Quarterly Report - Quarter 1
For the Interim Period ended September 30, 2016

BOYUAN CONSTRUCTION GROUP, INC.

	NOTES	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
Equity			
Share capital	16	7,156,864	7,156,864
Reserves	17	94,827,905	95,098,411
		101,984,769	102,255,275

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

The interim condensed consolidated financial statements on pages 1 to 25 were approved and authorized for issue by the Board of Directors on November 12, 2016 and are signed on its behalf by:

COMMITMENTS AND CONTINGENT LIABILITIES (Note 22)
SUBSEQUENT EVENT (Note 24)

"*Francis Leong*"
Francis Leong, Director

" Jack Duffy"
Jack Duffy, Director

BOYUAN CONSTRUCTION GROUP, INC.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016
(unaudited)

	NOTES	For the three months ended September 30 2016 (unaudited) US$	2015 (unaudited) US$
Construction revenue		29,713,769	60,868,519
Costs of construction		(27,226,148)	(55,313,839)
Gross profit		2,487,621	5,554,680
Other income		1,488,888	1,285,026
Foreign exchange gain (loss), net		3,497	(11,197)
General and administrative expenses		(1,506,131)	(1,318,809)
Provision for allowance of doubtful debts		(20, 725)	-
Gain on fair value change of financial guarantee contracts	22	54,032	-
Interest expense		(1,654,484)	(1,808,786)
Share-based compensation		-	(35,004)
Profit before income taxes		852,698	3,665,910
Income taxes	15	(382,597)	(1,488,099)
Profit for the period		470,101	2,177,811
Other comprehensive expense			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference on translation of foreign operations		(740,607)	(4,168,094)
Total comprehensive expense for the period		(270,506)	(1,990,283)
Earnings per share:	18		
Basic		0.02	0.09
Diluted		0.02	0.08
Weighted average number of common shares outstanding:	18		
Basic		25,420,065	25,420,065
Diluted		25,420,065	31,189,296

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

BOYUAN CONSTRUCTION GROUP, INC.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016
(unaudited)

	Share capital US$	Contributed surplus US$	Statutory reserve US$	Convertible debentures equity reserve US$	Foreign currency translation reserve US$	Retained earnings US$	Total equity US$
Balance at June 30, 2015 (audited)	7,156,864	6,926,019	11,070,371	4,603,470	10,813,110	65,815,743	106,385,577
Profit for the period	-	-	-	-	-	2,177,811	2,177,811
Exchange difference on translation of foreign operations	-	-	-	-	(4,168,094)	-	(4,168,094)
Total comprehensive (expense) income for the period	-	-	-	-	(4,168,094)	2,177,811	(1,990,283)
Recognition of equity-settled share-based compensation (note 16)	-	35,004	-	-	-	-	35,004
Balance at September 30, 2015 (unaudited)	7,156,864	6,961,023	11,070,371	4,603,470	6,645,016	67,993,554	104,430,298
Balance at June 30, 2016 (audited)	7,156,864	7,066,035	11,510,851	4,603,470	1,305,197	70,612,858	102,255,275
Profit for the period	-	-	-	-	-	470,101	470,101
Exchange difference on translation of foreign operations	-	-	-	-	(740,607)	-	(740,607)
Total comprehensive (expense) income for the period	-	-	-	-	(740,607)	470,101	(270,506)
Balance at September 30, 2016 (unaudited)	7,156,864	7,066,035	11,510,851	4,603,470	564,590	71,082,959	101,984,769

BOYUAN CONSTRUCTION GROUP, INC.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016
(unaudited)

	For the three months ended September, 30	
	2016 (unaudited) US$	2015 (unaudited) US$
Cash flows (used in) from operating activities		
Profit before taxes	852,698	3,665,910
Items not affecting cash:		
Depreciation and amortization	622,493	1,023,436
Interest expense	1,654,484	1,808,786
Provision for allowance of doubtful debts	(3,874)	
Share-based compensation expenses	-	35,004
Gain on fair value change of financial guarantee contracts	(54,032)	-
Loss on disposal of equipment	65,378	-
Unrealized foreign exchange	245,315	363,283
Changes in non-cash working capital items:		
Accounts receivable	(7,598,941)	1,695,897
Unbilled revenue	16,248,201	(15,920,731)
Other receivables	(545,401)	(1,402,903)
Inventory	604,918	585,750
Advance to suppliers and prepaid expenses	(3,130,367)	651,396
Deposits	(1,887,691)	378,745
Accounts payable and accrued liabilities	(9,214,332)	6,067,385
Deferred revenue	-	3,266,300
Cash (used in) generated from operations	(2,141,151)	2,218,258
Income taxes paid	(1,500)	(848,231)
	(2,142,651)	1,370,027
Cash flows from investing activities		
Change in restricted cash	1,044,848	1,205,323
Proceeds on disposal of property and equipment	45,004	-
Purchase of property and equipment	(217,592)	(131,776)
	872,260	1,073,547
Cash flows from (used in) financing activities		
Proceeds from bank loans	21,977,066	23,925,443
Repayment of bank loans	(16,576,558)	(26,777,274)
Proceeds from other loans	1,800,169	1,890,717
Repayment of other loans	(10,548)	(485,842)
Change in bank notes payable	(2,130,200)	(3,140,762)
Interest paid on convertible debentures	(364,328)	(344,142)
Other interest paid	(1,181,825)	(2,589,768)
	3,513,776	(7,521,628)

BOYUAN CONSTRUCTION GROUP, INC.

	For the three months ended September 30	
	2016 (unaudited) US$	2015 (unaudited) US$
Effect of changes in exchange rate changes on cash and cash equivalents	(7,407)	(325,778)
Increase (decrease) in cash and cash equivalents	2,235,978	(5,403,832)
Cash and cash equivalents, beginning of period	1,624,247	9,810,988
Cash and cash equivalents, end of period represented by bank balances and cash	3,860,225	4,407,156

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

1. NATURE OF OPERATIONS

Boyuan Construction Group, Inc. (the "Company") was incorporated under the Canada Business Corporations Act on May 4, 2007, with its shares listed on the Toronto Stock Exchange on June 16, 2010. The Company's registered office and principal place of business is located at Jing Hui Plaza, No.500, Matang Road, Changshui Street, Economic Development Zone Jiaxing City, Zhejiang Province, the People's Republic of China ("China" or "PRC"). The Company and its subsidiaries (collectively the "Group") are engaged in the construction of residential and commercial buildings, municipal infrastructure and engineering projects in the PRC.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, they do not include all of the information required for full annual financial statements required by IAS 1 *Presentation of Financial Statements of the International Financial Reporting Standards* ("IFRS") as issued by the IASB. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended June 30, 2016, which include information necessary to understand the Company's business and financial statement presentation.

These unaudited interim condensed consolidated financial statements as at and for the three months ended September 30, 2016 were authorized for issuance by the Board of Directors on November 12, 2016.

Except as described below, the accounting policies and methods of computation used in the interim condensed consolidated financial statements for the three months ended September 30, 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended June 30, 2016.

In the current interim period, the Group has applied for the first time the following amendments to IFRSs issued by the IASB.

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRSs	Annual Improvements to IFRSs 2012 - 2014 Cycle
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception

2. SIGNIFICANT ACCOUNTING POLICIES - continued

The application of these amendments to IFRSs in the current interim period has had no material effect on amounts reported in these interim condensed consolidated financial statements and/or disclosures set out in these interim condensed consolidated financial statements.

3. PROPERTY AND EQUIPMENT

Movements in the carrying value of property and equipment were as follows:

	Building US$	Machinery, equipment and scaffoldings US$	Vehicles US$	Office equipment US$	Leasehold improvement US$	Construction in progress US$	Total US$
COST							
Balance at June 30, 2016 (audited)	5,447,359	20,482,154	1,847,704	1,808,156	1,538,428	484,521	31,608,322
Additions	-	27,561	-	32,193	-	157,839	217,593
Disposals	-	-	(315,234)	-	-	-	(315,234)
Effect of foreign currency exchange differences	(21,219)	(79,801)	(7,040)	(7,063)	(5,994)	(1,965)	(123,082)
Balance at September 30, 2016 (unaudited)	5,426,140	20,429,914	1,525,430	1,833,286	1,532,434	640,395	31,387,599
ACCUMULATED DEPRECIATION							
Balance at June 30, 2016 (audited)	2,335,836	16,734,667	1,549,185	1,427,163	1,461,508	-	23,508,359
Depreciation expense	36,544	498,713	-	43,848	-	-	579,105
Disposals	-	-	(204,852)	-	-	-	(204,852)
Effect of foreign currency exchange differences	(9,118)	(65,439)	(5,932)	(5,583)	(5,694)	-	(91,766)
Balance at September 30, 2016 (unaudited)	2,363,262	17,167,941	1,338,401	1,465,428	1,455,814	-	23,790,846
NET BOOK AMOUNT							
At September 30, 2016 (unaudited)	3,062,878	3,261,973	187,029	367,858	76,620	640,395	7,596,753
At June 30, 2016 (audited)	3,111,523	3,747,487	298,519	380,993	76,920	484,521	8,099,963

Buildings with carrying amount of US$2,635,615 (June 30, 2016: US$2,647,886) have been pledged to secure the bank loans as disclosed in note 11.

4. PREPAID LEASE PAYMENTS

	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term leases	95,845	97,504
Analysed for reporting purposes as:		
Non-current assets	93,046	92,178
Current assets	2,799	5,326
	95,845	97,504

In June 2007, Zhejiang Boyuan acquired a 50 year land use right in Jiaxing, Zhejiang, the PRC for the construction of office building and 2 residential buildings used by the Group as employee quarters. The right will expire on August 23, 2056.

Prepaid lease payments with carrying amount of US$95,845 (June 30, 2016: US$97,504) have been pledged to secure the bank loans as disclosed in note 11.

5. UNBILLED REVENUE

Unbilled revenue comprises gross amount due from customers for completed contracts and contracts in progress. Unbilled revenue is the net amount of construction costs incurred plus recognized profit less recognized losses and progress billings.

	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
Completed contracts	69,540,435	92,198,981
Contracts in progress	105,776,974	104,016,575
Gross unbilled revenue	175,317,409	196,215,556
Less: Effect of discounting, net	(7,445,617)	(6,259,723)
Impairment loss recognised	(13,414,374)	(15,382,650)
	154,457,418	174,573,183
Analysed for reporting purposes as:		
Non-current assets	51,537,106	49,526,039
Current assets	102,920,312	125,047,144
	154,457,418	174,573,183

5. UNBILLED REVENUE - continued

The unbilled revenue recognized for contracts in progress included in the unbilled revenue are as follows:

Aggregate costs of construction	414,008,419	401,363,116
Gross profit recognized	66,094,533	59,864,704
	480,102,952	461,227,820
Less: aggregate of progress billings	(374,325,979)	(357,211,245)
Contracts in progress - unbilled revenue portion, end of period/year	105,776,973	104,016,575
Less: deferred revenue related to contract in progress, end of period/year	(239,278)	(158,052)
Net position	105,537,695	103,858,523

Movement in allowance for doubtful debts

	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
At beginning of the period/year	15,382,650	12,986,126
Impairment losses recognized	-	5,502,464
Impairment losses reversed	-	(1,904,926)
Transferred to accounts receivable	(1,909,310)	-
Effect of foreign currency exchange differences	(58,965)	(1,201,014)
At end of the period/year	13,414,374	15,382,650

Recoverability of unbilled revenue is reviewed on a case-by-case basis when there is objective evidence that a customer will default. Management takes into consideration the customer's payment history, the credit worthiness and the current economic environment in which the customer operates to assess the amount of impairment.

6. ACCOUNTS RECEIVABLE

	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
Accounts receivable	47,146,164	35,430,835
Less: Effect of discounting, net	(1,118,528)	(917,374)
Allowance for doubtful debts	(3,024,592)	(1,099,808)
	43,003,044	33,413,653
Analysed for reporting purpose as:		
Non-current assets	10,494,213	7,966,150
Current assets	32,508,831	25,447,503
	43,003,044	33,413,653

6. ACCOUNTS RECEIVABLE - continued

Movement in the allowance for doubtful debts

	September 30,2016 (unaudited) US$	June 30,2016 (audited) US$
At beginning of the period/year	1,099,808	1,528,109
Impairment losses recognized	46,717	675,220
Impairment losses reversed	(25,992)	(986,054)
Transferred from unbilled revenue	1,909,310	-
Effect of foreign currency exchange differences	(5,251)	(117,467)
At end of the period/year	3,024,592	1,099,808

7. DEPOSITS

	September 30,2016 (unaudited) US$	June 30,2016 (audited) US$
Contract performance deposits (Note a)	7,222,773	5,852,604
Project tender deposits (Note b)	1,377,939	830,900
Others	150,147	207,453
	8,750,859	6,890,957

Notes:

(a) Contract performance deposits are advanced to customers at the beginning of construction projects. The deposits are repaid to the Group based on the progress of construction and terms of the contract.

(b) Project tender deposits are advanced to potential customers during the contract tendering period. The deposits are repaid to the Group when the tendering process is complete.

8. ADVANCES AND PREPAID EXPENSES

	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
Advances to project managers and suppliers (Note)	3,335,431	229,004
Prepaid expenses	24,155	80,404
Other	358,888	292,490
	3,718,474	601,898

Note: The Group advanced monies to suppliers and project managers in order to secure construction materials and services. The advances of US$3,223,617 (June 30, 2016: US$123,210) to the project managers are held in bank accounts in trust for the Group.

9. RELATED PARTY BALANCES AND TRANSACTIONS

The Group has the following related party balances:

	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
Amount due from a related party		
Due from a company controlled by Mr. Shou Cailiang ("Mr. Shou"), the ultimate controlling shareholder, CEO and director of the Company	56,028	56,247

The amount is non-interest bearing, unsecured and have no fixed terms of repayment.

As at September 30, 2016, the Group has loans from a company totalling US$1,499,390 (June 30, 2016: US$1,505,253) controlled by a family member of Mr. Shou. The amount is included in other loans in note 13 which are unsecured, interest-free and repayable within one year from the end of the reporting period.

Related party transactions

Key management personnel compensation

Key management personnel include all directors, chief executive officer, chief financial officer, corporate secretary and vice president. The remuneration of key management personnel for the year was as follows:

	September 30, 2016 (unaudited) US$	September 30, 2015 (unaudited) US$
Short-term employee benefits	74,136	76,266
Share-based payment	-	26,128
	74,136	102,394

10. RESTRICTED CASH/BANK NOTES PAYABLE

As at September 30, 2016 and June 30, 2016, the Group had restricted cash pledged for credit facilities as follows:

	September 30,2016 (unaudited) US$	June 30,2016 (audited) US$
Bank notes payable deposits	5,753,158	6,824,066
Bank loans deposits	7,564,421	7,594,003
	13,317,579	14,418,069

A bank note payable is a note issued by a bank for payments in future, which defers the payment until the due date for redeeming the note. According to the bank notes payable agreement with the bank, a certain percentage of the payable amount is required to be deposited at the bank as security for bank notes payable which total US$17,048,000 as of September 30, 2016 (June 30, 2016: US$19,252,000). The restrictions on the deposited cash will be released between October 2016 and March 2017, when the bank notes payable mature.

The restricted cash of deposits for bank loans varies based on the bank's credit policy and can only be withdrawn when the loans mature.

11. BANK LOANS

As at September 30, 2016, the Group has bank loans outstanding totalling US$74,773,068 (June 30, 2016: US$69,646,567) for working capital and capital expenditure purposes.

	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
Secured	74,773,068	68,141,313
Unsecured	-	1,505,254
	74,773,068	69,646,567

As at September 30, 2016 and June 30, 2016, a wholly-owned subsidiary, related parties (includes Mr. Shou and his family member) and some independent third parties have provided guarantees to certain banks over bank loans granted to the Group amounted to US$3,599,000, US$2,699,000 and US$59,584,000 (June 30, 2016: US$6,021,000, US$2,709,000 and US$50,485,000) respectively. In addition, the Group has pledged its assets to secure bank loans of US$8,891,000 (June 30, 2016: US$8,926,000) granted to the Group and the carrying values of the pledged assets are as follows:

	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
Restricted cash	7,564,421	7,594,003
Property and equipment	2,635,615	2,647,886
Prepaid lease payments	95,845	97,504
	10,295,881	10,339,393

11. BANK LOANS - continued

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's borrowing and their carrying values are as follow:

	September 30,2016 (unaudited) US$	June 30,2016 (audited) US$
Fixed-rate borrowing		
Denominated in RMB (range from 3.75% to 8.70% as of September 30, 2016 and range from 4.39% to 8.70% as of June 30, 2016)	41,636,554	36,470,783
Variable rate borrowing		
Denominated in RMB (range from 4.13% to7.80% as of September 30, 2016 and range from 4.13% to 7.80% as of June 30, 2016) (Note a)	33,136,514	33,175,784
	74,773,068	69,646,567

Notes:

(a) For bank loans in RMB, the variable rate range from 95% of Prime to Prime plus 3.45% as of September 30, 2016 (June 30, 2016: range from 95% of Prime to Prime plus 3.5%). Prime is the benchmark rate of the People's Bank of China.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
Accounts payable (Note)	9,186,150	18,515,035
Salaries and wages payable	274,353	296,035
other taxes payable	7,800,116	8,645,389
Accrued expenses	4,578,494	6,199,083
Others	4,903,399	3,164,511
	26,742,512	36,820,053

Note: The accounts payable are trade in nature and the average credit period on purchase of goods ranges from 30 to 90 days. The Group has financial risk management policies in place to ensure that payables are settled within the credit timeframe

13. OTHER LOANS

As at September 30, 2016, the Group has other loans outstanding totalling US$11,187,591 (June 30, 2016: US$9,435,621) for working capital and capital expenditure purposes.

	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
Loans from third parties (Note a)	9,686,058	7,917,633
Loan from a related company (Note b)	1,499,390	1,505,253
Others	2,143	12,735
	11,187,591	9,435,621
Unsecured	11,187,591	9,435,621
	11,187,591	9,435,621
Carrying amount repayable:		
Within one year	11,187,591	9,435,621
	11,187,591	9,435,621
Less: Amounts shown under current liabilities	(11,187,591)	(9,435,621)
	-	-

Notes:

(a) During the period ended September 30, 2016, the Group obtained several loans from independent third parties to fund the construction projects of the Group. The loans are unsecured, interest-free and repayable within one year from the end of the reporting period.

(b) During the period ended September 30, 2016, the Group obtained several loans from a company controlled by a family member of Mr. Shou. The loans are unsecured, interest-free and repayable within one year from the end of the reporting period.

14. CONVERTIBLE DEBENTURES

	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
Balance, beginning of period/year	5,413,941	8,238,434
Interest charged	472,658	3,003,193
Interest paid	(364,328)	(996,565)
Redemption of convertible debentures	-	(3,859,216)
Effect of foreign currency exchange differences	301,226	(971,905)
Balance, end of period/year	5,823,497	5,413,941

14. CONVERTIBLE DEBENTURES - continued

Liability component of the convertible debentures is analysed for reporting purpose as:

	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
Current liability	1,147,076	1,056,763
Non-current liability	4,676,421	4,357,178
	5,823,497	5,413,941

15. INCOME TAXES

Income tax expenses are as follows:

	September 30,2016 (unaudited) US$	September 30,2015 (unaudited) US$
Current tax:		
PRC Enterprise Income Tax	286,567	1,500,308
Deferred tax:		
Current period	96,030	(12,209)
	382,597	1,488,099

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The Company is incorporated in Canada, which is the country in which the Company is domiciled, and is governed by the Income Tax Act of Canada. It is not anticipated to incur income taxes as no income is to be generated in Canada.

For the purpose of presentation in the interim condensed consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is an analysis of the deferred tax balances for financial reporting purposes:

	Impairment losses on accounts receivable and unbilled revenue US$	Unbilled revenue US$	Plant and equipment US$	Total US$
At June 30, 2015 (audited)	3,384,258	(2,369,408)	1,340,114	2,354,964
Credited or (charged) to profit or loss	821,677	(48,902)	184,239	957,014
Exchange realignment	282,522	(263,247)	75,870	95,145
At June 30, 2016 (audited)	4,488,457	(2,681,557)	1,600,223	3,407,123
Credited or (charged) to profit or loss	5,181	(108,050)	6,839	(96,030)
Exchange realignment	17,485	(10,446)	6,234	13,273
At September30,2016 (unaudited)	4,511,123	(2,800,053)	1,613,296	3,324,366

16. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

Unlimited number of Class A Series 1 preferred shares without par value, each preferred share is convertible to one common share at no additional consideration.

(b) Issued common shares

	Number of shares	Amount US$
Balance at June 30, 2015, June 30, 2016 and September 30, 2016	25,420,065	7,156,864

Stock options

The Company grants incentive stock options as permitted pursuant to the Company's Stock Option Plan (the "Plan") approved by the shareholders which complies with the rules and policies of the TSX. Under the Plan, the aggregate number of common shares which may be subject to option at any one time may not exceed 10% of the issued common shares of the Company as of that date including options granted prior to the adoption of the Plan. Options granted may not exceed a term of 5 years, and the term will be reduced to one year following the date of death of the optionee. If the Optionee ceases to be qualified to receive options from the Company those options shall immediately expire. All options vest when granted unless otherwise specified by the Board of Directors.

As at September 30, 2016, the Company has stock options outstanding to directors and officers to acquire an aggregate of 1,755,000 (June 30, 2016: 1,755,000) common shares summarized as follows.

	Underlying shares	Weighted average exercised price CAD
Stock options outstanding at June 30, 2015, June 30, 2016 and September 30, 2016	1,755,000	0.61

Details of stock options outstanding:

Expiry date	Exercise price	Stock options outstanding September 30, 2016	Stock options outstanding June 30, 2016	Stock options exercisable and vested September 30, 2016	Stock options exercisable and vested June 30, 2016
June 30, 2019	CAD0.61	1,755,000	1,755,000	1,755,000	1,755,000

16. SHARE CAPITAL - continued

(b) Issued common shares - continued

During the year ended June 30, 2014, there were 1,755,000 options granted by the Company. One-third of the options vest on the grant date, one-third on June 30, 2015 and the remaining one-third on June 30, 2016. The fair value of the share options is determined using the Black-Scholes option pricing model on the date of issue to be US$0.48 per option. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

The Company uses the Black-Scholes option pricing model to value stock options which requires management to make estimates that are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values. The key assumptions adopted in the valuation was as follows:

	2014
Share price at grant date	US$0.62
Risk-free interest rate	1.53%
Expected dividend yield	0%
Expected option life	5 years
Expected stock price volatility	119%
Estimated forfeiture rate	0%

For the period ended September 30, 2016, share-based compensation expense related to the above options of US$nil (September 30, 2015: US$35,004) was charged to the statement of profit or loss.

17. RESERVES

Statutory reserve

Pursuant to PRC regulations, the Group is required to make appropriations to reserve funds, based on after tax net income determined in accordance with PRC generally accepted accounting principles. The reserve funds are established for covering corporate obligations in the event of business liquidation. The reserve funds are presented in the consolidated financial statement as statutory reserve but are not available for distribution to shareholders other than in liquidation and may limit repatriation of invested capital. The reserve funds accumulated by the Group as at September 30, 2016 was US$11,510,851 (June 30, 2016: US$11,510,851).

Contributed surplus

Contributed surplus comprises a) capital contribution from shareholders, b) share-based payment reserve, and c) the amount transferred from convertible debentures equity reserve attributable to the extinguished convertible debentures, net of the amount of consideration relating to the original equity component of convertible debentures upon their early extinguishment.

18. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	For the three months ended September 30,	
	2016	2015
	(Unaudited)	(Unaudited)
	US$	US$
Earnings		
Earnings for the purpose of basic earnings per share (represented by profit for the period)	470,101	2,177,811
Effect of diluted earnings per share:		
Interest on convertible debentures (net of income tax)	-	384,529
	470,101	2,562,340
Number of shares		
Number of common shares for the purpose of basic earnings per share	25,420,065	25,420,065
Effect of dilutive potential common shares:		
Share options issued by the Company	-	-
Convertible debentures	-	5,769,231
Weighted average number of common shares for the purpose of diluted earnings per share	25,420,065	31,189,296
Basic earnings per common share	0.02	0.09
Diluted earnings per common share	0.02	0.08

For the three months ended September 30, 2016, the computation of diluted earnings per share does not assume i) the exercise of the Company's outstanding share options because the exercise price of those options was higher than the average market price and ii) the conversion of the Company's convertible debentures since their exercise would result in an increase in earnings per share.

19. CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders through expansion correspondingly to the level of risk.

Management of the Company defines capital as shareholders' equity, bank loans, bank notes payable, other loans and convertible debentures.

The Group is required to maintain a certain level of deposits with its banks as compensating balances for bank loans provided by these banks. The Group is no subject to any other externally imposed capital requirements.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may issue new shares, sell assets, reduce debt or increase its debt.

20. FINANCIAL INSTRUMENTS

	September 30, 2016 (unaudited) US$	June 30, 2016 (audited) US$
Financial assets		
Loans and receivables		
Unbilled revenue	154,457,418	174,573,183
Accounts receivables	43,003,044	33,413,653
Deposits	8,750,859	6,890,957
Other receivables	1,867,999	1,329,363
Due from a related party	56,028	56,247
Restricted cash	13,317,579	14,418,069
Cash and cash equivalents	3,860,225	1,624,247
Total financial assets	225,313,152	232,305,719
Financial liabilities		
Other financial liabilities		
Bank loans	74,773,068	69,646,567
Accounts and other payables	9,460,503	18,811,070
Bank notes payable	17,048,061	19,252,190
Other loans	11,187,591	9,435,621
Convertible debentures	5,823,497	5,413,941
Financial guarantee contracts	1,186,039	1,240,071
Total financial liabilities	119,478,759	123,799,460

20. FINANCIAL INSTRUMENTS - continued

The Group's financial instruments are exposed to certain financial risks including market risk (currency risk and interest rate risk), credit risk and liquidity risk.

Market risk

Foreign currency risk management

The Group has limited foreign currency exposure as the amounts of foreign currency monetary assets and liabilities held by the Group at the end of the reporting date are minimal. The management conducts periodic review of the exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

Interest rate risk management

The Group is exposed to fair value interest rate risk in relation to fixed-rate loans (note 11). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and loans (note 11).

The Group does not currently hold any financial instruments that mitigate these risks. Unfavourable changes in the applicable interest rate may result in an increase in interest expense.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prime rate in China arising from the Group's loans disclosed in note 11 to the interim condensed consolidated financial statements.

Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rate risk for variable-rate bank balances and loans. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all other variables were held constant.

Bank balances

If interest rates had been 100 basis points (September 30, 2015: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the period would increase/decrease by approximately US$128,834 (September 30, 2015: increase/decrease in the Group's post-tax profit of approximately US$98,673). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances.

Loans

If interest rates had been 100 basis points (September 30, 2015: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the period would decrease/increase by approximately US$248,524 (September 30, 2015: decrease/increase in the Group's post-tax profit of approximately US$316,813). This is mainly attributable to the Group's exposure to the interest rates on its variable-rate loans.

20. FINANCIAL INSTRUMENTS - continued

Credit risk management

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognized financial assets as stated in the interim condensed consolidated statements of financial position and financial guarantees provided by the Group as disclosed in note 22.

Credit risk from accounts receivable, unbilled revenue and deposits to customers encompasses the default risk of customers and non-performance by customers in accordance with contractual terms. The Group's customers are for the most part, private companies located in the PRC. Its exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Group's exposure to credit risk associated with its accounts receivable, unbilled revenue and deposits to customers is the risk that a customer will be unable to pay amounts due to the Group. In its determination of valuation of accounts receivable, unbilled revenue and deposits to customers, including the allowance for doubtful accounts, management relies on current customer information and its planned course of action as well as assumptions about business and economic conditions in the future period over which the receivables are collectible. Allowances are provided for potential losses that have been incurred at the end of the reporting period. The amounts disclosed on the statements of financial position are net of these allowances for doubtful debts. Accounts receivables, unbilled revenue and deposits to customers are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default.

Management takes into consideration the customer's payment history, the credit worthiness and the current economic environment in which the customer operates to assess impairment. Management, on an ongoing basis, monitor the level of accounts receivable, unbilled revenue and deposits to customers attributable to each customer and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue.

Under PRC regulations, a general contractor is entitled to first claim against assets of its customers, which gives a general contractor a "mechanic lien" senior to all other secured debt including bank loans, bank notes and any payables. If a customer defaults on the payment on the contract with the Group, the customer can be liable to surrender the real estate property and the land use rights associated with the real estate property that is under construction.

In this regard, the directors of the Company consider that the Group's credit risk in relation to the accounts receivable and unbilled revenue are significantly reduced.

As of September 30, 2016, revenue from the three customers accounted for 40% (September 30, 2015: 37%) of total revenue. The outstanding amounts owed by top three customers accounted for 39% and 32% (June 30, 2016: 47% and 36%) of the total accounts receivable and unbilled revenue, respectively.

The directors of the Company consider that the Group has adequate credit control for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and unbilled revenue accounts at the end of each reporting period to ensure that adequate impairment losses are made against the irrecoverable amounts.

Based on management's assessment, there are no changes in the credit quality of the remaining customers. They are customers with long trading history with the Group and no default payment, the credit risk from these customers is mitigated.

20. FINANCIAL INSTRUMENTS – continued

Credit risk management– continued

The Group's bank balances and restricted cash are held in large PRC and Hong Kong banks. These assets have low credit risk due to the financial strength and credibility of the banks.

The Group had concentration of credit risk by geographical locations as all the accounts receivable and unbilled revenue are located in the PRC as at September 30, 2016 and June 30, 2016.

Liquidity risk management

Liquidity risk is the risk that the Group is not able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure that sufficient cash and credit facilities are available to meet liabilities when due. The contractual maturities of the Group's other loans and convertible debentures are described in notes 13 and 14, respectively. The remaining financial liabilities, consisting of bank loans, bank notes payable and accounts payable, are expected to be realized within one year. Their carrying value on the consolidated statements of financial positions are stated as undiscounted cash flow based on the earliest date on which the Group can be required to satisfy the liabilities.

The table represents undiscounted cash flow for current and non-current portion of financial liabilities as at September 30, 2016 and June 30, 2016. The undiscounted cash flow includes both interest and principal cash flows. For other financial liabilities, all balances are due within 1 year and the undiscounted cash flows are approximated to the carrying amount. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period:

	Weighted average interest rate	Less than 1 year	1 - 2 years	2 - 5 years	Total undiscounted cash flows	Carrying amount
	%	$	$	$	$	$
At September 30, 2016						
Bank loans	5.3	74,773,068	-	-	74,773,068	74,773,068
Bank notes payable	-	17,048,061	-	-	17,048,061	17,048,061
Accounts and other payables	-	9,460,503	-	-	9,460,503	9,460,503
Other loans	-	11,187,591	-	-	11,187,591	11,187,591
Convertible debentures	34.6	1,929,482	1,798,261	5,533,189	9,260,932	5,823,497
Financial guarantee contracts (Note)	-	25,114,778	-	-	25,114,778	1,186,039
		139,513,483	1,798,261	5,533,189	146,844,933	119,478,759

	Weighted average interest rate	Less than 1 year	1 - 2 years	2 - 5 years	Total undiscounted cash flows	Carrying amount
	%	$	$	$	$	$
At June 30, 2016						
Bank loans	4.7	69,646,567	-	-	69,646,567	69,646,567
Bank notes payable	-	18,811,070	-	-	18,811,070	18,811,070
Accounts and other payables	-	19,252,190	-	-	19,252,190	19,252,190
Other loans	-	9,435,621	-	-	9,435,621	9,435,621
Convertible debentures	34.8	1,957,109	1,823,966	5,612,283	9,393,358	5,413,941
Financial guarantee contracts (Note)	-	29,277,177	-	-	29,277,177	1,240,071
		148,379,734	1,823,966	5,612,283	155,815,983	123,799,460

20. FINANCIAL INSTRUMENTS- continued

Liquidity risk management- continued

Note: The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that such an amount will not be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Fair Value

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the interim condensed consolidation financial statements approximate their fair value.

21. SEGMENTED INFORMATION

Management has determined the operating segments based on the reports reviewed by the Managing Director of the Company, being the chief operating decision maker, that are used to make strategic decisions. The Group has one operating segment, being the construction of residential and business buildings, municipal infrastructure and engineering projects in PRC. All of the Group's revenue was generated in PRC and substantially all capital assets are located in the PRC.

22. OTHER FINANCIAL LIABILITIES/CONTINGENT LIABILITIES

As at September 30, 2016 and June 30, 2016, the Group has guaranteed the bank loans for other construction companies, in amounts totalling US$25,114,778 (June 30, 2016: US$29,277,177). No consideration has been specifically received by the Group for these guarantees.

During the year ended June 30, 2016, the Group engaged an independent qualified professional valuer to assess the fair value of the financial guarantee contracts at initial recognition. The fair value of financial guarantee contracts upon recognition is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of expected loss, as a result of the default.

The carrying amount of the Group's financial guarantee contracts amounted to approximately US$1,186,000 (June 30, 2016: US$1,240,000) represented the amount of obligation under these contracts as at September 30, 2016.

23. Operating Leases

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	September 30,2016 (unaudited) US$	June 30,2016 (audited) US$
Within one year	449,695	559,542
In the second to fifth years inclusive	1,185,335	1,309,439
	1,635,030	1,868,981

Operating lease payments represent rentals payable for office premise in Zhejiang and Hainan, the PRC. Leases are negotiated for an average term of three years.

24. SUBSEQUENT EVENT

On October 31, 2016, the Company successfully retracted and redeemed CAD1,500,000 of the 11.5% convertible debentures due on October 31, 2018.

BOYUAN CONSTRUCTION GROUP, INC.

Management's Discussion and Analysis

For the three months ended September 30, 2016

November 13, 2016

This Management's Discussion and Analysis ("**MD&A**") relates to the results of operations and the financial condition of Boyuan Construction Group, Inc. (the "**Company**") for the three months ended September 30, 2016. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements of the Company for the three months ended September 30, 2016 and notes thereto. The United States dollars is the Company's reporting currency and all figures herein are in United States dollars unless otherwise indicated. Boyuan reported its financial results in accordance with International Financial Reporting Standards (IFRS), as required for public companies in Canada. Additional information about Boyuan including the Company's Annual Information Form and other filings are available through the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Caution Regarding Forward-Looking Information:

Certain information contained in this MD&A constitutes forward-looking information, which is information relating to future events or the Company's future performance and which is inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information contained in this MD&A includes, but is not limited to, management's belief in the level of credit risk arising from the Company's customers, management's expectation on the effectiveness of the Company's disclosure controls and internal controls, management's plan to implement independent consultant's recommendations on internal controls and the plan to engage the consultant to perform an updated review on the internal control system, the Company's outlook on China's ongoing expansion of middle class and the growth of China's tier-2 cities and on the continued demand for the Company's services, the Company's plan to increase focus on specialty construction projects, the Company's expectation of higher profit margins for the specialty construction projects, and the Company's plan to upgrade its construction licences and qualifications. Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and readers are cautioned not to place undue reliance on forward-looking information contained in this MD&A. Some of the risks and other factors which could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A include, but are not limited to: risk of the current depressed property market in China, risk of macro-economy cycle, risk from competition, risk from insufficient marketing to secure new projects, risk in obtaining additional financing, risk involving permits and licenses, reliance on key management member, risk from supply of raw materials, risk of financial leverage, risk of bad debts in accounts receivables, risk involved in real estate development, foreign exchange fluctuations, political and economic conditions in China and other risks included in the Company's Annual Information Form for FY2016 and in the Company's other public disclosure documents filed with certain Canadian securities regulatory authorities and available at www.sedar.com. The forward-looking information contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as otherwise required by law.

OVERVIEW OF BUSINESS

About Boyuan

Based in Jiaxing City, China, Boyuan Construction Group, Inc. is in the business of residential and commercial building construction, municipal infrastructure and engineering projects. The Company operates as a general contractor across China. Having a national class I construction qualification, the Company is qualified to participate in construction projects up to 40 storeys with a gross construction area of 200,000 square meters and with a contract value of less than five times of the registered capital of Zhejiang Boyuan Construction Co., Ltd., the operating entity in China.

The Company has completed 41 major projects in the past three fiscal years. Currently the Company has a significant project backlog including residential, commercial, industrial, and hotels. The duration of these projects ranges from one to three years. The majority of these projects are located in the Yangtze River Delta and Hainan Island.

The Company’s common shares are publicly traded on the Toronto Stock Exchange (the “**Exchange**” or the “**TSX**”) under the symbol “BOY”. The Company’s 11.5% unsecured convertible debentures due October 31, 2018 (the “**Unsecured Debentures**”) are traded on the Exchange under the symbol “BOY.DB.A”.

Significant Accounting Policies

Basis of consolidation

The unaudited interim condensed consolidated financial statements incorporate the financial statements of the Company and entities (including a special purpose entity) controlled by the Company and its subsidiaries.

Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Recognition of revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as unbilled revenue. Amounts billed for work performed but not yet paid by the customer are included in the interim condensed consolidated statement of financial position under accounts receivable.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the unaudited interim condensed consolidated financial statements.

Revenue recognition

Construction revenue, construction costs and unbilled revenue include amounts derived using the percentage of completion method applied to construction contracts. Percentage of completion is calculated based on the costs incurred on each construction contract at the end of the respective accounting period divided by the total estimated costs for the contract and then multiplied by the estimated construction revenue expected to be earned. To determine the estimated construction costs and revenues to complete the construction contract, judgment, assumptions and estimates are required to evaluate issues related to the schedule, material and labour costs, labour productivity, changes in contract scope, subcontractor costs and others. Due to the nature of construction, estimates may change significantly from one accounting period to the next.

The value of construction contracts usually increases over the duration of the construction period. Change orders may be issued by customers to modify the original contract scope of work or conditions. Construction work related to a change order may proceed, and costs may be incurred, in advance of final determination of the value of the change order. Revenue on change orders is recognized by the Company to the extent that management estimates that realization is probable. As many change orders are settled at the end of the construction project, significant increases or decreases in revenue and income may arise during any particular accounting period.

Control over Zhejiang Boyuan Construction Co., Ltd. ("Zhejiang Boyuan")

The Group operates its business through Zhejiang Boyuan by means of Contractual Arrangement (as defined below).

The management of the Company assessed whether or not the Group has control over Zhejiang Boyuan based on whether the Group has the practical ability to direct the relevant activities of Zhejiang Boyuan unilaterally. In making their judgment, the directors of the Company considered the Contractual Arrangement (as defined below).

On January 10, 2009, Zhejiang Jianyou Trading Co., Ltd. ("China Privco"), a wholly-owned PRC subsidiary of the Group, Zhejiang Boyuan and shareholders of Zhejiang Boyuan, entered into a series of agreements (the “Contractual Arrangement”). Mr. Shou Cailiang (“Mr. Shou”), the ultimate controlling shareholder, CEO and director of the Company, holds 90% equity interest in Zhejiang Boyuan.

The key provisions of the Contractual Arrangement are follows:

(i) *Exclusive Option Agreement:* China Privco can acquire the equity interest in, and all or part of the assets and business of, Zhejiang Boyuan at any time if legally permitted at a minimal amount;

(ii) *Management Agreement:* Zhejiang Boyuan entrusted China Privco to manage and operate the business of Zhejiang Boyuan. China Privco will be remunerated with the net earnings before tax of Zhejiang Boyuan and will assume all operational risks and bear all losses of Zhejiang Boyuan;

(iii) *Shareholder's Voting Proxy Agreement:* The shareholders of Zhejiang Boyuan granted the right to exercise all of the voting rights of Zhejiang Boyuan to China Privco; and

(iv) *Share Pledged Agreement:* The shareholders of Zhejiang Boyuan pledged all of the shares of Zhejiang Boyuan they own to China Privco to guarantee their obligations under Exclusive Option Agreement, Management Agreement and Shareholder's Voting Proxy Agreement.

The directors of the Company, after consulting legal opinion, are of the view that the terms of the Contractual Arrangement have in substance enabled China Privco to have power over Zhejiang Boyuan, rights to variable returns from its involvement with Zhejiang Boyuan, and has the ability to use its power to affect its returns, despite the absence of formal legal equity interests held by the Group therein. Accordingly, Zhejiang Boyuan is accounted for as a consolidated structured entity and as a subsidiary of the Company.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Construction contracts

Revenue recognition on a project is dependent on management's estimation of the total outcome of the construction contract, as well as the work done to date. The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Budgeted construction revenue is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs are prepared by the management on the basis of quotations from time to time provided by the suppliers or vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, the management conducts periodic reviews of the management budgets by comparing the budgeted amounts to the actual amounts incurred.

A considerable amount of judgement is required in estimating the total contract revenue, contract costs, variation orders and contract claims which may have an impact in terms of percentage of completion and profit recognised for each job.

Impairment of accounts receivable and unbilled revenue

On assessing any impairment of the Group's accounts receivable and unbilled revenue, the management regularly reviews the recoverability, creditworthiness of customers and ages of accounts receivable and unbilled revenue. Impairment on accounts receivable and unbilled revenue is made based on estimation of the future cash flows discounted at the original effective interest rates. If the financial condition of the customers of the Group deteriorates, resulting in an impairment of their ability to make payments, additional impairment may be required.

Expected timing of collections of accounts receivable and unbilled revenue

The Group classifies its accounts receivable and unbilled revenue as current and non-current assets based on the expected timing of collections of cash. This determination requires significant judgement and is based on the characteristics of each customer, contract terms and past repayment record.

SELECTED INTERIM FINANCIAL INFORMATION

The following selected consolidated financial information has been derived from the Company's unaudited interim condensed consolidated financial statements for the three months ended September 30, 2016 and 2015 and our financial positions as at September 30, 2016 and June 30, 2016:

US$'000 (except earnings per share amounts)	Q1 FY2017	Q1 FY2016
Operating Results		
Construction revenue	29,714	60,869
Cost of construction	27,226	55,314
Gross profit	2,488	5,555
Net income	470	2,178
Earnings per share		
Basic	0.02	0.09
Diluted	0.02	0.08
Financial Position	As at September 30, 2016	As at June 30, 2016
Current assets	167,217	176,242
Non-current assets	73,045	69,091
Total assets	240,262	245,333
Current liabilities	133,601	138,721
Long term debt	4,676	4,357
Shareholders' equity	101,985	102,255
Cash dividend per share	Nil	Nil
Common shares outstanding	25,420,065	25,420,065

RESULTS OF OPERATIONS

Revenue for the three months period ended September 30, 2016 was $29.7 million, down 51.2% from $60.9 million for the same period in 2015. Revenue is recognized on the percentage-of-completion method. The measures introduced by the Chinese central government a few years ago to cool down the real estate market have had a negative impact on our business activities resulting in slower growth in revenue and a smaller gross margin in the past three years. The Company was also more selective in taking up new construction projects under the uncertain economic environment. This strategy has become the Company’s main focus in the past year as the prolong collection period has had a negative impact on the cash flows. New projects taken up in FY2016, FY2015 and FY2014 amounted to $86 million, $273 million and $367 million respectively. Most of the Company's projects have duration between 1 to 3 years ◦

The decrease in revenue can be mainly attributed to the decrease in revenue from three projects that recorded significant revenue in the same quarter last year but no revenue in the current quarter as a result of these projects being either completed or substantially completed in the current quarter. These projects are (i) a reduction of revenue of $9.3 million from a commercial pdevelopment in Haining Zhejiang with a contract value of $32.1 million and a 98% completion (ii) a reduction of revenue $9.5 million from a commercial development in Jiaxing Zhejiang with a contract value of $42.6 million and a 100% completion (iii) a reduction $6.6 million from a residential development in Sanya Hainan with a contract value of $17 million and a 96% completion.

Cost of construction for Q1 FY2017 was $27.2 million, down 50.8% from $55.3 million for Q1 FY2016. The decrease was primarily a result of lower expenses associated with lower project volume. Cost of construction includes all direct material, labour, subcontract and other related costs, such as equipment repairs. The two major components of the cost of construction are direct material and labour costs. Direct material costs were $18.8 million and labour cost was $7.5 million in this quarter. In comparison, direct material costs and labour costs were $38.1 million and $15.1 million in the same quarter last year.

Gross profit for this period was $2.5 million, representing a margin of 8.4% on revenue. Gross profit for the same period last year was $5.6 million, representing a margin of 9.1% on revenue. We have experienced a slight downward pressure on our margins under the current real estate market situation in China. Developers are becoming more prices sensitive and have longer development cycles thus eroding some of our normal margins.

G&A expenses were $1.50 million in Q1 FY2017, compared to $1.32 million in Q1 FY2016. The small increase can be attributable to normal fluctuations in expenditures.

Other income was $1.49 million in this quarter, compared to $1.29 million in the same period last year. Accretion income from the discount on non-current accounts receivable and unbilled revenue of $1.4 million and $1.2 million was recorded in other income for the periods ended September 30, 2016 and 2015 respectively.

Interest expense was $1.65 million in the first quarter in FY2017, a small reduction compared to the interest expense of $1.81 million over the first quarter in FY2016. The small reduction is mainly due to the saving in interest expense from the reduction in the outstanding balance in the convertible debenture as a result of the retraction in October 31, 2015.

After-tax net income for this period was $0.5 million, or $0.02 per diluted share, compared to net income of $2.2 million, or $0.08 per diluted share for the same period in FY2016. The decrease was principally due to the decrease in revenue as a result of the decrease volume of new projects taken up in the past year.

Boyuan had working capital of $33.6 million, including cash, cash equivalents, and restricted cash totalling $17.2 million as at September 30, 2016. This compares to $37.5 million and $16.0 million, respectively at June 30, 2016.

TRANSACTIONS WITH RELATED PARTIES

Related parties transactions are summarized as follows:

	September 30, 2016 $	June 30, 2016 $
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer ("CEO")	56,028	56,247
	56,028	56,247

The amount is non-interest bearing, unsecured and have no fixed terms of repayment.

As at September 30, 2016, the Group has loans from a company totalling $1,499,390 (June 30, 2016: $1,505,253) controlled by a family member of the CEO. The amounts are included in other loans in note 13 in the notes to the consolidated financial statements that are unsecured, interest-free and repayable within one year from the end of the reporting period.

The Group also had related party balances and transactions at the end of the reporting period shown in notes 9 and 11 in the notes to the consolidated financial statements.

Key management personnel compensation

Key management personnel include all directors, chief executive officer, chief financial officer, corporate secretary and vice president. The remuneration of key management personnel during the period was as follows:

	Three Months Ended September 30, 2016 (unaudited)	September 30, 2015 (unaudited)
	$	$
Salaries and benefits	74,136	76,266
Share-based compensation	-	26,128
Total	74,136	102,394

The transactions were incurred in the normal course of operations and have been recorded at exchange amounts.

SUMMARY OF QUARTERLY RESULTS

The following table is a summary of the Company's selected quarterly financial information for each of the eight quarters ended September 30, 2016:

US$'000	Revenue	Net Income (Loss)	Basic EPS	Diluted EPS
Q1, FY2017	29,714	470	0.02	0.02
Q4, FY2016	32,214	(3,270)	(0.12)	(0.12)
Q3, FY2016	44,714	2,332	0.09	0.09
Q2, FY2016	63,158	3,998	0.16	0.16
Q1, FY2016	60,869	2,178	0.09	0.08
Q4, FY2015	91,815	(452)	(0.02)	(0.02)
Q3, FY2015	90,014	7,525	0.30	0.25
Q2, FY2015	73,265	2,521	0.10	0.10
Q1, FY2015	65,801	2,835	0.11	0.10

LIQUIDITY AND CAPITAL RESOURCES

US$'000	Q1, FY2017	Q1, FY2016
Operating activities	(2,143)	1,370
Investing activities	872	1,074
Financing activities	3,514	(7,522)
Effect of currency translation	(7)	(326)
Net change in cash and cash equivalents	2,236	(5,404)

Net cash used in operating activities was $2.1 million for the Q1 FY2017 compared to net cash provided of $1.4 million in Q1 FY2016. The change was primarily caused by a significant reduction in profit before taxes.

Net cash provided by investing activities was $0.9 million in the first quarter this fiscal year, compared to $1.1 million for Q1 FY2016. The small reduction was caused by a decrease in restricted cash in the period.

Net cash provided by financing activities was $3.5 million in Q1 FY2017, compared to net cash used of $7.5 million Q1 FY2016. The change was largely due to the increase in bank loans in the period.

The increase in unbilled revenue over the few years has put additional pressure on the Company's cash flows situation, although the growth has subsided somewhat in recent months. There are essentially two main reasons the unbilled revenue balances have increased in the past few years.

The first reason relates to the growth strategy of the Company over the last several years. The Company continues to gain market share in the construction industry in China by capitalizing on opportunities to take on additional work. This strategy is paying off, as potential customers observe that the Company is able to complete complex projects at a high quality standard on a timely basis. Ultimately, this increases the amount of unbilled revenue at a rate faster than what is being final billed and collected for previous projects. The unbilled revenue of the Company would certainly decrease if the Company stopped taking on projects or decreased the number and size of projects. The Company currently uses this strategy as its business model and has historically used the same model, which has resulted in growth and success over the years.

The other reason being the Company has experienced some delays in billing our customers over the last couple of years as the measures introduced by the Chinese central government three years ago to cool down the real estate market have had a negative impact on collection period. Delays in billing can occur during construction period and also when the projects have been completed. Generally speaking, delays in billing during construction period occurred as a result of customers wanting us to delay the issuance of the invoices until they are in a better cash flow position.

It is normally stipulated in the contracts as well as industry practices that a portion of the construction price will not be invoiced to the customers until the final completion report is signed. The final completion report establishes the final price of the contract (i.e. the final contract price plus all the extras and change orders). Executing the final completion report is dependent on many different variables and there maybe delays. The variables range from customers waiting for sales of the development to occur so they can pay their suppliers and tax obligations, remediation of certain work or final government permits to name a few. As a result amounts are classified as unbilled revenue for a longer period of time until these issues are resolved. The finalization of the completed contract reports is a long and tedious process as it involves checking of all the work done and related costs in a particular project. This is particularly so when a lot of changes have been made to the original design during the construction process. Normally this process will take approximately up to 12 months to complete. In recent years this process has taken longer to complete due to the increase in size of the projects that the Company has taken on. The inspection process has become more complex and the developer often dictates the inspection timing. . The average contract price of new projects accepted in fiscal 2016 was approximately RMB 180 million compared to approximately RMB 35 million for ongoing projects in 2009. Due to the significant increase in size of projects, the construction period, timing of the issuance of completion reports and the overall length of the Company's operating cycle has increased. Additionally, the Company believes this is a tactic used by the developers to delay payments to their contractors as once the completion reports are issued; the developers have to start making final payments to the contractor. From a business perspective, developers are avoiding payment until the very last moment. Unlike the distribution industry where they can stop selling products or providing services to a customer who has reached their credit limit, companies in the construction industry will general complete project even though customers may be behind on their payment terms.

The Company intends to use cash generated from operations to fund working capital requirements. The Company also intends to aggressively pursuit customers for payments of unbilled revenue and overdue accounts receivable. The Company will obtain long and/or short term financing from local PRC banks or make other lending arrangements in order to subsidize any shortfall in working requirements. The Company may also look to the market to issue shares or debentures in order to fund any cash shortages.

The Company actual cash receipts from customers for the FY2016 was $193 million. The Company also has approximately $93 million of banking facilities of which approximately $86 million has been used at the moment. The Company is constantly looking for additional banking facilities. We are currently discussing with several local financial institutions to obtain additional facilities up to $10 million.

The Company's objectives when managing capital are:

- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

- to provide an adequate return to shareholders through expansion and acquisition correspondingly to the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company is subject to externally imposed capital requirements through its restricted cash and bank loan requirements. In addition the PRC law requires the Company to set aside a statutory reserve. Statutory reserve refers to the amount appropriated from the retained earnings in accordance with laws or regulations, which can be used to recover losses and increase capital, as approved, and, are to be used to expand production or operations. PRC laws prescribe that an enterprise operating at a profit must appropriate, on an annual basis, from its earnings an amount to the statutory reserve to be used for future company development. Such an appropriation is made until the reserve reaches a maximum equalling 50% of the enterprise's capital.

The Company's primary sources of funding have been short-term loans from banks, Secured and Unsecured Debentures, equity offerings, and cash provided by operating activities. The Company's primary uses of funding have been to provide working capital to the Company's construction projects.

The Company had cash and cash equivalents balance of $3.9 million as at September 30, 2016 as compared to a cash and cash equivalents balance of $1.6 million as at June 30, 2016. The Company had $167.2 million in current assets and $133.6 million in current liabilities as at September 30, 2016.

On November 3, 2010, the Company completed a prospectus offering of 15,000 unsecured subordinated convertible debentures at a price of $987 (CDN$1,000) per debenture for gross proceeds of $14,799,000 (CDN$15,000,000). Each convertible debenture bears interest at a rate of 10% per annum to be paid semi-annually in arrears and will be due on October 31, 2015. Each convertible debenture, at the election of the holder, is convertible to 384.6153 common shares of the Company at a conversion price of CDN$2.60 per share. The convertible debentures are redeemable by the Company at any time from and after November 1, 2013 at a price equal to the principal amount thereof plus accrued and unpaid interest if the common shares of the Company trade at a volume weighted average price not less than 125% of the conversion price of the debentures for the 20 most recent trading days with at least 1,000 shares traded in each trading day ending five trading days before the applicable redemption notice.

On July 1, 2015, the Company amended its Unsecured Debentures with the following principal amended terms:

(i) interest rate was increased to 11.5% from 10.0% per annum on and from July 1, 2015;

(ii) Debenture holders were provided with a retraction right to require the Company to repurchase Debentures on each of October 31, 2015 (up to Cdn$5 million), October 31, 2016 (up to Cdn$1.5 million) and October 31, 2017 (up to Cdn$1.5 million);

(iii) conversion price was decreased from Cdn$2.60 to Cdn$1.00 per share of the Company;

(iv) maturity date of the Debentures was extended from October 31, 2015 to October 31, 2018; and

(v) the restricted redemption period was extended to October 31, 2016.

OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company has 25,420,065 common shares outstanding. The Company has Unsecured Debentures outstanding of $8.5 million that can be converted into 8.5

million common shares. The outstanding share options granted to directors and officers are 1,755,000.

Off Balance Sheet Arrangements

As at September 30, 2016, the Company had no off balance sheet arrangements such as guaranteed contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any instruments that could trigger financing, market or credit risk to the Company**.**

FINANCIAL INSTRUMENTS

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate loans. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and loans.

The Group does not currently hold any financial instruments that mitigate these risks. Unfavourable changes in the applicable interest rate may result in an increase in interest expense.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prime rate in China arising from the Group's loans disclosed in note 11 to the unaudited interim condensed consolidated financial statements.

Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rate risk for variable-rate bank balances and loans. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and all other variables were held constant.

Bank balances

If interest rates had been 100 basis points (September 30, 2015: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the period would increase/decrease by approximately $128,834 (September 30, 2015: increase/decrease in the Group's post-tax profit of approximately US$98,673). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances.

Loans

If interest rates had been 100 basis points (September 30, 2015: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the period would decrease/increase by approximately US$248,524 (September 30, 2015: decrease/increase in the Group's post-tax profit of approximately US$316,813). This is mainly attributable to the Group's exposure to the interest rates on its variable-rate loans.

Credit risk management

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognized financial assets as stated in the unaudited interim condensed consolidated statements of financial position and financial guarantees provided by the Group as disclosed in note 22 to the unaudited interim condensed consolidated financial statements.

Credit risk from accounts receivable, unbilled revenue and deposits to customers encompasses the default risk of customers and non-performance by customers in accordance with contractual terms. The Group's customers are for the most part, private companies located in the PRC. Its exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Group's exposure to credit risk associated with its accounts receivable, unbilled revenue and deposits to customers are the risk that a customer will be unable to pay amounts due to the Group. In its determination of valuation of accounts receivable, unbilled revenue and deposits to customers, including the allowance for doubtful accounts, management relies on current customer information and its planned course of action as well as assumptions about business and economic conditions in the future period over which the receivables are collectible. Allowances are provided for potential losses that have been incurred at the end of the reporting period. The amounts disclosed on the statements of financial position are net of these allowances for doubtful debts. Accounts receivables, unbilled revenue and deposits to customers are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default.

Management takes into consideration the customer's payment history, the credit worthiness and the current economic environment in which the customer operates to assess impairment. Management, on an ongoing basis, monitor the level of accounts receivable, unbilled revenue and deposits to customers attributable to each customer and the length of time taken for amounts to be settled and where necessary, takes appropriate action to follow up on those balances considered overdue.

Under PRC regulations, a general contractor is entitled to first claim against assets of its customers subject to certain conditions, which gives a general contractor a "mechanic lien" senior to all other secured debt including bank loans, bank notes and any payables. If a customer defaults on the payment on the contract with the Group, the customer can be liable to surrender the real estate property and the land use rights associated with the real estate property that is under construction.

In this regard, the directors of the Company consider that the Group's credit risk in relation to the accounts receivable and unbilled revenue are significantly reduced.

As of Sep 30, 2016, revenue from the three customers accounted for 40% (September 30, 2015: 37%) of total revenue. The outstanding amounts owed by top three customers accounted for 39% and 32% (June 30, 2016: 47% and 36%) of the total accounts receivable and unbilled revenue, respectively.

The management of the Company consider that the Group has adequate credit control for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and unbilled revenue accounts at the end of each reporting period to ensure that adequate impairment losses are made against the irrecoverable amounts.

Based on management's assessment, there are no changes in the credit quality of the remaining customers. They are customers with long trading history with the Group and no default payment, the credit risk from these customers is mitigated.

The Group's bank balances and restricted cash are held in large PRC and Hong Kong banks. These assets have low credit risk due to the financial strength and credibility of the banks.

The Group had concentration of credit risk by geographical locations as all the accounts receivable and unbilled revenue are located in the PRC as at September 30, 2016 and June 30, 2016.

Foreign currency risk

The Group has limited foreign currency exposure as the amounts of foreign currency monetary assets and liabilities held by the Group at the end of the reporting date are minimal. The management conducts periodic review of the exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arise.

Currency Risk

The Company generates revenues and incurs expenses and expenditures primarily in Canada and China and is exposed to risk from changes in foreign currency rates. In addition, the Company holds financial assets and liabilities in foreign currencies that expose the Company to foreign exchange risks. A significant change in the currency exchange rates between the US or Canadian dollar relative to the RMB could have an effect on the Company's results of operations, financial position and/or cash flows. The Company has not hedged its exposure to currency fluctuations.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective to managing liquidity risk is to ensure that it has sufficient liquidity available to meet its liabilities when due. The Company uses cash to settle its financial obligations as they fall due. The ability to do this relies on the Company collecting its accounts receivables in a timely manner and by maintaining sufficient cash on hand through equity financing and bank loans.

The table represents undiscounted cash flow for current and non-current portion of financial liabilities as at September 30 and June 30, 2016. The undiscounted cash flow includes both interest and principal cash flows. For other financial liabilities, all balances are due within 1 year and the undiscounted cash flows are approximated to the carrying amount. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period:

	Weighted average interest rate	Less than 1 year	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amount
	%	$	$	$	$	$
At September 30, 2016						
Bank loans	5.3	74,773,068			74,773,068	74,773,068
Bank notes payable	-	17,048,061			17,048,061	17,048,061
Accounts and other payables	-	9,460,503			9,460,503	9,460,503
Other loans	-	11,187,591			11,187,591	11,187,591
Convertible debentures	34.6	1,929,482	1,798,261	5,533,189	9,260,932	5,823,497
Financial guarantee contracts		25,114,778			25,114,778	1,186,039
		139,513,483	1,798,261	5,533,189	146,844,933	119,478,759

	Weighted average interest rate	Less than 1 year	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amount
	%	$	$	$	$	$
At June 30, 2016						
Bank loans	4.7	69,646,567			69,646,567	69,646,567
Bank notes payable		18,811,070			18,811,070	18,811,070
Accounts and other payables		19,252,190			19,252,190	19,252,190
Other loans		9,435,621			9,435,621	9,435,621
Convertible debentures	34.8	1,957,109	1,823,966	5,612,283	9,393,358	5,413,941
Financial guarantee contracts		29,277,177			29,277,177	1,240,071
		148,379,734	1,823,966	5,612,283	155,815,983	123,799,460

Note: The amounts included above for financial guarantee contracts are the maximum amounts the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that such an amount will not be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

Economic, political, & legal risk

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

The real estate industry in China is subject to government regulations. Until 2009, the real estate markets in a number of major cities in China had experienced rapid and significant growth. Before the global economic crisis hit all the major economies worldwide in 2009, the PRC government had adopted a series of measures to restrain what it perceived as unsustainable growth in the real estate market. From 2003 to 2013, the PRC government introduced a series of specific administrative and credit-control measures including, but not limited to, setting minimum down payment requirements for residential and commercial real estate transactions, limiting availability of mortgage loans, and tightening governmental approval process for certain real estate transactions. Such measures and policies by the government have negatively affected the real estate market and caused a reduction in transactions in the real estate market. While these measures and policies remain in effect, they may continue to depress the real estate market, dissuade would-be buyers from making purchases, reduce transaction volume, cause a decline in average selling prices, and prevent developers from raising the capital they need and increase developers' costs to start new projects. This naturally has a negative impact on the construction industry, particularly on gross margins and payment terms for new construction projects. These factors may materially and adversely affect our business, financial condition, results of operations and prospects. Despite the recent government measures aimed at maintaining the long-term stability of the real estate market, there is no assurance that the PRC government will not continue to adopt new measures in the future that may result in short-term downward adjustments and uncertainty in the real estate market.

SIGNIFICANT ACCOUNTING POLICIES

The unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, they do not include all of the information required for full annual financial statements required by IAS 1 *Presentation of Financial Statements of the International Financial Reporting Standards* ("IFRS") as issued by the IASB. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended June 30, 2016, which include information necessary to understand the Company's business and financial statement presentation.

Except as described below, the accounting policies and methods of computation used in the interim condensed consolidated financial statements for the three months ended September 30, 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended June 30, 2016.

In the current interim period, the Group has applied for the first time the following amendments to IFRSs issued by the IASB.

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception

The application of these amendments to IFRSs in the current interim period has had no material effect on amounts reported in these interim condensed consolidated financial statements and/or disclosures set out in these interim condensed consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The **Chief Executive Officer ("CEO**") and Chief Financial Officer ("**CFO**") are responsible for designing disclosure controls and procedures ("**DC&P**") and internal controls over financial reporting ("**ICFR**") as defined in National Instrument 52-109. The control framework used in the design of both DC&P and ICFR is the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management does not expect the Company’s disclosure controls and internal controls can prevent all errors or fraud. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all controls issues have been detected. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

The design and effectiveness of internal controls over financial reporting was assessed as of September 30, 2016. Based on the evaluation, the Company concluded that the design and effectiveness of the Company’s DC&P and ICFR was sufficiently effective to provide reasonable assurance that material information relating to the Company is made known to management and disclosed in accordance with applicable securities regulations.

There has been no change in the design of the Company’s internal controls over financial reporting during the quarter ended September 30, 2016 that would materially affect, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

SUBSEQUENT EVENTS

On October 31, 2016, the Company successfully retracted and redeemed CAD1,500,000 of the 11.5% convertible debentures due on October 31, 2018.

OUTLOOK

The continued growth of China's middle class and the ongoing development of tier two cities as a result of urbanization suggest that higher demand for the Company's construction services will remain strong in the long term. In the near term, the restrictive measures imposed by the central government on the residential market and the tightening of financing facilities to property developers will continue to dampen the pace of growth for the Company. Over the longer term, the Company believes that its growth will be driven by expanding its reach in tier-two cities and increasing focus on speciality construction projects, which the Company believes will deliver higher profit margins. As a part of this strategic direction, the Company plans to upgrade its qualification and engineering standards to ensure that it can tap into this growing market potential.