

2017 | Q2

June 30, 2017

President & Chief Executive Officer's Report

Building on a good spring selling season, Brookfield Residential's results for the first six months of 2017 continue to be strong with positive financial performance supported by good underlying fundamentals. We continue to be positively impacted in the U.S. and Ontario by a strong housing market backed by limited supply and an Alberta market that has seen improved consumer confidence from the recent stabilization of energy prices.

For the six months ended June 30, 2017, Brookfield Residential recorded income before income taxes of \$39 million compared to \$13 million for the same period in 2016. Our investment in our homebuilding operations continues to reward us as we closed 1,314 homes compared to 1,191 homes in 2016. Backlog grew 15% to 2,158 units at June 30, 2017 compared to 1,872 units during the same period in 2016, which was driven by a 12% increase in net new orders. Backlog value increased by 25% when compared to the same period in 2016. Our land operations had higher activity with 806 lot closings, a 10% increase when compared to 2016.

Positive Spring Selling Season

Our U.S. operations continued to be supported by a stronger economic environment and in the return of the first-time homebuyer. This, combined with the limited availability of resale home market supply, has new home demand in many of our markets higher year-over-year. As a result of a positive spring selling season in many of our U.S. markets, our net new home orders increased 18% this year when compared to 2016. This builds a solid foundation for home deliveries in the second half of the year. However, the rainy weather in California in the first quarter and the overall tight labor availability in many of our U.S. markets, particularly in our Northern California, Denver and Austin markets, could slow our planned home deliveries in 2017.

In Canada, we continue to operate in two different market environments in Alberta and Ontario. Our Alberta operations are performing reasonably well where recent stabilization of oil prices, combined with the opening of new communities, have resulted in an increase of 44% in net new home orders and a 68% increase in lot closings when compared to 2016. In Ontario, the provincial government's recent introduction of a number of measures to address housing affordability in the Greater Toronto Area has impacted the market with sales prices flattening somewhat and listings increasing. However, our Ontario operations have experienced minimal impact as we were sold out in many of our housing communities and all sales were in place for 2017 closings prior to the announcement.

Our View Going Forward

Based on the encouraging spring selling season, we remain optimistic about the balance of 2017 and anticipate that our income before taxes for 2017 will exceed 2016. Based on current forecasts, we remain on track to achieve the targets previously provided in our limited guidance of closing approximately 1,450 homes and 650 lots in Canada and 1,875 homes and 1,900 lots in the U.S. As in previous years, the nature and operating cycle of our business continues to lend itself to generating the highest proportion of the year's net income in the fourth quarter.

Alan Norris
President & Chief Executive Officer
July 26, 2017

BROOKFIELD RESIDENTIAL PROPERTIES PORTFOLIO

Our business is focused on land development and single family and multi-family homebuilding in the markets in which we operate. Our assets consist primarily of land and housing inventory and investments in unconsolidated entities. Our total assets as at June 30, 2017 were \$4.1 billion.

As of June 30, 2017, we controlled 95,655 single family lots (serviced lots and future lot equivalents) and 107 multi-family, industrial and commercial serviced parcel acres. Controlled lots and acres include those we directly own and our share of those owned by unconsolidated entities. Our controlled lots and acres provide a strong foundation for our future lot and acre sales and homebuilding business, as well as visibility on our future cash flow. The number of building lots and acre parcels we control in each of our primary markets as of June 30, 2017 is as follows:

	Single Family Housing & Land Under and Held for Development ⁽¹⁾								Multi-Family, Industrial & Commercial Parcels Under Development	
	Unconsolidated				Status of Lots					
	Housing & Land		Entities		Total Lots		6/30/2017		Total Acres	
	Owned	Options	Owned	Options	6/30/2017	12/31/2016	Entitled	Unentitled	6/30/2017	12/31/2016
Calgary	21,123	—	2,508	—	23,631	25,486	6,703	16,928	60	62
Edmonton	13,033	—	—	—	13,033	13,565	7,823	5,210	19	25
Ontario	8,816	—	1,100	—	9,916	10,106	2,438	7,478	—	—
Canada	42,972	—	3,608	—	46,580	49,157	16,964	29,616	79	87
Northern California	3,067	4,950	440	—	8,457	8,575	3,507	4,950	—	—
Southern California	7,641	—	1,229	1,328	10,198	10,174	8,078	2,120	—	—
Hawaii	187	—	23	—	210	192	210	—	—	—
California	10,895	4,950	1,692	1,328	18,865	18,941	11,795	7,070	—	—
Denver	8,469	—	—	—	8,469	8,674	8,469	—	10	10
Austin	12,415	168	—	—	12,583	12,729	12,583	—	—	—
Phoenix	439	—	3,987	—	4,426	4,725	4,426	—	1	2
Washington, D.C. Area	3,728	1,004	—	—	4,732	3,930	4,695	37	17	23
Central and Eastern U.S.	25,051	1,172	3,987	—	30,210	30,058	30,173	37	28	35
Total	78,918	6,122	9,287	1,328	95,655	98,156	58,932	36,723	107	122
Entitled lots	51,608	1,172	6,152	—	58,932					
Unentitled lots	27,310	4,950	3,135	1,328	36,723					
Total June 30, 2017	78,918	6,122	9,287	1,328	95,655					
Total December 31, 2016	80,152	6,289	10,387	1,328		98,156				

⁽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 economic trends and stabilization in the U.S. on consumer confidence and the resulting impact on the housing market; improved consumer confidence in Alberta from recent stabilization of energy prices and the impact thereof on our operations in the province; the impact of higher than normal precipitation in California on the delivery of our homes in 2017; the impact of recent legislation enacted in Ontario to address affordability of housing in the Greater Toronto Area; the impact of tight labor availability in many of our U.S. markets, and in particular in our Northern California, Denver, and Austin markets, on the delivery of our homes in 2017; 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; our expected unit and lot sales and the timing thereof; expectations for 2017 and beyond; reduction in our debt levels and the timing thereof; and home price growth rates and affordability levels;
- possible or assumed future results, including our outlook and limited guidance for 2017, how we intend to use additional cash flow, the operative cycle of our business and expected timing of income and expected performance and features of our projects, the continued expansion of our U.S. homebuilding operations, the impact of acquisitions on our operations in certain markets;
- the expected closing of transactions;
- the effect on our business of business acquisitions;
- business goals, strategy and growth plans;
- trends in home prices in our various markets and generally;
- the effect of challenging conditions on us;
- factors affecting our competitive position within the homebuilding industry;
- the ability to generate sufficient cash flow from our assets to repay maturing bank indebtedness and project specific financings and take advantage of new opportunities;
- the visibility of our future cash flow;
- social and environmental conditions, 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, 2016.

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 period ended June 30, 2017 and has been prepared with an effective date of July 26, 2017. 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 of America ("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.

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, and conduct our own homebuilding operations. 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 Inc., a leading global alternative asset manager with approximately \$250 billion of assets under management.

We currently focus on the following three 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 six months ended June 30, 2017 compared to the three and six months ended June 30, 2016 were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions, except percentages, unit activity, average selling price and per share amounts)</i>				
Key Financial Results				
Housing revenue	\$ 383	\$ 307	\$ 690	\$ 545
Land revenue	60	56	92	84
Gross margin ⁽¹⁾ (\$)	89	79	163	132
Gross margin ⁽¹⁾ (%)	20%	22%	21%	21%
Income before income taxes	25	16	39	13
Income tax expense	(3)	(3)	(2)	—
Net income attributable to Brookfield Residential	22	13	37	13
Basic earnings per share	\$ 0.17	\$ 0.11	\$ 0.29	\$ 0.11
Diluted earnings per share	\$ 0.17	\$ 0.11	\$ 0.29	\$ 0.11
Key Operating Data				
Home closings for Brookfield Residential (units)	733	675	1,314	1,191
Home closings for unconsolidated entities (units)	2	2	3	2
Average home selling price for Brookfield Residential (per unit)	\$ 523,000	\$ 455,000	\$ 525,000	\$ 458,000
Average home selling price for unconsolidated entities (per unit)	\$ 1,484,000	\$ 1,227,000	\$ 1,321,000	\$ 1,227,000
Net new home orders for Brookfield Residential (units)	998	922	1,931	1,723
Net new home orders for unconsolidated entities (units)	3	2	4	3
Backlog for Brookfield Residential (units)	2,158	1,872	2,158	1,872
Backlog for unconsolidated entities (units)	2	2	2	2
Backlog value for Brookfield Residential	\$ 1,166	\$ 930	\$ 1,166	\$ 930
Backlog value for unconsolidated entities	\$ 2	\$ 3	\$ 2	\$ 3
Lot closings for Brookfield Residential (single family units)	597	454	806	731
Lot closings for unconsolidated entities (single family units)	84	98	183	208
Acre closings for Brookfield Residential (multi-family, industrial and commercial)	8	—	9	4
Acre closings for unconsolidated entities (multi-family, industrial and commercial)	—	—	1	—
Acre closings for Brookfield Residential (raw and partially finished parcels)	230	8	254	88
Average lot selling price for Brookfield Residential (single family units)	\$ 94,000	\$ 107,000	\$ 102,000	\$ 97,000
Average lot selling price for unconsolidated entities (single family units)	\$ 139,000	\$ 85,000	\$ 114,000	\$ 75,000
Average per acre selling price for Brookfield Residential (multi-family, industrial and commercial)	\$ 371,000	\$ —	\$ 383,000	\$ 966,000
Average per acre selling price for unconsolidated entities (multi-family, industrial and commercial)	\$ —	\$ —	\$ 258,000	\$ —
Average per acre selling price for Brookfield Residential (raw and partially finished parcels)	\$ 3,000	\$ 967,000	\$ 22,000	\$ 86,000

(1) Gross margin percentage 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 percentage as presented may not be fully comparable to similarly-titled measures reported by our competitors. See the Non-GAAP 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 six months ended June 30, 2017 and 2016.

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions, except unit activity and average selling price)</i>				
Housing revenue				
Canada	\$ 122	\$ 101	\$ 235	\$ 192
California	177	119	317	209
Central and Eastern U.S	84	87	138	144
Total	\$ 383	\$ 307	\$ 690	\$ 545
Land revenue				
Canada	\$ 30	\$ 19	\$ 50	\$ 30
California	4	31	9	41
Central and Eastern U.S	26	6	33	13
Total	\$ 60	\$ 56	\$ 92	\$ 84
Housing gross margin				
Canada	\$ 23	\$ 16	\$ 46	\$ 32
California	32	19	59	38
Central and Eastern U.S	13	14	20	22
Total	\$ 68	\$ 49	\$ 125	\$ 92
Land gross margin				
Canada	\$ 15	\$ 12	\$ 29	\$ 20
California	2	18	4	19
Central and Eastern U.S	4	—	5	1
Total	\$ 21	\$ 30	\$ 38	\$ 40
Home closings (units)				
Canada	309	298	606	562
California	240	186	404	323
Central and Eastern U.S	184	191	304	306
	733	675	1,314	1,191
Unconsolidated Entities	2	2	3	2
Total	735	677	1,317	1,193
Average home selling price				
Canada	\$ 395,000	\$ 338,000	\$ 388,000	\$ 343,000
California	739,000	642,000	784,000	648,000
Central and Eastern U.S	457,000	453,000	454,000	470,000
	523,000	455,000	525,000	458,000
Unconsolidated Entities	1,484,000	1,227,000	1,321,000	1,227,000
Average	\$ 525,000	\$ 456,000	\$ 527,000	\$ 459,000
Active housing communities				
Canada			27	26
California			26	30
Central and Eastern U.S			26	23
			79	79
Unconsolidated Entities			1	1
Total			80	80

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Lot closings (single family units)				
Canada	212	128	343	204
California	20	246	20	349
Central and Eastern U.S	365	80	443	178
	597	454	806	731
Unconsolidated Entities	84	98	183	208
Total	681	552	989	939
Acre closings (multi-family, industrial and commercial)				
Canada	3	—	3	4
California	—	—	—	—
Central and Eastern U.S	5	—	6	—
	8	—	9	4
Unconsolidated Entities	—	—	1	—
Total	8	—	10	4
Acre closings (raw and partially finished parcels)				
Canada	230	—	230	80
California	—	8	16	8
Central and Eastern U.S	—	—	8	—
Total	230	8	254	88
Average lot selling price (single family lots)				
Canada	\$ 131,000	\$ 150,000	\$ 138,000	\$ 130,000
California	212,000	93,000	217,000	92,000
Central and Eastern U.S	66,000	81,000	69,000	71,000
	94,000	107,000	102,000	97,000
Unconsolidated Entities	139,000	85,000	114,000	75,000
Average	\$ 100,000	\$ 103,000	\$ 104,000	\$ 92,000
Average per acre selling price (multi-family, industrial and commercial)				
Canada	\$ 559,000	\$ —	\$ 559,000	\$ 966,000
California	—	—	—	—
Central and Eastern U.S	240,000	—	281,000	—
	\$ 371,000	\$ —	\$ 383,000	\$ 966,000
Unconsolidated Entities	—	—	258,000	—
Average	\$ 371,000	\$ —	\$ 373,000	\$ 966,000
Average per acre selling price (raw and partially finished parcels)				
Canada	\$ 3,000	\$ —	\$ 3,000	\$ 3,000
California	—	967,000	254,000	967,000
Central and Eastern U.S	—	—	95,000	—
Average	\$ 3,000	\$ 967,000	\$ 22,000	\$ 86,000
Active land communities				
Canada			11	10
California			6	5
Central and Eastern U.S			10	12
			27	27
Unconsolidated Entities			4	3
Total			31	30

(US\$ millions)	As at	
	June 30 2017	December 31 2016
Total assets		
Canada	\$ 1,153	\$ 1,112
California	1,311	1,257
Central and Eastern U.S	1,220	1,133
Corporate and other	430	455
Total	\$ 4,114	\$ 3,957

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

Three and Six Months Ended June 30, 2017 Compared with Three and Six Months Ended June 30, 2016

Net Income

Net income attributable to Brookfield Residential for the three and six months ended June 30, 2017 was \$22 million and \$37 million, respectively, compared to \$13 million and \$13 million for the same periods in 2016.

(US\$ millions, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Net income attributable to Brookfield Residential	\$ 22	\$ 13	\$ 37	\$ 13
Basic earnings per share	\$ 0.17	\$ 0.11	\$ 0.29	\$ 0.11
Diluted earnings per share	\$ 0.17	\$ 0.11	\$ 0.29	\$ 0.11

The increase of \$9 million in net income attributable to Brookfield Residential for the three months ended June 30, 2017, compared to the same period in 2016 was primarily the result of a \$10 million increase in gross margin, due to higher housing gross margins, an increase in other income of \$6 million, and a decrease of \$2 million of share-based compensation. This was partially offset by an increase in general and administrative expense of \$4 million, an increase in sales and marketing expense of \$2 million, a decrease in equity earnings of \$2 million and an increase in income tax expense of \$1 million.

The increase of \$24 million in net income attributable to Brookfield Residential for the six months ended June 30, 2017, compared to the same period in 2016 was primarily the result of a \$31 million increase in gross margin, due to higher housing gross margins, an increase in other income of \$8 million, and a decrease of \$3 million of share-based compensation. This was partially offset by an increase in general and administrative expense of \$8 million, an increase in sales and marketing expense of \$5 million, a decrease in equity earnings of \$2 million, an increase in income tax expense of \$2 million and an increase in interest expense of \$1 million.

A breakdown of the revenue and gross margin for the three and six months ended June 30, 2017 and 2016 is as follows:

(US\$ millions, except percentages)	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Revenue				
Housing	\$ 383	\$ 307	\$ 690	\$ 545
Land	60	56	92	84
	\$ 443	\$ 363	\$ 782	\$ 629
Gross Margin				
Housing	\$ 68	\$ 49	\$ 125	\$ 92
Land	21	30	38	40
	\$ 89	\$ 79	\$ 163	\$ 132
Gross Margin (%)				
Housing	18%	16%	18%	17%
Land	35%	54%	41%	48%
	20%	22%	21%	21%

For the three months ended June 30, 2017, total revenue increased by \$80 million and total gross margin increased by \$10 million, when compared to the same period in 2016. The increase in total revenue was primarily the result of higher

activity in our housing operations, with 58 additional closings when compared to the same period in 2016. The increase was due to higher home closings across our Canada and California segments, partially offset by fewer home closings in our Central & Eastern U.S. segment. The average home selling price increased 15% during the three months ended June 30, 2017 when compared to the same period in 2016 as a result of mix of homes sold. Housing gross margin percentage increased as a result of the geographic mix of homes closed, particularly in our Ontario and Southern California operations where homes had higher margins as a result of homes closed in favorable communities. Land revenue increased by \$4 million as a result of 143 additional single family lot closings and eight additional multi-family, industrial and commercial acre sales. This was partially offset by a 12% decrease in the average lot selling price, as well as a reduction in our raw and partially finished acre selling prices when compared to the same period in 2016. Total gross margin increased \$10 million primarily as a result of increased housing gross margins. Gross margin percentage decreased 2% primarily as a result of lower land margins, primarily as a result of mix of land sold between operating segments.

For the six months ended June 30, 2017, total revenue increased by \$153 million and total gross margin increased by \$31 million when compared to the same period in 2016. The increase in total revenue was primarily the result of higher activity in our housing operations, with 123 additional closings when compared to the same period in 2016. Additionally, the average home selling price increased 15% during the six months ended June 30, 2017 when compared to the same period in 2016, as a result of product mix. Housing gross margins increased as a result of increased activity, as well as the geographic mix of homes closed and an improved gross margin percentage. Land revenue increased by \$8 million primarily as a result of 75 additional single family lot closings. This was partially offset by a decrease in our multi-family, industrial and commercial acre and raw and partially finished acre selling prices as a result of product mix and geographic mix of acres sold. Gross margin percentage remained consistent when comparing the six months ended June 30, 2017 to the same period in 2016.

Results of Operations – Housing

Housing revenue and gross margin were \$383 million and \$68 million, respectively, for the three months ended June 30, 2017, compared to \$307 million and \$49 million for the same period in 2016. The increase in revenue was primarily the result of 58 additional home closings and a 15% increase in the average home selling price. This was partially offset by a 4% decrease in the average Canadian to U.S. dollar foreign exchange rate for the three months ended June 30, 2017, which resulted in unfavorable translated Canadian results when compared to the same period in 2016. The increase in gross margin was primarily due to an increase in the average home selling price due to mix of product sold, particularly in our California and Ontario markets, as well as additional home closings across our Canada and California segments, partially offset by fewer home closings in our Central & Eastern U.S segment. The increase in gross margin percentage was primarily driven by increased housing margins in our Ontario market, which have yielded a higher gross margin percentage due to favorable market conditions.

Housing revenue and gross margin were \$690 million and \$125 million, respectively, for the six months ended June 30, 2017, compared to \$545 million and \$92 million for the same period in 2016. The increase in revenue was primarily the result of 123 additional home closings and a 15% increase in the average home selling price. The increase in gross margin was primarily due to an increase in the average home selling price, as well as from additional home closings across our Canada and California segments, partially offset by fewer home closings in our Central & Eastern U.S segment. The increase in gross margin percentage was primarily driven by increased housing margins in our Ontario market, which have yielded a higher gross margin percentage.

A breakdown of our results from housing operations for the three and six months ended June 30, 2017 and 2016 is as follows:

Consolidated

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Home closings	733	675	1,314	1,191
Revenue	\$ 383	\$ 307	\$ 690	\$ 545
Gross margin	\$ 68	\$ 49	\$ 125	\$ 92
Gross margin (%)	18%	16%	18%	17%
Average home selling price	\$ 523,000	\$ 455,000	\$ 525,000	\$ 458,000

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

Canada

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Home closings	309	298	606	562
Revenue	\$ 122	\$ 101	\$ 235	\$ 192
Gross margin	\$ 23	\$ 16	\$ 46	\$ 32
Gross margin (%)	19%	16%	20%	17%
Average home selling price	\$ 395,000	\$ 338,000	\$ 388,000	\$ 343,000

Housing revenue in Canada for the three months ended June 30, 2017 increased by \$21 million when compared to the same period in 2016, primarily due to a 17% increase in the average home selling price and 11 additional home closings. The increase in the average selling price was primarily due to higher average selling prices in our Ontario and Calgary markets as a result of product mix of homes closed. This was partially offset by a 4% decrease in the foreign exchange rate between the Canadian and U.S. dollar for the three months ended June 30, 2017 when compared to the same period in 2016. The average home selling price in Canadian dollars for the three months ended June 30, 2017 and 2016, was C\$531,000 and C\$436,000, respectively, representing an increase of 22%. Gross margin increased \$7 million and gross margin percentage increased 3% for the three months ended June 30, 2017 when compared to the same period in 2016 primarily as a result of product mix in our Ontario and Calgary markets.

Housing revenue for the six months ended June 30, 2017 increased by \$43 million when compared to the same period in 2016, primarily due to a 13% increase in the average home selling price and 44 additional home closings. The increase in the average selling price was primarily due to higher average selling prices in our Ontario market during the six months ended June 30, 2017 when compared to the same period in 2016. The average home selling price in Canadian dollars for the six months ended June 30, 2017 and 2016, was C\$517,000 and C\$455,000 respectively, primarily due to product mix in our Ontario market. Gross margin increased \$14 million and the gross margin percentage increased 3% for the six months ended June 30, 2017 when compared to the same period in 2016 primarily as a result of a higher gross margin percentage in our Calgary and Ontario markets as a result of product mix.

California

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Home closings	240	186	404	323
Revenue	\$ 177	\$ 119	\$ 317	\$ 209
Gross margin	\$ 32	\$ 19	\$ 59	\$ 38
Gross margin (%)	18%	16%	19%	18%
Average home selling price	\$ 739,000	\$ 642,000	\$ 784,000	\$ 648,000

Our California segment had housing revenue of \$177 million for the three months ended June 30, 2017, an increase of \$58 million when compared to the same period in 2016. The increase in revenue was primarily due to a 15% increase in the average home selling price and 54 additional home closings for the three months ended June 30, 2017 when compared to the same period in 2016. The average home selling price increase is the result of the mix of homes closed, in both our Southern California and Bay Area markets, with a higher proportion of closings coming from communities with average home selling prices over \$1 million compared to the same period in 2016. Gross margin increased \$13 million as a result of an increase in home closings when compared to the same period in 2016, while gross margin percentage increased 2% when compared to the same period in 2016, primarily as a result of product mix, particularly in our Southern California market.

Housing revenue in our California segment was \$317 million for the six months ended June 30, 2017, an increase of \$108 million when compared to the same period in 2016. The increase in revenue was primarily due to a 21% increase in the average home selling price and 81 additional home closings for the six months ended June 30, 2017 when compared to the same period in 2016. The average home selling price increase is the result of the mix of homes closed, in both our Bay Area and Southern California markets, with a higher proportion of closings coming from communities with average home selling prices over \$1 million compared to the same period in 2016. Gross margin increased \$21 million as a result of an increase in home closings when compared to the same period in 2016, while gross margin percentage increased 1% when compared to the same period in 2016, primarily as a result of product mix, particularly in our Southern California market.

Central and Eastern U.S.

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Home closings	184	191	304	306
Revenue	\$ 84	\$ 87	\$ 138	\$ 144
Gross margin	\$ 13	\$ 14	\$ 20	\$ 22
Gross margin (%)	15%	16%	14%	15%
Average home selling price	\$ 457,000	\$ 453,000	\$ 454,000	\$ 470,000

Central and Eastern U.S. housing revenue decreased by \$3 million for the three months ended June 30, 2017 when compared to the same period of 2016. The decrease in revenue was primarily the result of seven fewer home closings, partially offset by a slight increase in the average home selling price for the three months ended June 30, 2017 when compared to the same period in 2016. The decrease in home closings was due to fewer home closings in our Washington D.C. market, primarily due to the timing of new community openings for the three months ended June 30, 2017 when compared to the same period in 2016. Gross margin decreased \$1 million as a result of a decrease in home closings when compared to the same period in 2016, while gross margin percentage decreased 1% when compared to the same period in 2016, primarily as a result of product mix within the operating segment.

The Central and Eastern U.S. housing revenue decreased by \$6 million for the six months ended June 30, 2017 when compared to the same period of 2016. The decrease in revenue was primarily the result of a 3% decrease in the average home selling price, as well as two fewer home closings for the six months ended June 30, 2017 when compared to the same period in 2016. The decrease in the average home selling price was primarily due to the mix of homes sold in our Austin and Washington D.C. markets. Gross margin and gross margin percentage decreased \$2 million and 1%, respectively, when compared to the same period in 2016 as a result of product mix.

Home Sales – Incentives

We grant our homebuyers sales incentives from time-to-time in order to promote sales of our homes. The type and amount of incentives will vary on a community-by-community and home-by-home basis. Incentives that impact the value of the home or the sales price paid, such as additional options, are reflected as a reduction to sales revenue. Incentives that we pay to an outside party, such as paying some or all of a homebuyer's closing costs, are recorded as cost of sales. Incentives are recognized at the time title passes to the homebuyer and the sale is recognized. For the three and six months ended June 30, 2017, total incentives recognized as a percentage of gross revenues were 4% and 4%, respectively, compared to 4% and 3% for the same period in 2016.

Our incentives on homes closed by operating segment for the three and six months ended June 30, 2017 and 2016 were as follows:

	Three Months Ended June 30			
	2017		2016	
	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
<i>(US\$ millions, except percentages)</i>				
Canada	\$ 3	2%	\$ 4	4%
California	7	4%	3	3%
Central and Eastern U.S.	5	5%	5	5%
	\$ 15	4%	\$ 12	4%

	Six Months Ended June 30			
	2017		2016	
	Incentives Recognized	% of Gross Revenues	Incentives Recognized	% of Gross Revenues
<i>(US\$ millions, except percentages)</i>				
Canada	\$ 6	3%	\$ 7	3%
California	13	4%	5	2%
Central and Eastern U.S.	8	6%	8	5%
	\$ 27	4%	\$ 20	3%

Home Sales – Net New Home Orders

Net new home orders for any period represent the aggregate of all homes ordered by customers, net of cancellations. Net new home orders, including our share of unconsolidated entities, for the three and six months ended June 30, 2017 totalled 1,001 units and 1,935 units, respectively, an increase of 77 units and 209 units when compared to the same periods in 2016. For the six months ended June 30, 2017, the increase in net new home orders was the result of higher net new orders across all operating segments. Average monthly sales per community by reportable segment for the three and six months ended June 30, 2017 were: Canada – 6 and 5 units (2016 – 6 and 6 units); California – 4 and 4 units (2016 – 3 and 3 units); Central and Eastern U.S. – 3 and 3 units (2016 – 3 and 3 units); and unconsolidated entities – 1 and 1 unit (2016 – 1 and 1 units). We were selling from 80 active housing communities, including our share of unconsolidated entities, at June 30, 2017 compared to 80 at June 30, 2016.

The net new home orders for the three and six months ended June 30, 2017 and 2016 by our three operating segments were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(Units)</i>				
Canada	479	443	856	814
California	301	290	602	522
Central and Eastern U.S.	218	189	473	387
	998	922	1,931	1,723
Unconsolidated entities	3	2	4	3
	1,001	924	1,935	1,726

The overall cancellation rates for the three and six months ended June 30, 2017 were 8% and 8%, respectively, compared to 8% and 7% in 2016. The cancellation rates for the three and six months ended June 30, 2017 and 2016 by our three operating segments were as follows:

	Three Months Ended June 30			
	2017		2016	
	Units	% of Gross Home Orders	Units	% of Gross Home Orders
<i>(Units, except percentages)</i>				
Canada	7	1%	12	3%
California	42	12%	31	10%
Central and Eastern U.S.	34	13%	40	17%
	83	8%	83	8%
Unconsolidated entities	—	—%	—	—%
	83	8%	83	8%

	Six Months Ended June 30			
	2017		2016	
	Units	% of Gross Home Orders	Units	% of Gross Home Orders
<i>(Units, except percentages)</i>				
Canada	9	1%	16	2%
California	75	11%	52	9%
Central and Eastern U.S.	86	15%	70	15%
	170	8%	138	7%
Unconsolidated entities	—	—%	—	—%
	170	8%	138	7%

Home Sales – Backlog

Our backlog, which represents the number of new homes subject to sales contracts, as at June 30, 2017 and 2016 by operating segment, was as follows:

	As at June 30			
	2017		2016	
	Units	Value	Units	Value
<i>(US\$ millions, except unit activity)</i>				
Canada	1,296	\$ 609	1,165	\$ 501
California	452	358	397	286
Central and Eastern U.S.	410	199	310	143
	2,158	1,166	1,872	930
Unconsolidated entities	2	2	2	3
Total	2,160	\$ 1,168	1,874	\$ 933

We expect all of our backlog to close in 2017, 2018 or 2019, 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 six months ended June 30, 2017. Our units in backlog in our Canadian segment increased 11% when compared to the same period in 2016, primarily due to higher net new orders in the Calgary and Edmonton markets, partially offset by fewer units in backlog as a result of closings in our Ontario market. Our California operation's units in backlog increased as a result of a 15% increase in net new orders, driven by higher net new orders in our Southern California market for the six months ended June 30, 2017 compared to 2016. The increase of 100 units in the Central and Eastern U.S. segment was primarily due a 22% increase in net new orders which led to higher backlog units, particularly in the Austin and Washington D.C. markets for the six months ended June 30, 2017 compared to 2016. Total backlog value increased compared to the same period in 2016 primarily as a result of higher backlog units across all segments as well as product mix of homes in backlog.

Results of Operations – Land

Land revenue totalled \$60 million for the three months ended June 30, 2017, an increase of \$4 million when compared to the same period in 2016, and land gross margin totalled \$21 million, a decrease of \$9 million compared to the same period in 2016. The increase in land revenue for the three months ended June 30, 2017 was primarily due to 143 additional single family lot closings and eight additional multi-family, industrial and commercial acre sales. This was partially offset by a 12% decrease in the average lot selling price, as well as a reduction in our raw and partially finished acre selling prices when compared to the same period in 2016. Additionally, there was a 4% decrease in the Canadian to U.S. dollar foreign exchange rate for the three months ended June 30, 2017, which resulted in unfavorable translated Canadian results when compared to the same period in 2016. Gross margin and gross margin percentage decreased for the three months ended June 30, 2017 primarily due to the mix of lots sold amongst operating segments. Our land revenue may vary significantly from period to period due to the nature and timing of land sales. Revenues are also affected by local product mix and market conditions, which have an impact on the selling price per lot.

Land revenue totalled \$92 million for the six months ended June 30, 2017, an increase of \$8 million when compared to the same period in 2016, and land gross margin totalled \$38 million, a decrease of \$2 million compared to the same period in 2016. The increase in land revenue for the six months ended June 30, 2017 was primarily due to 75 additional single family lot closings. This was partially offset by a decrease in the average per acre selling prices for both multi-family, industrial and commercial acre sales and raw and partially finished acre sales. Gross margin and gross margin percentage decreased for the six months ended June 30, 2017 primarily due to the mix of lots sold amongst operating segments. Our land revenue may vary significantly from period to period due to the nature and timing of land sales. Revenues are also affected by local product mix and market conditions, which have an impact on the selling price per lot.

A breakdown of our results from land operations for the three and six months ended June 30, 2017 and 2016 is as follows:

Consolidated

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Lot closings (single family units)	597	454	806	731
Acre closings (multi-family, industrial and commercial)	8	—	9	4
Acre closings (raw and partially finished)	230	8	254	88
Revenue	\$ 60	\$ 56	\$ 92	\$ 84
Gross margin	\$ 21	\$ 30	\$ 38	\$ 40
Gross margin (%)	35%	54%	41%	48%
Average lot selling price (single family units)	\$ 94,000	\$ 107,000	\$ 102,000	\$ 97,000
Average per acre selling price (multi-family, industrial and commercial) ..	\$ 371,000	\$ —	\$ 383,000	\$ 966,000
Average per acre selling price (raw and partially finished)	\$ 3,000	\$ 967,000	\$ 22,000	\$ 86,000

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

Canada

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Lot closings (single family units)	212	128	343	204
Acre closings (multi-family, industrial and commercial)	3	—	3	4
Acre closings (raw and partially finished)	230	—	230	80
Revenue	\$ 30	\$ 19	\$ 50	\$ 30
Gross margin	\$ 15	\$ 12	\$ 29	\$ 20
Gross margin (%)	50%	63%	58%	67%
Average lot selling price (single family units)	\$ 131,000	\$ 150,000	\$ 138,000	\$ 130,000
Average per acre selling price (multi-family, industrial and commercial) ..	\$ 559,000	\$ —	\$ 559,000	\$ 966,000
Average per acre selling price (raw and partially finished)	\$ 3,000	\$ —	\$ 3,000	\$ 3,000

Land revenue in Canada for the three months ended June 30, 2017 was \$30 million, an increase of \$11 million when compared to the same period in 2016. The increase was primarily the result of 84 additional single family lots closed, three additional multi-family, industrial and commercial acre sales, and 230 additional raw and partially finished acre sales. This was partially offset by a 13% decrease in the average selling price for single family lots and a 4% decrease in the Canadian to U.S. dollar foreign exchange rate. When comparing the average single family lot selling price in Canadian dollars for the three months ended June 30, 2017 to the same period in 2016, the average lot selling price was C\$176,000 compared to C\$193,000 in the same period in 2016. The decrease in the Canadian dollar average lot selling price is a result of the mix of lots sold within the segment. Gross margin increased \$3 million when compared to the same period in 2016 primarily as a result of increased single family lot closings and multi-family, industrial and commercial acre sales. The gross margin percentage decreased 13% when compared to 2016, primarily due to the mix of lots sold.

Land revenue in Canada for the six months ended June 30, 2017 was \$50 million, an increase of \$20 million when compared to the same period in 2016. The increase was primarily the result of 139 additional single family lots closed and an increase of 6% in the average selling price for single family lots. In addition to the increase in single family lots closed, there were 150 additional raw and partially finished acre sales in 2017 when compared to the same period in 2016. Gross margin increased \$9 million when compared to the same period in 2016 primarily as a result of higher single family lot closings and an increase in the average selling price for single family lots. When comparing the average single family lot selling price in Canadian dollars for the six months ended June 30, 2017 to the same period in 2016, the average lot selling price was C\$184,000 compared to C\$170,000 in the same period in 2016. The increase in the Canadian dollar average lot selling price is a result of the geographic mix of lots sold within the segment, with more lot sales coming from the Calgary market, which typically has higher average selling prices when compared to our other Canadian markets. Gross margin percentage decreased 9% when compared to 2016, primarily due to the mix of lots sold.

California

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Lot closings (single family units)	20	246	20	349
Acre closings (raw and partially finished)	—	8	16	8
Revenue	\$ 4	\$ 31	\$ 9	\$ 41
Gross margin	\$ 2	\$ 18	\$ 4	\$ 19
Gross margin (%)	50%	58%	44%	46%
Average lot selling price (single family units)	\$ 212,000	\$ 93,000	\$ 217,000	\$ 92,000
Average per acre selling price (raw and partially finished)	\$ —	\$ 967,000	\$ 254,000	\$ 967,000

Land revenue in California for the three months ended June 30, 2017 decreased by \$27 million when compared to the same period in 2016. This was primarily due to 226 fewer single family lot closings when compared to the same period in 2016, as a result of the timing of lots closed. In 2016, there was a bulk sale in Southern California where there was no such sale in 2017. In addition there were eight raw and partially finished acre sales in our Southern California market in 2016 with no such sales in 2017. Gross margin decreased \$16 million when compared to the same period in 2016, while gross margin percentage decreased 8% as a result of the mix of single family lots sold.

Land revenue in California for the six months ended June 30, 2017 decreased by \$32 million when compared to the same period in 2016. This was primarily the result of having 20 single family lot closings for the six months ended June 30, 2017 compared to 349 single family lot closings sold during the same period in 2016, as a result of timing of lot sales. This was partially offset by 16 raw and partially finished acres closings in our Southern California market, compared to eight in the same period in 2016. Gross margin decreased \$15 million when compared to the same period in 2016, while gross margin percentage decreased 2% as a result of a change in the mix of land sold.

Central and Eastern U.S.

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Lot closings (single family units)	365	80	443	178
Acre closings (multi-family, industrial and commercial)	5	—	6	—
Acre closings (raw and partially finished)	—	—	8	—
Revenue	\$ 26	\$ 6	\$ 33	\$ 13
Gross margin	\$ 4	\$ —	\$ 5	\$ 1
Gross margin (%)	15%	—%	15%	8%
Average lot selling price (single family units)	\$ 66,000	\$ 81,000	\$ 69,000	\$ 71,000
Average per acre selling price (multi-family, industrial and commercial) ..	\$ 240,000	\$ —	\$ 281,000	\$ —
Average per acre selling price (raw and partially finished)	\$ —	\$ —	\$ 95,000	\$ —

For the three months ended June 30, 2017, Central and Eastern U.S. land revenue and gross margin increased by \$20 million and \$4 million, respectively. The increase in revenue and gross margin is a result of 285 additional single family lot closings, primarily as a result of a bulk sale of 250 single family lot closings in our Phoenix market, when compared to the same period in 2016. This was partially offset by a 19% decrease in the average lot selling price when compared to the same period in 2016, due to geographic mix of lots closed. Gross margin percentage increased 15% as a result of the mix of lots sold within the segment during the three months ended June 30, 2017 when compared to the same period in 2016.

For the six months ended June 30, 2017, Central and Eastern U.S. land revenue and gross margin increased by \$20 million and \$4 million, respectively. The increase in revenue and gross margin is a result of 265 additional single family lot closings, primarily as a result of the bulk lot sale in our Phoenix market when compared to the same period in 2016. This was partially offset by a 3% decrease in the average lot selling price when compared to the same period in 2016. Gross margin percentage increased 7% as a result of the mix of lots sold within the operating segment during the six months ended June 30, 2017 when compared to the same period in 2016.

Equity in Earnings from Unconsolidated Entities

Equity in earnings from unconsolidated entities for the three and six months ended June 30, 2017 totalled \$1 million and \$3 million, respectively, compared to \$3 million and \$5 million, respectively, for the same periods in 2016. 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 June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Home closings	2	2	3	2
Revenue	\$ 3	\$ 2	\$ 4	\$ 2
Gross margin	\$ 1	\$ —	\$ 1	\$ —
Gross margin (%)	33%	—%	25%	—%
Average home selling price	\$1,484,000	\$1,227,000	\$1,321,000	\$1,227,000

Housing revenue within unconsolidated entities increased \$1 million and gross margin increased \$1 million for the three months ended June 30, 2017 compared to the same period in 2016. The increase in revenue is primarily the result of the mix of homes sold where there was an increase in the average home selling price amongst our unconsolidated entities when compared to 2016.

Housing revenue within unconsolidated entities increased \$2 million and gross margin increased \$1 million for the six months ended June 30, 2017 compared to the same period in 2016. The increase in revenue is the result of one additional home closing, as well as an increase in the average home selling price due to product mix when compared to 2016.

Land

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

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions, except unit activity, percentages and average selling price)</i>				
Lot closings (single family units)	84	98	183	208
Revenue	\$ 12	\$ 8	\$ 21	\$ 16
Gross margin	\$ 2	\$ 3	\$ 4	\$ 5
Gross margin (%)	17%	38%	19%	31%
Average lot selling price (single family units)	\$ 139,000	\$ 85,000	\$ 114,000	\$ 75,000

Land revenue within unconsolidated entities increased \$4 million for the three months ended June 30, 2017 compared to the same period in 2016. This was primarily the result of a 64% increase in the average lot selling price. The increase in the average lot selling price was attributable to the geographic mix of land sold amongst the unconsolidated entities, with more lot closings from Canadian joint ventures during the three months ended June 30, 2016. This was partially offset by a decrease in single family lot closings, primarily from our Phoenix joint ventures. Gross margin decreased \$1 million for the three months ended June 30, 2017 compared to the same period in 2016, which was attributable to the mix of land sold amongst the unconsolidated entities.

Land revenue within unconsolidated entities increased \$5 million compared to the same period in 2016. This was the result of a 52% increase in the average lot selling price. The increase in the average lot selling price was attributable to the mix of land sold amongst the unconsolidated entities. This was partially offset by a decrease in single family lot closings, primarily from our Phoenix joint ventures. Gross margin decreased \$1 million for the six months ended June 30, 2017 compared to the same period in 2016, 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 six months ended June 30, 2017 and 2016 are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions)</i>				
General and administrative expense	\$ 31	\$ 27	\$ 61	\$ 53
Sales and marketing expense	22	20	40	35
Share-based compensation	3	5	6	9
	<u>\$ 56</u>	<u>\$ 52</u>	<u>\$ 107</u>	<u>\$ 97</u>

The selling, general and administrative expense was \$56 million for the three months ended June 30, 2017, an increase of \$4 million when compared to the same period in 2016. General and administrative expense increased \$4 million for the three months ended June 30, 2017 due to higher salaries and benefits costs, primarily from an increased headcount as a result of increased activity when compared to the same period in 2016. Sales and marketing costs increased \$2 million due to increased housing activity, resulting in higher marketing and closing costs in the three months ended June 30, 2017 compared to 2016. Share-based compensation decreased \$2 million during the three months ended June 30, 2017 compared to 2016, as a result of the change in the fair value of our share-based compensation liabilities.

The selling, general and administrative expense was \$107 million for the six months ended June 30, 2017, an increase of \$10 million when compared to the same period in 2016. General and administrative expense increased \$8 million for the six months ended June 30, 2017 due to higher salaries and benefits costs, primarily from an increased headcount as a result of increased activity when compared to the same period in 2016. Sales and marketing expense for the six months ended June 30, 2017 increased \$5 million, when compared to the same period in 2016, due to increased home closings. Share-based compensation decreased \$3 million during the six months ended June 30, 2017 compared to 2016, as a result of the change in the fair value of our share-based compensation liabilities.

Other (Income) / Expense

The components of other (income) / expense for the three and six months ended June 30, 2017 and 2016 are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions)</i>				
Investment income	\$ (4)	\$ —	\$ (9)	(1)
Other	(2)	—	(2)	(2)
	<u>\$ (6)</u>	<u>\$ —</u>	<u>\$ (11)</u>	<u>\$ (3)</u>

For the three months ended June 30, 2017, other income increased \$6 million when compared to the same period in 2016. This was primarily the result of a \$4 million increase in dividend income earned on our held-to-maturity investment.

For the six months ended June 30, 2017, other income increased \$8 million compared to the same period in 2016. This was primarily the result of an \$8 million increase in dividend income earned on our held-to-maturity investment.

Income Tax Expense / (Recovery)

Income tax expense / (recovery) for the three and six months ended June 30, 2017 was an expense of \$3 million and \$2 million, respectively, compared to an expense of \$3 million and \$nil, respectively, for the same periods in 2016. The components of income tax expense / (recovery) are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
<i>(US\$ millions)</i>				
Current income tax expense	\$ —	\$ 2	\$ —	\$ 2
Deferred income tax expense / (recovery)	3	1	2	(2)
	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 2</u>	<u>\$ —</u>

Current income tax expense for the three and six months ended June 30, 2017 was \$nil and \$nil, respectively, compared to \$2 million and \$2 million for the same period in 2016. The decrease in current income tax expense primarily relates

to the geographic mix of income as our U.S. operations had lower taxable income in 2017 when compared to the same period in 2016.

Deferred income tax expense / (recovery) for the three and six months ended June 30, 2017 was an expense of \$3 million and \$2 million, respectively, compared to an expense of \$1 million and a recovery of \$2 million for the same periods in 2016. For the six months ended June 30, 2017, deferred tax expense increased \$4 million primarily due to the overall increase in income before income taxes from our Canadian operations compared to the same period in 2016. The increase was partially offset by the receipt of an \$8 million non-taxable dividend from the investment in preferred shares of Brookfield BPY Holdings Inc. during the six months ended June 30, 2017.

Foreign Exchange Translation

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

Assets and liabilities of subsidiaries or equity accounted investees having a functional currency other than the U.S. dollar are translated at the rate of exchange on the balance sheet date. As at June 30, 2017, the rate of exchange was C\$1.2960 equivalent to US\$1 (December 31, 2016 – C\$1.3443 equivalent to US\$1). Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. For the three months ended June 30, 2017, the average rate of exchange was C\$1.3443 equivalent to US\$1 (June 30, 2016 – C\$1.2883 equivalent to US\$1). The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI"). Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the condensed consolidated statements of operations as other income / (expense), except for those related to monetary liabilities qualifying as hedges of the Company's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in OCI.

The financial results of our Canadian operations are translated into U.S. dollars for financial reporting purposes. Foreign currency translation gains and losses are recorded as the exchange rate between the two currencies fluctuates. These gains and losses are included in OCI and accumulated OCI. The translation of our Canadian operations resulted in a gain of \$22 million and a gain of \$29 million for the three and six months ended June 30, 2017, respectively, compared to a gain of \$5 million and \$48 million respectively in the same periods of 2016.

QUARTERLY OPERATING AND FINANCIAL DATA

	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
<i>(US\$ millions, except unit activity and per share amounts)</i>								
Quarterly Operating Data								
Home closings (units)	733	581	1,214	788	675	516	991	684
Lot closings (single family units)	597	209	1,347	325	454	277	1,316	441
Acre closings (multi-family, industrial and commercial)	8	1	16	6	—	4	12	—
Acre closings (raw and partially finished)	230	24	1,994	—	8	80	23	—
Net new home orders (units)	998	933	855	816	922	801	703	612
Backlog (units at end of period)	2,158	1,893	1,541	1,900	1,872	1,625	1,340	1,581
Backlog value	\$1,166	\$ 969	\$ 783	\$ 977	\$ 930	\$ 751	\$ 573	\$ 682
Quarterly Financial Data								
Revenue	\$ 443	\$ 338	\$ 853	\$ 421	\$ 363	\$ 267	\$ 609	\$ 394
Direct cost of sales	(354)	(264)	(646)	(330)	(284)	(214)	(446)	(288)
Gross margin	89	74	207	91	79	53	163	106
Gain on commercial assets held for sale	—	—	14	—	—	—	—	—
Selling, general and administrative expense	(56)	(51)	(57)	(52)	(52)	(45)	(55)	(48)
Interest expense	(14)	(15)	(12)	(14)	(14)	(14)	(13)	(17)
Equity in earnings from unconsolidated entities.....	1	2	(1)	5	3	2	4	3
Other income	5	4	3	1	—	1	3	2
Income / (loss) before income taxes	25	14	154	31	16	(3)	102	46
Income tax (expense) / recovery	(3)	2	(46)	(6)	(3)	3	(31)	(11)
Net income	22	16	108	25	13	—	71	35
Net income attributable to non-controlling interest.	—	—	—	—	—	—	—	—
Net income attributable to Brookfield Residential ..	\$ 22	\$ 16	\$ 108	\$ 25	\$ 13	\$ —	\$ 71	\$ 35
Foreign currency translation	22	7	(18)	(12)	5	43	(27)	(40)
Comprehensive income / (loss)	\$ 44	\$ 23	\$ 90	\$ 13	\$ 18	\$ 43	\$ 44	\$ (5)
Earnings per common share attributable to Brookfield Residential								
Basic	\$ 0.17	\$ 0.12	\$ 0.94	\$ 0.22	\$ 0.11	\$ 0.00	\$ 0.63	\$ 0.31
Diluted	\$ 0.17	\$ 0.12	\$ 0.94	\$ 0.22	\$ 0.11	\$ 0.00	\$ 0.63	\$ 0.31

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 June 30, 2017 and December 31, 2016:

	As at	
	June 30 2017	December 31 2016
<i>(US\$ millions)</i>		
Land and housing inventory	\$ 3,037	\$ 2,848
Investments in unconsolidated entities	328	344
Commercial properties	35	33
Receivables and other assets	289	253
Held-to-maturity investment	300	300
Cash and restricted cash	45	99
Deferred income tax assets	80	80
	<u>\$ 4,114</u>	<u>\$ 3,957</u>
Notes payable	\$ 1,624	\$ 1,615
Bank indebtedness and other financings	137	58
Accounts payable and other liabilities	492	500
Total equity	1,861	1,784
	<u>\$ 4,114</u>	<u>\$ 3,957</u>

Assets

Our assets as at June 30, 2017 totalled \$4.1 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 82% of our total assets. The land and housing assets increased when compared to December 31, 2016 due to acquisitions of \$126 million, land development and home construction activity, partially offset by sales activity. Our land and housing assets include land under development and land held for development, finished lots ready for construction, homes completed and under construction and model homes.

A summary of our lots owned, excluding unconsolidated entities, and their stage of development as at June 30, 2017 compared with December 31, 2016 follows:

	As at			
	June 30, 2017		December 31, 2016	
	Units	Book Value	Units	Book Value
<i>(US\$ millions, except units)</i>				
Land held for development (lot equivalents)	76,187	\$ 1,451	77,797	\$ 1,359
Land under development and finished lots (single family units)	6,573	799	6,784	856
Housing units, including models	2,280	740	1,860	580
	<u>85,040</u>	<u>\$ 2,990</u>	<u>86,441</u>	<u>\$ 2,795</u>
Multi-family, industrial and commercial parcels (acres)	106	\$ 47	120	\$ 53

Notes Payable

Notes payable consist of the following:

(US\$ millions)	As at	
	June 30 2017	December 31 2016
6.50% 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)	193	186
6.375% unsecured senior notes due May 15, 2025 (d)	350	350
	<u>\$ 1,643</u>	<u>\$ 1,636</u>
Transaction costs (e)	(19)	(21)
	<u>\$ 1,624</u>	<u>\$ 1,615</u>

(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 6.50%. 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 six months ended June 30, 2017. Our actual fixed charge coverage and indebtedness to consolidated net tangible worth ratio as at June 30, 2017 are reflected in the table below:

	Covenant	Actual as at
		June 30 2017
Minimum fixed charge coverage	2.0 to 1	3.12 to 1
Maximum indebtedness to consolidated net tangible worth	2.25 to 1	0.98 to 1

Bank Indebtedness and Other Financings

Our bank indebtedness and other financings as at June 30, 2017 were \$137 million, an increase of \$79 million from December 31, 2016. The increase was primarily the result of borrowings to fund home construction, development activity and land acquisitions, partially offset by repayments made on our secured vendor take back mortgages. Our bank indebtedness and other financings represent construction and development loans and facilities that are used to fund the operations of our communities as new homes are constructed. As of June 30, 2017, the weighted average interest rate on our bank indebtedness and other financings was 3.3% (December 31, 2016 – 4.2%).

The debt maturing in 2017 and onwards is expected to either be refinanced or repaid from home and/or lot closings over this period. Additionally, as at June 30, 2017, we had bank indebtedness capacity of \$480 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	
	June 30 2017	December 31 2016
<i>(US\$ millions)</i>		
Bank indebtedness (a)	\$ 103	\$ 2
Secured vendor take back (“VTB”) mortgages (b)	34	51
Project-specific financings (c)	—	5
	<u>\$ 137</u>	<u>\$ 58</u>

(a) Bank indebtedness

- (i) The Company has four secured credit facilities (December 31, 2016 – four secured credit facilities) with various Canadian banks with outstanding amounts totalling \$8 million at June 30, 2017 (December 31, 2016 – \$2 million). The secured facilities are repayable in Canadian dollars in the amount of C\$11 million at June 30, 2017 (December 31, 2016 – C\$3 million). These facilities allow the Company to borrow up to approximately C\$545 million (US\$421 million) as at June 30, 2017 (December 31, 2016 – C\$565 million (US\$420 million)). The credit facilities bear interest between Canadian prime plus 0.50% to 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 Residential (Ontario) LP, both wholly-owned subsidiaries of the Company.

Three of the credit facilities are denominated in Canadian dollars and require Brookfield Residential (Alberta) LP, a wholly-owned subsidiary of the Company, to maintain a minimum tangible net worth of C\$370 million and a debt to equity ratio of no greater than 1.75 to 1. At June 30, 2017, 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:

	Covenant	Actual as at
		June 30 2017
<i>(C\$ millions, except ratios)</i>		
Minimum tangible net worth	C\$ 370	C\$ 894
Maximum debt to equity	1.75 to 1	0.1 to 1

The one remaining Canadian dollar denominated facility requires Brookfield Residential (Ontario) LP, a wholly-owned subsidiary of the Company, to maintain a minimum tangible net worth of C\$75 million and a debt to equity ratio of no greater than 1.75 to 1. At June 30, 2017, we were in compliance with all of our covenants relating to bank indebtedness. The following table reflects Brookfield Residential (Ontario) LP's tangible net worth and debt to equity ratio covenants:

	Covenant	Actual as at
		June 30 2017
<i>(C\$ millions, except ratios)</i>		
Minimum tangible net worth	C\$ 75	C\$ 248
Maximum debt to equity	1.75 to 1	0.0 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 \$1,115 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at June 30, 2017, 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 June 30 2017
Minimum tangible net worth	\$ 1,115	\$ 1,861
Maximum net debt to capitalization	65%	49%

The Company had \$95 million of borrowings outstanding under the Revolving Credit Facility at June 30, 2017 (December 31, 2016 – no borrowings outstanding).

(b) Secured VTB mortgages

One secured VTB mortgage (December 31, 2016 – 13 secured VTB mortgages) in the amount of \$4 million (December 31, 2016 – \$37 million) relates to raw land held for development by Brookfield Residential (Alberta) LP. This debt is repayable in Canadian dollars of C\$5 million (December 31, 2016 – C\$50 million). The interest rate on this debt is a fixed rate of 2.21% and the debt is secured by related land. As at June 30, 2017, this borrowing is not subject to financial covenants.

Five secured VTB mortgages (December 31, 2016 – Five secured VTB mortgages) in the amount of \$30 million (December 31, 2016 – \$14 million) relate to raw land held for development by Brookfield Homes Holdings LLC, a wholly-owned subsidiary of the Company. The interest rate on the debt ranges from fixed rates of 0.0% to 7.0% and the debt is secured by related land. As at June 30, 2017, these borrowings are not subject to any financial covenants.

(c) Project-specific financings

At June 30, 2017, the Company had no outstanding project-specific financings (December 31, 2016 - \$5 million). The outstanding borrowings at December 31, 2016 were repayable in Canadian dollars of C\$7 million and were 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 June 30, 2017 and December 31, 2016 is as follows:

<i>(US\$ millions, except percentages)</i>	As at	
	June 30 2017	December 31 2016
Bank indebtedness and other financings	\$ 137	\$ 58
Notes payable	1,624	1,615
Total interest bearing debt	1,761	1,673
Less: cash	(43)	(94)
	1,718	1,579
Total equity	1,861	1,784
Total capitalization	\$ 3,579	\$ 3,363
Net debt to total capitalization	48%	47%

Credit Ratings

Our access to financing depends on, among other things, suitable market conditions and the maintenance of suitable long-term credit ratings. Our credit ratings may be adversely affected by various factors, including increased debt levels, decreased earnings, declines in our customer demand, increased competition, a further deterioration in general economic and business conditions and adverse publicity. Any downgrades in our credit rating may impede our access to capital markets or raise our borrowing rates. We are currently rated by two credit rating agencies, Moody's and Standard & Poor's ("S&P"). We are committed to maintaining these ratings and improving them further over time. Our credit ratings at June 30, 2017 and at the date of this report were as follows:

	<u>Moody's</u>	<u>S&P</u>
Corporate rating	B1	B
Outlook	Stable	Stable

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issuer of securities. Agency ratings are subject to change, and there can be no assurance that a rating agency will rate us and/or maintain our rating.

Cash Flow

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

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

At June 30, 2017, we had cash and cash equivalents of \$43 million, compared to \$94 million at December 31, 2016.

The net cash flows for the six months ended June 30, 2017 and 2016 were as follows:

<i>(US\$ millions)</i>	Six Months Ended June 30	
	<u>2017</u>	<u>2016</u>
Cash flows used in operating activities	\$ (130)	\$ (213)
Cash flows used in investing activities	(5)	(19)
Cash flows provided by financing activities	81	198
Effect of foreign exchange rates on cash	3	—
	<u>\$ (51)</u>	<u>\$ (34)</u>

Cash Flow Used in Operating Activities

Cash flows used in operating activities during the six months ended June 30, 2017 totalled \$130 million, compared to \$213 million for the same period in 2016. During the six months ended June 30, 2017, cash used in operating activities was impacted by our net income, an increase in land and housing inventory due to strategic land purchases, development activity and construction of homes, an increase in receivables and other assets, and an decrease in accounts payable and other liabilities. Acquisitions for the six months ended June 30, 2017 totalled \$126 million consisting of \$36 million in Canada, \$60 million in California and \$30 million in Central and Eastern U.S. During the six months ended June 30, 2016, cash used in operating activities was impacted by our net income, an increase in land and housing inventory due to strategic land purchases and development activity, a decrease in receivables and other assets, and a decrease in accounts payable and other liabilities. Acquisitions for the three months ended June 30, 2016 totalled \$134 million consisting of \$35 million in Canada, \$56 million in California and \$43 million in Central and Eastern U.S.

Cash Flow Used in Investing Activities

During the six months ended June 30, 2017, cash flows used in investing activities totalled \$5 million compared to \$19 million for the same period in 2016. During the six months ended June 30, 2017, we invested \$16 million in unconsolidated entities, primarily in our California and Phoenix joint ventures, and increased commercial properties. This was partially offset by a decrease in the restricted cash balances of \$3 million, distributions from unconsolidated entities, as well as an increase in dividend income from our held-to-maturity investment. During the six months ended June 30, 2016, we

invested \$26 million in unconsolidated entities, primarily in our California joint ventures, which was partially offset by a reduction in restricted cash balances of \$2 million and distributions from unconsolidated entities of \$4 million.

Cash Flow Provided by Financing Activities

Cash provided by our financing activities for the six months ended June 30, 2017 was \$81 million, compared to \$198 million in the same period in 2016. The cash provided by our financing activities during the six months ended June 30, 2017 was primarily from net borrowings under bank indebtedness of \$101 million and net distributions from non-controlling interest of \$3 million, partially offset by net repayments under project-specific and other financings of \$23 million. This was in contrast to an increase of \$170 million in deposits from affiliates, net repayments under project-specific and other financings of \$23 million and drawings under bank indebtedness of \$15 million during the six months ended June 30, 2016.

Contractual Obligations and Other Commitments

A summary of our contractual obligations and purchase agreements as at June 30, 2017 is as follows:

<i>(US\$ millions)</i>	Payment Due By Period				
	Total	Less than 1 Years	1 – 3 Years	3 – 5 Years	More than 5 Years
Notes payable ⁽¹⁾	\$ 1,643	\$ —	\$ —	\$ 600	\$ 1,043
Interest on notes payable	554	104	207	149	94
Secured VTB mortgages ⁽²⁾⁽³⁾	34	22	10	2	—
Bank indebtedness ⁽²⁾⁽³⁾	103	95	8	—	—
Accounts payable and other liabilities ⁽⁴⁾	492	492	—	—	—
Operating lease obligations ⁽⁵⁾	59	5	15	12	27
Purchase agreements ⁽⁶⁾	41	32	8	1	—

(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 July 26, 2017, 129,756,910 Common Shares in the capital of the Company were issued and outstanding. In addition, Brookfield Residential has a stock option plan under which key officers and employees are granted options to purchase Non-Voting Class B Common Shares or settle the options in cash at the option of the holder. Each option granted can be exercised for one Non-Voting Class B Common Share or settled in cash for the fair value of one Common Share at the date of exercise. At July 26, 2017, 9,321,886 options were outstanding under the stock option plan.

There was no change in the Company's Common Shares outstanding for the six months ended June 30, 2017.

During the year ended December 31, 2016, the Company issued 15,856,236 Common Shares in exchange for the purchase of Class B Junior Preferred Shares of Brookfield BPY Holdings Inc. ("preferred shares"). See Note 6 to the condensed consolidated financial statements for additional information regarding the preferred shares.

Off-Balance Sheet Arrangements

In the ordinary course of business, and where market conditions permit, we enter into land and lot option contracts and invest in unconsolidated entities to acquire control of land to mitigate the risk of declining land values. Option contracts for the purchase of land permit us to control the land for an extended period of time until options expire. This reduces our financial risk associated with land ownership and development and reduces our capital and financial commitments. As of June 30, 2017, we had \$88 million of primarily non-refundable option deposits and advanced costs. The total remaining exercise price of these options was \$109 million. Pursuant to the guidance in the United States Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810 *Consolidation*, as described in Note 2 “Land and Housing Inventory” to our condensed consolidated financial statements included elsewhere in this interim report, we have consolidated \$42 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 9,287 lots and control under option 1,328 lots through our proportionate share of unconsolidated entities. As of June 30, 2017, our investment in unconsolidated entities totaled \$328 million. We have provided varying levels of guarantees of debt in our unconsolidated entities. As of June 30, 2017, we had recourse guarantees of \$46 million with respect to debt in our unconsolidated entities. During the six months ended June 30, 2017, we did not make any loan re-margin repayments on the debt in our unconsolidated entities. Please refer to Note 3 “Investments in Unconsolidated Entities” to our condensed consolidated financial statements included later in this interim report for additional information about our investments in unconsolidated entities.

We obtain letters of credit, performance bonds and other bonds to support our obligations with respect to the development of our projects. The amount of these obligations outstanding at any time varies in accordance with our development activities. If these letters of credit or bonds are drawn upon, we will be obligated to reimburse the issuer of the letter of credit or bonds. As of June 30, 2017, we had \$58 million in letters of credit outstanding and \$502 million in performance bonds for these purposes. The estimated costs to complete related to our letters of credit and performance bonds at June 30, 2017 are \$29 million and \$175 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 six months ended June 30, 2017 and for the year ended December 31, 2016 were as follows:

- During the six months ended June 30, 2017, the Company paid \$7 million to Brookfield Asset Management Inc. for Canadian tax credits (six months ended June 30, 2016 - \$0.3 million). These transactions were recorded at the exchange amount.
- During the year ended December 31, 2016, the Company purchased \$300 million of preferred shares of Brookfield BPY Holdings Inc. from a subsidiary of Brookfield Asset Management Inc. in exchange for Common Shares of the Company. During the three and six months ended June 30, 2017, the Company received \$4 million and \$8 million, respectively, of dividends from the preferred shares (2016- \$nil, and \$nil, respectively).
- During the year ended December 31, 2016, the Company acquired a 23.75% undivided interest in a joint venture in Ontario from a subsidiary of the Company’s sole shareholder, Brookfield Asset Management Inc., for cash consideration of \$36 million. Brookfield Asset Management Inc. indirectly controlled the 23.75% undivided interest in the joint venture prior to the transaction and continues to control the undivided interest in the joint venture subsequent to the transaction through its interests in the Company. As a result of this continuing common control, there is insufficient substance to justify a change in the measurement of the undivided interest in the joint venture. Accordingly, the Company has reflected the transaction in its balance sheet and statement of operations using the carrying values prior to the transaction. Differences between the carrying amount of the consideration given and the carrying amount of the undivided interest transferred has been recorded directly in additional paid-in-capital. The undivided interest in the joint venture agreement is accounted for in accordance with the equity method as an investment in unconsolidated entities.
- During the year ended December 31, 2016, the Company entered into a \$170 million deposit agreement with a subsidiary of Brookfield Asset Management Inc. The principal was repayable on demand and interest was charged on the principal at a rate of one month LIBOR plus 0.55%. During the year ended December 31, 2016, the entire balance was repaid and interest of \$1 million was incurred and paid relating to this deposit.
- 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 year ended December 31, 2016 the remaining balance of this note was repaid. These transactions were recorded at the exchange amount.

Non-GAAP Measures

Gross margin percentage on land and home sales are non-GAAP financial measures and are defined by the Company as gross margin of land and homes over respective revenues of land and homes. Management finds gross margin percentage to be an important and useful measurement, as the Company uses it to evaluate its performance and believes it is a widely accepted financial measure by users of its financial statements in analyzing its operating results. Gross margin percentage also provides comparability to similar calculations by its peers in the homebuilding industry. Additionally, gross margin percentage is important to the Company's management because it assists its management in making strategic decisions regarding its construction pace, product mix and product pricing based upon the profitability generated on homes and land actually delivered during previous periods. However, gross margin percentage as presented may not be fully comparable to similarly titled measures reported by other companies because not all companies calculate this metric in an identical manner.

This measure is not intended to represent GAAP gross margin percentage and it should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

BROOKFIELD RESIDENTIAL PROPERTIES INC. CONDENSED CONSOLIDATED BALANCE SHEETS

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

		(Unaudited)	
		As at	
Note		June 30 2017	December 31 2016
Assets			
	Land and housing inventory	2 \$ 3,037,233	\$ 2,848,230
	Investments in unconsolidated entities	3 328,204	343,543
	Commercial properties	4 35,211	32,880
	Receivables and other assets	5 288,420	253,283
	Held-to-maturity investment	6 300,000	300,000
	Restricted cash	7 1,448	4,932
	Cash and cash equivalents	43,493	94,187
	Deferred income tax assets	11 80,470	79,580
	Total assets	\$ 4,114,479	\$ 3,956,635
Liabilities and Equity			
	Notes payable	8 \$ 1,623,880	\$ 1,615,205
	Bank indebtedness and other financings	9 137,331	57,442
	Accounts payable and other liabilities	10 492,020	499,538
	Total liabilities	2,253,231	2,172,185
	Common Shares – 129,756,910 shares outstanding (December 31, 2016 – 129,756,910 shares outstanding)	13 626,594	626,594
	Additional paid-in-capital	13 367,433	367,433
	Retained earnings	935,111	897,451
	Non-controlling interest	12 53,655	43,387
	Accumulated other comprehensive loss	(121,545)	(150,415)
	Total equity	1,861,248	1,784,450
	Total liabilities and equity	\$ 4,114,479	\$ 3,956,635
	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 June 30		Six Months Ended June 30	
	Note	2017	2016	2017	2016
Revenue					
Housing		\$ 383,242	\$ 306,812	\$ 689,937	\$ 545,669
Land		59,932	56,061	91,551	83,692
Total revenue		<u>443,174</u>	<u>362,873</u>	<u>781,488</u>	<u>629,361</u>
Direct Cost of Sales					
Housing		(315,597)	(257,691)	(565,313)	(453,356)
Land		(38,461)	(25,800)	(53,100)	(44,017)
Total direct cost of sales		<u>(354,058)</u>	<u>(283,491)</u>	<u>(618,413)</u>	<u>(497,373)</u>
Gross margin		89,116	79,382	163,075	131,988
Selling, general and administrative expense		(56,223)	(52,356)	(107,229)	(97,355)
Interest expense		(14,347)	(13,994)	(28,910)	(28,314)
Equity in earnings from unconsolidated entities	3	1,203	3,244	2,733	5,163
Other income		6,421	117	11,285	3,140
Depreciation		(987)	(865)	(1,969)	(1,693)
Income Before Income Taxes		<u>25,183</u>	<u>15,528</u>	<u>38,985</u>	<u>12,929</u>
Current income tax (expense) / recovery	11	(418)	(1,957)	356	(2,327)
Deferred income tax (expense) / recovery	11	(2,771)	(655)	(1,863)	2,212
Net Income		<u>21,994</u>	<u>12,916</u>	<u>37,478</u>	<u>12,814</u>
Other Comprehensive Income / (Loss)					
Unrealized foreign exchange gain / (loss) on:					
Translation of the net investment in Canadian subsidiaries		27,248	5,764	35,795	60,797
Translation of the Canadian dollar denominated debt designated as a hedge of the net investment in Canadian subsidiaries		(5,200)	(1,175)	(6,925)	(12,750)
Comprehensive Income		<u>\$ 44,042</u>	<u>\$ 17,505</u>	<u>\$ 66,348</u>	<u>\$ 60,861</u>
Net Income / (Loss) Attributable To:					
Consolidated		\$ 21,994	\$ 12,916	\$ 37,478	\$ 12,814
Non-controlling interest	12	(93)	(81)	(182)	(157)
Brookfield Residential		<u>\$ 22,087</u>	<u>\$ 12,997</u>	<u>\$ 37,660</u>	<u>\$ 12,971</u>
Comprehensive Income / (Loss) Attributable To:					
Consolidated		\$ 44,042	\$ 17,505	\$ 66,348	\$ 60,861
Non-controlling interest	12	(93)	(81)	(182)	(157)
Brookfield Residential		<u>\$ 44,135</u>	<u>\$ 17,586</u>	<u>\$ 66,530</u>	<u>\$ 61,018</u>
Common Shareholders Earnings Per Share					
Basic	15	\$ 0.17	\$ 0.11	\$ 0.29	\$ 0.11
Diluted	15	\$ 0.17	\$ 0.11	\$ 0.29	\$ 0.11
Weighted Average Common Shares Outstanding <i>(in thousands)</i>					
Basic	15	129,757	113,901	129,757	113,901
Diluted	15	129,757	113,901	129,757	113,901

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>	
		Six Months Ended June 30	
	Note	2017	2016
Common Shares	13		
Opening balance		\$ 626,594	\$ 326,594
Issuance of Common Shares		—	—
Ending balance		<u>626,594</u>	<u>326,594</u>
Additional Paid-in-Capital			
Opening balance		367,433	399,035
Share-based compensation costs		—	—
Ending balance		<u>367,433</u>	<u>399,035</u>
Retained Earnings			
Opening balance		897,451	751,249
Net income attributable to Brookfield Residential		37,660	12,971
Ending balance		<u>935,111</u>	<u>764,220</u>
Accumulated Other Comprehensive Loss			
Opening balance		(150,415)	(169,186)
Other comprehensive income		28,870	48,047
Ending balance		<u>(121,545)</u>	<u>(121,139)</u>
Total Brookfield Residential Equity		<u>\$ 1,807,593</u>	<u>\$ 1,368,710</u>
Non-Controlling Interest	12		
Opening balance		\$ 43,387	\$ 43,719
Acquisitions		7,587	—
Net loss attributable to non-controlling interest		(182)	(157)
Contributions		2,863	—
Ending balance		<u>\$ 53,655</u>	<u>\$ 43,562</u>
Total Equity		<u>\$ 1,861,248</u>	<u>\$ 1,412,272</u>

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>	
	Six Months Ended June 30	
	2017	2016
Cash Flows Provided by / (Used in) Operating Activities		
Net income	\$ 37,478	\$ 12,814
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed earnings from unconsolidated entities	(2,113)	(4,674)
Deferred income tax expense / (recovery)	1,863	(2,212)
Share-based compensation costs	5,507	8,855
Depreciation	1,969	1,693
Amortization of non-cash interest	1,796	1,310
Dividend income on held-to-maturity investment	(8,456)	—
Changes in operating assets and liabilities:		
(Increase) / decrease in receivables and other assets	(34,281)	10,960
Increase in land and housing inventory	(116,367)	(224,224)
Decrease in accounts payable and other liabilities	(17,238)	(17,632)
Net cash used in operating activities	<u>(129,842)</u>	<u>(213,110)</u>
Cash Flows Provided by / (Used in) Investing Activities		
Investments in unconsolidated entities	(16,241)	(25,756)
Distributions from unconsolidated entities	868	4,419
Increase in commercial properties	(1,112)	—
Change in restricted cash	3,484	2,244
Dividend income on held-to-maturity investment	8,456	—
Net cash used in investing activities	<u>(4,545)</u>	<u>(19,093)</u>
Cash Flows Provided by / (Used in) Financing Activities		
Deposits from affiliates	—	170,000
Drawings under project-specific and other financings	14,966	20,831
Repayments under project-specific and other financings	(37,570)	(7,550)
Drawings on bank indebtedness	100,943	15,096
Net contributions from non-controlling interest	2,863	—
Net cash provided by financing activities	<u>81,202</u>	<u>198,377</u>
Effect of foreign exchange rates on cash and cash equivalents	2,491	(158)
Change in cash and cash equivalents	<u>(50,694)</u>	<u>(33,984)</u>
Cash and cash equivalents at beginning of period	94,187	100,329
Cash and cash equivalents at end of period	<u>\$ 43,493</u>	<u>\$ 66,345</u>
Supplemental Cash Flow Information		
Cash interest paid	\$ 53,134	\$ 44,405
Cash taxes paid	\$ 31,602	\$ 4,849

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.

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include the consolidated accounts of Brookfield Residential, its subsidiaries, investments in unconsolidated entities and variable interest entities in which the Company is the primary beneficiary. All intercompany accounts, transactions and balances have been eliminated upon consolidation.

All dollar amounts discussed herein are in U.S. dollars and in thousands, unless otherwise stated. Amounts in Canadian dollars are identified as “C\$.”

(b) Revenue Recognition

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

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

(c) Land and Housing Inventory

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

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

Recoverability is measured by comparing the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. To arrive at the estimated fair value of land and housing inventory, the Company estimates the cash flow for the life of each project. Specifically, on a land project, the Company estimates the timing of future land sales and the estimated revenue per lot, as well as estimated margins with respect to future land sales. On a housing project, the Company evaluates the margins on homes that have been closed, margins on sales contracts which are in backlog and estimated margins with regard to future home sales over the life of the project. For the land and housing inventory, the Company continuously evaluates projects where inventory is turning over more slowly than expected or whose average sales price and margins are declining and are expected to continue to decline. These projections take into account the specific business plans for each project and management’s best estimate of the most probable set of economic conditions anticipated to prevail in the market

BROOKFIELD RESIDENTIAL PROPERTIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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 2017 generally assume recent sales activity and normalized sales rates beyond 2017. In some instances, the Company may incorporate a certain level of inflation or deflation into the projected revenue and cost assumptions for these longer term projects. Management identifies potentially impaired land and housing projects based on these quantitative factors as well as qualitative factors obtained from the local market areas. If the future undiscounted cash flows are less than the carrying amount, the asset is considered to be impaired and is then written down to fair value less estimated selling costs using a discounted cash flow methodology which incorporates market participant assumptions.

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

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

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

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

(d) Commercial Properties

Commercial properties include any properties that are currently leased out by Brookfield Residential and produce leasing revenue for the Company. Acquisitions of operating commercial properties are accounted for utilizing the acquisition method of accounting. Estimates of future cash flows and other valuation techniques are used to allocate the purchase price of acquired property between land, buildings and improvements, equipment, debt, liabilities assumed and identifiable intangible assets and liabilities, if applicable. Expenditures for significant betterments and improvements are capitalized. Maintenance and repairs are charged to expense when incurred. Construction and improvement costs incurred in connection with the development of new properties or the redevelopment of existing properties are capitalized. After initial recognition, commercial properties are carried at the cost basis less accumulated depreciation. Real estate taxes and interest costs incurred during development periods are capitalized. Capitalized interest costs are based on qualified expenditures and interest rates in place during the development period. Capitalized real estate taxes and interest costs are amortized over lives which are consistent with the developed assets.

Pre-development costs, which generally include legal and professional fees and other directly-related third party costs, are capitalized as part of the property being developed. In the event a development is no longer deemed to be probable, the costs previously capitalized are expensed.

Depreciation of commercial property is recorded over the estimated useful life using the straight-line method.

(e) Assets Held for Sale

Long-lived assets and groups of assets and liabilities which are considered to be disposal groups are presented as assets held for sale when the criteria in ASC Topic 360 *Property, Plant and Equipment* are met. Assets are reclassified as held for sale when management commits to a plan to sell the asset, the asset is available for immediate sale in its present condition subject to usual and customary terms, an active program to find a buyer is in place, the sale of the

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

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 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

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

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.

(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.

BROOKFIELD RESIDENTIAL PROPERTIES INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(p) Variable Interest Entities

The Company accounts for its variable interest entities (“VIE”) in accordance with ASC Topic 810 *Consolidation*. The decision to consolidate a VIE begins with establishing that a VIE exists. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investor lacks one of three characteristics associated with owning a controlling financial interest. Those characteristics 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 Risk Management Activities

The Company accounts for its derivative and hedging activities in accordance with ASC Topic 815 *Derivatives and Hedging*, which requires the Company to recognize all derivative instruments at their fair values as either assets or liabilities on its balance sheet. The accounting for changes in fair value (i.e. gains or losses) of a derivative instrument depends on whether the Company has designated it, and whether it qualifies, as part of a hedging relationship and on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation. For derivative instruments that are designated and qualify as a cash flow hedge (i.e. hedging the exposure to variability in expected future cash flows that are attributable to a particular risk), the 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) Held-to-Maturity Investment

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

(s) Fair Value Instruments

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

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

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

(t) Common Control Transactions

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

(u) 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 exact 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 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.

The following summarizes the components of land and housing inventory:

	As at	
	June 30 2017	December 31 2016
Land held for development	\$ 1,450,964	\$ 1,358,924
Land under development	846,149	908,906
Housing inventory	626,101	467,172
Model homes	114,019	113,228
	\$ 3,037,233	\$ 2,848,230

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The Company capitalizes interest which is expensed as housing units and building lots are sold. Interest capitalized and expensed during the three and six months ended June 30, 2017 and 2016 was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Interest capitalized, beginning of period	\$ 179,374	\$ 176,028	\$ 175,590	\$ 173,038
Interest capitalized	11,794	13,586	24,356	25,409
Interest expensed to cost of sales	(10,452)	(9,717)	(19,230)	(18,550)
Interest capitalized, end of period	\$ 180,716	\$ 179,897	\$ 180,716	\$ 179,897

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 \$42.5 million (December 31, 2016 – \$42.8 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 \$42.5 million (December 31, 2016 – \$42.8 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 \$88.4 million (December 31, 2016 – \$84.6 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 \$109.1 million (December 31, 2016 – \$121.8 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
2017	37	\$ 3,182
2018	489	13,927
2019	3,338	41,642
2020	351	8,486
2021	—	2,890
Thereafter	1,907	38,961
	6,122	\$ 109,088

The Company holds agreements for a further 2,765 acres (December 31, 2016 – 2,817 acres) of longer-term land, with non-refundable deposits and other entitlement costs of \$6.6 million (December 31, 2016 – \$6.5 million), which is included in land and housing inventory that may provide additional lots upon obtaining entitlements with an aggregate exercise price of \$56.8 million (December 31, 2016 – \$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 June 30, 2017, the Company was involved with 12 unconsolidated entities (December 31, 2016 – 14 unconsolidated entities) in which it has less than a controlling interest. Investments in unconsolidated entities includes \$28.1 million (December 31, 2016 – \$26.6 million) of the Company's share of non-refundable deposits and other entitlement costs in connection with 1,328 lots (December 31, 2016 – 1,328 lots) under option. The Company's share of the total exercise price of these options is \$58.8 million (December 31, 2016 – \$59.1 million). Summarized financial information on a 100% basis for the combined unconsolidated entities follows:

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	As at	
	June 30 2017	December 31 2016
Assets		
Land and housing inventory	\$ 574,753	\$ 682,421
Investments in unconsolidated entities	147,707	124,377
Other assets	70,408	56,928
	\$ 792,868	\$ 863,726
Liabilities and Equity		
Bank indebtedness and other financings	\$ 99,484	\$ 96,199
Accounts payable and other liabilities	44,213	51,037
Brookfield Residential's interest	328,204	343,543
Others' interest	320,967	372,947
	\$ 792,868	\$ 863,726

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Revenue and Expenses				
Revenue	\$ 44,988	\$ 19,794	\$ 68,396	\$ 43,825
Direct cost of sales	(40,727)	(14,941)	(60,595)	(35,978)
Other income	(374)	454	(867)	116
Net income	\$ 3,887	\$ 5,307	\$ 6,934	\$ 7,963
Brookfield Residential's share of net income	\$ 1,203	\$ 3,244	\$ 2,733	\$ 5,163

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

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

The Company and/or its unconsolidated entity partners have provided varying levels of guarantees of debt of its unconsolidated entities. At June 30, 2017, the Company had recourse guarantees of \$46.0 million (December 31, 2016 – \$53.4 million) with respect to debt of its unconsolidated entities.

Note 4. Commercial Properties

Commercial properties include any properties that are currently leased out by the Company 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:

	As at	
	June 30 2017	December 31 2016
Commercial properties	\$ 35,747	\$ 33,046
Less: accumulated depreciation	(536)	(166)
	\$ 35,211	\$ 32,880

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Note 5. Receivables and Other Assets

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

	As at	
	June 30 2017	December 31 2016
Receivables	\$ 253,771	\$ 218,328
Other assets	34,649	34,955
	\$ 288,420	\$ 253,283

The components of receivables are summarized as follows:

	As at	
	June 30 2017	December 31 2016
Development recovery receivables (a)	\$ 101,989	\$ 90,506
Real estate receivables (b)	71,869	61,980
Sundry receivables (c)	29,914	28,315
Proceeds and escrow receivables (d)	28,992	27,634
Refundable deposits	21,007	9,893
	\$ 253,771	\$ 218,328

(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, 2016 – U.S. prime plus 1.0% 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 eighteen months and bear interest at Canadian prime plus 3.0% or a fixed interest rate of 0.5% to 6.0%, whichever is greater (December 31, 2016 – Canadian prime plus 3.0% or a fixed interest rate of 0.5% to 6.0%, whichever is greater).

(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 June 30, 2017, allowances for doubtful accounts were \$nil (December 31, 2016 - \$nil).

The components of other assets are summarized as follows:

	As at	
	June 30 2017	December 31 2016
Capital assets (a)	\$ 13,338	\$ 13,938
Prepaid expenses	10,496	3,681
Non-refundable earnest funds and investigation fees (b)	8,678	14,788
Other	2,137	2,548
	\$ 34,649	\$ 34,955

(a) 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 \$17.4 million (December 31, 2016 – \$16.7 million).

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

Note 6. Held-to-Maturity Investment

	As at	
	June 30 2017	December 31 2016
Brookfield BPY Holdings Inc. Class B Junior Preferred Shares ("preferred shares")	\$ 300,000	\$ 300,000
	<u>\$ 300,000</u>	<u>\$ 300,000</u>

During the year ended December 31, 2016, the Company entered into an agreement with a subsidiary of Brookfield Asset Management Inc. to purchase \$300.0 million of preferred shares in exchange for Common Shares of the Company. The preferred shares entitle their holders to receive a cumulative preferential dividend equal to 5.75% of their redemption value until the fifth anniversary of their issuance, after which the preferred shares will entitle their holders to receive a cumulative preferential dividend equal to 5.00% plus the prevailing yield for the 5-year U.S. Treasury Notes. The preferred shares are redeemable at any time and must be redeemed on the tenth anniversary of their issuance. The preferred shares have a right of retraction after the fifth anniversary of the issuance.

During the three and six months ended June 30, 2017 \$4.3 million and \$8.5 million, respectively, of dividends were recorded in the statement of operations as other income (2016 - \$nil and \$nil, respectively).

Note 7. Restricted Cash

At June 30, 2017, the Company has restricted cash consisting of (i) \$0.4 million (December 31, 2016 – \$0.6 million) relating to cash collateralization of development letters of credit and (ii) \$1.1 million (December 31, 2016 – \$4.3 million) of restricted cash relating to funds in various cash accounts reserved for guarantees on completion of certain improvements, and guarantees on future insurance loss deductible payments.

Note 8. Notes Payable

	As at	
	June 30 2017	December 31 2016
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)	192,900	185,975
6.375% unsecured senior notes due May 15, 2025 (d)	350,000	350,000
	<u>1,642,900</u>	<u>1,635,975</u>
Transaction costs (e)	(19,020)	(20,770)
	<u>\$ 1,623,880</u>	<u>\$ 1,615,205</u>

(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:

	Notes Redemption Price
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

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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.

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.

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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 June 30, 2017.

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	
	June 30 2017	December 31 2016
Bank indebtedness (a)	\$ 103,192	\$ 2,153
Secured VTB mortgages (b)	34,139	50,330
Project-specific financings (c)	—	4,959
	\$ 137,331	\$ 57,442

(a) *Bank indebtedness*

- (i) The Company has four secured credit facilities (December 31, 2016 – four secured credit facilities) with various Canadian banks with outstanding amounts totalling \$8.2 million at June 30, 2017 (December 31, 2016 – \$2.2 million). The secured facilities are repayable in Canadian dollars in the amount of C\$10.6 million at June 30, 2017 (December 31, 2016 – C\$2.9 million). These facilities allow the Company to borrow up to approximately C\$545.0 million (US\$420.5 million) as at June 30, 2017 (December 31, 2016 – C\$565.0 million (US\$420.3 million)). The credit facilities bear interest between Canadian prime plus 0.50% to 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 Residential (Ontario) LP, 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 Residential (Ontario) LP facility, which is denominated in Canadian dollars, includes a minimum net worth requirement of C\$75.0 million and a debt to equity covenant of no greater than 1.75 to 1.

As at June 30, 2017, 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

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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 \$1,115.0 million, as well as a consolidated net debt to book capitalization of no greater than 65%. As at June 30, 2017, the Company and Brookfield Residential US Corporation were in compliance with these financial covenants.

The Company had \$95.0 million outstanding under the Revolving Credit Facility at June 30, 2017 (December 31, 2016 – no borrowings outstanding).

(b) Secured VTB mortgages

The Company has six secured VTB mortgages (December 31, 2016 – 18 secured VTB mortgages) in the amount of \$34.1 million (December 31, 2016 – \$50.3 million). Secured VTB mortgages are repayable as follows: 2017 – \$22.3 million; 2018 – \$7.1 million; 2019 – \$3.0 million, 2020 – \$1.7 million and thereafter – \$nil.

One secured VTB mortgage (December 31, 2016 – 13 secured VTB mortgages) in the amount of \$4.1 million (December 31, 2016 – \$36.9 million) relates to raw land held for development by Brookfield Residential (Alberta) LP. This debt is repayable in Canadian dollars of C\$5.3 million (December 31, 2016 – C\$49.6 million). The interest rate on this debt is a fixed rate of 2.21% and the debt is secured by the related land. As at June 30, 2017, this borrowing is not subject to financial covenants.

Five secured VTB mortgages (December 31, 2016 – five secured VTB mortgages) in the amount of \$30.0 million (December 31, 2016 – \$13.4 million) relate to raw land held for development by Brookfield Homes Holdings LLC, a wholly-owned subsidiary of the Company. The interest rate on the debt ranges from fixed rates of 0.0% to 7.0% and the debt is secured by related land. As at June 30, 2017, these borrowings are not subject to any financial covenants.

(c) Project-specific financings

At June 30, 2017, the Company had no outstanding project-specific financings (December 31, 2016 - \$5.0 million). The outstanding borrowings at December 31, 2016 were repaid in Canadian dollars of C\$6.7 million and were 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	
	June 30 2017	December 31 2016
Accounts payable	\$ 356,073	\$ 378,119
Other liabilities	135,947	121,419
	<u>\$ 492,020</u>	<u>\$ 499,538</u>

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The components of accounts payable are summarized as follows:

	As at	
	June 30 2017	December 31 2016
Trade payables and other accruals	\$ 148,925	\$ 149,098
Development costs payable (a)	81,612	76,016
Customer deposits	68,955	48,588
Interest on notes payable	21,191	21,042
Accrued and deferred compensation	19,692	42,556
Real estate payables	17,170	11,273
Current income taxes (receivable) / payable	(1,472)	29,546
	\$ 356,073	\$ 378,119

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

The components of other liabilities are summarized as follows:

	As at	
	June 30 2017	December 31 2016
Share-based compensation (Note 14)	\$ 48,982	\$ 43,475
Consolidated land option contracts (a)	42,458	42,778
Warranty costs (Note 16 (a))	22,934	23,217
Other	21,573	11,949
	\$ 135,947	\$ 121,419

- (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."

Note 11. Income Taxes

A reconciliation of the Company's effective tax rate from the Canadian statutory tax rate for the six months ended June 30, 2017 and 2016 is as follows:

	Six Months Ended June 30	
	2017	2016
Statutory rate	27.0%	27.0%
Non-temporary differences	4.3	11.2
Rate difference from statutory rate	(19.7)	(36.2)
Withholding tax	(2.0)	—
Non-taxable preferred share dividend	(5.7)	—
Other	(0.1)	(1.1)
Effective tax rate	3.8%	0.9%

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 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 3.8% for the six months ended June 30, 2017 (2016 – 0.9%). The increase in the effective tax rate for the period ended June 30, 2017 is primarily due to the geographic mix of income earned, partially

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offset by the receipt of a \$0.8 million refund of excess U.S. withholding tax paid on prior distributions made from the Company's U.S. operations and the receipt of an \$8.5 million non-taxable dividend from the held-to-maturity investment in preferred shares of Brookfield BPY Holdings Inc. during the six months ended June 30, 2017, with no such receipts for the same period in 2016.

The provision for income taxes for the three and six months ended June 30, 2017 and 2016 is set forth below:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Current				
Canada	\$ —	\$ 1	\$ 799	\$ (345)
U.S.	(31)	(2,112)	(56)	(2,136)
International	(387)	154	(387)	154
Current income tax (expense) / recovery	(418)	(1,957)	356	(2,327)
Deferred				
Canada	(1,689)	3,296	(1,457)	6,499
U.S.	(1,082)	(3,951)	(406)	(4,287)
International	—	—	—	—
Total deferred tax (expense) / recovery	(2,771)	(655)	(1,863)	2,212
Total income tax expense	\$ (3,189)	\$ (2,612)	\$ (1,507)	\$ (115)

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

	As at	
	June 30 2017	December 31 2016
Net deferred tax assets / (liabilities)		
Differences relating to land and housing inventory	\$ (3,709)	\$ (2,273)
Compensation deductible for tax purposes when paid	8,795	10,230
Operating loss carry-forwards	70,428	67,038
Impact of foreign exchange	22,920	26,706
Other	4,956	4,585
Net deferred tax assets before valuation allowance	103,390	106,286
Cumulative valuation allowance	(22,920)	(26,706)
Net deferred tax assets	\$ 80,470	\$ 79,580

The Company has Canadian federal non-capital loss carryforwards of approximately \$253.3 million (C\$328.2 million) as at June 30, 2017 (December 31, 2016 – \$243.7 million (C\$327.5 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 2037. At June 30, 2017, the Company has U.S. federal net operating loss carryforwards of \$2.0 million (December 31, 2016 - \$nil). The Company has U.S. state loss carryforwards of approximately \$39.3 million (December 31, 2016 – \$37.3 million) that may be carried forward up to 20 years, depending on the tax jurisdiction, which expire between 2029 and 2037.

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.

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In evaluating the need for a valuation allowance against the Company's deferred tax assets at June 30, 2017, the Company considered all available and objectively verifiable positive and negative evidence. The component of the valuation allowance remaining of \$22.9 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.

Undistributed earnings of the Company's non-Canadian affiliates as of June 30, 2017 were considered to be permanently reinvested. A determination of the amount of unrecognized deferred tax liability on these undistributed earnings is not practicable.

Note 12. Non-Controlling Interest

Non-controlling interest includes third-party investments in consolidated entities of \$53.7 million at June 30, 2017 (December 31, 2016 – \$43.4 million).

In accordance with ASC Topic 810, non-controlling interest has been classified as a component of total equity and the net income / (loss) on the condensed consolidated statements of operations have been adjusted to include the net income / (loss) attributable to non-controlling interest, which for the three and six months ended June 30, 2017 was a loss of \$0.1 million and \$0.2 million, respectively (2016 – loss of \$0.1 million and \$0.2 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.

Common Shares issued changed as follows during the six months ended June 30, 2017 and year ended December 31, 2016:

	For the Period Ended	
	June 30 2017	December 31 2016
Common Shares issued, beginning of period	129,756,910	113,900,674
Common Shares issued	—	15,856,236
Common Shares issued and outstanding, end of period	<u>129,756,910</u>	<u>129,756,910</u>

During the year ended December 31, 2016, the Company issued 15,856,236 Common Shares in exchange for the purchase of preferred shares of Brookfield BPY Holdings Inc. See Note 6 for additional information regarding the preferred shares.

The Company had no Non-Voting Class B Common Shares issued and outstanding as at June 30, 2017 and December 31, 2016.

Additional paid-in-capital

During the year ended December 31, 2016, the Company acquired a 23.75% undivided interest in a joint venture in Ontario from a subsidiary of the Company's sole shareholder, Brookfield Asset Management Inc., for cash consideration of \$35.8 million. Brookfield Asset Management Inc. indirectly controlled the 23.75% undivided interest in the joint venture prior to the transaction and continues to control the undivided interest in the joint venture subsequent to the transaction through its interests in the Company. As a result of this continuing common control, there was insufficient substance to justify a change in the measurement of the undivided interest in the joint venture. Accordingly, the Company has reflected the transaction in its condensed consolidated balance sheet using the carrying values prior to the transaction. The difference between the consideration paid and the carrying amount of the undivided interest transferred was \$31.6 million and has been recorded in equity as a reduction to additional paid-in-capital. The undivided interest in the joint venture agreement is accounted for in accordance with the equity method as an investment in unconsolidated entities.

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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 six months ended June 30, 2017, there were no options granted to eligible employees by Brookfield Residential (2016 - nil and nil, respectively). The significant weighted average assumptions relating to the valuation of the Company's options outstanding during the six months ended June 30, 2017 and 2016 are as follows:

	June 30 2017	June 30 2016
Dividend yield	—%	—%
Volatility rate	34.16%	35.15%
Risk-free interest rate	2.15%	1.96%
Expected option life (years)	6.2	7.5

The liability of \$21.6 million (December 31, 2016 - \$16.1 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 six months ended June 30, 2017 was \$2.7 million and \$5.5 million, respectively (2016 - \$3.8 million and \$7.5 million, respectively).

The following tables set out the number of Non-Voting Class B Common Shares that employees of the Company may acquire under options granted under the Company's Management Share Option Plan for the six months ended June 30, 2017 and 2016:

	June 30, 2017		June 30, 2016	
	Shares	Weighted Average Per Share Exercise Price	Shares	Weighted Average Per Share Exercise Price
Outstanding, beginning of period	9,321,886	\$ 22.38	8,881,886	\$ 22.55
Granted	—	—	—	—
Settled	—	—	—	—
Canceled	—	\$ —	—	\$ —
Outstanding, end of period	9,321,886	\$ 22.38	8,881,886	\$ 22.55
Options exercisable, end of period	3,014,754	\$ 22.72	1,238,377	\$ 22.96

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A summary of the status of the Company's unvested options for the six months ended June 30, 2017 and June 30, 2016 is as follows:

	June 30, 2017		June 30, 2016	
	Shares	Weighted Average Fair Value Per Option	Shares	Weighted Average Fair Value Per Option
Unvested options outstanding, beginning of period	7,545,509	\$ 5.91	8,881,886	\$ 8.48
Granted	—	—	—	—
Vested	(1,238,377)	5.53	(1,238,377)	8.17
Settled	—	—	—	—
Unvested options outstanding, end of period	6,307,132	\$ 5.99	7,643,509	\$ 8.53

At June 30, 2017, there was \$38.5 million (June 30, 2016 - \$59.3 million) of unrecognized expense related to unvested options, which is expected to be recognized over the remaining weighted average period of 3.1 years (June 30, 2016 - 4.0 years).

(b) Deferred Share Unit Plan

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

The following table sets out changes in and the number of deferred share units that executives, directors and senior operating management employees may redeem under Brookfield Residential's DSUP at June 30, 2017 and December 31, 2016:

	For the Period Ended	
	June 30 2017	December 31 2016
Outstanding, beginning of period	1,448,638	1,513,737
Granted and reinvested	—	—
Redeemed	—	(65,099)
Outstanding, end of period	1,448,638	1,448,638
Deferred share units vested	1,448,638	1,445,659

The liability of \$27.4 million (December 31, 2016 – \$27.4 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 six months ended June 30, 2017 was an expense of \$nil and \$nil, respectively (2016 – expense of \$1.0 million and \$1.4 million, respectively) which has been included in selling, general and administrative expense.

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Note 15. Earnings Per Share

Basic and diluted earnings per share for the three and six months ended June 30, 2017 and 2016 were calculated as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2017	2016	2017	2016
Numerator:				
Net income attributable to Brookfield Residential	\$ 22,087	\$ 12,997	\$ 37,660	\$ 12,971
Denominator (in '000s of shares):				
Basic weighted average shares outstanding	129,757	113,901	129,757	113,901
Diluted weighted average shares outstanding	129,757	113,901	129,757	113,901
Basic earnings per share	\$ 0.17	\$ 0.11	\$ 0.29	\$ 0.11
Diluted earnings per share	\$ 0.17	\$ 0.11	\$ 0.29	\$ 0.11

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 six months ended June 30, 2017 and 2016:

	Six Months Ended June 30	
	2017	2016
Balance, beginning of period	\$ 23,217	\$ 20,074
Payments and other adjustments made during the period	(4,142)	(2,934)
Warranties issued during the period	3,882	3,072
Adjustments made for pre-existing warranties	(23)	(97)
Balance, end of period	\$ 22,934	\$ 20,115

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

Years of Expiry

2017	\$ 4,527
2018	7,821
2019	7,171
2020	6,685
2021	5,632
Thereafter	27,085
	<u>\$ 58,921</u>

(c) As at June 30, 2017, \$16.3 million (December 31, 2016 - \$11.3 million) of the amount held in other assets related to land purchase obligations. The total amount owing on these obligations is \$41.0 million (December 31, 2016 - \$64.6 million).

Note 17. Guarantees

(a) The Company has provided financial guarantees for municipal bonds which, as at June 30, 2017, amounted to \$7.9 million (December 31, 2016 – \$7.9 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 historically has not been required to make any payments under these guarantees.

(b) In the ordinary course of business, the Company has provided construction guarantees in the form of letters of credit and performance bonds. As at June 30, 2017, these guarantees amounted to \$559.2 million (December 31, 2016 – \$533.0 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 be impaired during the six months ended June 30, 2017, 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 2017 generally assume recent sales activity and normalized sales rates beyond 2017. 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.

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The Company has reviewed all of its projects for impairment in accordance with the provisions of ASC Topic 360 *Property, Plant and Equipment* and ASC Topic 820 *Fair Value Measurements and Disclosures*. For the three and six months ended June 30, 2017 and 2016, no impairment charges were recognized.

	Number of Projects
The locations of the projects reviewed in 2017 are as follows:	
Canada	46
California	50
Central and Eastern U.S.	33
	129
Unconsolidated entities	14
Total	143

Hedging Activities

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

Net Investment Hedges

The Company uses foreign currency denominated debt instruments to manage its foreign currency exposures arising from net investments in foreign operations. For the three and six months ended June 30, 2017, unrealized pre-tax losses of \$5.2 million and \$6.9 million, respectively (2016 – losses of \$1.2 million and \$12.8 million, respectively), was recorded in other comprehensive income for the effective portion of hedges of net investments in foreign operations.

Fair Value Hierarchy

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

As at June 30, 2017, all of the Company's financial assets and liabilities are recorded at their carrying value as it approximates fair value due to their short term nature. Assets and liabilities measured at fair value on a recurring basis are \$nil (December 31, 2016 – \$nil).

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

	June 30, 2017			December 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Restricted cash	\$ 1,448	\$ —	\$ —	\$ 4,932	\$ —	\$ —
Cash and cash equivalents	43,493	—	—	94,187	—	—
	\$ 44,941	\$ —	\$ —	\$ 99,119	\$ —	\$ —
Financial liabilities						
Accounts payable and other liabilities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

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:

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(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. Based on net debt levels as at June 30, 2017, a 1% change in interest rates would have either a negative or positive effect of approximately \$1.0 million on the Company's cash flows.

The fair value of debt with fixed interest rates is determined by discounting contractual principal and interest payments at estimated current market interest rates determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk. As at June 30, 2017, the fair value of all outstanding debt exceeded its book value by \$54.6 million (December 31, 2016 – fair value of all outstanding debt exceeded its book value by \$16.2 million).

Currency Exchange Rate Risk

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

The Company holds financial instruments to hedge the net investment in foreign operations whose functional and reporting currencies are other than the U.S. dollar. A 1% increase in the U.S. dollar would increase the value of these hedging instruments by \$2.5 million as at June 30, 2017 (December 31, 2016 – \$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.

(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

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over an extended period of time. The Company also seeks to include in its agreements terms that protect the Company from liquidity issues of counterparties that might otherwise impact the Company's liquidity.

A summary of the Company's contractual obligations and purchase agreements as at June 30, 2017 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⁾	\$ 1,642,900	\$ —	\$ —	\$ 600,000	\$ 1,042,900
Interest on notes payable	554,328	103,753	207,505	149,005	94,065
Secured VTB mortgages ⁽²⁾⁽³⁾	34,139	22,288	10,041	1,810	—
Bank indebtedness ⁽²⁾⁽³⁾	103,192	95,000	8,192	—	—
Accounts payable and other liabilities ⁽⁴⁾ ..	492,020	492,020	—	—	—
Operating lease obligations ⁽⁵⁾	58,921	4,527	14,992	12,317	27,085
Purchase agreements ⁽⁶⁾	41,002	32,028	8,440	534	—

(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 June 30, 2017						
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total	
Revenues	\$ 152,466	\$ 181,483	\$ 109,225	\$ —	\$ 443,174	
Direct cost of sales	(114,379)	(146,991)	(92,688)	—	(354,058)	
	38,087	34,492	16,537	—	89,116	
Equity in earnings	62	897	244	—	1,203	
Expenses	(15,514)	(17,177)	(16,466)	(15,979)	(65,136)	
Income / (loss) before income taxes	\$ 22,635	\$ 18,212	\$ 315	\$ (15,979)	\$ 25,183	

Three Months Ended June 30, 2016						
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total	
Revenues	\$ 119,984	\$ 149,853	\$ 93,036	\$ —	\$ 362,873	
Direct cost of sales	(91,996)	(112,956)	(78,539)	—	(283,491)	
	27,988	36,897	14,497	—	79,382	
Equity in earnings	(128)	1,978	1,394	—	3,244	
Expenses	(15,947)	(14,096)	(14,701)	(22,354)	(67,098)	
Income / (loss) before income taxes	\$ 11,913	\$ 24,779	\$ 1,190	\$ (22,354)	\$ 15,528	

Six Months Ended June 30, 2017						
	Canada	California	Central and Eastern U.S.	Corporate and Other	Total	
Revenues	\$ 285,004	\$ 325,603	\$ 170,881	\$ —	\$ 781,488	
Direct cost of sales	(210,155)	(262,457)	(145,801)	—	(618,413)	
	74,849	63,146	25,080	—	163,075	
Equity in earnings	(56)	1,291	1,498	—	2,733	
Expenses	(28,402)	(31,793)	(31,086)	(35,542)	(126,823)	
Income / (loss) before income taxes	\$ 46,391	\$ 32,644	\$ (4,508)	\$ (35,542)	\$ 38,985	

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

Six Months Ended June 30, 2016

	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Revenues	\$ 223,020	\$ 250,116	\$ 156,225	\$ —	\$ 629,361
Direct cost of sales	(171,220)	(192,989)	(133,164)	—	(497,373)
	51,800	57,127	23,061	—	131,988
Equity in earnings	(246)	3,028	2,381	—	5,163
Expenses	(29,955)	(24,617)	(26,752)	(42,898)	(124,222)
Income / (loss) before income taxes	\$ 21,599	\$ 35,538	\$ (1,310)	\$ (42,898)	\$ 12,929

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

As at June 30, 2017

	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	\$ 535,557	\$ 414,218	\$ 501,189	\$ —	\$ 1,450,964
Land under development	193,712	340,666	311,771	—	846,149
Housing inventory	203,359	238,191	184,551	—	626,101
Model homes	19,068	69,317	25,634	—	114,019
Total land and housing inventory	951,696	1,062,392	1,023,145	—	3,037,233
Commercial properties	30,641	—	4,570	—	35,211
Investments in unconsolidated entities	53,094	218,592	56,518	—	328,204
Held-to-maturity investment	—	—	—	300,000	300,000
Other assets ⁽¹⁾	117,192	29,935	135,986	130,718	413,831
Total assets	\$ 1,152,623	\$ 1,310,919	\$ 1,220,219	\$ 430,718	\$ 4,114,479

As at December 31, 2016

	Canada	California	Central and Eastern U.S.	Corporate and Other	Total
Land held for development	\$ 518,472	\$ 386,246	\$ 454,206	\$ —	\$ 1,358,924
Land under development	215,958	379,531	313,417	—	908,906
Housing inventory	165,896	145,161	156,115	—	467,172
Model homes	18,116	69,394	25,718	—	113,228
Total land and housing inventory	918,442	980,332	949,456	—	2,848,230
Commercial properties	28,805	—	4,075	—	32,880
Investments in unconsolidated entities	50,810	215,783	76,950	—	343,543
Held-to-maturity investment	—	—	—	300,000	300,000
Other assets ⁽¹⁾	113,622	60,972	102,156	155,232	431,982
Total assets	\$ 1,111,679	\$ 1,257,087	\$ 1,132,637	\$ 455,232	\$ 3,956,635

(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 six months ended June 30, 2017 and the year ended December 31, 2016 were as follows:

- During the six months ended June 30, 2017, the Company paid \$6.5 million (six months ended June 30, 2016 - \$0.3 million) to Brookfield Asset Management Inc. for Canadian tax credits. These transactions were recorded at the exchange amount.
- During the year ended December 31, 2016, the Company purchased \$300.0 million of preferred shares of Brookfield BPY Holdings Inc. from a subsidiary of Brookfield Asset Management Inc. in exchange for Common Shares of the Company. During the three and six months ended June 30, 2017, the Company received \$4.3 million and \$8.5 million, respectively, of dividends from the preferred shares (2016- \$nil, and \$nil, respectively). These transactions were recorded at the exchange amount.
- During the year ended December 31, 2016, the Company acquired a 23.75% undivided interest in a joint venture in Ontario from a subsidiary of the Company's sole shareholder, Brookfield Asset Management Inc., for cash consideration of \$35.8 million. Brookfield Asset Management Inc. indirectly controlled the 23.75% undivided interest in the joint venture prior to the transaction and continues to control the undivided interest in the joint venture subsequent to the transaction through its interests in the Company. As a result of this continuing common control, there was insufficient substance to justify a change in the measurement of the undivided interest in the joint venture. Accordingly, the Company has reflected the transaction in its consolidated balance sheet and statement of operations using the carrying values prior to the transaction. Differences between the carrying amount of the consideration given and the carrying amount of the undivided interest transferred has been recorded directly in additional paid-in-capital. The undivided interest in the joint venture agreement is accounted for in accordance with the equity method as an investment in unconsolidated entities.
- During the year ended December 31, 2016, the Company entered into a \$170.0 million deposit agreement with a subsidiary of Brookfield Asset Management Inc. The principal was repayable on demand and interest was charged on the principal at a rate of one month LIBOR plus 0.55%. During the year ended December 31, 2016, the entire balance was repaid and interest of \$0.9 million was incurred and paid relating to this deposit.
- 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 year ended December 31, 2016, the remaining balance of this note was repaid. These transactions were recorded at the exchange amount.

Note 22. Subsequent Events

The Company performed an evaluation of subsequent events through July 26, 2017, which is the date these condensed consolidated financial statements were approved, and has determined that there are no subsequent events that require disclosure in these condensed consolidated financial statements.

CORPORATE INFORMATION

CORPORATE PROFILE

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

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BONDHOLDER INQUIRIES

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