

2016 | Q3

September 30, 2016

President & Chief Executive Officer's Report

Brookfield Residential experienced similar results and market conditions in the third quarter of 2016 when compared to the first half of this year. For the nine months ended September 30, 2016, our home closings increased by 19% and our net new home orders increased by 16% when compared to the same period in 2015. Our units in backlog have increased by 20% when compared to the same period last year with 1,900 units valued at \$977 million.

Given the nature and operating cycle of our business, our fourth quarter typically accounts for the highest proportion of the year's income before income taxes. Based on our current forecasts, we anticipate our fourth quarter 2016 results will account for a higher percentage of income before income taxes than what we have typically seen in previous years.

Market Overview

In the U.S. housing market, the positive job creation numbers, low interest rates and an increase in consumer confidence have continued to allow for more activity in the first-time buyer market. We are seeing more first-time buyers taking the step towards homeownership, such as at our New Haven community in Ontario Ranch, California. We believe New Haven is a visionary model for growth in California as it is recognized as the first "gigabit" community in Southern California, with ultra-high bandwidth home-data services, a massive parks and trails system, future schools and independent sources of water.

During this quarter, we launched the development of a new master-planned community called Kissing Tree in San Marcos, Texas. With 3,200 homes expected to be built, this will be Brookfield's first active adult community. Kissing Tree is strategically located in San Marcos' scenic Hill Country and is less than a half a mile away from all the conveniences accessible from Interstate 35. It will feature a unique collection of indoor and outdoor amenities, including hiking trails, biking trails, a fitness centre and a golf course. With approximately 8,000 registrants interested in the community to date, we anticipate a successful launch of this community.

In Canada, the Federal government recently announced a number of changes to mortgage rules aiming to ensure Canadians are taking on manageable levels of debt in an era of historically low interest rates. In addition, the changes are meant to address foreign investment in housing, particularly in cities such as Vancouver and Toronto. As the rules only came into effect on October 17, 2016, the magnitude of the change is somewhat unknown. However, it is expected to have an impact immediately as homebuyers will now need to qualify for a mortgage at the higher of the negotiated rate or the Bank of Canada's five year posted mortgage rates. While the legislative changes are intended to address the frothiness of the Toronto and Vancouver markets, it will have implications across the country. It is our view that this action, while introduced by the Federal government with good intentions, is not addressing the key issue of the lack of housing affordability, which is being driven by constrained supply in many markets because of the regulatory environment.

Our View Going Forward

Overall, we believe our geographic diversity, product mix and mature land assets continue to serve us well. While there have been mergers and acquisitions happening in our industry, we remain disciplined in our strategy to grow organically in our existing markets and focus on capturing value. We do this by constantly evaluating our product mix and development plans to ensure we are meeting the needs of a wide variety of customers, including first-time buyers, multi-generational families and move-down buyers.

Our outlook for the year remains positive. Based on our current backlog, we expect our 2016 income before income taxes will be higher than 2015. We remain on track to achieve our limited guidance of closing 1,500 homes and 650 lots in Canada and 1,700 homes and 2,100 lots in the U.S., including our share of unconsolidated entities by the end of 2016. Many of our home, lot and acre closings are expected to close towards the end of 2016, and are subject to normal timing risk of approvals and the development and closing process. As a result, if they do not close in 2016, we anticipate they will occur in early 2017.

Alan Norris
President & Chief Executive Officer
October 27, 2016
Brookfield Residential Properties Inc.

BROOKFIELD RESIDENTIAL PROPERTIES PORTFOLIO

Our business is focused on land development and single family and multi-family homebuilding in the markets in which we operate. Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at September 30, 2016 were \$3.9 billion.

As of September 30, 2016, we controlled 101,399 single family lots (serviced lots and future lot equivalents) and 123 multi-family, industrial and commercial serviced parcel acres. Controlled lots and acres include those we directly own and our share of those owned by unconsolidated entities. Our controlled lots and acres provide a strong foundation for our future lot and acre sales and homebuilding business, as well as visibility on our future cash flow. The number of building lots and acre parcels we control in each of our primary markets as of September 30, 2016 is as follows:

	Single Family Housing & Land Under and Held for Development ⁽¹⁾						Multi-Family, Industrial & Commercial Parcels Under Development			
	Unconsolidated				Total Lots		Status of Lots		Total Acres	
	Housing & Land		Entities		9/30/2016	12/31/2015	9/30/2016		9/30/2016	12/31/2015
	Owned	Options	Owned	Options			Entitled	Unentitled		
Calgary	23,114	—	2,552	—	25,666	26,242	6,008	19,658	63	79
Edmonton	13,802	—	—	—	13,802	14,180	6,790	7,012	24	30
Ontario	9,836	—	—	—	9,836	10,329	2,094	7,742	—	—
Canada	46,752	—	2,552	—	49,304	50,751	14,892	34,412	87	109
Northern California	3,345	4,950	487	—	8,782	9,023	3,832	4,950	—	—
Southern California	8,840	—	1,549	1,522	11,911	12,052	8,801	3,110	—	—
Hawaii	174	—	26	—	200	221	200	—	—	—
California	12,359	4,950	2,062	1,522	20,893	21,296	12,833	8,060	—	—
Denver	8,826	—	—	—	8,826	9,108	8,826	—	10	10
Austin	13,131	345	—	—	13,476	13,501	13,476	—	—	—
Phoenix	690	—	4,158	—	4,848	4,995	4,848	—	3	3
Washington, D.C. Area	2,221	1,066	765	—	4,052	4,083	4,015	37	23	17
Central and Eastern U.S.	24,868	1,411	4,923	—	31,202	31,687	31,165	37	36	30
Total	83,979	6,361	9,537	1,522	101,399	103,734	58,890	42,509	123	139
Entitled lots	51,012	1,411	6,467	—	58,890					
Unentitled lots	32,967	4,950	3,070	1,522	42,509					
Total September 30, 2016	83,979	6,361	9,537	1,522	101,399					
Total December 31, 2015	85,889	6,450	9,873	1,522		103,734				

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

BROOKFIELD RESIDENTIAL PROPERTIES INC.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This interim report, including the 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," "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; the effect of positive job numbers, first-time buyer demand, and increasing consumer confidence on continued recovery of the housing market; the impact of changes to mortgage lending rules in Canada on the Canadian housing market; the stability of interest rates into the foreseeable future; our ability to benefit from continued improvement in the U.S. housing market and growth in our U.S. operations; recovery in the housing market and the pace thereof; forecasts regarding our land supply; our expected unit and lot sales and the timing thereof; expectations for 2016 and beyond; reduction in our debt levels and the timing thereof; long-term fundamental demand growth in the U.S. housing market; and home price growth rates and affordability levels;
- possible or assumed future results, including our outlook and limited guidance for 2016, the operative cycle of our business and expected timing of income and expected performance and features of our projects;
- the expected closing of transactions;
- the effect on our business of business acquisitions;
- business goals, strategy and growth plans;
- the stability of home prices;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the homebuilding industry;
- the ability to generate sufficient cash flow from our assets to repay maturing bank indebtedness and project specific financings and take advantage of new opportunities;
- the visibility of our future cash flow;
- social and environmental policies and risks;
- expected backlog and closings and the timing thereof;
- the sufficiency of our access to and the sources of our capital resources;
- the impact of foreign exchange on our financial performance and market opportunities;
- the timing of the effect of interest rate changes on our cash flows;
- the effect of debt and leverage on our business and financial condition; and
- the effect on our business of existing lawsuits.

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

Various factors, in addition to those discussed elsewhere in this interim report, that could affect the future results of Brookfield Residential and could cause actual results, performance, or achievements to differ materially from those expressed in the forward-looking statements and information include, but are not limited to, those factors included under the sections entitled "Cautionary Statements Regarding Forward-Looking Statements" and "Business Environment and Risks" of the Annual Report for the fiscal year ended December 31, 2015.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ABOUT THIS MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis relates to the quarter ended September 30, 2016 and has been prepared with an effective date of October 27, 2016. 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 are the flagship North American residential property company of Brookfield Asset Management, a leading global alternative asset manager with approximately \$250 billion of assets under management.

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 (Toronto) markets. Our California operations include Northern California (San Francisco Bay Area and Sacramento), Southern California (Los Angeles / Southland and San Diego / Riverside) and Hawaii. Our Central and Eastern 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.

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 nine months ended September 30, 2016 compared to the three and nine months ended September 30, 2015 were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(US\$ millions, except percentages, unit activity, average selling price and per share amounts)</i>				
Key Financial Results				
Housing revenue	\$ 384	\$ 342	\$ 929	\$ 799
Land revenue	37	52	121	182
Gross margin ⁽¹⁾ (\$)	91	106	223	254
Gross margin ⁽¹⁾ (%)	22%	27%	21%	26%
Income before income taxes	31	46	44	51
Income tax expense	(6)	(11)	(6)	(11)
Net income attributable to Brookfield Residential	25	35	38	41
Basic earnings per share	\$ 0.22	\$ 0.31	\$ 0.33	\$ 0.36
Diluted earnings per share	\$ 0.22	\$ 0.31	\$ 0.33	\$ 0.36
Key Operating Data				
Home closings for Brookfield Residential (units)	788	684	1,979	1,665
Home closings for unconsolidated entities (units)	3	15	5	52
Average home selling price for Brookfield Residential (per unit)	\$ 487,000	\$ 500,000	\$ 470,000	\$ 480,000
Average home selling price for unconsolidated entities (per unit)	\$ 1,583,000	\$ 695,000	\$ 1,464,000	\$ 562,000
Net new home orders for Brookfield Residential (units)	816	612	2,539	2,187
Net new home orders for unconsolidated entities (units)	2	2	5	40
Backlog for Brookfield Residential (units)	1,900	1,581	1,900	1,581
Backlog for unconsolidated entities (units)	1	21	1	21
Backlog value for Brookfield Residential	\$ 977	\$ 682	\$ 977	\$ 682
Backlog value for unconsolidated entities	\$ 1	\$ 12	\$ 1	\$ 12
Lot closings for Brookfield Residential (single family units)	325	441	1,056	1,444
Lot closings for unconsolidated entities (single family units)	105	32	314	151
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	6	—	10	23
Acre closings for Brookfield Residential (raw and partially finished parcels)	—	—	88	8
Average lot selling price for Brookfield Residential (single family units)	\$ 93,000	\$ 114,000	\$ 96,000	\$ 113,000
Average lot selling price for unconsolidated entities (single family units)	\$ 94,000	\$ 109,000	\$ 81,000	\$ 89,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	\$ 925,000	\$ —	\$ 941,000	\$ 524,000
Average per acre selling price for Brookfield Residential (raw and partially finished parcels)	\$ —	\$ —	\$ 86,000	\$ 164,000

(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 29.*

Segmented Information

We operate in three operating segments within North America: Canada, California and Central and Eastern U.S. Each of the Company's segments specializes in land entitlement and development and the construction of single family and multi-family homes. The Company evaluates performance and allocates capital based primarily on return on assets together with a number of risk factors. The following table summarizes information relating to revenues, gross margin and assets by operating segment for the three and nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(US\$ millions, except unit activity and average selling price)</i>				
Housing revenue				
Canada	\$ 128	\$ 121	\$ 321	\$ 284
California	173	153	382	347
Central and Eastern U.S	83	68	226	168
Total	<u>\$ 384</u>	<u>\$ 342</u>	<u>\$ 929</u>	<u>\$ 799</u>
Land revenue				
Canada	\$ 21	\$ 23	\$ 51	\$ 67
California	1	19	42	79
Central and Eastern U.S	15	10	28	36
Total	<u>\$ 37</u>	<u>\$ 52</u>	<u>\$ 121</u>	<u>\$ 182</u>
Housing gross margin				
Canada	\$ 25	\$ 33	\$ 57	\$ 68
California	32	43	70	92
Central and Eastern U.S	14	9	36	23
Total	<u>\$ 71</u>	<u>\$ 85</u>	<u>\$ 163</u>	<u>\$ 183</u>
Land gross margin				
Canada	\$ 12	\$ 17	\$ 32	\$ 50
California	1	2	21	14
Central and Eastern U.S	7	2	7	7
Total	<u>\$ 20</u>	<u>\$ 21</u>	<u>\$ 60</u>	<u>\$ 71</u>
Home closings (units)				
Canada	387	369	949	908
California	222	170	545	395
Central and Eastern U.S	179	145	485	362
	<u>788</u>	<u>684</u>	<u>1,979</u>	<u>1,665</u>
Unconsolidated Entities	3	15	5	52
Total	<u>791</u>	<u>699</u>	<u>1,984</u>	<u>1,717</u>
Average home selling price				
Canada	\$ 332,000	\$ 326,000	\$ 338,000	\$ 312,000
California	777,000	901,000	701,000	879,000
Central and Eastern U.S	462,000	470,000	467,000	465,000
	<u>487,000</u>	<u>500,000</u>	<u>470,000</u>	<u>480,000</u>
Unconsolidated Entities	1,583,000	695,000	1,464,000	562,000
Average	<u>\$ 491,000</u>	<u>\$ 504,000</u>	<u>\$ 472,000</u>	<u>\$ 482,000</u>
Active housing communities				
Canada			27	18
California			30	22
Central and Eastern U.S			23	19
			<u>80</u>	<u>59</u>
Unconsolidated Entities			1	4
Total			<u>81</u>	<u>63</u>

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Lot closings (single family units)				
Canada	134	181	338	425
California	—	115	349	456
Central and Eastern U.S	191	145	369	563
	325	441	1,056	1,444
Unconsolidated Entities	105	32	314	151
Total	430	473	1,370	1,595
Acre closings (multi-family, industrial and commercial)				
Canada	5	—	9	23
California	—	—	—	—
Central and Eastern U.S	1	—	1	—
	6	—	10	23
Acre closings (raw and partially finished parcels)				
Canada	—	—	80	—
California	—	—	8	—
Central and Eastern U.S	—	—	—	8
Total	—	—	88	8
Average lot selling price (single family lots)				
Canada	\$ 117,000	\$ 128,000	\$ 125,000	\$ 130,000
California	—	152,000	93,000	162,000
Central and Eastern U.S	75,000	66,000	73,000	61,000
	93,000	114,000	96,000	113,000
Unconsolidated Entities	94,000	109,000	81,000	89,000
Average	\$ 93,000	\$ 113,000	\$ 93,000	\$ 111,000
Average per acre selling price (multi-family, industrial and commercial)				
Canada	\$ 999,000	\$ —	\$ 985,000	\$ 524,000
California	—	—	—	—
Central and Eastern U.S	541,000	—	541,000	—
	\$ 925,000	\$ —	\$ 941,000	\$ 524,000
Average per acre selling price (raw and partially finished parcels)				
Canada	\$ —	\$ —	\$ 3,000	\$ —
California	—	—	967,000	—
Central and Eastern U.S	—	—	—	164,000
	\$ —	\$ —	\$ 86,000	\$ 164,000
Active land communities				
Canada			10	12
California			5	6
Central and Eastern U.S			12	10
			27	28
Unconsolidated Entities			2	2
Total			29	30

(US\$ millions)	As at	
	September 30 2016	December 31 2015
Total assets		
Canada	\$ 1,190	\$ 1,068
California	1,423	1,276
Central and Eastern U.S	1,132	1,016
Corporate and other	134	206
Total	\$ 3,879	\$ 3,566

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

Three and Nine Months Ended September 30, 2016 Compared with Three and Nine Months Ended September 30, 2015

Net Income

Net income attributable to Brookfield Residential for the three and nine months ended September 30, 2016 was \$25 million and \$38 million, respectively, compared to \$35 million and \$41 million for the same periods in 2015.

(US\$ millions, except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Net income attributable to Brookfield Residential	\$ 25	\$ 35	\$ 38	\$ 41
Basic earnings per share	\$ 0.22	\$ 0.31	\$ 0.33	\$ 0.36
Diluted earnings per share	\$ 0.22	\$ 0.31	\$ 0.33	\$ 0.36

The decrease of \$10 million in net income for the three months ended September 30, 2016, compared to the same period in 2015 was primarily the result of a \$15 million decrease in gross margin, which resulted from lower housing and land gross margins. Additionally, there was a \$4 million increase in sales and marketing expense and a \$1 million increase in general and administrative expense. This was partially offset by a \$4 million decrease in income tax expense, a \$3 million decrease in interest expense, a \$2 million increase in equity earnings from unconsolidated entities and a \$1 million decrease in share-based compensation costs.

The decrease of \$3 million in net income for the nine months ended September 30, 2016, compared to the same period in 2015 was primarily the result of a \$31 million decrease in gross margin, as a result of lower housing and land gross margins. Additionally, there was an \$11 million increase in sales and marketing expense and a \$1 million decrease in other income. This was partially offset by \$26 million of share-based compensation and legal costs incurred on the Privatization Transaction that occurred in the first quarter of 2015. Additionally, there was an \$8 million decrease in interest expense, a \$4 million decrease in income tax expense, a decrease of \$1 million in normal-course share-based compensation and an increase in equity earnings from unconsolidated entities of \$1 million.

A breakdown of the revenue and gross margin for the three and nine months ended September 30, 2016 and 2015 is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(US\$ millions, except percentages)</i>				
Revenue				
Housing	\$ 384	\$ 342	\$ 929	\$ 799
Land	37	52	121	182
	<u>\$ 421</u>	<u>\$ 394</u>	<u>\$ 1,050</u>	<u>\$ 981</u>
Gross Margin				
Housing	\$ 71	\$ 85	\$ 163	\$ 183
Land	20	21	60	71
	<u>\$ 91</u>	<u>\$ 106</u>	<u>\$ 223</u>	<u>\$ 254</u>
Gross Margin (%)				
Housing	18%	25%	18%	23%
Land	54%	40%	50%	39%
	<u>22%</u>	<u>27%</u>	<u>21%</u>	<u>26%</u>

For the three months ended September 30, 2016, total revenue increased by \$27 million and total gross margin decreased by \$15 million, when compared to the same period in 2015. The increase in total revenue was primarily the result of a \$42 million increase in housing revenue due to 104 additional home closings. This was partially offset by a \$15 million decrease in total land revenue. The decrease in land revenue was due primarily to less activity in our land operations with 116 fewer single family lot closings when compared to the same period in 2015, as well as a decrease in the average lot selling price. For the three months ended September 30, 2016, gross margin decreased primarily due to lower housing and land gross margins in the Canadian and California segments as a result of a shift in product mix. However, this was partially offset by higher housing and land gross margins in the Central and Eastern U.S. segment.

For the nine months ended September 30, 2016, total revenue increased by \$69 million and total gross margin decreased by \$31 million when compared to the same period in 2015. The increase in total revenue was primarily the result of increased activity in our housing operations with 314 additional home closings when compared to the same period in 2015. This was partially offset by a slight decrease in the average home selling price due to the geographic mix of homes closed, as well as a shift in product mix, primarily in our California markets. Additionally, land revenue decreased \$61 million primarily due to 388 fewer single family lots closings, as well as a 15% decrease in the average lot selling price, due to the mix of lots sold amongst the operating segments. Total gross margin decreased as a result of both lower land and housing margins. Housing gross margin and gross margin percentage decreased primarily due to a slight decrease in the average home selling prices and product mix, primarily in our Canadian and California markets combined with the impact of purchase price allocation of the Grand Haven and ALBI acquisitions in 2015. Land margins decreased as a result of lower activity, which was partially offset by an increase in the land gross margin percentage.

Results of Operations – Housing

Housing revenue and gross margin were \$384 million and \$71 million, respectively, for the three months ended September 30, 2016, compared to \$342 million and \$85 million for the same period in 2015. The increase in revenue was the result of 104 additional home closings with increased closings in all three of our operating segments which was partially offset by a slight decrease in the average home selling price when compared to the same period in 2015. The decrease in gross margin was due to a decrease in the gross margin percentage, due to the mix of homes sold in Canada and California, partially offset by higher activity across all segments.

Housing revenue and gross margin were \$929 million and \$163 million, respectively, for the nine months ended September 30, 2016, compared to \$799 million and \$183 million for the same period in 2015. The increase in revenue was the result of 314 additional home closings partially offset by a 2% decrease in average home selling prices. Gross margin decreased \$20 million as a result of a shift in product mix, primarily in our California and Canadian markets. 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 nine months ended September 30, 2016 and 2015 is as follows:

Consolidated

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(US\$ millions, except unit activity and average selling price)</i>				
Home closings	788	684	1,979	1,665
Revenue	\$ 384	\$ 342	\$ 929	\$ 799
Gross margin	\$ 71	\$ 85	\$ 163	\$ 183
Average home selling price	\$ 487,000	\$ 500,000	\$ 470,000	\$ 480,000

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

Canada

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(US\$ millions, except unit activity and average selling price)</i>				
Home closings	387	369	949	908
Revenue	\$ 128	\$ 121	\$ 321	\$ 284
Gross margin	\$ 25	\$ 33	\$ 57	\$ 68
Average home selling price	\$ 332,000	\$ 326,000	\$ 338,000	\$ 312,000

Housing revenue in Canada for the three months ended September 30, 2016 increased by \$7 million when compared to the same period in 2015. This resulted primarily from 18 additional home closings, as well as a slight increase in the average home selling price for the three months ended September 30, 2016 when compared to the same period in 2015. The increase in the average home selling price was primarily due to the acquisition of ALBI Homes in the fourth quarter of 2015, which is an established luxury homebuilder in Calgary with selling prices near C\$1 million. Additionally, there was a higher proportion of homes closed in Ontario, which typically have higher average selling prices. Gross margin decreased by \$8 million for the three months ended September 30, 2016 when compared to the same period in 2015 primarily as a result of a decrease in the housing gross margin percentage. The decrease in the gross margin percentage was primarily due to the purchase price allocation on homes closed from the ALBI Homes acquisition, product mix in the Ontario market, as well as from higher incentives offered in the Calgary and Edmonton markets due to weaker market conditions.

Housing revenue for the nine months ended September 30, 2016 increased by \$37 million when compared to the same period in 2015. This resulted from an 8% increase in the average home selling price, as well as an increase of 41 home closings for the nine months ended September 30, 2016 compared to the same period in 2015. The increase in the average home selling price was primarily attributable to the acquisition of ALBI Homes and a higher proportion of homes closed in Ontario. This was partially offset by a 5% decrease in the foreign exchange rate between the Canadian and U.S. dollar for the nine months ended September 30, 2016 when compared to the same period in 2015. When comparing the average home selling price in Canadian dollars for the nine months ended September 30, 2016 to 2015, the average home selling price was C\$446,000 compared to C\$395,000 in the same period in 2015. Gross margin decreased by \$11 million for the nine months ended September 30, 2016 when compared to the same period in 2015, primarily due to a decrease in the housing gross margin percentage. The decrease in the gross margin percentage was primarily due to the purchase price allocation on homes closed from the ALBI Homes acquisition, product mix in the Ontario market, as well as higher incentives offered in the Calgary and Edmonton markets.

California

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(US\$ millions, except unit activity and average selling price)</i>				
Home closings	222	170	545	395
Revenue	\$ 173	\$ 153	\$ 382	\$ 347
Gross margin	\$ 32	\$ 43	\$ 70	\$ 92
Average home selling price	\$ 777,000	\$ 901,000	\$ 701,000	\$ 879,000

Our California segment had housing revenue of \$173 million for the three months ended September 30, 2016, an increase of \$20 million when compared to the same period in 2015. The increase in revenue was due to 52 additional home closings, partially offset by a 14% decrease in the average home selling price for the three months ended September 30, 2016 compared to the same period in 2015. Gross margin decreased \$11 million when compared to the same period in 2015 as a result of a decline in the housing gross margin percentage and the average home selling price, which was primarily driven by product mix. A larger proportionate share of homes closed in our San Francisco Bay Area and Southern California markets in 2015 were from communities with higher priced homes with selling prices over \$1 million. In the latter half of 2015, several communities opened with lower average selling prices which resulted in increased product mix.

Housing revenue in our California segment was \$382 million for the nine months ended September 30, 2016, an increase of \$35 million when compared to the same period in 2015. The increase in revenue was due to a 38% increase in home closings, partially offset by a 20% decrease in the average home selling price for the nine months ended September 30, 2016 compared to the same period in 2015. Gross margin decreased \$22 million when compared to the same period in 2015 as a result of a decrease in the housing gross margin percentage and the average home selling price, which was primarily driven by product mix.

Central and Eastern U.S.

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(US\$ millions, except unit activity and average selling price)</i>				
Home closings	179	145	485	362
Revenue	\$ 83	\$ 68	\$ 226	\$ 168
Gross margin	\$ 14	\$ 9	\$ 36	\$ 23
Average home selling price	\$ 462,000	\$ 470,000	\$ 467,000	\$ 465,000

The Central and Eastern U.S. housing revenue increased by \$15 million for the three months ended September 30, 2016 when compared to the same period of 2015 as a result of increased activity primarily in the Denver and Washington D.C. markets. The increase in revenue was primarily the result of 34 additional home closings, partially offset by a slight decrease in the average home selling price. Gross margin increased by \$5 million when compared to the same period in 2015 due to higher home closings, as well as an increase in the gross margin percentage. The increase in the gross margin percentage is due to favorable product mix of the homes closed in different communities across the operating segment when compared to 2015.

The Central and Eastern U.S. housing revenue increased by \$58 million for the nine months ended September 30, 2016 when compared to the same period of 2015 as a result of 123 additional home closings, with increased activity across all markets in the segment. Gross margin increased by \$13 million when compared to the same period in 2015 due to higher home closings, a slight increase in the average home selling prices and an increase in the housing gross margin percentage as a result of product mix of the homes closed in different communities across the operating segment when compared to 2015.

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 months ended September 30, 2016, total incentives recognized as a percentage of gross revenues increased slightly when compared with 2015. The increase was primarily due to higher incentives in Alberta due to weakened market conditions as a result of depressed commodity prices, as well as additional incentives offered in certain communities in the Central and Eastern U.S. segment.

Our incentives on homes closed by operating segment for the three and nine months ended September 30, 2016 and 2015 were as follows:

	Three Months Ended September 30			
	2016		2015	
	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
<i>(US\$ millions, except percentages)</i>				
Canada	\$ 5	4%	\$ 3	< 1%
California	3	1%	1	1%
Central and Eastern U.S.	5	6%	3	4%
	<u>\$ 13</u>	<u>3%</u>	<u>\$ 7</u>	<u>2%</u>

	Nine Months Ended September 30			
	2016		2015	
	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
<i>(US\$ millions, except percentages)</i>				
Canada	\$ 12	4%	\$ 8	3%
California	7	2%	3	1%
Central and Eastern U.S.	13	5%	11	6%
	<u>\$ 32</u>	<u>3%</u>	<u>\$ 22</u>	<u>3%</u>

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders, including our share of unconsolidated entities, for the three and nine months ended September 30, 2016 totalled 818 units and 2,544 units, respectively, an increase of 204 units and 317 units when compared to the same periods in 2015. For the nine months ended September 30, 2016, the increase in net new home orders was the result of increased net new orders across the California and Central and Eastern U.S. segments. The Canadian market had a decrease of 26 units, primarily as a result of lower net new orders in Alberta due to weakened market conditions, partially offset by higher net new orders in the Ontario market. Average monthly sales per community by reportable segment for the three and nine months ended September 30, 2016 were: Canada – 5 and 6 units (2015 – 7 and 8 units); California – 2 and 3 units (2015 – 1 and 2 units); Central and Eastern U.S. – 3 and 3 units (2015 – 2 and 3 units); and unconsolidated entities – 1 and 1 unit (2015 – 1 and 1 units). We were selling from 81 active housing communities, including our share of unconsolidated entities, at September 30, 2016 compared to 63 at September 30, 2015.

The net new home orders for the three and nine months ended September 30, 2016 and 2015 by our three operating segments were as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(Units)</i>				
Canada	416	392	1,230	1,256
California	220	89	742	470
Central and Eastern U.S.	180	131	567	461
	<u>816</u>	<u>612</u>	<u>2,539</u>	<u>2,187</u>
Unconsolidated entities	2	2	5	40
	<u>818</u>	<u>614</u>	<u>2,544</u>	<u>2,227</u>

The overall cancellation rates for the three and nine months ended September 30, 2016 were 8% and 8%, respectively, compared to 12% and 8% in 2015. The cancellation rates for the three and nine months ended September 30, 2016 and 2015 by our three operating segments were as follows:

	Three Months Ended September 30			
	2016		2015	
	Units	% of Gross Home Orders	Units	% of Gross Home Orders
<i>(Units, except percentages)</i>				
Canada	3	1%	2	1%
California	32	13%	33	27%
Central and Eastern U.S.	37	17%	49	27%
	72	8%	84	12%
Unconsolidated entities	—	—%	3	60%
	72	8%	87	12%

	Nine Months Ended September 30			
	2016		2015	
	Units	% of Gross Home Orders	Units	% of Gross Home Orders
<i>(Units, except percentages)</i>				
Canada	19	2%	10	1%
California	84	10%	70	13%
Central and Eastern U.S.	107	16%	111	19%
	210	8%	191	8%
Unconsolidated entities	—	—%	6	13%
	210	8%	197	8%

Home Sales – Backlog

Our backlog, which represents the number of new homes subject to sales contracts, as at September 30, 2016 and 2015 by operating segment, was as follows:

	As at September 30			
	2016		2015	
	Units	Value	Units	Value
<i>(US\$ millions, except unit activity)</i>				
Canada	1,194	\$ 531	1,072	\$ 390
California	395	306	220	158
Central and Eastern U.S.	311	140	289	134
	1,900	977	1,581	682
Unconsolidated entities	1	1	21	12
Total	1,901	\$ 978	1,602	\$ 694

We expect all of our backlog to close in 2016, 2017 or 2018, subject to future cancellations. The units in our backlog increased compared to the prior period primarily due to higher net new home orders for the nine months ended September 30, 2016. Our Canadian segment's increase of 122 units at September 30, 2016, when compared to the same period in 2015, was mainly due to higher units in backlog in the Calgary and Toronto markets, partially offset by lower units in our Edmonton market as a result of decreased net new orders. Our California and Central and Eastern U.S. operations had an increase of 175 units and 22 units in backlog, respectively, primarily due to an increase in net new home orders for the nine months ended September 30, 2016 compared to 2015. Total backlog value increased compared to the same period in 2015 primarily as a result of higher backlog units across all segments as well as product mix in the Canadian and California segments.

Results of Operations – Land

Land revenue totalled \$37 million for the three months ended September 30, 2016, a decrease of \$15 million when compared to the same period in 2015, and land gross margin decreased \$1 million to \$20 million. The decrease in land revenue for the three months ended September 30, 2016 was driven by 116 fewer single family lot closings when compared to the same period in 2015, as well as a decrease in the average single family lot selling price. This was partially offset by six additional multi-family, industrial and commercial acres sold. The decrease in lot closings was primarily due to lower single family lot closings in the Canadian and California segments, partially offset by higher lot closings in the Central and Eastern U.S. segment. The decrease in gross margin was the result of fewer single family lot closings, partially offset by a higher gross margin percentage in the Central and Eastern U.S. segment in the three months ended September 30, 2016.

Land revenue totalled \$121 million for the nine months ended September 30, 2016, a decrease of \$61 million when compared to the same period in 2015, and land gross margin decreased \$11 million to \$60 million. The decrease in land revenue was primarily due to 388 fewer single family lots closed and 13 fewer multi-family, industrial and commercial acre sales in 2016 when compared to the same period in 2015. Additionally, there was a 15% decrease in the average single family lot selling price resulting from the geographic mix of lots sold. Revenues are also affected by local product mix and market conditions, which have an impact on the selling price per lot. Gross margin decreased for the nine months ended September 30, 2016 primarily due to the mix of lots sold with fewer single family lot closings in the Canadian segment, which typically have higher average selling prices and gross margins. Additionally, there was a 5% decline in the Canadian to U.S. dollar foreign exchange rate for the nine months ended September 30, 2016, which resulted in lower translated Canadian results compared to the same period in 2015. This was partially offset by higher land gross margin percentages in California and the Central and Eastern U.S. segments.

A breakdown of our results from land operations for the three and nine months ended September 30, 2016 and 2015 is as follows:

Consolidated

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(US\$ millions, except unit activity and average selling price)</i>				
Lot closings (single family units)	325	441	1,056	1,444
Acre closings (multi-family, industrial and commercial)	6	—	10	23
Acre closings (raw and partially finished)	—	—	88	8
Revenue	\$ 37	\$ 52	\$ 121	\$ 182
Gross margin	\$ 20	\$ 21	\$ 60	\$ 71
Average lot selling price (single family units)	\$ 93,000	\$ 114,000	\$ 96,000	\$ 113,000
Average per acre selling price (multi-family, industrial and commercial) ..	\$ 925,000	\$ —	\$ 941,000	\$ 524,000
Average per acre selling price (raw and partially finished)	\$ —	\$ —	\$ 86,000	\$ 164,000

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

Canada

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(US\$ millions, except unit activity and average selling price)</i>				
Lot closings (single family units)	134	181	338	425
Acre closings (multi-family, industrial and commercial)	5	—	9	23
Acre closings (raw and partially finished)	—	—	80	—
Revenue	\$ 21	\$ 23	\$ 51	\$ 67
Gross margin	\$ 12	\$ 17	\$ 32	\$ 50
Average lot selling price (single family units)	\$ 117,000	\$ 128,000	\$ 125,000	\$ 130,000
Average per acre selling price (multi-family, industrial and commercial) ..	\$ 999,000	\$ —	\$ 985,000	\$ 524,000
Average per acre selling price (raw and partially finished)	\$ —	\$ —	\$ 3,000	\$ —

Land revenue in Canada for the three months ended September 30, 2016 was \$21 million, a decrease of \$2 million when compared to the same period in 2015. The decrease was primarily the result of 47 fewer single family lots closed

as well as a 9% decrease in the average selling price for single family lots. This was partially offset by five additional multi-family, industrial and commercial acre sales in 2016 when compared to the same period in 2015. The decrease in lot closings was primarily due to less activity in the Calgary and Edmonton markets as a result of depressed energy prices. The decline in the average lot selling price was primarily the result of product mix. Gross margin decreased \$5 million to \$12 million when compared to 2015 primarily as a result of a decrease in single family lot closings and average lot selling prices.

Land revenue in Canada for the nine months ended September 30, 2016 was \$51 million, a decrease of \$16 million when compared to the same period in 2015. The decrease in revenue was primarily the result of 87 fewer single family lots closed and 14 fewer multi-family, industrial and commercial acre sales in 2016 when compared to the same period in 2015, as well as a slight decrease in the average single family lot selling price. This was partially offset by an increase in the average per acre selling price for multi-family, industrial and commercial parcels as a result of product mix. Gross margin decreased \$18 million to \$32 million when compared to 2015 primarily as a result of fewer single family lot closings in 2016, mainly due to market conditions in Alberta as a result of depressed energy prices.

California

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(US\$ millions, except unit activity and average selling price)</i>				
Lot closings (single family units)	—	115	349	456
Acre closings (raw and partially finished)	—	—	8	—
Revenue	\$ 1	\$ 19	\$ 42	\$ 79
Gross margin	\$ 1	\$ 2	\$ 21	\$ 14
Average lot selling price (single family units)	\$ —	\$ 152,000	\$ 93,000	\$ 162,000
Average per acre selling price (raw and partially finished)	\$ —	—	\$ 967,000	—

Land revenue in California for the three months ended September 30, 2016 was \$1 million and gross margin was \$1 million, a decrease of \$18 million and \$1 million, respectively, when compared to 2015. This was the result of 115 single family lots closed in 2015 with no corresponding closings in 2016, as a result of timing of lot closings. This was partially offset by profit participation revenue received from past land sales in Southern California during the three months ended September 30, 2016.

Land revenue in California for the nine months ended September 30, 2016 decreased by \$37 million when compared to the same period in 2015. This was primarily the result of a 107 fewer single family lot closings and a decrease in the average lot selling price due to product mix. This was partially offset by 8 additional raw and partially finished acres sales in the nine months ended September 30, 2016 compared to 2015. Gross margin increased \$7 million when compared to the same period in 2015 as a result of a higher gross margin percentage recognized on raw and partially finished acre sales, as well as from profit participation revenue and a Community Finance District recovery recognized on previously sold land. This was partially offset by fewer single family lot closings and a decrease in the average lot selling price.

Central and Eastern U.S.

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(US\$ millions, except unit activity and average selling price)</i>				
Lot closings (single family units)	191	145	369	563
Acre closings (multi-family, industrial and commercial)	1	—	1	—
Acre closings (raw and partially finished)	—	—	—	8
Revenue	\$ 15	\$ 10	\$ 28	\$ 36
Gross margin	\$ 7	\$ 2	\$ 7	\$ 7
Average lot selling price (single family units)	\$ 75,000	\$ 66,000	\$ 73,000	\$ 61,000
Average per acre selling price (multi-family, industrial and commercial) ..	\$ 541,000	\$ —	\$ 541,000	\$ —
Average per acre selling price (raw and partially finished)	\$ —	\$ —	\$ —	\$ 164,000

For the three months ended September 30, 2016, land revenue in the Central and Eastern U.S. segment increased by \$5 million and gross margin increased by \$5 million compared to the same period in 2015. The increase in revenue and gross margin was due to 46 additional single family lots closed in 2016, primarily due to higher lot closings in the Denver market as well as a 14% increase in the average lot selling price. Additionally, land gross margin increased due to a metropolitan district recovery recognized on previously sold land.

For the nine months ended September 30, 2016, Central and Eastern U.S. land revenue decreased by \$8 million and gross margin remained consistent. The decrease in revenue was due to 194 fewer single family lots closed in 2016, primarily due to fewer lot closings in the Austin market as a result of the timing of lots closed. This was partially offset by an increase in the average lot selling price related to the geographic mix of lots sold within the segment, as well as a higher gross margin percentage, partially due to a metropolitan district recovery recognized on previously sold land.

Equity in Earnings from Unconsolidated Entities

Equity in earnings from unconsolidated entities for the three and nine months ended September 30, 2016 totalled \$5 million and \$10 million, respectively, compared to \$3 million and \$9 million, respectively, for the same periods in 2015. 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:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(US\$ millions, except unit activity and average selling price)</i>				
Home closings	3	15	5	52
Revenue	\$ 5	\$ 10	\$ 7	\$ 29
Gross margin	\$ 1	\$ 2	\$ 1	\$ 7
Average home selling price	\$ 1,583,000	\$ 695,000	\$ 1,464,000	\$ 562,000

Housing revenue within unconsolidated entities decreased \$5 million and gross margin decreased \$1 million for the three months ended September 30, 2016 compared to the same period in 2015. The decrease in revenue is the result of 12 fewer home closings, partially offset by an increase in the average home selling price due to the geographic mix of homes sold amongst our unconsolidated entities when compared to 2015. In the three months ended September 30, 2016, the three home closings were luxury homes in our Hawaii joint venture. The decrease in home closings was a result of the close out of two housing communities within our Southern California joint ventures during 2015.

Housing revenue within unconsolidated entities decreased \$22 million and gross margin decreased \$6 million for the nine months ended September 30, 2016 compared to the same period in 2015. The decrease in revenue is the result of 47 fewer home closings, partially offset by an increase in the average home selling price due to the geographic mix of homes sold amongst our unconsolidated entities when compared to 2015. The decrease in home closings was a result of the close out of two housing communities within our Southern California joint ventures during 2015.

Land

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
<i>(US\$ millions, except unit activity and average selling price)</i>				
Lot closings (single family units)	105	32	314	151
Revenue	\$ 10	\$ 3	\$ 25	\$ 13
Gross margin	\$ 3	\$ 2	\$ 8	\$ 6
Average lot selling price (single family units)	\$ 94,000	\$ 109,000	\$ 81,000	\$ 89,000

Land revenue within unconsolidated entities increased \$7 million and gross margin increased \$1 million for the three months ended September 30, 2016 compared to the same period in 2015. This was the result of 73 additional single family lot closings, primarily from our Phoenix and Southern California joint ventures. This was partially offset by a decrease in the average lot selling price. The decrease in the average lot selling price was attributable to the mix of land sold amongst the unconsolidated entities.

Land revenue within unconsolidated entities increased \$12 million and gross margin increased \$2 million for the nine months ended September 30, 2016 compared to the same period in 2015. This was the result of 163 additional single family lot closings, primarily from our Phoenix and Southern California joint ventures. This was partially offset by a decrease in the average lot selling price, which was attributable to the mix of land sold amongst the unconsolidated entities.

Selling, General and Administrative Expense

The components of selling, general and administrative expense for the three and nine months ended September 30, 2016 and 2015 are summarized as follows:

<i>(US\$ millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
General and administrative expense	\$ 28	\$ 27	\$ 81	\$ 81
Sales and marketing expense	20	16	55	44
Share-based compensation	4	5	13	38
	<u>\$ 52</u>	<u>\$ 48</u>	<u>\$ 149</u>	<u>\$ 163</u>

The selling, general and administrative expense was \$52 million for the three months ended September 30, 2016, an increase of \$4 million when compared to the same period in 2015. General and administrative expense was relatively consistent with the same period in 2015. Sales and marketing costs increased \$4 million due to increased housing activity, resulting in higher marketing and closing costs in the three months ended September 30, 2016 compared to 2015. Share-based compensation decreased \$1 million as a result of timing of vesting of share-based compensation liabilities in 2016 compared with the three months ended September 30, 2015.

The selling, general and administrative expense was \$149 million for the nine months ended September 30, 2016, a decrease of \$14 million when compared to the same period in 2015. General and administrative expense remained consistent for the nine months ended September 30, 2016. Sales and marketing expense for the nine months ended September 30, 2016 increased \$11 million, when compared to the same period in 2015, due to increased home closings. Share-based compensation decreased \$25 million compared to 2015, 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 2015. Additionally, there was a decrease of \$1 million in share-based compensation costs resulting from vesting our share-based compensation liabilities in 2016 compared to the nine months ended September 30, 2015.

Other (Income) / Expense

The components of other (income) / expense for the three and nine months ended September 30, 2016 and 2015 are summarized as follows:

<i>(US\$ millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Privatization Transaction costs	\$ —	\$ —	\$ —	\$ 2
Interest income	(1)	(1)	(2)	(3)
Other	(1)	(1)	(3)	(3)
	<u>\$ (2)</u>	<u>\$ (2)</u>	<u>\$ (5)</u>	<u>\$ (4)</u>

For the three months ended September 30, 2016, other income remained consistent when compared to the same period in 2015. For the nine months ended September 30, 2016, other income increased \$1 million compared to the same period in 2015. 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, which was partially offset by slightly lower interest income earned in 2016.

Income Tax Expense / (Recovery)

Income tax expense / (recovery) for the three and nine months ended September 30, 2016 was an expense of \$6 million and \$6 million, respectively, compared to an expense of \$11 million and \$11 million, respectively, for the same periods in 2015. The components of income tax expense / (recovery) are summarized as follows:

<i>(US\$ millions)</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Current income tax expense	\$ 6	\$ 1	\$ 8	\$ 6
Deferred income tax expense / (recovery)	—	10	(2)	5
	<u>\$ 6</u>	<u>\$ 11</u>	<u>\$ 6</u>	<u>\$ 11</u>

For the nine months ended September 30, 2016, current income tax expense increased \$2 million due to an increase in current income taxes paid in the U.S., partially offset by a decrease in withholding taxes paid of \$5 million on distributions made from our U.S. operations in 2015, with no such withholding taxes paid for the same period in 2016. For the nine months ended September 30, 2016, the decrease in deferred income tax expense of \$7 million is primarily due to the utilization of U.S. federal net operating loss carryforwards in 2015. No U.S. federal net operating losses were available to the Company in 2016.

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 September 30, 2016, the rate of exchange was C\$1.3129 equivalent to US\$1 (December 31, 2015 – C\$1.3837 equivalent to US\$1). Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the three months ended September 30, 2016, the average rate of exchange was C\$1.3041 equivalent to US\$1 (September 30, 2015 – C\$1.3080 equivalent to US\$1). The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI"). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the condensed consolidated statements of operations as other income / (expense), except for those related to monetary liabilities qualifying as hedges of the Company's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

The financial results of our Canadian operations are translated into U.S. dollars for financial reporting purposes. Foreign currency translation gains and losses are recorded as the exchange rate between the two currencies fluctuates. These gains and losses are included in OCI and accumulated OCI. The translation of our Canadian operations resulted in a loss of \$12 million and a gain of \$36 million for the three and nine months ended September 30, 2016, compared to loss of \$40 million and a loss of \$101 million in the same periods of 2015.

QUARTERLY OPERATING AND FINANCIAL DATA

<i>(US\$ millions, except unit activity and per share amounts)</i>	2016			2015			2014	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Quarterly Operating Data								
Home closings (units)	788	675	516	991	684	543	438	859
Lot closings (single family units)	325	454	277	1,316	441	568	435	906
Acre closings (multi-family, industrial and commercial)	6	—	4	12	—	3	20	7
Acre closings (raw and partially finished)	—	8	80	23	—	8	—	—
Net new home orders (units)	816	922	801	703	612	857	718	482
Backlog (units at end of period)	1,900	1,872	1,625	1,340	1,581	1,654	1,339	972
Backlog value	\$ 977	\$ 930	\$ 751	\$ 573	\$ 682	\$ 776	\$ 629	\$ 483
Quarterly Financial Data								
Revenue	\$ 421	\$ 363	\$ 267	\$ 609	\$ 394	\$ 311	\$ 277	\$ 591
Direct cost of sales	(330)	(284)	(214)	(446)	(288)	(237)	(203)	(409)
Gross margin	91	79	53	163	106	74	74	182
Selling, general and administrative expense	(52)	(52)	(45)	(55)	(48)	(47)	(68)	(58)
Interest expense	(14)	(14)	(14)	(13)	(17)	(18)	(15)	(15)
Equity in earnings from unconsolidated entities.....	5	3	2	4	3	3	3	15
Other income / (expense)	1	—	1	3	2	1	(2)	14
Income / (loss) before taxes	31	16	(3)	102	46	13	(8)	138
Income tax (expense) / recovery	(6)	(3)	3	(31)	(11)	5	(5)	(18)
Net income / (loss)	25	13	—	71	35	18	(13)	120
Net income attributable to non-controlling interest.	—	—	—	—	—	—	—	—
Net income / (loss) attributable to Brookfield								
Residential	\$ 25	\$ 13	\$ —	\$ 71	\$ 35	\$ 18	\$ (13)	\$ 120
Foreign currency translation	(12)	5	43	(27)	(40)	9	(69)	(30)
Comprehensive income / (loss)	\$ 13	\$ 18	\$ 43	\$ 44	\$ (5)	\$ 27	\$ (82)	\$ 90
Earnings / (loss) per common share attributable to Brookfield Residential								
Basic	\$ 0.22	\$ 0.11	\$ 0.00	\$ 0.63	\$ 0.31	\$ 0.16	\$(0.11)	\$ 1.04
Diluted	\$ 0.22	\$ 0.11	\$ 0.00	\$ 0.63	\$ 0.31	\$ 0.16	\$(0.11)	\$ 1.03

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

LIQUIDITY AND CAPITAL RESOURCES

Financial Position

The following is a summary of the Company's condensed consolidated balance sheets as at September 30, 2016 and December 31, 2015:

	As at	
	September 30 2016	December 31 2015
<i>(US\$ millions)</i>		
Land and housing inventory	\$ 3,091	\$ 2,739
Investments in unconsolidated entities	348	339
Commercial properties	33	—
Commercial assets held for sale	19	—
Receivables and other assets	273	302
Cash and restricted cash	27	104
Deferred income tax assets	88	82
	<u>\$ 3,879</u>	<u>\$ 3,566</u>
Notes payable	\$ 1,619	\$ 1,606
Bank indebtedness and other financings	357	144
Accounts payable and other liabilities	477	465
Total equity	1,426	1,351
	<u>\$ 3,879</u>	<u>\$ 3,566</u>

Assets

Our assets as at September 30, 2016 totalled \$3.9 billion. Our land and housing inventory and investments in unconsolidated entities are our most significant assets with a combined book value of \$3.4 billion, or approximately 89% of our total assets. The land and housing assets increased when compared to December 31, 2015 due to acquisitions of \$193 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 September 30, 2016 compared with December 31, 2015 follows:

	As at			
	September 30, 2016		December 31, 2015	
	Units	Book Value	Units	Book Value
<i>(US\$ millions, except units)</i>				
Land held for development (lot equivalents)	80,047	\$ 1,366	83,850	\$ 1,385
Land under development and finished lots (single family units)	7,871	772	6,567	653
Housing units, including models	2,422	901	1,922	632
	<u>90,340</u>	<u>\$ 3,039</u>	<u>92,339</u>	<u>\$ 2,670</u>
Multi-family, industrial and commercial parcels (acres)	120	\$ 52	136	\$ 69

Notes Payable

Notes payable consist of the following:

(US\$ millions)	As at	
	September 30 2016	December 31 2015
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)	190	181
6.375% unsecured senior notes due May 15, 2025 (d)	350	350
	<hr/>	<hr/>
	\$ 1,640	\$ 1,631
Transaction costs (e)	(21)	(25)
	<hr/>	<hr/>
	\$ 1,619	\$ 1,606

(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 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.

(e) The transaction costs are costs related to the issuance of the Company's notes payable and are amortized using the effective interest rate method over the life of the related debt instrument.

The indentures governing the notes include covenants that, among others, place limitations on incurring additional indebtedness and making restricted payments. Under the limitation on additional indebtedness, we are permitted to incur specified categories of indebtedness but are prohibited from incurring further indebtedness if we do not satisfy either an indebtedness to consolidated net tangible worth ratio or a fixed charge coverage ratio. Brookfield Residential was in compliance with these financial incurrence covenants for the nine months ended September 30, 2016. Our actual fixed charge coverage and indebtedness to consolidated net tangible worth ratio as at September 30, 2016 are reflected in the table below:

	Covenant	Actual as at September 30 2016
Minimum fixed charge coverage	2.0 to 1	2.34 to 1
Maximum indebtedness to consolidated net tangible worth	2.25 to 1	1.40 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings as at September 30, 2016 were \$357 million, an increase of \$213 million from December 31, 2015. The increase was primarily the result of borrowings to fund development activity and land acquisitions. Our bank indebtedness and other financings represent construction and development loans and facilities that are used to fund the operations of our communities as new homes are constructed. As of September 30, 2016, the weighted average interest rate on our bank indebtedness and other financings was 2.4% (December 31, 2015 – 3.6%).

The debt maturing in 2016 and onwards is expected to either be refinanced or repaid from home and/or lot closings over this period. Additionally, as at September 30, 2016, we had bank indebtedness capacity of \$504 million that was available to complete land development and construction activities. The “Cash Flow” section below discusses future available capital resources should proceeds from our future home and/or lot closings not be sufficient to repay our debt obligations.

Bank indebtedness and other financings consists of the following:

	As at	
	September 30 2016	December 31 2015
<i>(US\$ millions)</i>		
Due to affiliates (a)	\$ 170	\$ —
Bank indebtedness (b)	98	62
Secured vendor take back (“VTB”) mortgages (c)	86	73
Project-specific financings (d)	3	9
	<u>\$ 357</u>	<u>\$ 144</u>

(a) Due to affiliates

On June 28, 2016, Brookfield Residential Finance Corp., a wholly-owned subsidiary of the Company, entered into a \$170 million deposit agreement with a subsidiary of our sole shareholder, Brookfield Asset Management Inc. The principal is repayable on demand. Interest is charged on the principal at a rate of one month LIBOR plus 0.55%. As at September 30, 2016, these borrowings are not subject to financial covenants.

(b) Bank indebtedness

- (i) The Company has four secured credit facilities (December 31, 2015 – four secured credit facilities) with various Canadian banks with outstanding amounts totalling \$78 million at September 30, 2016 (December 31, 2015 – \$62 million). The secured facilities are repayable in Canadian dollars in the amount of C\$103 million at September 30, 2016 (December 31, 2015 – C\$85 million). These facilities allow the Company to borrow up to approximately C\$565 million (US\$430 million) as at September 30, 2016 (December 31, 2015 – C\$565 million (US\$408 million)). The credit facilities bear interest between Canadian prime plus 0.50% to prime plus 0.75% 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 September 30, 2016, 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:

<i>(C\$ millions, except ratios)</i>	Covenant	Actual as at
		September 30 2016
Minimum tangible net worth	C\$ 370	C\$ 842
Maximum debt to equity	1.75 to 1	0.20 to 1

The one remaining Canadian dollar denominated facility requires 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 September 30, 2016, 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:

<i>(C\$ millions, except ratios)</i>	Covenant	Actual as at September 30 2016
Minimum tangible net worth	C\$ 75	C\$ 225
Maximum debt to equity	1.75 to 1	0.31 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 1.88% and 2.25% per annum or the alternate base rate ("ABR") plus the applicable rate between 0.88% 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 \$1,042 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at September 30, 2016, 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:

<i>(US\$ millions, except ratios)</i>	Covenant	Actual as at September 30 2016
Minimum tangible net worth	\$ 1,042	\$ 1,426
Maximum net debt to capitalization	65%	58%

The Company had borrowings of \$20 million outstanding under the Revolving Credit Facility at September 30, 2016 (December 31, 2015 – no borrowings outstanding).

(c) VTB mortgages

A total of 15 secured VTB mortgages (December 31, 2015 – 16 secured VTB mortgages) in the amount of \$56 million (December 31, 2015 – \$43 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\$73 million (December 31, 2015 – C\$60 million). The interest rate on this debt ranges from prime plus 1.0% to prime plus 2.0% to fixed rates ranging from 2.21% to 6.0% and the debt is secured by related land. As at September 30, 2016, these borrowings are not subject to financial covenants.

Three secured VTB mortgages (December 31, 2015 – three secured VTB mortgages) in the amount of \$3 million (December 31, 2015 – \$3 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 is fixed at a rate of 6.0% and the debt is secured by related land. As at September 30, 2016, these borrowings are not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2015 - two secured VTB mortgages) in the amount of \$27 million (December 31, 2015 - \$27 million) relate to land held for development by Brookfield Homes Holdings LLC, a wholly-owned subsidiary of the Company. The interest rate on this debt is fixed at 2.0% and the debt is secured by the related land. As at September 30, 2016, these borrowings are not subject to any financial covenants.

(d) Project-specific financings

Project-specific financings totalling \$3 million (December 31, 2015 - \$9 million) have a floating interest rate of prime plus 0.75%, mature in 2016 and are secured by the land assets to which the borrowings relate. This debt is repayable in Canadian dollars of C\$4 million (December 31, 2015 - C\$13 million). As at September 30, 2016 these borrowings are not subject to any financial covenants.

Net Debt to Capitalization Calculation

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

Our net debt to total capitalization ratio as at September 30, 2016 and December 31, 2015 is as follows:

	As at	
	September 30 2016	December 31 2015
<i>(US\$ millions)</i>		
Bank indebtedness and other financings	\$ 357	\$ 144
Notes payable	1,619	1,606
Total interest bearing debt	1,976	1,750
Less: cash	(24)	(100)
	1,952	1,650
Total equity	1,426	1,351
Total capitalization	\$ 3,378	\$ 3,001
Net debt to total capitalization	58%	55%

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 September 30, 2016 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 September 30, 2016, we had cash and cash equivalents of \$24 million, compared to \$100 million at December 31, 2015.

The net cash flows for the nine months ended September 30, 2016 and 2015 were as follows:

	Nine Months Ended September 30	
	2016	2015
<i>(US\$ millions)</i>		
Cash flows used in operating activities	\$ (280)	\$ (241)
Cash flows used in investing activities	(3)	(85)
Cash flows provided by financing activities	207	221
Effect of foreign exchange rates on cash	(1)	(17)
	\$ (77)	\$ (122)

Cash Flow Used in Operating Activities

Cash flows used in operating activities during the nine months ended September 30, 2016 totalled \$280 million, compared to \$241 million used in operating activities for the same period in 2015. During the nine months ended September 30, 2016, cash used in operating activities was impacted by an increase in land and housing inventory due to strategic land purchases and development activity, an increase in commercial properties and commercial assets held for sale, a decrease in receivables and other assets, a decrease in accounts payable and other liabilities and our net income. Acquisitions for the nine months ended September 30, 2016 totalled \$193 million consisting of \$34 million in Canada, \$94 million in California and \$65 million in Central and Eastern U.S. During the nine months ended September 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, an increase in accounts payable and other liabilities and our net income. Acquisitions for the nine months ended September 30, 2015 totalled \$262 million consisting of \$57 million in Canada, \$99 million in California and \$106 million in Central and Eastern U.S.

Cash Flow Used in Investing Activities

During the nine months ended September 30, 2016, cash flows used in investing activities totalled \$3 million compared to \$85 million for the same period in 2015. During the nine months ended September 30, 2016, we invested \$32 million in unconsolidated entities, primarily in our California joint ventures, which was partially offset by distributions from unconsolidated entities of \$28 million and a reduction in restricted cash balances of \$1 million. During the nine months ended September 30, 2015, we invested \$90 million in unconsolidated entities which was partially offset by a reduction in restricted cash balances of \$2 million and distributions from unconsolidated entities of \$3 million.

Cash Flow Provided by Financing Activities

Cash provided by our financing activities for the nine months ended September 30, 2016 was \$207 million, compared to \$221 million in the same period in 2015. The cash provided by our financing activities during the nine months ended September 30, 2016 was primarily from \$170 million that was received under a deposit agreement with a subsidiary of our sole shareholder, Brookfield Asset Management Inc. Additionally, there were net borrowings under project-specific and other financings of \$10 million as well as net borrowings under bank indebtedness of \$27 million. The draws to date in 2016 have been used to fund strategic land purchases and development of our land and housing inventory. This was in contrast to the issuance of unsecured senior notes payable of \$559 million, partially offset by net repayments under bank indebtedness of \$58 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 during the nine months ended September 30, 2015.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at September 30, 2016 is as follows:

(US\$ millions)	Payment Due By Period				
	Total	Less than 1 Years	1 – 3 Years	3 – 5 Years	More than 5 Years
Notes payable ⁽¹⁾	\$ 1,640	\$ —	\$ —	\$ 600	\$ 1,040
Interest on notes payable	642	104	192	203	143
Secured VTB mortgages ⁽²⁾⁽³⁾	86	51	30	5	—
Bank indebtedness ⁽²⁾⁽³⁾	98	40	58	—	—
Project-specific financing ⁽²⁾⁽³⁾	3	3	—	—	—
Due to affiliates ⁽²⁾⁽³⁾	170	170	—	—	—
Accounts payable and other liabilities ⁽⁴⁾	477	477	—	—	—
Operating lease obligations ⁽⁵⁾	43	3	15	11	14
Purchase agreements ⁽⁶⁾	56	2	47	7	—

(1) Amounts are included on the condensed consolidated balance sheets and exclude transaction costs. 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. See Note 16 to the condensed consolidated financial statements for additional information regarding lease agreements.

(6) See Note 16 to the condensed consolidated financial statements for additional information regarding purchase agreements.

Shareholders' Equity

At October 27, 2016, 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 October 27, 2016, 8,881,886 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the nine months ended September 30, 2016. During the nine months ended September 30, 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, all awards under the escrowed stock plan were vested and immediately settled. 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.

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 September 30, 2016, we had \$85 million of primarily non-refundable option deposits and advanced costs. The total remaining exercise price of these options was \$131 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 \$34 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 9,537 lots and control under option 1,522 lots through our proportionate share of unconsolidated entities. As of September 30, 2016, our investment in unconsolidated entities totaled \$348 million. We have provided varying levels of guarantees of debt in our unconsolidated entities. As of September 30, 2016, we had recourse guarantees of \$10 million with respect to debt in our unconsolidated entities. During the nine months ended September 30, 2016, 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 September 30, 2016, we had \$63 million in letters of credit outstanding and \$447 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds at September 30, 2016 are \$33 million and \$208 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 at and for the three and nine months ended September 30, 2016 and 2015 were as follows:

- On June 28, 2016, Brookfield Residential Finance Corp., a wholly-owned subsidiary of the Company, entered into a \$170 million deposit agreement with a subsidiary of our sole shareholder, Brookfield Asset Management Inc. The principal is repayable on demand. Interest is charged on the principal at a rate of one month LIBOR plus 0.55%. During the three months ended September 30, 2016, interest of \$0.4 million was incurred and paid relating to this deposit. As at September 30, 2016, these borrowings are not subject to financial covenants.
- During the nine months ended September 30, 2016, the Company paid \$0.3 million (2015 - \$8 million) to Brookfield Asset Management Inc. for Canadian tax credits. The transactions were recorded at the exchange amount.
- On March 13, 2015, Brookfield Asset Management Inc. and Brookfield Residential closed the Privatization Transaction, under 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 nine months ended September 30, 2015, the Company paid a dividend to the common shareholder after the Privatization Transaction of \$177 million.
- During the nine months ended September 30, 2015, the Company purchased the tax attributes of two subsidiaries of Brookfield Asset Management Inc. for cash consideration of \$53 million. These 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 nine months ended September 30, 2016, the remaining balance of this note was repaid (three and nine months ended September 30, 2015 - \$6 million and \$19 million, respectively, 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 was repaid during the year ended December 31, 2014. During the nine months ended September 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 nine months ended September 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)

		(Unaudited)	
		As at	
Note		September 30 2016	December 31 2015
Assets			
	Land and housing inventory	2 \$ 3,091,247	\$ 2,738,504
	Investments in unconsolidated entities	3 347,886	339,182
	Commercial properties	4 32,830	—
	Commercial assets held for sale	5 18,850	—
	Receivables and other assets	6 272,651	301,974
	Restricted cash	7 3,251	4,266
	Cash and cash equivalents	23,590	100,329
	Deferred income tax assets	11 88,478	81,940
	Total assets	\$ 3,878,783	\$ 3,566,195
Liabilities and Equity			
	Notes payable	8 \$ 1,618,662	\$ 1,605,736
	Bank indebtedness and other financings	9 357,583	144,265
	Accounts payable and other liabilities	10 476,868	464,782
	Total liabilities	2,453,113	2,214,783
	Common Shares – 113,900,674 shares outstanding (December 31, 2015 – 113,900,674 shares outstanding)	13 326,594	326,594
	Additional paid-in-capital	399,035	399,035
	Retained earnings	789,304	751,249
	Non-controlling interest	12 43,478	43,719
	Accumulated other comprehensive loss	(132,741)	(169,185)
	Total equity	1,425,670	1,351,412
	Total liabilities and equity	\$ 3,878,783	\$ 3,566,195
	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)

		<i>(Unaudited)</i>			
		Three Months Ended September 30		Nine Months Ended September 30	
Note		2016	2015	2016	2015
Revenue					
	Housing	\$ 383,824	\$ 341,764	\$ 929,492	\$ 799,157
	Land	36,845	51,984	120,537	182,304
	Total revenue	<u>420,669</u>	<u>393,748</u>	<u>1,050,029</u>	<u>981,461</u>
Direct Cost of Sales					
	Housing	(312,810)	(256,856)	(766,166)	(616,698)
	Land	(16,731)	(30,622)	(60,748)	(110,876)
	Total direct cost of sales	<u>(329,541)</u>	<u>(287,478)</u>	<u>(826,914)</u>	<u>(727,574)</u>
	Selling, general and administrative expense	(52,374)	(47,580)	(149,729)	(162,638)
	Interest expense	(13,374)	(16,833)	(41,687)	(49,645)
	Equity in earnings from unconsolidated entities	4,794	3,080	9,958	8,974
	Other income	1,886	1,737	5,026	3,681
	Depreciation	(872)	(958)	(2,565)	(2,980)
	Income Before Income Taxes	<u>31,188</u>	<u>45,716</u>	<u>44,118</u>	<u>51,279</u>
	Current income tax expense	(6,129)	(1,334)	(8,456)	(6,467)
	Deferred income tax (expense) / recovery	(60)	(9,102)	2,152	(4,254)
	Net income	<u>24,999</u>	<u>35,280</u>	<u>37,814</u>	<u>40,558</u>
Other Comprehensive Income / (Loss)					
Unrealized foreign exchange gain / (loss) on:					
	Translation of the net investment in Canadian subsidiaries	(14,618)	(52,916)	46,194	(121,970)
	Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries	3,000	12,275	(9,750)	20,725
	Comprehensive Income / (Loss)	<u>\$ 13,381</u>	<u>\$ (5,361)</u>	<u>\$ 74,258</u>	<u>\$ (60,687)</u>
Net Income / (Loss) Attributable To:					
	Consolidated	\$ 24,999	\$ 35,280	\$ 37,814	\$ 40,558
	Non-controlling interest	(84)	(96)	(241)	(322)
	Brookfield Residential	<u>\$ 25,083</u>	<u>\$ 35,376</u>	<u>\$ 38,055</u>	<u>\$ 40,880</u>
Comprehensive Income / (Loss) Attributable To:					
	Consolidated	\$ 13,381	\$ (5,361)	\$ 74,258	\$ (60,687)
	Non-controlling interest	(84)	(96)	(241)	(322)
	Brookfield Residential	<u>\$ 13,465</u>	<u>\$ (5,265)</u>	<u>\$ 74,499</u>	<u>\$ (60,365)</u>
Common Shareholders Earnings Per Share					
	Basic	\$ 0.22	\$ 0.31	\$ 0.33	\$ 0.36
	Diluted	\$ 0.22	\$ 0.31	\$ 0.33	\$ 0.36
Weighted Average Common Shares Outstanding <i>(in thousands)</i>					
	Basic	113,901	113,901	113,901	114,302
	Diluted	113,901	113,901	113,901	114,302

See accompanying notes to the condensed consolidated financial statements

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

	<i>(Unaudited)</i>	
	Nine Months Ended September 30	
	2016	2015
Common Shares (Note 13)		
Opening balance	\$ 326,594	\$ 329,474
Settlement of escrowed stock plan	—	4,212
Common Shares repurchased for cancellation	—	(7,092)
Ending balance	326,594	326,594
Additional Paid-in-Capital		
Opening balance	399,035	423,893
Share-based compensation costs	—	26,148
Settlement of share-based compensation awards	—	(51,006)
Ending balance	399,035	399,035
Retained Earnings		
Opening balance	751,249	868,336
Net income attributable to Brookfield Residential	38,055	40,880
Common Shares repurchased for cancellation	—	(52,420)
Dividends on Common Shares	—	(176,623)
Other	—	(252)
Ending balance	789,304	679,921
Accumulated Other Comprehensive Loss		
Opening balance	(169,185)	(41,083)
Other comprehensive income / (loss)	36,444	(101,245)
Ending balance	(132,741)	(142,328)
Total Brookfield Residential Equity	\$ 1,382,192	\$ 1,263,222
Non-Controlling Interest (Note 12)		
Opening balance	\$ 43,719	\$ 38,438
Acquisitions	—	1,947
Net loss attributable to non-controlling interest	(241)	(322)
Contributions	—	416
Ending balance	\$ 43,478	\$ 40,479
Total Equity	\$ 1,425,670	\$ 1,303,701

See accompanying notes to the condensed consolidated financial statements

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

	<i>(Unaudited)</i>	
	Nine Months Ended September 30	
	2016	2015
Cash Flows Provided by / (Used in) Operating Activities		
Net income	\$ 37,814	\$ 40,558
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities	(2,451)	(4,623)
Deferred income tax (recovery) expense	(2,152)	4,254
Share-based compensation costs	13,006	37,396
Depreciation	2,565	2,980
Amortization of non-cash interest	2,372	171
Changes in operating assets and liabilities:		
Decrease / (increase) in receivables and other assets	33,071	(19,875)
Increase in land and housing inventory	(356,611)	(307,761)
Increase in commercial properties	(1,464)	—
Increase in commercial assets held for sale	(3,955)	—
(Decrease) / increase in accounts payable and other liabilities	(2,353)	6,324
Net cash used in operating activities	(280,158)	(240,576)
Cash Flows Provided by / (Used in) Investing Activities		
Investments in unconsolidated entities	(31,600)	(89,567)
Distributions from unconsolidated entities	27,750	3,274
Change in restricted cash	1,015	1,828
Net cash used in investing activities	(2,835)	(84,465)
Cash Flows Provided by / (Used in) Financing Activities		
Deposits from affiliates	170,000	—
Drawings under project-specific and other financings	21,192	25,476
Repayments under project-specific and other financings	(10,814)	(24,327)
Drawings on bank indebtedness	26,579	19,894
Repayments on bank indebtedness	—	(78,243)
Drawings under unsecured senior notes payable	—	558,550
Net distributions from non-controlling interest	—	1,389
Settlement of share-based compensation awards	—	(46,072)
Repurchase of Common Shares for cancellation	—	(59,512)
Dividends paid to common shareholders	—	(176,623)
Net cash provided by financing activities	206,957	220,532
Effect of foreign exchange rates on cash and cash equivalents	(703)	(17,164)
Change in cash and cash equivalents	(76,739)	(121,673)
Cash and cash equivalents at beginning of period	100,329	190,479
Cash and cash equivalents at end of period	\$ 23,590	\$ 68,806
Supplemental Cash Flow Information		
Cash interest paid	\$ 61,205	\$ 58,032
Cash taxes paid	\$ 8,440	\$ 96,232

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, 2015. 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

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

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 2016 generally assume recent sales activity and normalized sales rates beyond 2016. 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.

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

(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; the long

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

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 is determined and a true-up for compensation costs is recorded each reporting period for the changes in fair value prorated for the portion of the requisite service period rendered. The Company determines the fair value of the options using the Black-Scholes option pricing model.

The Company records the deferred share units as a liability and they are disclosed in accounts payable and other liabilities.

See Note 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.

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

(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) 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.

(r) 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

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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.

(s) Changes in Accounting Policies

On January 1, 2016, the Company early adopted Accounting Standard Update ("ASU") 2015-03, "Interest - Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"), which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability. The new guidance has been applied retrospectively, as required by ASU 2015-03. See Note 8 "Notes Payable" for further discussion.

On January 1, 2016, the Company early adopted ASU 2015-02, "Consolidation" ("ASU 2015-02"), which requires the consolidation analysis of certain legal entities to take place against amended consolidation criteria. 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 and requires certain limited liability partnerships to be evaluated under the Variable Interest Entity model. The new guidance has been applied prospectively, as required by ASU 2015-02. The amended criteria did not have a material impact on the Company's condensed consolidated financial statements.

(t) Recent Accounting Pronouncements

In May 2014, the FASB issued 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. For all other entities, the amendments in ASU 2014-09 are effective for fiscal years beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 31, 2019. 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 2016, the FASB issued ASU 2016-02, "Leases". ASU 2016-02, codified in ASC 842, amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and makes targeted changes to lessor accounting. The new standard is effective for calendar periods beginning on January 1, 2019, for public business entities and January 1, 2020, for all other entities. Early adoption of ASU 2016-02 is permitted. The new leases standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on the condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 reduces the existing diversity in practice in financial reporting across all industries by clarifying certain existing principles in ASC 230, "Statement of Cash Flows", including providing additional guidance on how and what an entity should consider in determining the classification of certain cash flows. ASU 2016-15 is effective for public entities for annual and interim periods beginning after December 15, 2018. For all other entities, the amendments in ASU 2016-15 are effective for fiscal years beginning after December 15, 2019. The adoption of ASU 2016-15 is not expected to have a material effect on the Company's condensed consolidated financial statements.

Note 2. Land and Housing Inventory

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

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The following summarizes the components of land and housing inventory:

	As at	
	September 30 2016	December 31 2015
Land held for development	\$ 1,365,660	\$ 1,384,961
Land under development	824,695	721,056
Housing inventory	768,877	545,682
Model homes	132,015	86,805
	\$ 3,091,247	\$ 2,738,504

The Company capitalizes interest which is expensed as housing units and building lots are sold. Interest capitalized and expensed in the three and nine months ended September 30, 2016 and 2015 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Interest capitalized, beginning of period	\$ 179,897	\$ 167,304	\$ 173,038	\$ 163,787
Interest capitalized	13,676	12,002	39,085	26,644
Interest expensed to cost of sales	(10,345)	(8,102)	(28,895)	(19,227)
Interest capitalized, end of period	\$ 183,228	\$ 171,204	\$ 183,228	\$ 171,204

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 \$34.1 million (December 31, 2015 – \$35.6 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 \$34.1 million (December 31, 2015 – \$35.6 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 \$85.1 million (December 31, 2015 – \$81.1 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 \$131.2 million (December 31, 2015 – \$131.1 million), including the non-refundable deposits and other entitlement costs identified above. The number of lots in which the Company has obtained an option to purchase, excluding those already consolidated and those held through investment in unconsolidated entities, and their respective dates of expiry and aggregate exercise prices follow:

Years of Expiry	Number of Lots	Total Exercise Price
2016	1,562	\$ 42,966
2017	474	14,394
2018	555	21,385
2019	3,320	38,736
2020	—	—
Thereafter	450	13,727
	6,361	\$ 131,208

The Company holds agreements for a further 2,817 acres (December 31, 2015 – 2,817 acres) of longer-term land, with non-refundable deposits and other entitlement costs of \$6.4 million (December 31, 2015 – \$6.0 million), which is included in land and housing inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise

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price of \$56.9 million (December 31, 2015 – \$56.9 million). However, given that the Company is in the initial stage of land entitlement, the Company has concluded at this time that the level of uncertainty in entitling these properties does not warrant including them in the above totals.

Note 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 September 30, 2016, the Company was involved with 15 unconsolidated entities (December 31, 2015 – 17 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities includes \$32.3 million (December 31, 2015 – \$28.9 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 1,522 lots (December 31, 2015 – 1,522 lots) under option. The Company's share of the total exercise price of these options is \$68.8 million (December 31, 2015 – \$64.9 million). Summarized financial information on a 100% basis for the combined unconsolidated entities follows:

	As at	
	September 30 2016	December 31 2015
Assets		
Land and housing inventory	\$ 672,769	\$ 631,478
Investments in unconsolidated entities	140,502	147,127
Other assets	76,687	65,771
	<u>\$ 889,958</u>	<u>\$ 844,376</u>
Liabilities and Equity		
Bank indebtedness and other financings	\$ 116,641	\$ 118,462
Accounts payable and other liabilities	52,064	46,530
Brookfield Residential's interest	347,886	339,182
Others' interest	373,367	340,202
	<u>\$ 889,958</u>	<u>\$ 844,376</u>

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Revenue and Expenses				
Revenue	\$ 42,433	\$ 30,486	\$ 86,257	\$ 91,995
Direct cost of sales	(38,925)	(24,708)	(74,903)	(74,889)
Other income	13,151	(210)	13,267	(1,575)
Net income	<u>\$ 16,659</u>	<u>\$ 5,568</u>	<u>\$ 24,621</u>	<u>\$ 15,531</u>
Brookfield Residential's share of net income	<u>\$ 4,794</u>	<u>\$ 3,080</u>	<u>\$ 9,958</u>	<u>\$ 8,974</u>

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

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

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt of its unconsolidated entities. At September 30, 2016, the Company had recourse guarantees of \$10.3 million (December 31, 2015 – \$5.4 million) with respect to debt of its unconsolidated entities.

Note 4. Commercial Properties

Commercial properties include any properties that are currently leased out by Brookfield Residential and produce leasing revenue for the Company. Commercial property assets are stated at cost, less accumulated depreciation. The Company's components of commercial properties consist of the following:

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	As At	
	September 30 2016	December 31 2015
Commercial Properties	\$ 32,830	\$ —
Less: accumulated depreciation	—	—
	\$ 32,830	\$ —

Note 5. Commercial Assets Held for Sale

Assets classified as held for sale consist of the following:

	As at	
	September 30 2016	December 31 2015
Assets		
Commercial Properties	\$ 18,850	\$ —
Assets held for sale	\$ 18,850	\$ —

At September 30, 2016, a portion of the Company's commercial properties are presented in commercial assets held for sale as the Company intends to sell developed phases of commercial properties. As required in ASC Topic 360, the assets are recorded at carrying value as the fair value less costs to sell exceeds the carrying amount of the assets to be disposed. These assets are reported in the Canadian operating segment.

Note 6. Receivables and Other Assets

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

	As at	
	September 30 2016	December 31 2015
Receivables	\$ 231,391	\$ 267,909
Other assets	41,260	34,065
	\$ 272,651	\$ 301,974

The components of receivables are summarized as follows:

	As at	
	September 30 2016	December 31 2015
Development recovery receivables (a)	\$ 101,676	\$ 81,353
Real estate receivables (b)	77,868	137,062
Sundry receivables (c)	30,081	25,421
Proceeds and escrow receivables (d)	15,625	19,102
Refundable deposits	6,141	4,971
	\$ 231,391	\$ 267,909

(a) 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 1.0% to a fixed rate of 6.0% (December 31, 2015 – U.S. prime plus 0.5% to a fixed rate of 6.0%).

(b) Real estate receivables include vendor take back ("VTB") mortgage receivables. The VTB collection terms range from six months to two years and bear interest at Canadian prime plus 2.0% to prime plus 3.0% or a fixed interest rate of 0.5% to 6.0%, whichever is greater (December 31, 2015 – Canadian prime plus 2.0% to prime plus 3.0% or a fixed interest rate of 0.5% to 6.0%, whichever is greater).

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(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.

As at September 30, 2016, allowances for doubtful accounts were \$1.5 million (December 31, 2015 - \$1.5 million).

The components of other assets are summarized as follows:

	As at	
	September 30 2016	December 31 2015
Non-refundable earnest funds and investigation fees (a)	\$ 17,889	\$ 14,197
Capital assets (b)	13,077	13,468
Prepaid expenses	7,076	3,720
Other	3,218	2,680
	\$ 41,260	\$ 34,065

(a) 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.

(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 \$16.1 million (December 31, 2015 – \$15.9 million).

Note 7. Restricted Cash

At September 30, 2016, the Company has restricted cash consisting of (i) \$0.6 million (December 31, 2015 – \$0.7 million) relating to cash collateralization of development letters of credit and (ii) \$2.6 million (December 31, 2015 – \$3.5 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	
	September 30 2016	December 31 2015
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)	190,425	180,675
6.375% unsecured senior notes due May 15, 2025 (d)	350,000	350,000
	1,640,425	1,630,675
Transaction costs (e)	(21,763)	(24,939)
	\$ 1,618,662	\$ 1,605,736

(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 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:

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	Notes
	Redemption Price
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.

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 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.

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.

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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 unsecured senior notes include covenants that, among others, place limitations on incurring additional indebtedness and restricted payments. Under the limitation on additional indebtedness, Brookfield Residential is permitted to incur specified categories of indebtedness but is prohibited from incurring further indebtedness if it does not satisfy either an indebtedness to consolidated net tangible worth ratio condition of 2.25 to 1 or a fixed coverage ratio of 2.0 to 1. The Company was in compliance with these financial incurrence covenants as at September 30, 2016.

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

- (e) The transaction costs are costs related to the issuance of the Company's notes payable and are amortized using the effective interest rate method over the life of the related debt instrument.

Note 9. Bank Indebtedness and Other Financings

Bank indebtedness and other financings consist of the following:

	As at	
	September 30 2016	December 31 2015
Due to affiliates (a)	\$ 170,000	\$ —
Bank indebtedness (b)	98,320	61,710
Secured VTB mortgages (c)	86,014	73,148
Project-specific financings (d)	3,249	9,407
	\$ 357,583	\$ 144,265

(a) Due to affiliates

On June 28, 2016, Brookfield Residential Finance Corp., a wholly-owned subsidiary of the Company, entered into a \$170.0 million deposit agreement with a subsidiary of the Company's sole shareholder, Brookfield Asset Management Inc. The principal is repayable on demand. Interest is charged on the principal at a rate of one month LIBOR plus 0.55%. As at September 30, 2016, these borrowings are not subject to financial covenants.

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(b) Bank indebtedness

- (i) The Company has four secured credit facilities (December 31, 2015 – four secured credit facilities) with various Canadian banks with outstanding amounts totalling \$78.3 million at September 30, 2016 (December 31, 2015 – \$61.7 million). The secured facilities are repayable in Canadian dollars in the amount of C\$102.8 million at September 30, 2016 (December 31, 2015 – C\$85.4 million). These facilities allow the Company to borrow up to approximately C\$565.0 million (US\$430.4 million) as at September 30, 2016 (December 31, 2015 – C\$565.0 million (US\$408.3 million)). The credit facilities bear interest between Canadian prime plus 0.50% to prime plus 0.75% 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 September 30, 2016, 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 1.88% and 2.25% per annum or the alternate base rate (“ABR”) plus the applicable rate between 0.88% 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 \$1,042.0 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at September 30, 2016, the Company and Brookfield Residential US Corporation were in compliance with these financial covenants.

The Company had borrowings of \$20.0 million outstanding under the Revolving Credit Facility at September 30, 2016 (December 31, 2015 – no borrowings outstanding).

(c) Secured VTB mortgages

The Company has 20 secured VTB mortgages (December 31, 2015 – 21 secured VTB mortgages) in the amount of \$86.0 million (December 31, 2015 – \$73.1 million). Secured VTB mortgages are repayable as follows: 2016 – \$51.0 million; 2017 – \$26.2 million; 2018 – \$3.8 million, 2019 – \$0.8 million and thereafter – \$4.2 million.

A total of 15 secured VTB mortgages (December 31, 2015 – 16 secured VTB mortgages) in the amount of \$55.9 million (December 31, 2015 – \$43.3 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\$73.4 million (December 31, 2015 – C\$60.0 million). The interest rate on this debt ranges from prime plus 1.0% to prime plus 2.0% to fixed rates ranging from 2.21% to 6.0% and the debt is secured by the related land. As at September 30, 2016, these borrowings are not subject to financial covenants.

Three secured VTB mortgages (December 31, 2015 – three secured VTB mortgages) in the amount of \$3.3 million (December 31, 2015 – \$3.0 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 is fixed at a rate of 6.0% and the debt is secured by related land. As at September 30, 2016, this borrowing is not subject to any financial covenants.

Two secured VTB mortgages (December 31, 2015 - two secured VTB mortgages) in the amount of \$26.8 million (December 31, 2015 - \$26.8 million) relate to land held for development by Brookfield Homes Holdings LLC, a wholly-owned subsidiary of the Company. The interest rate on this debt is fixed at 2.0% and the debt is secured by the related land. As at September 30, 2016, these borrowings are not subject to any financial covenants.

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(d) Project-specific financings

Project-specific financings totalling \$3.2 million (December 31, 2015 - \$9.4 million) have a floating interest rate of prime plus 0.75%, mature in 2016 and are secured by the land assets to which the borrowings relate. This debt is repayable in Canadian dollars of C\$4.3 million (December 31, 2015 - C\$13.0 million). As at September 30, 2016, these borrowings are not subject to any financial covenants.

Note 10. Accounts Payable and Other Liabilities

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

	As at	
	September 30 2016	December 31 2015
Accounts payable	\$ 361,305	\$ 359,113
Other liabilities	115,563	105,669
	\$ 476,868	\$ 464,782

The components of accounts payable are summarized as follows:

	As at	
	September 30 2016	December 31 2015
Trade payables and other accruals	\$ 149,302	\$ 135,001
Development costs payable (a)	81,836	94,811
Customer deposits	53,183	42,553
Interest on notes payable	31,952	21,002
Accrued and deferred compensation	25,733	39,512
Real estate payables	17,247	26,450
Current income taxes payable	2,052	(216)
	\$ 361,305	\$ 359,113

- (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	
	September 30 2016	December 31 2015
Share-based compensation (Note 14)	\$ 51,047	\$ 39,535
Consolidated land option contracts (a)	34,093	35,586
Warranty costs (Note 16 (a))	22,047	20,074
Other	8,051	7,140
Swap contracts (Note 18)	325	1,334
Due to related party (b)	—	2,000
	\$ 115,563	\$ 105,669

- (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".

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Note 11. Income Taxes

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the nine months ended September 30, 2016 and 2015 is as follows:

	Nine Months Ended September 30	
	2016	2015
Statutory rate	27.0%	26.0%
Non-temporary differences	4.2	6.1
Rate difference from statutory rate	(16.0)	(14.3)
Withholding tax	—	9.4
Other	(1.0)	(6.4)
Effective tax rate	<u>14.2%</u>	<u>20.8%</u>

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 14.2% for the nine months ended September 30, 2016 (2015 – 20.8%). The change in the effective tax rate, compared with the same period during 2015, primarily relates to a decrease in withholding taxes paid of \$5 million in the period ended September 30, 2015 on distributions made from U.S. operations and an increase in tax benefit arising from the U.S. domestic production activities deduction taken by the Company in the period ended September 30, 2016. The provision for income taxes for the three and nine months ended September 30, 2016 and 2015 is set forth below:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Current				
Canada	\$ 121	\$ 268	\$ (224)	\$ (4,699)
U.S.	(6,250)	(1,602)	(8,386)	(1,768)
International	—	—	154	—
Current income tax (expense) / recovery	<u>(6,129)</u>	<u>(1,334)</u>	<u>(8,456)</u>	<u>(6,467)</u>
Deferred				
Canada	(747)	(3,599)	5,752	3,617
U.S.	687	(5,503)	(3,600)	(7,871)
International	—	—	—	—
Total deferred tax (expense) / recovery	<u>(60)</u>	<u>(9,102)</u>	<u>2,152</u>	<u>(4,254)</u>
Total income tax (expense) / recovery	<u>\$ (6,189)</u>	<u>\$ (10,436)</u>	<u>\$ (6,304)</u>	<u>\$ (10,721)</u>

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

	As at	
	September 30 2016	December 31 2015
Net deferred tax assets / (liabilities)		
Differences relating to land and housing inventory	\$ (7,106)	\$ (9,105)
Compensation deductible for tax purposes when paid	10,079	11,095
Differences related to derivative instruments	127	520
Operating loss carry-forwards	82,188	73,678
Impact of foreign exchange	24,277	29,596
Other	3,190	5,752
Net deferred tax assets before valuation allowance	112,755	111,536
Cumulative valuation allowance	(24,277)	(29,596)
Net deferred tax assets	\$ 88,478	\$ 81,940

The Company has Canadian federal non-capital loss carryforwards of approximately \$298.6 million (C\$392.1 million) as at September 30, 2016 (December 31, 2015 – \$267.9 million (C\$362.7 million)). Federal non-capital loss carryforwards attributable to Canada may be carried forward up to 20 years to offset future taxable income and expire between 2032 and 2036. At September 30, 2016, the Company has no remaining U.S. federal net operating loss carryforwards. The Company has U.S. state loss carryforwards of approximately \$46.9 million (December 31, 2015 – \$48.4 million) that may be carried forward up to 20 years, depending on the tax jurisdiction, which expire between 2028 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 assets by tax jurisdiction to determine if a valuation allowance is required. In making such determinations, the Company considers all available positive and negative evidence, including future reversals of existing temporary differences, projected future taxable income, tax planning strategies and recent financial operations. This evaluation considers, among other factors, the nature, frequency and severity of cumulative losses, actual earnings, forecasts of future operating results, the duration of statutory carryforward periods, the Company's experience with loss carryforwards not expiring and the outlook of the housing industry and the broader economy.

In evaluating the need for a valuation allowance against the Company's deferred tax assets at September 30, 2016, the Company considered all available and objectively verifiable positive and negative evidence. The component of the valuation allowance remaining of \$24.3 million relates to the unrealized foreign exchange capital losses in Canada that have not met the more-likely-than not realization threshold. Consistent with the above process, the Company concludes it is more-likely-than-not that all of its U.S. and Canadian deferred tax assets, other than the Canadian deferred tax asset related to unrealized foreign exchange capital losses, would be realized in the future.

Note 12. Non-Controlling Interest

Non-controlling interest includes third-party investments in consolidated entities of \$43.5 million at September 30, 2016 (December 31, 2015 – \$43.7 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 nine months ended September 30, 2016 was a loss of \$0.1 million and \$0.2 million, respectively (2015 – loss of \$0.1 million and \$0.3 million, respectively).

Note 13. Equity

Common Shares

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

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Common Shares issued changed as follows during the nine months ended September 30, 2016 and year ended December 31, 2015:

	For the Period Ended	
	September 30 2016	December 31 2015
Common Shares issued, beginning of period	113,900,674	117,421,243
Common Shares repurchased	—	(2,454,095)
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	<u>113,900,674</u>	<u>113,900,674</u>

The Company had no Non-Voting Class B Common Shares issued and outstanding as at September 30, 2016 and December 31, 2015.

During the nine months ended September 30, 2015, 2,454,095 Common Shares 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.

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 value of one Common Share at the grant date.

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

During the three and nine months ended September 30, 2016, there were no options granted to eligible employees by Brookfield Residential (2015 - nil and 6,490,340 options, respectively). The significant weighted average assumptions relating to the valuation of the Company's options outstanding during the nine months ended September 30, 2016 and 2015 are as follows:

	September 30 2016	September 30 2015
Dividend yield	—	—
Volatility rate	35.15%	32.88%
Risk-free interest rate	1.96%	1.93%
Expected option life (years)	7.5	7.5

The liability of \$19.8 million (December 31, 2015 - \$8.5 million) relating to stock options is included in accounts payable and other liabilities. The total compensation cost recognized in selling, general and administrative expense relating to normal course vesting of the Company's options during the three and nine months ended September 30, 2016 was \$3.8 million and \$11.3 million, respectively (2015 - \$3.5 million and \$6.2 million, respectively).

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The following tables set out the number of Non-Voting Class B Common Shares that employees of the Company may acquire under options granted under the Company's Management Share Option Plan for the nine months ended September 30, 2016 and 2015:

	September 30, 2016		September 30, 2015	
	Shares	Weighted Average Per Share Exercise Price	Shares	Weighted Average Per Share Exercise Price
Outstanding, beginning of period	8,881,886	\$ 22.55	6,505,639	\$ 13.80
Granted	—	—	4,990,340	22.96
Settled	—	—	(6,505,639)	13.80
Outstanding, end of period	8,881,886	\$ 22.55	4,990,340	\$ 22.96
Options exercisable, end of period	1,238,377	\$ 22.96	—	\$ —

A summary of the status of the Company's unvested options for the nine months ended September 30, 2016 and 2015 is as follows:

	September 30, 2016		September 30, 2015	
	Shares	Weighted Average Fair Value Per Option	Shares	Weighted Average Fair Value Per Option
Unvested options outstanding, beginning of period	8,881,886	\$ 8.48	3,801,078	\$ 6.99
Granted	—	—	4,990,340	9.07
Vested	(1,238,377)	8.17	—	—
Settled	—	—	(3,801,078)	6.99
Unvested options outstanding, end of period	7,643,509	\$ 8.53	4,990,340	\$ 9.07

At September 30, 2016, there was \$55.5 million (2015 - \$49.7 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 3.7 years (2015 - 4.5 years).

During the nine months ended September 30, 2015, as part of the Privatization Transaction, all of the options that were outstanding at March 13, 2015 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 relating to the accelerated vesting and settlement of options as a result of the Privatization Transaction during the nine months ended September 30, 2015 was an expense of \$24.0 million and was recognized in selling, general and administrative expense.

(b) Escrow Stock Plan

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.

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As a result of the Privatization Transaction in 2015, all awards under the escrowed stock plan were vested and immediately settled. 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 at September 30, 2016 and December 31, 2015:

	For the Period Ended	
	September 30 2016	December 31 2015
Outstanding, beginning of period	1,513,737	1,636,447
Granted and reinvested	—	81,960
Redeemed	(65,099)	(204,670)
Outstanding, end of period	1,448,638	1,513,737
Deferred share units vested	1,445,658	1,215,821

Of the 1,448,638 (December 31, 2015 – 1,513,737) units outstanding under the DSUP, 2,980 (December 31, 2015 – 297,916) units vest over the next three years.

The liability of \$31.3 million (December 31, 2015 – \$31.0 million) relating to the DSUP is included in accounts payable and other liabilities. The financial statement impact relating to the DSUP for the three and nine months ended September 30, 2016 was an expense of \$0.4 million and \$1.7 million, respectively (2015 – expense of \$1.6 million and \$5.1 million, respectively) which has been included in selling, general and administrative expense.

(d) Restricted Stock Plan and Restricted Share Unit Plan

Prior to the Privatization Transaction, 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 nine months ended September 30, 2015 was an expense of \$nil and \$0.1 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 nine months ended September 30, 2015.

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Note 15. Earnings Per Share

Basic and diluted earnings per share for the three and nine months ended September 30, 2016 and 2015 were calculated as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Numerator:				
Net income attributable to Brookfield Residential	\$ 25,083	\$ 35,376	\$ 38,055	\$ 40,880
Denominator (in '000s of shares):				
Basic weighted average shares outstanding	113,901	113,901	113,901	114,302
Net effect of share options assumed to be exercised	—	—	—	—
Diluted weighted average shares outstanding	113,901	113,901	113,901	114,302
Basic earnings per share	\$ 0.22	\$ 0.31	\$ 0.33	\$ 0.36
Diluted earnings per share	\$ 0.22	\$ 0.31	\$ 0.33	\$ 0.36

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.

The following table reflects the changes in the Company's estimated warranty liability for the nine months ended September 30, 2016 and 2015:

	Nine Months Ended September 30	
	2016	2015
Balance, beginning of period	\$ 20,074	\$ 16,738
Payments and other adjustments made during the period	(4,936)	(3,341)
Warranties issued during the period	7,038	6,835
Adjustments made for pre-existing warranties	(129)	(2,273)
Balance, end of period	\$ 22,047	\$ 17,959

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

Years of Expiry

2016	\$ 2,551
2017	8,048
2018	7,399
2019	5,812
2020	4,850
Thereafter	13,922
	\$ 42,582

(c) As at September 30, 2016, \$5.6 million (December 31, 2015 - \$5.6 million) of the amount held in other assets related to land purchase obligations. The total amount owing on these obligations is \$55.5 million (December 31, 2015 - \$89.9 million).

Note 17. Guarantees

(a) The Company has provided financial guarantees for municipal bonds which, as at September 30, 2016, amounted to \$8.8 million (December 31, 2015 – \$8.8 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 September 30, 2016, these guarantees amounted to \$509.8 million (December 31, 2015 – \$434.9 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 historically 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.

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

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be impaired during the nine months ended September 30, 2016, 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 2016 generally assume recent sales activity and normalized sales rates beyond 2016. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired and is then written down to fair value less estimated selling costs.

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

The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. For the three and nine months ended September 30, 2016 and 2015, no impairment charges were recognized.

	Number of Projects
The locations of the projects reviewed are as follows:	
Canada	46
California	51
Central and Eastern U.S.	33
	130
Unconsolidated entities	18
Total	148

Hedging Activities

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

Net Investment Hedges

The Company uses foreign currency denominated debt instruments to manage its foreign currency exposures arising from net investments in foreign operations. For the three and nine months ended September 30, 2016, an unrealized pre-tax gain of \$3.0 million and loss of \$9.8 million, respectively, (2015 – gains of \$12.3 million and \$20.7 million, respectively), were recorded in other comprehensive income for the effective portion of hedges of net investments in foreign operations.

Fair Value Hierarchy

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

As at September 30, 2016, 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 \$0.3 million (December 31, 2015 – \$1.3 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.

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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":

	September 30, 2016			December 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Restricted cash	\$ 3,251	\$ —	\$ —	\$ 4,266	\$ —	\$ —
Cash and cash equivalents	23,590	—	—	100,329	—	—
	<u>\$ 26,841</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 104,595</u>	<u>\$ —</u>	<u>\$ —</u>
Financial liabilities						
Accounts payable and other liabilities (a)	\$ —	\$ 325	\$ —	\$ —	\$ 1,334	\$ —
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,334</u>	<u>\$ —</u>

- (a) 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.

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 September 30, 2016, the Company had one interest rate swap contract outstanding totalling \$30.0 million at a rate of 5.1% per annum which expires in 2016. At September 30, 2016, the fair market value of the contract was a liability of 0.3 million (December 31, 2015 – liability of \$1.3 million) and was included in accounts payable and other liabilities. Expense of \$0.4 million and \$1.0 million was recognized during the three and nine months ended September 30, 2016, respectively (2015 - expense of \$0.1 and \$0.3 million). Based on net debt levels as at September 30, 2016, a 1% change in interest rates would have either a negative or positive effect of approximately \$2.5 million on the Company's cash flows. All interest rate swaps are recorded at fair market value and fluctuations in fair market value are presented in the condensed consolidated statement 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 September 30, 2016, the fair value of all outstanding debt exceeded its fair value by \$28.4 million (December 31, 2015 – book value of debt exceeded fair value by \$96.7 million). The land to which these borrowings relate generally secures these principal amounts.

Currency Exchange Rate Risk

The Company conducts business in both Canadian and U.S. dollars and, therefore, is exposed to currency risks. Cash flows from Canadian and U.S. operations are exposed to foreign exchange risk as sales and operating expenses are

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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 September 30, 2016 (December 31, 2015 – \$2.5 million). 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. During the nine months ended September 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 nine months months ended September 30, 2015, and was included in selling, general and administrative expense. The total return swaps were recorded at fair market value through the condensed consolidated statements of operations because hedge accounting was not applied.

(b) Credit Risk

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

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

(c) Liquidity Risk

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

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

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

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A summary of the Company's contractual obligations and purchase agreements as at September 30, 2016 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⁾	\$ 1,640,425	\$ —	\$ —	\$ 600,000	\$ 1,040,425
Interest on notes payable	641,708	103,601	191,890	203,015	143,202
Secured VTB mortgages ⁽²⁾⁽³⁾	86,014	51,031	30,061	4,922	—
Bank indebtedness ⁽²⁾⁽³⁾	98,320	39,676	58,644	—	—
Project-specific financings ⁽²⁾⁽³⁾	3,249	3,249	—	—	—
Due to affiliates ⁽²⁾⁽³⁾	170,000	170,000	—	—	—
Accounts payable and other liabilities ⁽⁴⁾ ..	476,868	476,868	—	—	—
Operating lease obligations ⁽⁵⁾	42,582	2,551	15,447	10,662	13,922
Purchase agreements ⁽⁶⁾	55,509	1,184	46,882	7,443	—

(1) Amounts are included on the condensed consolidated balance sheets and exclude transaction costs. 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. See Note 16 for additional information regarding lease agreements.

(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 operating segments: Canada, California and Central and Eastern U.S.

The Company is a land developer and residential homebuilder. The Company is organized and manages its business based on the geographical areas in which it operates. Each of the Company's operating segments specializes in lot entitlement and development 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.

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

Three Months Ended September 30, 2016					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	\$ 149,313	\$ 173,641	\$ 97,715	\$ —	\$ 420,669
Direct cost of sales	(112,301)	(140,341)	(76,899)	—	(329,541)
	37,012	33,300	20,816	—	91,128
Equity in earnings	(127)	4,326	595	—	4,794
Expenses	(15,870)	(13,956)	(12,535)	(22,373)	(64,734)
Income / (loss) before income taxes	\$ 21,015	\$ 23,670	\$ 8,876	\$ (22,373)	\$ 31,188

Three Months Ended September 30, 2015					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	\$ 143,475	\$ 172,501	\$ 77,772	\$ —	\$ 393,748
Direct cost of sales	(93,240)	(127,110)	(67,128)	—	(287,478)
	50,235	45,391	10,644	—	106,270
Equity in earnings	(117)	2,644	553	—	3,080
Expenses	(15,147)	(9,459)	(13,575)	(25,453)	(63,634)
Income / (loss) before income taxes	\$ 34,971	\$ 38,576	\$ (2,378)	\$ (25,453)	\$ 45,716

Nine Months Ended September 30, 2016					
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	\$ 372,333	\$ 423,753	\$ 253,943	\$ —	\$ 1,050,029
Direct cost of sales	(283,521)	(333,329)	(210,064)	—	(826,914)
	88,812	90,424	43,879	—	223,115
Equity in earnings	(373)	7,354	2,977	—	9,958
Expenses	(45,825)	(38,573)	(39,287)	(65,270)	(188,955)
Income / (loss) before income taxes	\$ 42,614	\$ 59,205	\$ 7,569	\$ (65,270)	\$ 44,118

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Nine Months Ended September 30, 2015

	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	\$ 350,973	\$ 426,596	\$ 203,892	\$ —	\$ 981,461
Direct cost of sales	(232,658)	(320,619)	(174,297)	—	(727,574)
	118,315	105,977	29,595	—	253,887
Equity in earnings	(354)	8,022	1,306	—	8,974
Expenses	(44,389)	(26,331)	(38,690)	(102,172)	(211,582)
Income / (loss) before income taxes	\$ 73,572	\$ 87,668	\$ (7,789)	\$ (102,172)	\$ 51,279

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

As at September 30, 2016

	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	\$ 506,692	\$ 421,037	\$ 437,931	\$ —	\$ 1,365,660
Land under development	235,553	262,017	327,125	—	824,695
Housing inventory	239,925	364,811	164,141	—	768,877
Model homes	17,879	91,930	22,206	—	132,015
Total land and housing inventory.	1,000,049	1,139,795	951,403	—	3,091,247
Commercial properties	28,948	—	3,882	—	32,830
Commercial assets held for sale .	18,850	—	—	—	18,850
Investments in unconsolidated entities	47,586	228,194	72,106	—	347,886
Other assets ⁽¹⁾	95,034	54,747	104,080	134,109	387,970
Total assets	\$ 1,190,467	\$ 1,422,736	\$ 1,131,471	\$ 134,109	\$ 3,878,783

As at December 31, 2015

	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	\$ 537,850	\$ 418,386	\$ 428,725	\$ —	\$ 1,384,961
Land under development	227,006	277,527	216,523	—	721,056
Housing inventory	130,637	243,414	171,631	—	545,682
Model homes	17,580	50,004	19,221	—	86,805
Total land and housing inventory.	913,073	989,331	836,100	—	2,738,504
Investments in unconsolidated entities	44,484	220,229	74,469	—	339,182
Other assets ⁽¹⁾	110,128	66,450	105,473	206,458	488,509
Total assets	\$ 1,067,685	\$ 1,276,010	\$ 1,016,042	\$ 206,458	\$ 3,566,195

(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 the Company's affiliates to which it is a party or subject to, including a name license and an unsecured revolving credit facility. The Company's significant related party transactions as at and for the three and nine months ended September 30, 2016 and 2015 were as follows:

- On June 28, 2016, Brookfield Residential Finance Corp., a wholly-owned subsidiary of the Company, entered into a \$170.0 million deposit agreement with a subsidiary of our sole shareholder, Brookfield Asset Management Inc. The principal is repayable on demand. Interest is charged on the principal at a rate of one month LIBOR plus 0.55%. During the three months ended September 30, 2016, interest of \$0.4 million was incurred and paid relating to this deposit. As at September 30, 2016, these borrowings are not subject to financial covenants.
- During the nine months ended September 30, 2016, the Company paid \$0.3 million (2015 - \$8.4 million) to Brookfield Asset Management Inc. for Canadian tax credits. The transactions were recorded at the exchange amount.
- On March 13, 2015, Brookfield Asset Management Inc. and Brookfield Residential closed the Privatization Transaction, under 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 nine months ended September 30, 2015, the Company paid a dividend to the common shareholder after the Privatization Transaction of \$176.6 million.
- During the nine months ended September 30, 2015, the Company purchased the tax attributes of two subsidiaries of Brookfield Asset Management Inc. for cash consideration of \$53 million. These 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 nine months ended September 30, 2016, the remaining balance of this note was repaid (three and nine months ended September 30, 2015 - \$5.9 million and \$18.4 million, respectively, 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 was repaid during the year ended December 31, 2014. During the nine months ended September 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 nine months ended September 30, 2015, the receivable was collected. The costs were recorded at the exchange amount.

Note 22. Subsequent Events

The Company performed an evaluation of subsequent events through October 27, 2016, which is the date these condensed consolidated financial statements were approved, and has determined that there are no subsequent events that require disclosure in these condensed consolidated financial statements.

CORPORATE INFORMATION

CORPORATE PROFILE

Brookfield Residential Properties Inc. is a leading land developer and homebuilder in North America. We entitle and develop land to create master-planned communities, build and sell lots to third-party builders, and operate our own home building division. We also participate in select, strategic real estate opportunities, including infill projects, mixed-use developments, and joint ventures. We are the flagship North American residential property company of Brookfield Asset Management, a leading global alternative asset manager with approximately \$250 billion of assets under management.

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BONDHOLDER INQUIRIES

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