As of June 30, 2015, our investment in unconsolidated entities totaled $264 million. We have provided varying levels of guarantees of debt in our unconsolidated entities. As of June 30, 2015, we had completion guarantees of $6 million and recourse guarantees of $1 million with respect to debt in our unconsolidated entities. During the six months ended June 30, 2015, we did not make any loan re-margin repayments on the debt in our unconsolidated entities. Please refer to Note 3 "Investments in Unconsolidated Entities" to our condensed consolidated financial statements included later in this interim report for additional information about our investments in unconsolidated entities.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of June 30, 2015, we had $65 million in letters of credit outstanding and $316 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds at June 30, 2015 are $33 million and $116 million, respectively.

Transactions Between Related Parties

Related parties include the directors, executive officers, director nominees or 5% 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 and an unsecured revolving credit facility. The Company's significant related party transactions as of and for the three and six months ended June 30, 2015 and 2014 were as follows:

- On March 13, 2015, Brookfield Asset Management Inc. and Brookfield Residential closed the Privatization Transaction, which 1927726 Ontario Inc., a wholly-owned subsidiary of Brookfield Asset Management Inc. acquired the approximately 30.6% of common shares of Brookfield Residential not already owned by Brookfield Asset Management Inc. and its affiliates.

- During the six months ended June 30, 2015, the Company paid a dividend to the common shareholders after the Privatization Transaction of $177 million.

- During the six months ended June 30, 2015, the Company purchased the tax attributes of two subsidiaries of Brookfield Asset Management Inc. for cash consideration of $53 million (2014 - $nil). These transactions were recorded at the exchange amount.

- During the six months ended June 30, 2015, the Company paid $8 million (2014 - $10 million) to Brookfield Asset Management Inc. for Canadian tax credits. The transactions were recorded at the exchange amount.
- In 2014, the Company purchased the tax attributes of a subsidiary of Brookfield Asset Management Inc. in consideration for a $29 million non-interest bearing promissory note. During the three and six months ended June 30, 2015, $6 million and $13 million of this note was repaid. These transactions were recorded at the exchange amount.
- In 2013, the Company purchased the tax attributes of a subsidiary of Brookfield Asset Management Inc. in consideration for a $33 million non-interest bearing promissory note of which $22 million of this note was repaid during the year ended December 31, 2014. During the six months ended June 30, 2015, the remaining balance of this note was repaid. These transactions were recorded at the exchange amount.
- At December 31, 2014, the Company had a receivable of $4 million from Brookfield Asset Management Inc., included in receivables and other assets, related to certain Privatization Transaction costs incurred by Brookfield Residential that were recoverable from Brookfield Asset Management Inc. During the six months ended June 30, 2015, the receivable was collected. The costs were recorded at the exchange amount.

Non-GAAP Financial Measures

Gross margins on land and home sales are non-GAAP financial measures and are defined by the Company as sales of land and homes less respective direct cost of sales of land and homes. Management finds gross margin 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 also provides comparability to similar calculations by its peers in the homebuilding industry. Additionally, gross margin 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 margins 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 margins and it should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	Note	*(Unaudited)* As at June 30 2015	As at December 31 2014
Assets			
Land and housing inventory	2	$ 2,723,319	$ 2,521,628
Investments in unconsolidated entities	3	264,142	238,402
Receivables and other assets	6	323,299	362,791
Restricted cash	7	2,053	5,339
Cash and cash equivalents		141,717	190,479
Deferred income tax assets	11	129,406	71,261
Total assets		$ 3,583,936	$ 3,389,900
Liabilities and Equity			
Notes payable	8	$ 1,650,100	$ 1,100,000
Bank indebtedness and other financings	9	191,573	208,257
Accounts payable and other liabilities	10	433,200	462,585
Total liabilities		2,274,873	1,770,842
Other interests in consolidated subsidiaries	12	—	—
Preferred Shares – nil shares outstanding (December 31, 2014 – nil shares outstanding)	13	—	—
Common Shares – 113,900,674 shares outstanding (December 31, 2014 – 115,421,243 shares outstanding)	13	326,594	329,474
Additional paid-in-capital		399,035	423,893
Retained earnings		644,545	868,336
Non-controlling interest	12	40,575	38,438
Accumulated other comprehensive loss		(101,686)	(41,083)
Total equity		1,309,063	1,619,058
Total liabilities and equity		$ 3,583,936	$ 3,389,900
Commitments, contingent liabilities and other	16		
Guarantees	17		

See accompanying notes to the condensed consolidated financial statements

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

		(Unaudited)			
		Three Months Ended June 30		**Six Months Ended June 30**	
	Note	**2015**	**2014**	**2015**	**2014**
Revenue					
Housing		$ 243,743	$ 240,000	$ 457,393	$ 403,674
Land		67,070	81,041	130,320	125,746
Total revenue		310,813	321,041	587,713	529,420
Direct Cost of Sales					
Housing		(197,306)	(184,759)	(359,842)	(310,164)
Land		(39,441)	(38,153)	(80,254)	(62,240)
Total direct cost of sales		(236,747)	(222,912)	(440,096)	(372,404)
Gain on commercial assets held for sale	4	—	—	—	32,927
Selling, general and administrative expense		(47,450)	(44,462)	(115,058)	(89,298)
Interest expense		(17,792)	(15,145)	(32,812)	(31,249)
Equity in earnings from unconsolidated entities	3	2,989	5,763	5,894	8,414
Other income		2,205	5,873	1,945	8,194
Depreciation		(975)	(1,122)	(2,022)	(2,271)
Income Before Income Taxes		13,043	49,036	5,564	83,733
Current income tax recovery / (expense)	11	290	(840)	(5,134)	(876)
Deferred income tax recovery / (expense)	11	4,591	(5,022)	4,848	(13,087)
Net Income		17,924	43,174	5,278	69,770
Other Comprehensive Income / (Loss)					
Unrealized foreign exchange gain / (loss) on:					
Translation of the net investment in Canadian subsidiaries		748	27,609	(69,053)	(1,836)
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		8,450	—	8,450	—
Comprehensive Income / (Loss)		$ 27,122	$ 70,783	$ (55,325)	$ 67,934
Net Income Attributable To:					
Consolidated		$ 17,924	$ 43,174	$ 5,278	$ 69,770
Non-controlling interest and other interest in consolidated subsidiaries	12	(130)	795	(225)	2,542
Brookfield Residential		$ 18,054	$ 42,379	$ 5,503	$ 67,228
Comprehensive Income / (Loss) Attributable To:					
Consolidated		$ 27,122	$ 70,783	$ (55,325)	$ 67,934
Non-controlling interest and other interest in consolidated subsidiaries	12	(130)	795	(225)	2,542
Brookfield Residential		$ 27,252	$ 69,988	$ (55,100)	$ 65,392
Common Shareholders Earnings Per Share					
Basic	15	$ 0.16	$ 0.36	$ 0.05	$ 0.57
Diluted	15	$ 0.16	$ 0.36	$ 0.05	$ 0.57
Weighted Average Common Shares Outstanding *(in thousands)*					
Basic	15	113,901	116,863	114,506	116,947
Diluted	15	113,901	118,277	114,506	118,414

See accompanying notes to the condensed consolidated financial statements

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

	(Unaudited)	
	Six Months Ended June 30	
Preferred Shares *(Note 13)*	**2015**	**2014**
Opening balance	$ —	$ 1,600
Conversion of Preferred Shares into Common Shares	—	(61)
Ending balance	—	1,539
Common Shares *(Note 13)*		
Opening balance	329,474	332,511
Settlement of escrowed stock plan	4,212	—
Conversion of Preferred Shares into Common Shares	—	61
Common Shares repurchased for cancellation	(7,092)	(1,511)
Ending balance	326,594	331,061
Additional Paid-in-Capital		
Opening balance	423,893	415,377
Share-based compensation costs	26,148	3,738
Settlement of share-based compensation awards	(51,006)	—
Ending balance	399,035	419,115
Retained Earnings		
Opening balance	868,336	625,482
Net income attributable to Brookfield Residential	5,503	67,228
Common Shares repurchased for cancellation	(52,420)	(9,374)
Dividends on Common Shares and Preferred Shares	(176,623)	(61)
Other	(251)	—
Ending balance	644,545	683,275
Accumulated Other Comprehensive (Loss) / Income		
Opening balance	(41,083)	29,840
Other comprehensive loss	(60,603)	(1,836)
Ending balance	(101,686)	28,004
Total Brookfield Residential Equity	$ 1,268,488	$ 1,462,994
Non-Controlling Interest *(Note 12)*		
Opening balance	$ 38,438	$ 35,047
Acquisition	1,947	—
Net loss attributable to non-controlling interest	(225)	(257)
Contributions	415	—
Ending balance	$ 40,575	$ 34,790
Total Equity	$ 1,309,063	$ 1,497,784

See accompanying notes to the condensed consolidated financial statements

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

	(Unaudited)	
	Six Months Ended June 30	
Cash Flows Provided by / (Used in) Operating Activities	**2015**	**2014**
Net income	$ 5,278	$ 69,770
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities	(3,141)	(3,733)
Deferred income tax (recovery) / expense	(4,848)	13,087
Share-based compensation costs	30,427	4,989
Depreciation	2,022	2,271
Amortization of non-cash vendor take back (“VTB”) interest	117	188
Changes in operating assets and liabilities:		
(Increase) / decrease in receivables and other assets	(30,580)	18,678
Increase in land and housing inventory	(269,679)	(127,199)
Decrease in commercial assets held for sale	—	45,956
Decrease in accounts payable and other liabilities	(22,814)	(17,910)
Net cash (used in) / provided by operating activities	(293,218)	6,097
Cash Flows Provided by / (Used in) Investing Activities		
Investments in unconsolidated entities	(29,225)	(24,693)
Distributions from unconsolidated entities	7,836	3,774
Change in restricted cash	3,286	2,588
Net cash used in investing activities	(18,103)	(18,331)
Cash Flows Provided by / (Used in) Financing Activities		
Drawings under project-specific and other financings	23,380	11,494
Repayments under project-specific and other financings	(23,581)	(47,727)
Drawings on bank indebtedness	38,033	4,394
Repayments on bank indebtedness	(40,093)	(52,150)
Drawings under unsecured senior notes payable	550,100	—
Net distributions from / (contributions) to non-controlling interest and other interests in consolidated subsidiaries	1,422	(2,000)
Repurchase from non-controlling interest and other interests in consolidated subsidiaries	—	(20,240)
Purchase of Common Shares for restricted stock and share unit plan	—	(1,251)
Settlement of shared-based compensation awards	(46,072)	—
Repurchase of Common Shares for cancellation	(59,512)	(10,885)
Dividends paid to common and preferred shareholders	(176,623)	(61)
Net cash provided by / (used in) by financing activities	267,054	(118,426)
Effect of foreign exchange rates on cash and cash equivalents	(4,495)	(4,567)
Change in cash and cash equivalents	(48,762)	(135,227)
Cash and cash equivalents at beginning of period	190,479	319,735
Cash and cash equivalents at end of period	$ 141,717	$ 184,508
Supplemental Cash Flow Information		
Interest paid	$ 41,210	$ 54,478
Income taxes paid	$ 89,901	$ 22,574

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. and has been developing land and building homes for over 50 years. On March 13, 2015, Brookfield Asset Management Inc. and Brookfield Residential completed the closing of the going private transaction, pursuant to which 1927726 Ontario Inc., a wholly-owned subsidiary of Brookfield Asset Management Inc., acquired all of the issued and outstanding Common Shares of Brookfield Residential that Brookfield Asset Management Inc. did not already own by way of a plan of arrangement ("Privatization Transaction").

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. They should be read in conjunction with the Company's consolidated financial statements and footnotes included in the Company's Annual Report for the year ended December 31, 2014. The unaudited condensed consolidated financial statements 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

Land sales are recognized when title passes to the purchaser upon closing, all material conditions of the sales contract have been met and a significant cash down payment or appropriate security is received and collectability is reasonably assured. Revenues from the sale of homes are recognized when title passes to the purchaser upon closing, wherein all proceeds are received or collectability is reasonably assured. In certain circumstances, when title transfers but material future development is required, the percentage-of-completion method is used to recognize revenue.

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

(c) Land and Housing Inventory

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

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

Recoverability is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. To arrive at the estimated fair value of land and housing inventory, the Company estimates the cash flow for the life of each project. Specifically, on a land project, the Company estimates the timing of future land sales and the estimated revenue per lot, as well as estimated margins with respect to future land sales. On a housing project, the Company evaluates the margins on homes that have been closed, margins on sales contracts which are in backlog and estimated margins with regard to future home sales over the life of the project. For the land and housing inventory, the Company continuously evaluates projects where inventory is turning over more slowly than expected or whose average sales price and margins are declining and are expected to continue to decline. These projections take into account the specific business plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market area. Such projections generally assume current home selling prices, cost estimates and sales rates for short-term projects are consistent with recent sales activity. For longer-term projects, planned sales rates for 2015 generally assume recent sales activity and normalized sales rates beyond 2015. In some instances, the Company may incorporate a certain level of inflation or deflation into the projected revenue and cost assumptions for these longer term projects. Management identifies potentially impaired land and housing projects based on these quantitative factors as well as qualitative factors obtained from the local market areas. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired and is then written down to fair value less estimated selling costs using a discounted cash flow methodology which incorporates market participant assumptions.

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

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

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

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

(d) Commercial Properties

Commercial properties include any properties that are currently leased out by Brookfield Residential and produce leasing revenue for the Company. 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. After initial recognition, commercial properties are carried at the cost basis less accumulated depreciation. 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 commercial property is recorded over the estimated useful life using the straight-line method.

(e) 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.

(f) Unconsolidated Entities

The Company participates in a number of unconsolidated entities in which it has less than a controlling interest 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.

(g) 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, contingent liabilities including litigation and the purchase price allocated to the assets acquired and the liabilities assumed of an acquisition. Actual results could differ materially from these estimates.

(h) 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.

(i) 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.

(j) Income Taxes

Income taxes are accounted for in accordance with ASC Topic 740 *Income Taxes*. The provision for, or benefit from, income taxes is calculated using the asset and liability method, under which deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the years in which the differences are expected to reverse.

Provisions (benefits) for federal, state and provincial income taxes are calculated on reported pretax income (losses) based on current tax law and also include, in the applicable period, the cumulative effect of any changes in tax rates from those used previously in determining deferred tax assets and liabilities. Such provisions (benefits) differ from the amounts currently receivable or payable because certain items of income and expense are recognized for financial reporting purposes in different periods than for income tax purposes. Significant judgment is required in determining income tax provisions (benefits) and evaluating tax positions. The Company establishes reserves for income taxes when, despite the belief that its tax positions are fully supportable, it believes that its positions may be challenged and disallowed by various tax authorities. The consolidated tax provisions (benefits) and related accruals include the impact of such reasonably estimable disallowances as deemed appropriate. To the extent that the probable tax outcome of these matters changes, such changes in estimates will impact the income tax provision (benefit) in the period in which such determination is made.

In accordance with ASC Topic 740, the Company assesses on a quarterly basis the realizability of its deferred tax assets. Significant judgment is required in estimating valuation allowances for deferred tax assets. A valuation allowance is established against a deferred tax asset if, based on the available evidence, it is more-likely-than-not that such asset will not be realized. The Company's assessment includes evaluating the following significant factors: an assessment of recent years' profitability and losses which considers the nature, frequency, and severity of current and cumulative losses; management's forecasts or expectation of profits based on margins and volumes expected to be realized (which are based on current pricing and volume trends); the long duration of five to twenty years or more in all significant operating jurisdictions before the expiry of net operating 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.

(k) 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 are determined and a true-up for compensation costs are 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 14 "Share-Based Compensation" for further discussion.

(l) Foreign Currency Translation

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

Assets and liabilities of subsidiaries or equity accounted investees 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.

(m) 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.

(n) 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.

(o) 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.

(p) Variable Interest Entities

The Company accounts for its variable interest entities ("VIEs") 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 are the power to direct the activities of an entity that most significantly impact the entity's economic performance, the obligation to absorb the expected losses of the entity, and the right to receive the expected residual returns of the entity. The entity that has (i) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance; and (ii) 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 VIEs which are included in these financial statements as a component of "land and housing inventory." The interests of others are included in accounts payable and other liabilities. See Note 2 "Land and Housing Inventory" and Note 3 "Investments in Unconsolidated Entities" for further discussion on the consolidation of land option contracts and unconsolidated entities.

(q) Other Interests in Consolidated Subsidiaries

The Company accounts for the other interests in consolidated subsidiaries in accordance with ASC Topic 480 *Distinguishing Liabilities From Equity*. Redeemable non-controlling interest is initially measured at the non-controlling interests' proportionate share of the net fair value of the identifiable assets, liabilities and contingent liabilities recognized at the time of investment outside of permanent equity on the Company's condensed consolidated balance sheet in accordance with ASC 480-10. Subsequently, the redeemable non-controlling interests are carried at the higher of (1) the initial carrying amount, increased or decreased for the non-controlling interests' share of net income or loss; or (2) the expected redemption value. The change in the carrying amounts of the redeemable non-controlling interests is recognized as net income attributable to redeemable non-controlling interests in the condensed consolidated statements of operations. Adjustments to reflect changes in the excess, if any, of the redeemable non-controlling interests' redemption value over their ASC 810-10 measurement amount is recorded against permanent equity in Additional Paid-In Capital.

(r) Derivative Financial Instruments and Hedging Activities

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

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

(s) Fair Value Instruments

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

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

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

(t) Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"). ASU 2014-09 provides a comprehensive model for entities to use in accounting for revenue arising from contracts with customers and replaces most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 indicates that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects that consideration to which the entity expects to be entitled in exchange for those goods or services. This is achieved through the application of a five-step model which requires entities to exercise judgment in analyzing revenue transactions. ASU 2014-09 is effective for public entities for annual and interim periods beginning after December 15, 2017. Early adoption is permitted and companies may use either a full retrospective or a modified retrospective approach when implementing the new guidance. The Company is currently evaluating the impact of the adoption of ASU 2014-09 on the condensed consolidated financial statements.

In February 2015, the FASB Issued ASU 2015-02 "Consolidation" ("ASU 2015-02"), ASU 2015-02 provides amendments to respond to stakeholders' concerns about the current accounting for consolidation of certain legal entities. ASU 2015-02 indicates that a reporting entity must determine whether it has a variable interest in the entity being evaluated for consolidation. Current GAAP provides six criterion that must be evaluated to assess whether fees paid by a legal entity to a decision maker or a service provider represent a variable interest in the legal entity. If a reporting entity concludes that fees represent a variable interest in a VIE, then the entity must evaluate whether its variable interest or interests represent a controlling financial interest in the VIE. A variable interest that is a controlling financial interest in a VIE results in consolidation of the legal entity. The amendments in ASU 2015-02 eliminate three of the six conditions for evaluating whether a fee paid to a decision maker or a service provider represents a variable interest. The amendments in ASU 2015-02 are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments in ASU 2015-02 are effective for fiscal years beginning after December 15, 2016, and for interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impact of the adoption of ASU 2015-02 on the condensed consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, "Interest - Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 indicates that an entity should report debt issuance costs in the balance sheet as a direct reduction from the face amount of the note rather than as an asset. The amortization of debt issuance costs is reported as interest expense. ASU 2015-03 is effective for public entities for annual and interim periods beginning after December 15, 2015. Early adoption is permitted and companies would need to apply the new guidance retrospectively to all prior periods. The Company is currently evaluating the impact of the adoption of ASU 2015-03 on the condensed consolidated financial statements.

Note 2. Land and Housing Inventory

Land and housing inventory includes land under development and land held for 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 lots ready for construction and model homes.

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

The following summarizes the components of land and housing inventory:

	As at June 30 2015	As at December 31 2014
Land held for development	$ 1,461,060	$ 1,446,054
Land under development	730,022	718,309
Housing inventory	476,756	303,857
Model homes	55,481	53,408
	$ 2,723,319	$ 2,521,628

The Company capitalizes interest which is expensed as housing units and building lots are sold. Interest capitalized and expensed in the three and six months ended June 30, 2015 and 2014 was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Interest capitalized, beginning of period	$ 164,784	$ 173,727	$ 163,787	$ 174,923
Interest capitalized	8,906	6,831	14,642	12,286
Interest expensed to cost of sales	(6,386)	(8,296)	(11,125)	(14,947)
Interest capitalized, end of period	$ 167,304	$ 172,262	$ 167,304	$ 172,262

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 over 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 $35.5 million (December 31, 2014 – $29.3 million), which are required to be consolidated. In these cases, the only asset recorded is the Company's exercise price for the option to purchase, with an increase in accounts payable and other liabilities of $35.5 million (December 31, 2014 – $29.3 million) for the assumed third-party investment in the VIE. Where the land sellers are not required to provide the Company with financial information related to the VIE, certain assumptions by the Company are required in its assessment as to whether or not it is the primary beneficiary.

Land and housing inventory includes non-refundable deposits and other entitlement costs totalling $79.5 million (December 31, 2014 – $72.1 million) in connection with options that are not required to be consolidated in terms of the guidance incorporated in ASC Topic 810. The total remaining exercise price of these options is $108.5 million (December 31, 2014 – $104.9 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
2015	709	$ 6,735
2016	1,459	41,667
2017	427	8,608
2018	367	7,270
2019	11	310
Thereafter	3,566	43,949
	6,539	$ 108,539

The Company holds agreements for a further 4,878 acres (December 31, 2014 – 4,878 acres) of longer-term land, with non-refundable deposits and other entitlement costs of $6.0 million (December 31, 2014 – $5.9 million), which is included in land and housing inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of $57.9 million (December 31, 2014 – $59.1 million). However, given that the Company is in the initial stage of land entitlement, the Company has concluded at this time that the level of uncertainty in entitling these properties does not warrant including them in the above totals.

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

Note 3. Investments in Unconsolidated Entities

As part of its operations, the Company participates in joint ventures and partnerships to explore opportunities while minimizing risk. As of June 30, 2015, the Company was involved with 16 unconsolidated entities (December 31, 2014 – 16 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities includes $26.7 million (December 31, 2014 – $27.2 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 1,483 lots (December 31, 2014 – 1,545 lots) under option. The Company's share of the total exercise price of these options is $67.6 million (December 31, 2014 – $71.4 million). Summarized financial information on a 100% basis for the combined unconsolidated entities follows:

	As at	
	June 30 2015	December 31 2014
Assets		
Land and housing inventory	$ 626,701	$ 598,213
Other assets	79,646	66,858
	$ 706,347	$ 665,071
Liabilities and Equity		
Bank indebtedness and other financings	$ 130,349	$ 143,257
Accounts payable and other liabilities	44,440	50,457
Equity		
Brookfield Residential's interest	264,142	238,402
Others' interest	267,416	232,955
	$ 706,347	$ 665,071

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Revenue and Expenses				
Revenue	$ 32,531	$ 50,523	$ 61,509	$ 76,932
Direct cost of sales	(27,988)	(36,360)	(50,181)	(56,399)
Other expense	(731)	(1,484)	(1,365)	(2,756)
Net income	$ 3,812	$ 12,679	$ 9,963	$ 17,777
Brookfield Residential's share of net income	$ 2,989	$ 5,763	$ 5,894	$ 8,414

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

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

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt of its unconsolidated entities. At June 30, 2015, the Company had completion guarantees of $5.9 million (December 31, 2014 – $9.2 million) and recourse guarantees of $1.0 million (December 31, 2014 – $1.0 million) with respect to debt of its unconsolidated entities.

Note 4. Commercial Assets Held for Sale

There were no sales of commercial properties for the three and six months ended June 30, 2015. The commercial properties previously presented as held for sale were sold during the six months ended June 30, 2014 for a gain of $32.9 million.

Note 5. Business Combination

On February 27, 2015, the Company acquired all of the membership interests of Grand Haven Homes L.P. ("Grand Haven Homes"), an established homebuilder in Austin, Texas for an aggregate purchase consideration of $36.3 million, which was paid in cash. The purchase of Grand Haven Homes allows the Company to expand its presence in the Austin market by starting its homebuilding operations with an established homebuilder.

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

The acquisition was accounted for as a business combination under the provisions of ASC Topic 805 *Business Combinations* which, among other things, required assets acquired and liabilities assumed to be measured at their acquisition date fair values. Provisional fair value estimates have been made in the first quarter of 2015 for assets acquired and liabilities assumed and the measurement process will be finalized by the first quarter of 2016.

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

		Estimated Fair Value at Acquisition Date
Assets		
Land and housing inventory	$	72,496
Receivables and other assets		404
Cash and cash equivalents		1,282
Total assets acquired	$	74,182
Liabilities		
Bank indebtedness and other financings	$	34,273
Accounts payable and other liabilities		3,597
Total liabilities acquired	$	37,870
Net assets acquired	$	36,312
Total consideration	$	36,312
Goodwill	$	—

The following table presents the revenue and earnings of Grand Haven Homes that is included in the condensed consolidated statements of operations from the acquisition date of February 27, 2015 through June 30, 2015:

Revenues	$	23,564
Net income	$	2,579

The following table presents supplemental pro forma information as if the acquisition of Grand Haven Homes occurred on January 1, 2015. The pro forma consolidated results do not purport to project the future results of the Company combined nor do they reflect the expected realization of any cost savings associated with the Grand Haven acquisition.

		Six months ended June 30, 2015
Total revenues	$	597,774
Net income attributable to Brookfield Residential	$	6,679

Note 6. Receivables and Other Assets

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

	As at			
		June 30 2015		December 31 2014
Receivables	$	269,257	$	293,354
Other assets		54,042		69,437
	$	323,299	$	362,791

The components of receivables are summarized as follows:

	As at			
		June 30 2015		December 31 2014
Real estate receivables (a)	$	139,180	$	178,833
Development recovery receivables (b)		80,605		65,348
Sundry receivables (c)		25,670		18,193
Proceeds and escrow receivables (d)		17,513		17,413
Refundable deposits		5,478		9,340
Taxes receivable		811		27
Due from related party (e)		—		4,200
	$	269,257	$	293,354

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

(a) Real estate receivables include vendor take back ("VTB") mortgage receivables. The VTB collection terms range from six months to five years and bear variable interest of Canadian prime plus 2.0% to prime plus 3.0% or a fixed interest rate of 6.0% to 9.0%, whichever is greater (December 31, 2014 – Canadian prime plus 2.0% to prime plus 3.0% or a fixed interest rate of 1.0% to 6.0%, whichever is greater).

(b) 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 U.S. prime plus 0.5% to a fixed rate of 6.0% (December 31, 2014 – U.S. prime plus 0.5% to a fixed rate of 6.0%).

(c) Sundry receivables are comprised of lot interest receivables and miscellaneous amounts.

(d) Proceeds and escrow receivables relate to receivables held in trust due to timing of housing sales 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.

(e) Receivables due from Brookfield Asset Management. See Note 21 "Related Party Transactions".

As at June 30, 2015 and December 31, 2014, allowances for doubtful accounts were $1.5 million and $1.5 million, respectively.

The components of other assets are summarized as follows:

	As at	
	June 30 2015	**December 31 2014**
Transaction costs (a)	$ 27,625	$ 18,254
Capital assets (b)	14,142	12,587
Non-refundable earnest funds and investigation fees (c)	6,948	20,405
Prepaid expenses	5,010	4,290
Other	317	1,432
Swap contracts (Note 18)	—	12,469
	$ 54,042	$ 69,437

(a) The transaction costs are costs related to the issuance of the Company's notes payable and the revolving credit facility (refer to Note 8 "Notes Payable" and Note 9 "Bank Indebtedness and Other Financings"). These costs are amortized using the effective interest rate method over the life of the related debt instrument.

(b) 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 $15.8 million (December 31, 2014 – $14.8 million).

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

Note 7. Restricted Cash

At June 30, 2015, the Company had restricted cash consisting of (i) $1.0 million (December 31, 2014 – $1.6 million) relating to cash collateralization of development letters of credit and (ii) $1.1 million (December 31, 2014 – $3.7 million) of restricted cash relating to funds in various cash accounts reserved for guarantees on completion of certain improvements, and guarantees on future insurance loss deductible payments.

Note 8. Notes Payable

	As at	
	June 30 2015	**December 31 2014**
6.50% unsecured senior notes due December 15, 2020 (a)	$ 600,000	$ 600,000
6.125% unsecured senior notes due July 1, 2022 (b)	500,000	500,000
6.125% unsecured senior notes due May 15, 2023 (c)	200,100	—
6.375% unsecured senior notes due May 15, 2025 (d)	350,000	—
	$ 1,650,100	$ 1,100,000

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

(a) On December 14, 2012, the Company issued a private placement of $600.0 million of unsecured senior notes. The notes have an eight-year term, are due December 15, 2020, and bear a fixed interest rate of 6.50%. The notes require semi-annual interest payments on June 15 and December 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.

The unsecured senior notes issued December 14, 2012 include an optional redemption under which, at any time prior to December 15, 2015, Brookfield Residential may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 106.50% of the principal amount, plus accrued and unpaid interest, using the net cash proceeds of one or more equity offerings.

At any time prior to December 15, 2015, 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 December 15, 2015, 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
2015	104.88%
2016	103.25%
2017	101.63%
2018 and thereafter	100.00%

(b) On June 25, 2013, the Company and Brookfield Residential US Corporation, a wholly-owned subsidiary of the Company, co-issued a private placement of $500.0 million of unsecured senior notes. The notes have a nine-year term, are due July 1, 2022 and bear interest at a fixed rate of 6.125%. The notes require semi-annual interest payments on January 1 and July 1, of each year until maturity. Obligations to pay principal and interest on the unsecured notes are guaranteed by the Company and certain of the Company's subsidiaries.

The unsecured senior notes issued June 25, 2013 include an optional redemption under which, at any time prior to July 1, 2016, Brookfield Residential may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 106.125% of the principal amount, plus accrued and unpaid interest, using the net cash proceeds of one or more equity offerings.

At any time prior to July 1, 2017, the Company can 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 July 1, 2017, the Company is entitled to redeem all or part of the notes at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest on the notes redeemed:

	Notes Redemption Price
2017	104.59%
2018	103.06%
2019	101.53%
2020 and thereafter	100.00%

(c) On May 12, 2015, the Company issued a private placement of C$250.0 million (US$200.1 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.

The unsecured senior notes issued May 12, 2015 include an optional redemption under which, at any time prior to May 15, 2018, Brookfield Residential may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 106.125% of the principal amount, plus accrued and unpaid interest, using the net cash proceeds of one or more equity offerings.

At any time prior to May 15, 2018, 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.

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

On or after May 15, 2018, 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
2018	104.59%
2019	103.06%
2020	101.53%
2021 and thereafter	100.00%

(d) On May 12, 2015, the Company issued a private placement of $350.0 million of unsecured senior notes. The notes have a ten-year term, are due May 15, 2025, and bear a fixed interest rate of 6.375%. The notes require semi-annual interest payments on May 15 and November 15 of each year until maturity. Obligations to pay principal and interest on the unsecured senior notes are guaranteed by certain of the Company's subsidiaries.

The unsecured senior notes issued May 12, 2015 include an optional redemption under which, at any time prior to May 15, 2018, Brookfield Residential may redeem up to 35% of the aggregate principal amount of the notes at a redemption price of 106.375% of the principal amount, plus accrued and unpaid interest, using the net cash proceeds of one or more equity offerings.

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 15, 2020, 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 senior notes include covenants that, among others, place limitations on incurring additional indebtedness and restricted payments. Under the limitation on additional indebtedness, Brookfield Residential is permitted to incur specified categories of indebtedness but is prohibited from incurring further indebtedness if it does not satisfy either an indebtedness to consolidated net tangible worth ratio condition of 2.25 to 1 or a fixed coverage ratio of 2.0 to 1. The Company was in compliance with these financial incurrence covenants as at June 30, 2015.

The transaction costs related to the notes payable are within other assets (refer to Note 6 "Receivables and Other Assets").

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 notes payable, the derivatives are not accounted for separately.

Note 9. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at			
		June 30 2015		December 31 2014
Bank indebtedness (a)	$	138,827	$	151,874
Secured VTB mortgages (b)		52,746		56,383
Due to affiliates (c)		—		—
	$	191,573	$	208,257

(a) Bank indebtedness

(i) The Company has six secured credit facilities (December 31, 2014 – four secured credit facilities) with various Canadian banks with outstanding amounts totalling $138.8 million at June 30, 2015 (December 31, 2014 – $151.9 million). The secured facilities are repayable in Canadian dollars in the amount of C$173.4 million at June 30, 2015 (December 31, 2014 – C$176.4 million). These facilities allow the Company to borrow up to approximately C$565.0 million (US$452.2 million) as at June 30, 2015 (December 31, 2014 – C$565.0 million (US$486.4 million)). The credit facilities bear interest between Canadian prime plus 0.5% to 1.2% for any amounts drawn. The facilities are secured by fixed and floating charges over the land and housing inventory assets of the Alberta and Ontario operations and a general charge over the property of Brookfield Residential (Alberta) LP and Brookfield Homes (Ontario) Limited, both wholly-owned subsidiaries of the Company.

The Brookfield Residential (Alberta) LP facilities, which are denominated in Canadian dollars, include a minimum tangible net worth requirement of C$370.0 million and a debt to equity covenant of no greater than 1.75 to 1.

The Brookfield Homes (Ontario) Limited facility, which is denominated in Canadian dollars, includes a minimum net worth requirement of C$75.0 million and a debt to equity covenant of no greater than 1.75 to 1.

As at June 30, 2015, the Company was in compliance with all financial covenants related to bank indebtedness.

(ii) Brookfield Residential US Corporation, a wholly-owned subsidiary of the Company, as borrower, and the Company, as the parent company to the borrower, have a $275.0 million unsecured Revolving Credit Facility with various lenders. Interest is charged on the facility at a rate equal to either the adjusted LIBOR plus the applicable rate between 1.875% and 2.25% per annum or the alternate base rate ("ABR") plus the applicable rate between 0.875% and 1.25% per annum, at the option of the borrower.

The credit 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, fundamental changes, sale leasebacks, modifications of material agreements, and certain financial covenants as discussed below.

The facility requires the Company and Brookfield Residential US Corporation to maintain a minimum consolidated tangible net worth of $969.8 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at June 30, 2015, the Company and Brookfield Residential US Corporation were in compliance with these financial covenants.

The Company had no outstanding borrowings under the Revolving Credit Facility and $275.0 million of borrowing availability under the facility at June 30, 2015 (2014 – no borrowings outstanding). During the three months ended June 30, 2015, the Company paid down the balance drawn on the Revolving Credit Facility using proceeds from the senior unsecured notes issued.

The transaction costs and administrative and upfront fees related to the Revolving Credit Facility are within receivables and other assets (refer to Note 6 "Receivables and Other Assets").

(iii) As a result of the acquisition of Grand Haven Homes during the three months ended March 31, 2015, the Company assumed seven secured credit facilities with various banks, with outstanding amounts totalling $32.3 million. These facilities allowed the Company to borrow up to approximately $100.0 million as at March 31, 2015. The credit facilities had interest at various rates between 3.0% and 30-day LIBOR plus 4.0% for amounts drawn. The secured facilities were secured by the various land and housing assets of Grand Haven Homes. During the three months ended June 30, 2015, all seven secured credit facilities were repaid in full and terminated.

(b) Secured VTB mortgages

The Company has 19 secured VTB mortgages (December 31, 2014 – 24 secured VTB mortgages) in the amount of $52.7 million (December 31, 2014 – $56.4 million). Secured VTB mortgages mature as follows: 2015 – $15.9 million; 2016 – $11.7 million; 2017 – $4.1 million, 2018 – $15.7 million and thereafter – $5.3 million.

A total of 15 secured VTB mortgages (December 31, 2014 – 23 secured VTB mortgages) in the amount of $49.1 million (December 31, 2014 – $55.9 million) relate to raw land held for development by Brookfield Residential (Alberta) LP and Brookfield Homes (Ontario) Limited. This debt is repayable in Canadian dollars of C$61.3 million (December 31, 2014 – C$64.9 million). The interest rate on this debt ranges from prime plus 1.0% to prime plus 2.0% to fixed rates ranging from 2.5% to 6.0% and the debt is secured by the related lands. As at June 30, 2015, these borrowings are not subject to financial covenants.

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

Four secured VTB mortgages (December 31, 2014 – one secured VTB mortgage) in the amount of $3.6 million (December 31, 2014 – $0.5 million) relate to raw land held for development by Brookfield Residential (US) LLC, a wholly-owned subsidiary of the Company. The interest rate on this debt ranges from variable rates of prime plus 0.75% to fixed rates between 5% and 6% and the debt is secured by related lands. As at June 30, 2015, this borrowing is not subject to any financial covenants.

(c) Due to Affiliates

There were no amounts due to affiliates at June 30, 2015 or December 31, 2014 on an unsecured revolving operating facility with a subsidiary of the Company's shareholder, Brookfield Asset Management Inc.

The revolving operating facility is in a principal amount not to exceed $300.0 million. This facility matures December 2015, bears interest at LIBOR plus 4.5% and could be fully drawn upon without violation of any covenants. During the three and six months ended June 30, 2015 and 2014, no interest was incurred related to this facility.

This facility requires Brookfield Residential US Corporation to maintain a minimum total equity of $300.0 million and a consolidated net debt to book capitalization ratio of no greater than 65%. As of June 30, 2015, the Company was in compliance with all financial covenants relating to amounts due to affiliates.

Note 10. Accounts Payable and Other Liabilities

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

	As at	
	June 30 2015	**December 31 2014**
Accounts payable	$ 330,057	$ 342,206
Other liabilities	103,143	120,379
	$ 433,200	$ 462,585

The components of accounts payable are summarized as follows:

	As at	
	June 30 2015	**December 31 2014**
Trade payables and other accruals	$ 130,539	$ 111,334
Development costs payable (a)	114,625	117,182
Customer deposits	39,353	38,428
Accrued and deferred compensation	25,769	49,745
Interest on notes payable	21,630	16,829
Current income taxes (receivable) / payable	(1,859)	8,688
	$ 330,057	$ 342,206

(a) 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.

The components of other liabilities are summarized as follows:

	As at	
	June 30 2015	**December 31 2014**
Consolidated land option contracts (a)	$ 35,499	$ 29,344
Shared-based compensation (Note 14)	32,889	31,142
Warranty costs (Note 16 (a))	18,114	16,738
Due to related party (b)	14,586	38,824
Swap contracts (Note 18)	2,055	4,331
	$ 103,143	$ 120,379

(a) 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 2 "Land and Housing Inventory."

(b) Promissory note due to a subsidiary of Brookfield Asset Management Inc. See Note 21 "Related Party Transactions".

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

Note 11. Income Taxes

A reconciliation of the Company's effective tax rate from the Canadian federal statutory tax rate for the six months ended June 30, 2015 and 2014 is as follows:

	Six Months Ended June 30	
	2015	**2014**
Statutory rate	26.0%	25.0%
Non-temporary differences	44.5	1.8
Rate difference from statutory rate	(146.6)	—
Change in valuation allowance	—	(9.8)
Withholding tax	85.9	—
Other	(4.8)	(0.3)
Effective tax rate	5.0%	16.7%

The Company currently operates in ten different states in the U.S. and is subject to various state tax jurisdictions. The Company estimates its tax liability based upon the individual taxing authorities' regulations, estimates of income by taxing jurisdiction and the Company's ability to utilize certain tax-saving strategies. The Company also operates in Alberta and Ontario, Canada, and is therefore subject to provincial tax jurisdictions as well as federal tax legislation. Based on the Company's estimate of the allocation of income or loss, as the case may be, among the various taxing jurisdictions, the estimated effective tax rate for the Company is 5.0% for the six months ended June 30, 2015 (June 30, 2014 – 16.7%). The change in the effective tax rate, compared with the same period during 2014, primarily relates to withholding taxes of $5.0 million paid on distributions made from U.S operations, offset by the effect of a change in the corporate tax rate for the Company's operations in Alberta. The provision for income taxes for the three and six months ended June 30, 2015 and 2014 is set forth below:

	Three Months Ended June 30		Six Months Ended June 30	
	2015	**2014**	**2015**	**2014**
Current				
Canada	$ 363	$ (813)	$ (4,968)	$ (849)
U.S.	(73)	—	(166)	—
International	—	(27)	—	(27)
Total current tax recovery / (expense)	290	(840)	(5,134)	(876)
Deferred				
Canada	6,722	(5,129)	7,216	(13,311)
U.S.	(2,131)	107	(2,368)	224
International	—	—	—	—
Total deferred tax recovery / (expense)	4,591	(5,022)	4,848	(13,087)
Total income tax recovery / (expense)	$ 4,881	$ (5,862)	$ (286)	$ (13,963)

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	
Net deferred tax assets / (liabilities)	**June 30 2015**	**December 31 2014**
Differences relating to land and housing inventory	$ (13,979)	$ (19,207)
Compensation deductible for tax purposes when paid	10,678	12,739
Differences related to derivative instruments	801	(1,076)
Operating loss carry-forwards	127,809	74,817
Impact of foreign exchange	18,992	11,343
Other	4,097	3,988
Net deferred tax assets before valuation allowance	148,398	82,604
Cumulative valuation allowance	(18,992)	(11,343)
Net deferred tax assets	$ 129,406	$ 71,261

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

The Company has Canadian and U.S. federal non-capital loss carryforwards of approximately $377.7 million and $67.4 million, respectively, as at June 30, 2015 (December 31, 2014 – $181.1 million and $75.8 million, respectively). Federal non-capital loss carryforwards attributable to Canada and the U.S. may be carried forward up to 20 years to offset future taxable income and expire between 2031 and 2035. The Company also has state loss carryforwards of approximately $115.9 million (December 31, 2014 – $123.8 million) that may be carried forward up to 20 years, depending on the tax jurisdiction, and which expire between 2027 and 2032.

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 asset 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.

Prior to the quarter ended September 30, 2014, the Company established a valuation allowance against its deferred tax assets with respect to its U.S. operations due to the weight of negative evidence at that time. At September 30, 2014, the Company determined that the valuation allowance against substantially all of its U.S. federal and state deferred tax assets was no longer required. Accordingly, the Company reversed a substantial portion of its valuation allowance against its U.S. deferred tax asset, with the remaining portion of the valuation allowance reversed in the fourth quarter of 2014, resulting in an overall income tax recovery of $45.1 million at the end of the year. The component of the valuation allowance remaining of $19.0 million relates to the unrealized foreign exchange capital losses in Canada that have not met the more-likely-than not realization threshold.

In evaluating the need for a valuation allowance against the Company's deferred tax assets at June 30, 2015, the Company considered all available and objectively verifiable positive and negative evidence. Based on the evaluation above, the Company concludes it is more-likely-than-not that all of its U.S. deferred tax asset would be realized in the future. The Canadian operations continue to be profitable in the Ontario and Alberta markets and, as such, it is more-likely-than-not that the deferred tax assets related to the Canadian operations, other than the deferred tax asset related to unrealized foreign exchange capital losses, can be realized.

Note 12. Other Interest in Consolidated Subsidiaries and Non-Controlling Interest

(a) Other Interests in Consolidated Subsidiaries

Other interests in consolidated subsidiaries included ownership interests of certain business unit presidents. During the year ended December 31, 2014, the Company repurchased the remaining minority interest of the business unit presidents for cash of $37.0 million, which was net of the deposit accounts owed by the business unit presidents. The purchase price was based on the estimated value of the business unit's net assets.

The following table reflects the change in the Company's other interests in consolidated subsidiaries for six months ended June 30, 2015 and year ended December 31, 2014:

	For the Period Ended	
	June 30 2015	**December 31 2014**
Other interests in consolidated subsidiaries, beginning of period	$ —	$ 36,641
Net income attributable to other interests in consolidated subsidiaries	—	1,758
Adjustment to fair value of other interests in consolidated subsidiaries	—	1,118
Distributions to other interests in consolidated subsidiaries	—	(2,000)
Repurchase of other interests in consolidated subsidiaries	—	(37,517)
Other interests in consolidated subsidiaries, end of period	$ —	$ —

(b) Non-Controlling Interest

Non-controlling interest includes third-party investments in consolidated entities of $40.6 million at June 30, 2015 (December 31, 2014 – $38.4 million).

In accordance with ASC Topic 810, non-controlling interest has been classified as a component of total equity and the net income / (loss) on the condensed consolidated statements of operations have been adjusted to include the net income / (loss) attributable to non-controlling interest, which for the three and six months ended June 30, 2015 was a loss of $0.1 million and $0.2 million, respectively (2014 – loss of $0.1 million and $0.3 million).

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

Note 13. Equity

(a) Preferred Shares

Preferred Shares issued and outstanding changed as follows during the six months ended June 30, 2015 and the year ended December 31, 2014:

	For the Period Ended	
	June 30 2015	**December 31 2014**
Preferred Shares outstanding, beginning of period	—	64,061
Conversion of Preferred Shares into Common Shares	—	(64,061)
Preferred Shares outstanding, end of period	—	—

(b) 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. During the six months ended June 30, 2015, 2,454,095 Common Shares of Brookfield Residential were purchased for $24.25 per common share for cancellation by Brookfield Residential pursuant to the Privatization Transaction for total consideration of $59.5 million. Of this amount, $7.1 million was charged to share capital and $52.4 million to retained earnings.

Prior to the Privatization Transaction, on May 1, 2014, Brookfield Residential announced a TSX-approved normal course issuer bid ("NCIB") for a portion of the Company's Common Shares. The NCIB was made in accordance with the requirements of the TSX and NYSE and Rules 10b-18 and 10b5-1 of the Securities and Exchange Act of 1934, as amended. The Company was authorized to repurchase for cancellation up to 2,000,000 Common Shares. During the six months ended June 30, 2015, the Company did not repurchase Common Shares under the NCIB. During the year ended December 31, 2014, the Company purchased 1,811,303 Common Shares for total consideration of $35.8 million. Of this amount, $5.1 million was charged to share capital and $30.7 million to retained earnings.

Common Shares issued changed as follows during the six months ended June 30, 2015 and the year ended December 31, 2014:

	For the Period Ended	
	June 30 2015	**December 31 2014**
Common Shares issued, beginning of period	117,421,243	119,026,076
Issuance of Common Shares upon exercise of options	—	31,473
Conversion of Preferred Shares into Common Shares	—	174,997
Common Shares repurchased	(2,454,095)	(1,811,303)
Common Shares issued upon settlement of the escrowed stock plan	933,526	—
Common Shares cancelled upon settlement of the escrowed stock plan	(2,000,000)	—
Common Shares issued and outstanding, end of period	113,900,674	117,421,243

The Company had no Non-Voting Class B Common Shares issued and outstanding as at June 30, 2015 and December 31, 2014.

Note 14. 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 market value of one Common Share at the date of exercise.

The fair value of the Company's stock option awards is estimated at the grant date using the Black-Scholes option-pricing model that uses the assumptions noted in the table below. The fair value of the Company's stock option awards is expensed over the vesting period of the stock options. Expected volatility is based on the historical volatility of Brookfield Residential's publicly traded Common Shares prior to the Privatization Transaction. 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.

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

During the three and six months ended June 30, 2015, Brookfield Residential granted a total of nil and 4,990,340 new options to eligible employees that vest evenly over five years. The significant weighted average assumptions relating to the valuation of the Company's options granted during the six months ended June 30, 2015 are as follows:

	June 30 2015
Dividend yield	—
Volatility rate	32.88%
Risk-free interest rate	1.93%
Expected option life (years)	7.5

The total compensation cost recognized in selling, general and administrative expense relating to the Company's options during the three and six months ended June 30, 2015 was $2.7 million and $2.7 million respectively. The following tables set out the number of Non-Voting Class B Common Shares that employees of the Company may acquire under options granted under the Company's Management Share Option Plan for the six months ended June 30, 2015:

	June 30, 2015	
	Shares	**Weighted Average Per Share Exercise Price**
Outstanding, beginning of period	—	$ —
Granted	4,990,340	22.96
Exercised	—	—
Cancelled	—	—
Outstanding, end of period	4,990,340	$ 22.96
Options exercisable, end of period	—	$ —

At June 30, 2015 the aggregate intrinsic value of options currently exercisable is $nil and the aggregate intrinsic value of options outstanding is $nil.

A summary of the status of the Company's unvested options for the six months ended June 30, 2015 is as follows:

	June 30, 2015	
	Shares	**Weighted Average Fair Value Per Option**
Unvested options outstanding, beginning of period...	—	$ —
Granted	4,990,340	9.07
Vested	—	—
Cancelled	—	—
Unvested options outstanding, end of period	4,990,340	$ 9.07

At June 30, 2015, there was $42.6 million of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 4.7 years.

(b) Management Share Option Plan and Escrowed Stock Plan

Options that were previously issued under the Company's Management Share Option Plan vested over a period of up to five years, expired 10 years after the grant date, and were settled through issuance of Brookfield Residential's publicly traded Common Shares. The exercise price was the volume-weighted average trading price for Brookfield Residential Common Shares on the New York Stock Exchange for the five business days preceding the effective grant date.

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

Brookfield Residential granted options to purchase Common Shares at the exercise price of the options, determined in accordance with the option plan. The fair value of the Company's stock option awards was estimated at the grant date using the Black-Scholes option-pricing model. The fair value of the Company's stock option awards was expensed over the vesting period of the stock options. Expected volatility was based on historical volatility of Brookfield Residential's Common Shares. The risk-free rate for periods within the contractual life of the option award was 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 used historical Brookfield Residential data to estimate option exercises and forfeitures within its valuation model. The expected term of option awards granted was derived from historical exercise experience under the Company's option plan and represented the period of time that option awards granted were expected to be outstanding.

During the six months ended June 30, 2015, as part of the Privatization Transaction, all of the outstanding options under the Company's Management Share Option Plan were cancelled and cash settled for $46.1 million. In accordance with ASC 718 *Compensation – Stock Compensation,* all unvested options at the time the Privatization Transaction closed were fully vested and expensed into Additional Paid-in-Capital. Options were then cash settled with any difference between the options' fair value and cash settlement value recognized as additional share based compensation expense.

The total compensation cost recognized in selling, general and administrative expense relating to normal course vesting of the Company's options during the three and six months ended June 30, 2015 was an expense of $nil and $2.2 million, respectively (2014 – $2.4 million and $4.8 million, respectively). The total compensation cost relating to the accelerated vesting and settlement of options as a result of the Privatization Transaction during the three and six months ended June 30, 2015 was an expense of $nil and $24.0 million, respectively (2014 – $nil) and was also recognized in selling, general and administrative expense. The following tables set out the number of Common Shares that employees of the Company could have acquired under options granted under the Company's option plan and escrowed stock plan for the six months ended June 30, 2015 and 2014:

	June 30, 2015		June 30, 2014	
	Shares	**Weighted Average Per Share Exercise Price**	**Shares**	**Weighted Average Per Share Exercise Price**
Outstanding, beginning of period	6,505,639	$ 13.80	5,720,989	$ 12.61
Granted	—	—	912,500	21.66
Exercised	—	—	—	—
Cancelled	—	—	(96,377)	19.22
Settled	(6,505,639)	13.80	—	—
Outstanding, end of period	—	$ —	6,537,112	$ 10.75
Options exercisable, end of period	—	$ —	2,691,057	$ 9.10

At June 30, 2015, the aggregate intrinsic value of options currently exercisable is $nil (June 30, 2014 – $46.7 million) and the aggregate intrinsic value of options outstanding is $nil (June 30, 2014 – $26.5 million).

A summary of the status of the Company's unvested options and escrowed stock included in equity for the six months ended June 30, 2015 and 2014 is as follows:

	June 30, 2015		June 30, 2014	
	Shares	**Weighted Average Fair Value Per Option**	**Shares**	**Weighted Average Fair Value Per Option**
Unvested options outstanding, beginning of period	3,801,078	$ 6.99	4,199,877	$ 6.13
Granted	—	—	912,500	9.49
Vested	—	—	(1,208,497)	5.54
Cancelled	—	—	(57,826)	13.64
Settled	(3,801,078)	6.99	—	—
Unvested options outstanding, end of period	—	$ —	3,846,054	$ 7.00

At June 30, 2015, there was $nil (June 30, 2014 – $16.0 million) of unrecognized expense related to unvested options.

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

The Company's Board of Directors approved an escrowed stock plan on September 16, 2011, which allowed a certain executive to increase their ownership of Brookfield Residential's Common Shares. Under the escrowed plan, a private company was capitalized with Common Shares (the "escrowed shares") and preferred shares were issued to Brookfield Residential for cash proceeds. On September 23, 2011, the initial proceeds were used to purchase 2,000,000 Common Shares of the Company from Brookfield Asset Management with 75% of the escrowed shares granted to the executive. Awards under the escrowed stock plan were granted and would not vest until five years after the date of grant and would ultimately be received in the form of Common Shares. The escrowed shares vested on and were to be held until the fifth anniversary of the grant date. At a date at least five years from and no more than ten years from the grant date, all escrowed shares held were to be acquired by the Company in exchange for issuance of Common Shares from treasury of the Company.

As a result of the Privatization Transaction, the escrowed stock plan was immediately settled and all awards under the plan were vested. In accordance with the escrowed plan, the private company was immediately wound up into Brookfield Residential and the Common Shares held by the private company were cancelled and 933,526 new Common Shares under Brookfield Residential were issued where the value of the Common Shares being issued was equal to the value of the escrowed shares being acquired. The value of the escrowed shares was equal to the value of the Common Shares held by the private company less the net liabilities and preferred share obligations of the private company.

(c) 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. In addition, the Company had a Senior Operating Management Deferred Share Unit Plan ("MDSUP"), under which certain senior operating management employees received a portion of their annual compensation in the form of deferred share units. During the three months ended March 31, 2015, all MDSUP units were redeemed and settled in cash.

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 and MDSUP at June 30, 2015 and December 31, 2014:

	For the Period Ended	
	June 30 2015	**December 31 2014**
Outstanding, beginning of period	1,636,447	1,624,893
Granted and reinvested	81,960	20,314
Redeemed	(184,139)	(8,760)
Outstanding, end of period	1,534,268	1,636,447
Deferred share units vested	1,236,352	1,096,418

Of the 1,534,268 (December 31, 2014 – 1,620,003) units outstanding under the DSUP, 297,917 (December 31, 2014 – 540,029) units vest over the next five years. As of June 30, 2015, there are nil units (December 31, 2014 – 16,444 units) outstanding under the MDSUP.

The liability of $30.2 million (December 31, 2014 – $31.1 million) relating to the DSUP is included in accounts payable and other liabilities. The financial statement impact relating to the DSUP and MDSUP for the three and six months ended June 30, 2015 was an expense of $1.6 million and $3.5 million, respectively (2014 – expense of $1.2 million and recovery of $0.4 million, respectively) which has been included in selling, general and administrative expense.

(d) Restricted Stock Plan and Restricted Share Unit Plan

Previously, Restricted Stock and Restricted Share Units were granted to certain senior executives at the Company. Restricted share units were notional units that represented a right to receive Common Shares, purchased on the open market, on vesting equal to the fair market value of the Company's Common Shares. Under both plans, units awarded vested equally over a period of three years, except those issued in lieu of a participant's cash bonus, which vested immediately. Holders of restricted stock were entitled to vote and to receive associated dividends while holders of restricted share units were not entitled to vote or receive dividends until units were vested. Funds used to purchase shares on the open market were recorded in paid-in-capital and compensation expense for the restricted stock and share unit plans were charged against income over the vesting period. As a result of the Privatization Transaction, the restricted stock plan was dissolved with holders of restricted share units having their holdings settled in Common Shares. The total compensation cost recognized in selling, general and administrative expense relating to normal vesting of the Company's restricted stock and share unit plans during the three and six months ended June 30, 2015 was an expense of $nil and $0.1 million, respectively (2014 – expense of $0.1 million and $0.2 million, respectively).

The unrecognized expense of $0.8 million at the time the Privatization Transaction was closed was fully recognized and expensed as part of selling, general and administrative expense for the six months ended June 30, 2015.

At June 30, 2015, there was $nil (2014 – $1.1 million) of unrecognized expense related to unvested units.

The following table sets out changes in and the number of units that are outstanding under both plans for the six months ended June 30, 2015 and 2014:

	June 30, 2015		June 30, 2014	
	Shares	Weighted Average Fair Value Per Unit	Shares	Weighted Average Fair Value Per unit
Unvested units outstanding, beginning of period	57,500	$ 21.75	—	$ —
Granted	—	—	57,500	21.75
Vested	—	—	—	—
Settled	(57,500)	21.75	—	—
Unvested units outstanding, end of period	—	$ —	57,500	$ 21.75

Note 15. Earnings Per Share

Basic and diluted earnings per share for the three and six months ended June 30, 2015 and 2014 were calculated as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Numerator:				
Net income attributable to Brookfield Residential	$ 18,054	$ 42,379	$ 5,503	$ 67,228
Less: Preferred Share dividends	—	(61)	—	(61)
Net income attributable to common shareholders	$ 18,054	$ 42,318	$ 5,503	$ 67,167
Denominator (in ‘000s of shares):				
Basic weighted average shares outstanding	113,901	116,863	114,506	116,947
Net effect of convertible Preferred Shares	—	168	—	168
Net effect of share options assumed to be exercised	—	1,246	—	1,299
Diluted weighted average shares outstanding	113,901	118,277	114,506	118,414
Basic earnings per share	$ 0.16	$ 0.36	$ 0.05	$ 0.57
Diluted earnings per share	$ 0.16	$ 0.36	$ 0.05	$ 0.57

Note 16. Commitments, Contingent Liabilities and Other

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

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

The following table reflects the changes in the Company's estimated warranty liability for the six months ended June 30, 2015 and 2014:

	Six Months Ended June 30	
	2015	**2014**
Balance, beginning of period	$ 16,738	$ 13,134
Payments and other adjustments made during the period	(2,116)	(1,951)
Warranties issued during the period	4,071	3,180
Adjustments made for pre-existing warranties	(579)	11
Balance, end of period	$ 18,114	$ 14,374

(b) The Company has committed to future minimum payments for lease and other obligations as follows:

Years of Expiry	
2015	$ 4,541
2016	7,335
2017	6,698
2018	6,129
2019	4,166
Thereafter	16,091
	$ 44,960

(c) As at June 30, 2015, $2.2 million (December 31, 2014 - $2.5 million) of the amount held in other assets related to land purchase obligations. The total amount owing on these obligations is $48.6 million (December 31, 2014 - $69.6 million).

Note 17. Guarantees

(a) The Company has provided financial guarantees for municipal bonds which, as at June 30, 2015, amounted to $10.4 million (December 31, 2014 – $10.4 million), which have not been recognized in the condensed consolidated financial statements. These guarantees arose from the issuance of tax-exempt municipal bonds for infrastructure construction in the Company's U.S. operations. The terms of the 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 and are terminated on or before community build out. Payment of the guarantees is triggered in the event that the debt payments to the bondholders are not fulfilled. The Company has not been required to make any payments under these guarantees.

(b) In the ordinary course of business, the Company has provided construction guarantees in the form of letters of credit and performance bonds. As at June 30, 2015, these guarantees amounted to $380.2 million (December 31, 2014 – $364.9 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 has not been required to make any payments under these construction guarantees.

Note 18. 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.

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

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 deemed to be impaired during the six months ended June 30, 2015, 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 2015 generally assume recent sales activity and normalized sales rates beyond 2015. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired and is then written down to fair value less estimated selling costs.

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

The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. For the three and six months ended June 30, 2015 and 2014, no impairment charges were recognized.

The locations of the projects reviewed are as follows:	**Number of Projects**
Canada	52
California	38
Central and Eastern U.S.	32
	122
Unconsolidated entities	16
Total	138

Hedging Activities

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

Net Investment Hedges

The Company uses foreign currency denominated debt instruments to manage its foreign currency exposures arising from net investments in foreign operations. For the three and six months ended June 30, 2015, unrealized pre-tax gains of $8.4 million and $8.4 million, respectively, (2014 – $nil), were recorded in other comprehensive income for the effective portion of hedges of net investments in foreign operations.

Fair Value Hierarchy

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

As at June 30, 2015, all of the Company's financial assets and liabilities, except for its interest rate swap contract, are recorded at their carrying value as it approximates fair value due to their short term nature. Assets and liabilities measured at fair value on a recurring basis include $nil (December 31, 2014 – $12.5 million) of financial assets based on management's best estimates and $2.1 million (December 31, 2014 – $4.3 million) of financial liabilities which are measured at fair value using valuation inputs based on a model-based techniques or similar instruments in markets that are not active.

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

The following table categorizes financial assets and liabilities, which are carried at fair value, based upon the level of input to the valuations as described in Note 1 "Significant Accounting Policies":

	June 30, 2015			December 31, 2014		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Receivables and other assets (a)	$ —	$ —	$ —	$ —	$ —	$ 12,469
Restricted cash	2,053	—	—	5,339	—	—
Cash and cash equivalents	141,717	—	—	190,479	—	—
	$ 143,770	$ —	$ —	$ 195,818	$ —	$ 12,469
Financial liabilities						
Bank indebtedness and other financings	$ —	$ —	$ —	$ —	$ —	$ —
Notes payable	—	—	—	—	—	—
Accounts payable and other liabilities (b)	—	2,055	—	—	4,331	—
	$ —	$ 2,055	$ —	$ —	$ 4,331	$ —

(a) During the six months ended June 30, 2015, the equity swaps were settled as a result of the Privatization Transaction. Previously, the fair value measurements for the equity swap contracts were determined using the intrinsic valuation technique. At December 31, 2014, inputs used in the calculation were the notional amount ($16.20), share price ($24.06) and the number of underlying shares (1,585,889).

(b) The fair value measurements for the interest rate swap contracts are determined based on notional amounts, terms to maturity, and the LIBOR rates. The LIBOR rates vary depending on the term to maturity and the conditions set out in the underlying swap agreements.

The following is a reconciliation of Level 3 (equity swap) fair value measurements:

	For the Period Ended	
	June 30 2015	**December 31 2014**
Balance, beginning of period	$ 12,469	$ 12,676
Total gains / (losses) for the period included in earnings (or changes in net assets)	301	(207)
Settlement	(12,770)	—
Balance, end of period	$ —	$ 12,469

Note 19. Managing Risks

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

(a) Market Risk

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

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

Interest Rate Risk

The Company is exposed to financial risk that arises from fluctuations in interest rates. The interest-bearing assets and liabilities of the Company are mainly 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. From time to time, the Company enters into interest rate swap contracts. As at June 30, 2015, the Company had one interest rate swap contract outstanding totalling $30.0 million at a rate of 5.1% per annum. The contract expires in 2016. At June 30, 2015, the fair market value of the contracts was a liability of $2.1 million (December 31, 2014 – liability of $4.3 million) and was included in accounts payable and other liabilities. During the three months ended June 30, 2015 the Company settled an interest rate swap contract. This resulted in a gain of $0.2 million which has been recognized in other income on the financial statements. Based on net debt levels as of June 30, 2015, a 1% change in interest rates would have either a negative or positive effect of approximately $1.8 million on the Company's cash flows. Expense of $nil and $0.3 million was recognized during the three and six months ended June 30, 2015, respectively, (2014 – expense of $0.2 million and $0.3 million) and was included in other income. All interest rate swaps are recorded at fair market value and fluctuations in fair market value are presented in the condensed consolidated statements of operations as hedge accounting has not been applied. Refer to Note 18 "Fair Value Measurements" for additional disclosure.

The fair value of debt with fixed interest rates is determined by discounting contractual principal and interest payments at estimated current market interest rates determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at June 30, 2015, the fair value of debt exceeded its book value of all outstanding debt by $60.0 million (December 31, 2014 – fair value of debt exceeded book value by $42.3 million). The lands to which these borrowings relate generally secure these principal amounts.

Currency Exchange Rate Risk

The Company conducts business in both Canadian and U.S. dollars; 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 increase the value of these hedging instruments by $2.5 million as at June 30, 2015 (December 31, 2014 – $nil). See Note 18 "Fair Value Measurements" for additional disclosure.

Other Price Risk

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

To hedge against future deferred share unit payments, the Company had previously entered into two separate total return swap transactions at a weighted average cost of $16.20 per share on 1,585,889 shares. Both swaps were to mature in September 2016. During the six months ended June 30, 2015, the equity swaps were settled as a result of the Privatization Transaction for cash proceeds of $12.8 million. Income of $nil and $0.3 million was recognized related to the total return swaps during the three and six months ended June 30, 2015, respectively, (2014 – expense of $0.4 million and $5.5 million), and was included in selling, general and administrative expense. The fair market value of the total return swaps at December 31, 2014 that was included in accounts receivables and other assets was $12.5 million. The total return swaps were recorded at fair market value through the condensed consolidated statements of operations because hedge accounting was not applied. 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.

(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.

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

(c) Liquidity Risk

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

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

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

A summary of the Company's contractual obligations and purchase agreements as at June 30, 2015 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]	$ 1,650,100	$ —	$ —	$ —	$ 1,650,100
Interest on notes payable	766,979	104,396	208,792	208,792	244,999
Secured VTB mortgages[2][3]	52,746	15,985	15,845	16,488	4,428
Bank indebtedness[2][3]	138,827	18,537	120,290	—	—
Accounts payable and other liabilities[4]	433,200	433,200	—	—	—
Operating lease obligations[5]	44,960	4,541	14,033	10,295	16,091
Purchase agreements[6]	48,584	21,192	27,389	3	—

(1) Amounts are included on the condensed consolidated balance sheets. See Note 8 for additional information regarding notes payable.
(2) Amounts are included on the condensed consolidated balance sheets. See Note 9 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 debt. See Note 9 for additional information regarding floating rate debt.
(4) Amounts are included on the condensed consolidated balance sheets. See Note 10 for additional information regarding accounts payable and other liabilities.
(5) Amounts relate to non-cancellable operating leases involving office space, design centres and model homes.
(6) See Note 16 for additional information regarding purchase agreements.

Note 20. Segmented Information

As determined under ASC Topic 280 *Segment Reporting*, the Company has the following segments: Canada, California and Central and Eastern U.S.

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

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

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

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

	Three Months Ended June 30, 2015				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 103,829	$ 125,480	$ 81,504	$ —	$ 310,813
Direct cost of sales	(70,287)	(98,229)	(68,231)	—	(236,747)
	33,542	27,251	13,273	—	74,066
Equity in earnings	(132)	2,864	257	—	2,989
Expenses	(15,264)	(8,641)	(13,824)	(26,283)	(64,012)
Income/(loss) before income taxes	$ 18,146	$ 21,474	$ (294)	$ (26,283)	$ 13,043

	Three Months Ended June 30, 2014				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 148,259	$ 127,295	$ 45,487	$ —	$ 321,041
Direct cost of sales	(90,843)	(93,167)	(38,902)	—	(222,912)
	57,416	34,128	6,585	—	98,129
Equity in earnings	(128)	1,687	4,204	—	5,763
Expenses	(16,310)	(5,090)	(9,231)	(24,225)	(54,856)
Income/(loss) before income taxes	$ 40,978	$ 30,725	$ 1,558	$ (24,225)	$ 49,036

	Six Months Ended June 30, 2015				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 207,498	$ 254,096	$ 126,119	$ —	$ 587,713
Direct cost of sales	(139,418)	(193,510)	(107,168)	—	(440,096)
	68,080	60,586	18,951	—	147,617
Gain on commercial assets held for sale	—	—	—	—	—
Equity in earnings	(237)	5,379	752	—	5,894
Expenses	(29,241)	(16,873)	(25,114)	(76,719)	(147,947)
Income/(loss) before income taxes	$ 38,602	$ 49,092	$ (5,411)	$ (76,719)	$ 5,564

	Six Months Ended June 30, 2014				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	$ 261,180	$ 195,247	$ 72,993	$ —	$ 529,420
Direct cost of sales	(166,224)	(143,662)	(62,518)	—	(372,404)
	94,956	51,585	10,475	—	157,016
Gain on commercial assets held for sale	31,549	1,378	—	—	32,927
Equity in earnings	(245)	1,999	6,660	—	8,414
Expenses	(32,357)	(13,085)	(16,755)	(52,427)	(114,624)
Income/(loss) before income taxes	$ 93,903	$ 41,877	$ 380	$ (52,427)	$ 83,733

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

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

	As at June 30, 2015				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 621,473	$ 396,826	$ 442,761	$ —	$ 1,461,060
Land under development	176,831	375,847	177,344	—	730,022
Housing inventory	138,780	178,363	159,613	—	476,756
Model homes	10,664	34,026	10,791	—	55,481
Total land and housing inventory	947,748	985,062	790,509	—	2,723,319
Investments in unconsolidated entities	44,090	143,977	76,075	—	264,142
Other assets (1)	119,480	45,557	108,124	323,314	596,475
Total assets	$ 1,111,318	$ 1,174,596	$ 974,708	$ 323,314	$ 3,583,936

	As at December 31, 2014				
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	$ 624,459	$ 379,076	$ 442,519	$ —	$ 1,446,054
Land under development	207,650	343,507	167,152	—	718,309
Housing inventory	96,382	133,930	73,545	—	303,857
Model homes	14,369	34,891	4,148	—	53,408
Total land and housing inventory	942,860	891,404	687,364	—	2,521,628
Investments in unconsolidated entities	41,925	122,316	74,161	—	238,402
Other assets (1)	200,106	48,655	84,535	296,574	629,870
Total assets	$ 1,184,891	$ 1,062,375	$ 846,060	$ 296,574	$ 3,389,900

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

Note 21. Related Party Transactions

Related parties include the directors, executive officers, director nominees or 5% 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 and an unsecured revolving credit facility. The Company's significant related party transactions as of and for the three and six months ended June 30, 2015 and 2014 were as follows:

- On March 13, 2015, Brookfield Asset Management Inc. and Brookfield Residential closed the Privatization Transaction, which 1927726 Ontario Inc., a wholly-owned subsidiary of Brookfield Asset Management Inc. acquired the approximately 30.6% of common shares of Brookfield Residential not already owned by Brookfield Asset Management Inc. and its affiliates.

- During the six months ended June 30, 2015, the Company paid a dividend to the common shareholders after the Privatization Transaction of $176.6 million.

- During the six months ended June 30, 2015, the Company purchased the tax attributes of two subsidiaries of Brookfield Asset Management Inc. for cash consideration of $53.1 million (2014 - $nil). These transactions were recorded at the exchange amount.

- During the six months ended June 30, 2015, the Company paid $8.4 million (2014 - $10.3 million) to Brookfield Asset Management Inc. for Canadian tax credits. The transactions were recorded at the exchange amount.

- In 2014, the Company purchased the tax attributes of a subsidiary of Brookfield Asset Management Inc. in consideration for a $29.0 million non-interest bearing promissory note. During the three and six months ended June 30, 2015, $6.3 million and $12.5 million of this note was repaid. These transactions were recorded at the exchange amount.

- In 2013, the Company purchased the tax attributes of a subsidiary of Brookfield Asset Management Inc. in consideration for a $33.3 million non-interest bearing promissory note of which $21.8 million of this note was repaid during the year ended December 31, 2014. During the six months ended June 30, 2015, the remaining balance of this note was repaid. These transactions were recorded at the exchange amount.

- At December 31, 2014, the Company had a receivable of $4.2 million from Brookfield Asset Management Inc., included in receivables and other assets, related to certain Privatization Transaction costs incurred by Brookfield Residential that were recoverable from Brookfield Asset Management Inc. During the six months ended June 30, 2015, the receivable was collected. The costs were recorded at the exchange amount.

CORPORATE INFORMATION

CORPORATE PROFILE

Brookfield Residential Properties Inc. is a North American land developer and homebuilder in North America with its headquarters in Calgary, Canada. The Company entitles and develops land to create master-planned communities; builds and sells lots to third-party builders as well as their own home building. The Company also participates in selected, strategic real estate opportunities, including infill projects, mixed-use developments, infrastructure projects, and joint ventures.

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BONDHOLDER INQUIRIES

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