Quarterly Report - Quarter 1
For the Interim Period ended September 30, 2015

BOYUAN CONSTRUCTION GROUP, INC.

Management's Discussion and Analysis

For the three months ended September 30, 2015

December 23, 2015

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, 2015. 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, 2015 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 FY2015 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 45 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, Shandong Province, 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.

Fair value measurements and valuation processes

The Group's share options and convertible debentures are measured at fair value at grant date and issuance date respectively.

In estimating the fair value of the share options and convertible debentures, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management establishes the appropriate valuation techniques and inputs for fair value measurement.

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, 2015 and 2014 and our financial positions as at September 30, 2015 and June 30, 2015:

US$'000 (except earnings per share amounts)	Q1 FY2016	Q1 FY2015
Operating Results		
Construction revenue	60,869	65,801
Cost of construction	55,314	58,789
Gross profit	5,555	7,012
Net income	2,178	2,835
Earnings per share		
Basic	0.09	0.11
Diluted	0.08	0.10
Financial Position	As at September 30, 2015	As at June 30, 2015
Current assets	185,653	187,943
Non-current assets	67,807	69,526
Total assets	253,460	257,469
Current liabilities	144,304	145,790
Long term debt	4,726	5,293
Shareholders' equity	104,430	106,386
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, 2015 was $60.9 million, down 7.4% from $65.8 million for the same period in 2014. Revenue is recognized on the percentage-of-completion method. Despite there were signs that the real estate market had stabilized somewhat in 2014, there are recent indications that the real estate market has slowed down once again. In response, the Company has been more selective in taking on new construction projects since the early part of the current calendar year. New projects taken up in FY2015 and FY2014 amounted to $204 million and $367 million respectively. Most of the Company's projects have duration between 1 to 3 years.

Cost of construction for Q1 FY2016 was $55.3 million, down 6.0% from $58.8 million for Q1 FY2015. 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 $38.1 million and labour cost was $15.1 million in this quarter. In comparison, direct material costs and labour costs were $42.9 million and $14.5 million in the same quarter last year.

Gross profit for this period was $5.6 million, representing a margin of 9.1% on revenue. Gross profit for the same period last year was $7.0 million, representing a margin of 10.7% 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 $1.32 million in Q1 FY2016, slightly smaller than $1.46 million in Q1 FY2015.

Interest and other income was $1.29 million in this quarter, compared to $0.91 million in the same period last year. Accretion income from the discount on non-current accounts receivable and unbilled revenue of $1.20 million and $0.87 million was recorded to interest and other income for the periods ended September 30, 2015 and 2014 respectively.

Interest expense was $1.81 million in the first quarter in FY2016, similar to the interest expense of $1.87 million over the first quarter in FY2015.

After-tax net income for this period was $2.2 million, or $0.08 per fully diluted share, compared to net income of $2.8 million, or $0.10 per fully diluted share for the same period in FY2015. 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 $42.9 million, including cash, cash equivalents, and restricted cash totalling $13.2 million as at September 30, 2015. This compares to $42.2 million and $20.2 million, respectively at June 30, 2015.

TRANSACTIONS WITH RELATED PARTIES

Related parties transactions are summarized as follows:

	September 30, 2015 $	June 30, 2015 $
Due from related parties		
Due from company controlled by the Chairman and Chief Executive Officer ("CEO")	58,876	61,370
	58,876	61,370

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

As at September 30, 2015, the Group has loans from a company totalling US$2,520,955 (June 30, 2015: US$2,627,776) controlled by a family member of the CEO. The amounts are included in other loans in note 14 which are unsecured, interest-free and repayable within one year from the end of the reporting period.

The Company advances money to suppliers and project managers in order to secure construction materials and pay suppliers. The advances to the project managers are held in bank accounts in trust for the Company. As the funds advanced to project managers are held in trust there is a risk that they may be used in an unintended manner. Management has put controls to minimize the risks associated with these advances.

The use of personal bank accounts in local jurisdictions is solely for operation efficiency. Under the banking regulations in China, there are two main types of bank account; Basic account and General account. Basic account can be used for transfers to companies and individuals (i.e personal account) as well as cash deposits and cash withdrawals. General accounts are used for banking transactions other than those in the basic account. Company to personal bank transfers are not allowed in the General account. Companies are allowed to open only ONE basic account but unlimited general accounts. The Company needs to transact certain business activities through the basic bank account. For example, local projects need to purchase certain raw material from local suppliers, especially the smaller items such as sand, bricks etc, and these suppliers are mostly unincorporated suppliers, the Company has to make payments to their personal bank accounts or by cash. Local construction workers also need to be paid through their personal bank accounts or by cash as well. All these payments can only be made through the basic account (i.e payments made to personal accounts). Since the Company can open only ONE basic account and this account is opened at the head office, the Company has to use the basic bank accounts of the local project managers (bank account in trust) to transact these business activities. It would not be practical to use the Company's basic account in the head office to transact these transfers due to the number of ongoing construction projects in various locations and the number of transfers required on a daily basis.

Construction work is normally carried out 7 days a week as the Company uses a shift system for construction workers. As such the Company at times needs to make certain purchases on weekends, though the amount of purchase is typically smaller.

The Company has put in place the following alternative control procedures since September 2014 to address the fund safety issues identified by the Consultant:

i. The bank account in trust held by the project managers can only be used for project related expenditures. It is controlled by the local finance department. The local finance department is the custodian of the bank card without which one cannot make any cash outlays from the bank account. In addition, all cash outlays from the bank account are also reviewed on a monthly basis by the head office finance team.

ii. The bank card for the bank account in trust is held by the local finance department. Cash outlays from this account have to go through the normal expenditures approval and authorization procedures controlled by the local finance department. The relevant user in the project team has to complete and submit a requisition form along with the supporting document to the local finance department. The local finance department will check all supporting document to make sure they are in order and sign off by the local finance manager. The finance team will then submit all information to the project manager for final approval.

iii. Monthly bank reconciliations are done by staff in the head office finance department and reviewed by the finance manager.

iv. More detailed planning of expenditures is done to minimize the amount required to be held in the bank account in trust, especially towards the end of the construction period.

In addition, the central government in China is currently reforming the sales taxes system for construction companies. Under the current system, construction companies can pay to personal bank accounts of their suppliers as long as proper invoices are issued. Under the proposed system, construction companies can only pay to the bank accounts of the invoice issuing entities therefore eliminating the practice of paying to the personal bank accounts in future. It is expected the proposed new system will take full effect before the end of next year

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, 2015 (unaudited)	September 30, 2014 (unaudited)
	$	$
Salaries and benefits	76,266	77,487
Share-based compensation	26,128	72,031
Total	102,394	149,518

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, 2015:

US$'000	Revenue	Net Income (Loss)	Basic EPS	Diluted EPS
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
Q4, FY2014	101,767	(3,274)	(0.13)	(0.13)
Q3, FY2014	63,960	5,885	0.23	0.21
Q2, FY2014	61,990	3,617	0.14	0.13

Generally speaking, there are relatively less construction activities in the third quarter due to the Chinese New year holidays, and relatively more construction activities in the fourth quarter attributable to friendlier weather conditions and the Company trying to make up for the loss of production time in the previous quarter.

LIQUIDITY AND CAPITAL RESOURCES

US$'000	Q1, FY2016	Q1, FY2015
Operating activities	1,370	(3,472)
Investing activities	1,074	504
Financing activities	(7,522)	2,967
Effect of currency translation	(326)	34
Net change in cash and cash equivalents	(5,404)	33

Net cash provided in operating activities was $1.4 million for the Q1 FY2016 compared to net cash used of $3.5 million in Q1 FY2015. The change was primarily caused by a significant reduction in the advance to suppliers and prepaid expenses and an increase in accounts payable and accrued liabilities offset partially by an increase in unbilled revenue in the period.

Net cash provided by investing activities was $1.1 million in the first quarter this fiscal year, compared to $0.5 million for Q1 FY2015. The additional cash provided was caused by an increase in restricted cash in the period.

Net cash used in financing activities was $7.5 million in Q1 FY2016, compared to net cash provided of $3.0 million Q1 FY2015. The change was largely due to the decrease in bank loans and bank notes payable in the period.

The increase in unbilled revenue over the few years has put additional pressure on the Company's cash flows situation. The unbilled revenue balance was $181.7 million at September 30, 2015, compared to $173.3 million at June 30, 2015. There are essentially two main reasons the unbilled revenue balances have increased in the current period.

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 2014 was approximately RMB 127 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 FY2015 was $258.9 million. The Company also has approximately $79 million of banking facilities of which approximately $67 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 $4.4 million as at September 30, 2015 as compared to a cash and cash equivalents balance of $9.8 million as at June 30, 2015. The

Company had $185.7 million in current assets and $144.3 million in current liabilities as at September 30, 2015.

On November 1, 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 $10 million that can be converted into 10 million common shares. The outstanding share options granted to directors and officers are 1,755,000.

Off Balance Sheet Arrangements

As at September 30, 2015, 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 (June 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$98,673 (June 30, 2015: increase/decrease in the Group's post-tax profit of approximately US$151,273). 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 (June 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$316,813 (June 30, 2015: decrease/increase in the Group's post-tax profit of approximately US$315,579). 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, 2015, revenue from the three customers accounted for 37% (September 30, 2014: 21%) of total revenue. The outstanding amounts owed by top three customers accounted for 39% and 27% (June 30, 2015: 46% and 22%) 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 June 30, 2015 and 2014.

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, 2015. 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, 2015						
Bank loans	5.85	67,648,264			67,648,264	67,648,264
Bank notes payable		12,519,632			12,519,632	12,519,632
Accounts and other payables		19,349,208			19,349,208	19,349,208
Other loans	2.8	11,683,260	11,078		11,694,338	11,572,500
Convertible debentures	29.0	5,022,184	2,406,716	8,064,404	15,493,304	7,487,007
Financial guarantee contracts		54,830,781			54,830,781	3,132,237
		171,053,329	2,417,794	8,064,404	181,535,527	121,708,848

	Weighted average interest rate	Less than 1 year	1-2 years	2-5 years	Total undiscounted cash flows	Carrying amount
	%	$	$	$	$	$
At June 30, 2015						
Bank loans	6.2	73,487,387			73,487,387	73,487,387
Bank notes payable		16,277,958			16,277,958	16,277,958
Accounts and other payables		15,451,814			15,451,814	15,451,814
Other loans	2.8	10,465,777	568,340		11,034,117	10,839,597
Convertible debentures	29.0	5,447,407	2,610,491	8,747,208	16,805,106	8,238,434
Financial guarantee contracts		57,154,119			57,154,119	3,132,237
		178,284,462	3,178,831	8,747,208	190,210,501	127,427,447

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.

RECENT ACCOUNTING PRONOUNCEMENTS

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, 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended June 30, 2015.

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

Amendments to IAS 19 *Defined Benefit Plans: Employee contributions*

Amendments to IFRSs *Annual Improvements to IFRSs 2010 - 2012 Cycle*

Amendments to IFRSs *Annual Improvements to IFRSs 2011 - 2013 Cycle*

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.***New and revised***

IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 *Financial Instruments*[1]

IFRS 14 *Regulatory Deferral Accounts*[2]

IFRS 15 *Revenue from Contracts with Customers*[1]

Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*[3]

Amendments to IAS 1 *Disclosure Initiative*[3]

Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*[3]

Amendments to IAS 16 and IAS 41 *Agriculture: Bearer Plants*[3]

Amendments to IAS 27 *Equity Method in Separate Financial Statements*[3]

Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]

Amendments to IFRS 10, IFRS 12 and IAS 28 *Investment Entities: Applying the Consolidation Exception*[3]

Amendments to IFRSs Annual Improvements to IFRSs 2012 - 2014 Cycle[3]

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[1] Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[2] Effective for first annual IFRS financial statements beginning on or after January 1, 2016, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

The Group has reviewed the new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Group:

IFRS 9, Financial instruments ("IFRS 9") was issued by the IASB on July 24, 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is intended to reduce the complexity for the classification and measurement of financial instruments. The mandatory effective date is for annual periods beginning on or after January 1, 2018. The Group is evaluating the impact that this standard may have on the interim condensed consolidated financial statements since the expected loss model might affect the impairment assessment on certain financial instruments.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") was issued by the IASB on May 28, 2014 and will replace IAS 18 Revenue and IAS 11 Construction Contracts and various other interpretations. IFRS 15 provides a more detailed framework for the timing of revenue recognition and increased requirements for disclosure of revenue. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. The mandatory effective date is for annual periods beginning on or after January 1, 2018. The Group is evaluating the impact that this standard may have on the amounts reported and disclosures made in the Group's 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, 2015. 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.

In 2010, the Company engaged an international consulting company to review its internal control system for financial reporting and to make recommendations on improving the internal control system. The Company’s internal control system has been strengthened to a certain extent as the majority of the recommendations were implemented by the end of calendar 2010, although management acknowledged that many improvements were needed. In August 2013, as a result of information noted below, the Company again engaged the same consulting company to perform another comprehensive review of the financial reporting and internal control system.

On May 31, 2013, Boyuan announced that the OSC had issued a Notice of Hearing to consider a settlement agreement (the "**Settlement Agreement**") that had been reached by the Staff of the OSC (the “Staff”) with Boyuan. The Settlement Agreement related to allegations made by the Staff regarding certain inaccurate documents and information provided by Boyuan to the Staff and to Boyuan's auditors for a related party loan transaction entered into by the CEO on behalf of Boyuan and to Boyuan's lack of adequate internal control procedures on related party transactions and provision of information to its auditor and regulator.

On June 5, 2013, Boyuan announced that the OSC issued an Order approving the Settlement Agreement. Pursuant to the terms of the OSC Order, Boyuan is required to engage an internal control consultant to review the internal control and financial reporting procedures and policies of Boyuan, to make recommendations for improvement and to report to the Staff on its review and Boyuan's progress in implementing the consultant's recommendations. The consultant is required to report to the Staff on its recommendations within three months of its engagement by Boyuan, and Boyuan is required to implement the consultant's recommendations within nine months, subject to certain time extensions that may be approved by the Staff. The consultant’s report was issued on November 26, 2013. By December 31, 2014, the Company has implemented all the recommendations made by the consultant. The consultant has completed a review of the implementation in March 2015 and issued a final report to the Staff and Company stating that the Company has successfully implemented all their recommendations.

There has been no change in the design of the Company’s internal controls over financial reporting during the quarter ended September 30, 2015 that would materially affect, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

SUBSEQUENT EVENTS

(a) On October 16, 2015, the OSC issued a management cease trade order which imposed restrictions on all trading in and all acquisitions of securities of the Company by the Chief Executive Officer (“CEO) and Chief Financial Officer (“CFO”) of the Company until all required filings have been made.

(b) On October 31, 2015, the Company successfully retracted and redeemed CDN$5,000,000 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.

BOYUAN CONSTRUCTION GROUP, INC.

Interim Condensed Consolidated Financial Statements
For the Three Months Ended September 30, 2015
(Expressed in US dollars)
(Unaudited)

Notice of No Auditor Review of Unaudited Interim Condensed Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim condensed consolidated financial statements, they must be accompanied by a notice indicating that the interim condensed consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditors have not performed a review of these unaudited interim condensed consolidated financial statements in accordance with the standards established by Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS AT AND FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015
(unaudited)

CONTENTS PAGE(S)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT SEPTEMBER 30, 2015
(unaudited)

	NOTES	September 30, 2015 (unaudited) US$	June 30, 2015 (audited) US$
Non-current assets			
Unbilled revenue	5	48,780,668	45,887,492
Accounts receivable	6	5,015,440	8,104,804
Property and equipment	3	11,104,535	12,489,904
Refundable deposit	13(a)	560,125	583,859
Prepaid lease payments	4	99,335	105,086
Deferred tax assets	15	2,247,024	2,354,964
		67,807,127	69,526,109
Current assets			
Unbilled revenue	5	132,908,318	127,385,149
Accounts receivable	6	27,674,552	27,744,320
Deposits	7	8,819,828	9,582,795
Advances and prepaid expenses	8	808,887	1,512,648
Other receivables		1,999,980	648,442
Inventory		220,250	831,571
Due from a related party	9	58,876	61,370
Prepaid lease payments	4	6,822	7,111
Restricted cash	10	8,749,260	10,358,730
Cash and cash equivalents		4,407,156	9,810,988
		185,653,929	187,943,124
Current liabilities			
Bank loans	11	67,648,264	73,487,387
Accounts payable and accrued liabilities	12	39,624,641	35,739,578
Bank notes payable	10	12,519,632	16,277,958
Other loans	13	11,557,760	10,281,570
Convertible debentures	14	2,775,612	3,503,174
Income taxes payable		3,826,062	3,368,445
Deferred revenue	5	3,220,394	-
Other financial liabilities	22	3,132,257	3,132,257
		144,304,622	145,790,369
Net current assets		41,349,307	42,152,755
Non-current liabilities			
Convertible debentures	14	4,711,396	4,735,260
Other loans	13	14,740	558,027
		4,726,136	5,293,287
Net assets		104,430,298	106,385,577

	NOTES	September 30, 2015 (unaudited) US$	June 30, 2015 (audited) US$
Equity			
Share capital	16	7,156,864	7,156,864
Reserves	17	97,273,434	99,228,713
		104,430,298	106,385,577

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

The interim condensed consolidated financial statements on pages 1 to 27 were approved and authorized for issue by the Board of Directors on December 23, 2015 and are signed on its behalf by:

COMMITMENTS AND CONTINGENT LIABILITIES (Note 22)
SUBSEQUENT EVENTS (Note 25)

"Francis Leong"

Francis Leong, Director

"Jack Duffy"

Jack Duffy, Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015
(unaudited)

	NOTES	For the three months ended September, 30 2015 US$	2014 US$
Construction revenue		60,868,519	65,801,458
Costs of construction		(55,313,839)	(58,789,260)
Gross profit		5,554,680	7,012,198
Other income		1,285,026	905,325
Foreign exchange loss		(11,197)	(13,874)
General and administrative expenses		(1,318,809)	(1,458,681)
Interest expense		(1,808,786)	(1,869,480)
Share-based compensation		(35,004)	(96,500)
Profit before income taxes		3,665,910	4,478,988
Income taxes	15	(1,488,099)	(1,643,923)
Profit for the period		2,177,811	2,835,065
Other comprehensive (expense) income			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference on translation of foreign operations		(4,168,094)	1,463,441
Total comprehensive (expense) income for the period		(1,990,283)	4,298,506
Earnings per share:	18		
Basic		0.09	0.11
Diluted		0.08	0.10
Weighted average number of common shares outstanding:	18		
Basic		25,420,065	25,420,065
Diluted		31,189,296	31,562,753

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015

(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, 2014	7,156,864	5,340,721	7,373,221	2,059,230	7,222,423	57,084,002	86,236,461
Profit for the year	-	-	-	-	-	1,463,341	1,463,341
Exchange difference on translation of foreign operations	-	-	-	-	2,835,065	-	2,835,065
Total comprehensive income for the year	-	-	-	-	2,835,065	1,463,341	4,298,406
Recognition of equity-settled share-based compensation (note 16)	-	96,500	-	-	-	-	96,500
Balance, September 30, 2014	7,156,864	5,437,221	7,373,221	2,059,230	8,685,764	59,919,067	90,631,367
Balance at June 30, 2015	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	7,156,864	6,961,023	11,070,371	4,603,470	6,645,016	67,993,554	104,430,298

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2015
(unaudited)

	For the three months ended September, 30	
	2015 (unaudited) US$	2014 (unaudited) US$
Cash flows (used in) from operating activities		
Profit before taxes	3,665,910	4,478,988
Items not affecting cash:		
Depreciation and amortization	1,023,436	784,033
Interest expense	1,808,786	1,869,480
Share-based compensation expenses	35,004	96,500
Unrealized foreign exchange	363,283	215,437
Changes in non-cash working capital items:		
Accounts receivable	1,695,897	1,494,852
Unbilled revenue	(15,920,731)	(4,290,138)
Other receivables	(1,402,903)	(1,838,511)
Inventory	585,750	(26,595)
Advance to suppliers and prepaid expenses	651,396	(6,941,158)
Deposits	378,745	1,801,366
Accounts payable and accrued liabilities	6,067,385	(2,729,060)
Deferred revenue	3,266,300	2,154,140
Cash (used in) generated from operations	2,218,258	(3,361,540)
Income taxes paid	(848,231)	(110,413)
	1,370,027	(3,471,953)
Cash flows (used in) from investing activities		
Change in restricted cash	1,205,323	577,096
Purchase of property and equipment	(131,776)	(73,412)
	1,073,547	503,684
Cash flows from (used in) financing activities		
Proceeds from bank loans	23,925,443	21,915,560
Repayment of bank loans	(26,777,274)	(16,002,630)
Proceeds from loan payable	1,890,717	
Repayment of loan payable	(485,842)	(444,779)
Change in bank notes payable	(3,140,762)	189,865
Interest paid on convertible debentures	(344,142)	(689,205)
Other interest paid	(2,589,768)	(2,001,481)
	(7,521,628)	2,967,330

	For the three months ended September, 30	
	2015	2014
	(unaudited)	(unudited)
	US$	US$
Effect of changes in exchange rate changes on cash and cash equivalents	(325,778)	34,310
Increase in cash and cash equivalents	(5,403,832)	33,371
Cash and cash equivalents, beginning of year	9,810,988	4,459,898
Cash and cash equivalents, end of years represented by bank balances and cash	4,407,156	4,493,269

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, 2015, 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, 2015 were authorized for issuance by the Board of Directors on December 23, 2015.

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, 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended June 30, 2015.

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

Amendments to IAS 19	Defined Benefit Plans: Employee contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010 - 2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011 - 2013 Cycle

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.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[1]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to IAS 1	Disclosure Initiative[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortization[3]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[3]
Amendments to IAS 27	Equity Method in Separate Financial Statements[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2012 - 2014 Cycle[3]

1 Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
2 Effective for first annual IFRS financial statements beginning on or after January 1, 2016, with earlier application permitted.
3 Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

The Group has reviewed the new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Group:

IFRS 9, Financial instruments ("IFRS 9") was issued by the IASB on July 24, 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is intended to reduce the complexity for the classification and measurement of financial instruments. The mandatory effective date is for annual periods beginning on or after January 1, 2018. The Group is evaluating the impact that this standard may have on the interim condensed consolidated financial statements since the expected loss model might affect the impairment assessment on certain financial instruments.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") was issued by the IASB on May 28, 2014 and will replace IAS 18 Revenue and IAS 11 Construction Contracts and various other interpretations. IFRS 15 provides a more detailed framework for the timing of revenue recognition and increased requirements for disclosure of revenue. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. The mandatory effective date is for annual periods beginning on or after January 1, 2018. The Group is evaluating the impact that this standard may have on the amounts reported and disclosures made in the Group's 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, 2015 (audited)	5,943,534	22,351,371	2,004,065	1,806,772	1,678,555	-	33,784,297
Additions	-	-	-	7,188	-	124,588	7,188
Effect of foreign currency exchange differences	(241,607)	(908,592)	(81,466)	(73,547)	(68,234)	(1,752)	(1,373,446)
Balance at September 30, 2015 (unaudited)	5,701,927	21,442,779	1,922,599	1,740,413	1,610,321	122,836	32,418,039
ACCUMULATED DEPRECIATION							
Balance at June 30, 2015 (audited)	2,388,563	14,739,689	1,494,128	1,381,211	1,290,802	-	21,294,393
Depreciation expense	38,929	853,627	49,509	50,575	29,297	-	1,021,937
Effect of foreign currency exchange differences	(97,644)	(611,171)	(61,433)	(56,858)	(52,884)	-	(879,990)
Balance at September 30, 2015 (unaudited)	2,329,848	14,982,145	1,482,204	1,374,928	1,267,215	0	21,436,340
NET BOOK AMOUNT							
At September 30, 2015 (unaudited)	3,372,079	6,460,634	440,395	365,485	343,106	122,836	11,104,535
At June 30, 2015 (audited)	3,554,971	7,611,682	509,937	425,561	387,753	-	12,489,904

Buildings with carrying amount of US$1,282,266 (June 30, 2015: US$1,336,600) have been pledged to secure the bank loans as disclosed in note 11.

4. PREPAID LEASE PAYMENTS

	September 30, 2015 (unaudited) US$	June 30, 2015 (audited) US$
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term leases	106,157	112,197
Analysed for reporting purposes as:		
Non-current assets	99,335	105,086
Current assets	6,822	7,111
	106,157	112,197

4. PREPAID LEASE PAYMENTS - continued

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$106,157 (June 30, 2015: US$112,197) 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, 2015 (unaudited) US$	June 30, 2015 (audited) US$
Completed contracts	60,351,114	66,420,043
Contracts in progress	140,624,244	125,142,587
Gross unbilled revenue	200,975,358	191,562,630
Less: Effect of discounting, net	(6,828,137)	(5,303,863)
Impairment loss recognised	(12,458,235)	(12,986,126)
	181,688,986	173,272,641
Analysed for reporting purposes as:		
Non-current assets	48,780,668	45,887,492
Current assets	132,908,318	127,385,149
	181,688,986	173,272,641

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

Aggregate costs of construction	436,479,890	394,578,674
Gross profit recognized	70,837,678	64,485,407
	507,317,568	459,064,081
Less: aggregate of progress billings	(366,693,324)	(333,921,494)
Contracts in progress - unbilled revenue portion, end of period/year	140,624,244	125,142,587
Less: deferred revenue related to contract in progress, end of period/year	3,220,394	-
Net position	137,403,850	125,142,587

5. UNBILLED REVENUE - continued

Movement in allowance for doubtful debts

	September 30, 2015 (unaudited) US$	June 30, 2015 (audited) US$
At beginning of the period/year	12,986,126	12,918,514
Transferred to accounts receivable	-	(175,534)
Effect of foreign currency exchange differences	(527,891)	243,146
At end of the period/year	12,458,235	12,986,126

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, 2015 (unaudited) US$	June 30, 2015 (audited) US$
Accounts receivable	34,762,067	38,176,988
Less: Effect of discounting, net	(606,084)	(799,755)
Allowance for doubtful debts	(1,465,991)	(1,528,109)
	32,689,992	35,849,124
Analysed for reporting purpose as:		
Non-current assets	27,674,552	8,104,804
Current assets	5,015,440	27,744,320
	32,689,992	35,849,124

Movement in the allowance for doubtful debts

	September 30,2015 (unaudited) US$	June 30,2015 (audited) US$
At beginning of the period/year	1,528,109	1,327,588
Transferred from unbilled revenue	-	175,534
Effect of foreign currency exchange differences	(62,118)	24,987
At end of the period/year	1,465,991	1,528,109

7. DEPOSITS

	September 30, 2015 (unaudited) US$	June 30, 2015 (audited) US$
Contract performance deposits (Note a)	7,716,408	8,550,879
Project tender deposits (Note b)	748,409	571,531
Others	355,011	460,385
	8,819,828	9,582,795

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, 2015 (unaudited) US$	June 30, 2015 (audited) US$
Advances to project managers and suppliers (Note)	562,815	1,177,652
Prepaid expenses	50,523	91,059
Other	195,549	243,937
	808,887	1,512,648

Note: The Group advanced monies to suppliers and project managers in order to secure construction materials and services. The advances of US$547,059 (June 30, 2015: US$1,155,119) 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, 2015 (unaudited) US$	June 30, 2015 (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	58,876	61,370

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

9. RELATED PARTY BALANCES AND TRANSACTIONS - continued

As at September 30, 2015, the Group has loans from a company totalling US$2,520,955 (June 30, 2015: US$2,627,776) 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, 2015 (unaudited)	September 30, 2014 (unaudited)
	US$	US$
Short-term employee benefits	76,266	77,487
Share-based payment	26,128	72,031
	102,394	149,518

10. RESTRICTED CASH/BANK NOTES PAYABLE

As at September 30, 2015 and June 30 2015, the Group had restricted cash pledged for credit facilities as follows:

	September 30,2015 (unaudited)	June 30,2015 (audited)
	US$	US$
Bank notes payable deposits	4,739,365	6,178,924
Bank loans deposits	4,009,895	4,179,806
	8,749,260	10,358,730

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$12,520,000 as of September 30, 2015 (June 30, 2015: US$16,278,000). The restrictions on the deposited cash will be released between October 2015 and March 2016, 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, 2015, the Group has bank loans outstanding totalling US$67,648,264 (June 30, 2015: US$73,487,387) for working capital and capital expenditure purposes.

	September 30, 2015 (unaudited) US$	June 30, 2015 (audited) US$
Secured	65,363,648	66,178,886
Unsecured	2,284,616	7,308,501
	67,648,264	73,487,387

As at September 30, 2015 and June 30, 2015, 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$29,424,000, US$788,000 and US$30,614,000 (June 30, 2015: US$29,127,000, US$821,000 and US$31,500,000) respectively. In addition, the Group has pledged its assets to secure bank loans of US$4,538,000 (June 30, 2015: US$4,730,000) granted to the Group and the carrying values of the pledged assets are as follows:

	September 30, 2015 (unaudited) US$	June 30, 2015 (audited) US$
Restricted cash	4,009,895	4,179,806
Property and equipment	1,282,266	1,336,600
Prepaid lease payments	106,157	112,197
	5,398,318	5,628,603

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 30,2015 (Unaudited) US$	June 30,2015 (audited) US$
Fixed-rate borrowing		
Denominated in RMB (range from 5.09% to 8.69% as of September 30, 2015 and range from5.36% to 8.69% as of June 30, 2015)	25,406,504	31,410,130
Variable rate borrowing Denominated in RMB (range from 4.37% to 8.70% as of September 30, 2015 and range from 4.85% to 8.70% as of June 30, 2015) (Note a)	42,241,760	42,077,257
	67,648,264	73,487,387

Notes:

(a) For bank loans in RMB, the variable rate range from 95% of Prime to Prime plus 4.1% as of September 30, 2015 (June 30, 2015: range from 95% of Prime to Prime plus 3.1%). Prime is the benchmark rate of the People's Bank of China.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2015 (unaudited) US$	June 30, 2015 (audited) US$
Accounts payable (Note)	19,145,165	15,264,031
Salaries and wages payable	204,043	187,783
Business taxes and other taxes payable	10,432,106	10,255,145
Accrued expenses	5,938,551	6,190,185
Others	3,904,776	3,842,434
	39,624,641	35,739,578

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, 2015, the Group has other loans outstanding totalling US$11,572,500 (June 30, 2015: US$10,839,597) for working capital and capital expenditure purposes.

	September 30, 2015 (unaudited) US$	June 30, 2015 (audited) US$
Obligation under a finance lease (Note a)	1,955,020	2,512,078
Loans from third parties (Note b)	7,011,407	5,578,810
Loan from a related company (Note c)	2,520,955	2,627,776
Others	85,118	120,933
	11,572,500	10,839,597
Secured	1,955,020	2,512,078
Unsecured	9,617,480	8,327,519
	11,572,500	10,839,597
Carrying amount repayable:		
Within one year	11,557,760	10,281,570
More than one year, but not exceeding two years	14,740	558,027
	11,572,500	10,839,597
Less: Amounts shown under current liabilities	(11,557,760)	(10,281,570)
	14,740	558,027

13. OTHER LOANS - continued

Notes:

(a) On September 30, 2013, the Group entered into a finance lease arrangement with an unrelated company, 远東國際租賃有限公司 ("Yuandong"), to lease certain machinery equipment, with a lease period of three years ending on September 30, 2016. Interest rate underlying the obligation under the finance lease is fixed at contract rate of 7.5% per annum. The effective interest rate of the finance lease is 12% per annum. The Group has an option to purchase the equipment for a nominal amount at the end of the lease term. No arrangement has been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	September 30, 2015	June 30, 2015	September 30, 2015	June 30, 2015
	US$	US$	US$	US$
Amounts payable under finance lease:				
Within one year	2,071,726	2,165,170	1,955,020	1,980,963
In more than one year and not more than five years	-	541,428	-	531,115
	2,071,726	2,706,598	1,955,020	2,512,078
Less: future finance charges	(116,706)	(194,520)	N/A	N/A
Present value of lease obligation	1,955,020	2,512,078		
Less: Amount due for settlement within 12 months (shown under current liabilities)			(1,955,020)	(1,980,963)
Amount due for settlement after 12 months			-	531,115

The Group's obligation under the finance lease is guaranteed by a wholly-owned subsidiary, Mr. Shou and his family member and an unrelated party. The Group has paid an upfront service charge of RMB2,340,000 (approximately US$382,228) to Yuandong related to the above arrangement.

In connection with the finance lease arrangement, the Group paid a security deposit of RMB3,550,000 (approximately US$580,693) at inception of the lease which will be refunded to the Group in full at the end of the lease period. As at September 30, 2015, the refundable deposit is US$560,125 (June 30, 2015: US$583,859).

(b) During the period ended September 30, 2015, 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.

(c) During the period ended September 30, 2015, 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, 2015 (unaudited) US$	June 30, 2015 (audited) US$
Balance, beginning of period/year	8,238,434	13,474,515
Interest charged	519,634	2,371,192
Interest paid	(344,142)	(1,643,385)
Extinguishment of convertible debentures	-	(11,702,473)
Fair value of liability component (including fair value of closely related embedded derivatives) of modified convertible debentures	-	7,176,773
Effect of foreign currency exchange differences	(781,468)	(1,438,188)
Balance, end of period/year	7,632,458	8,238,434

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

	September 30, 2015 (unaudited) US$	June 30, 2015 (audited) US$
Current liability	2,775,612	3,503,174
Non-current liability	4,711,396	4,735,260
	7,632,458	8,238,434

Convertible debentures - principal amount of CAD15,000,000

On November 1, 2010, the Company completed a prospectus offering of 15,000 unsecured subordinated convertible debentures at a price of CAD1,000 (equivalent to US$987) per debenture for gross proceeds of CAD15,000,000 (equivalent to US$14,799,000). Each convertible debenture bears interest at a rate of 10% per annum to be paid semi-annually in arrears and is 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 (subject to adjustment for among other things, subdivision or consolidation of shares, distribution of shares by way of dividend, cash dividend and options, rights or warrants) of CAD2.60 per share. The convertible debentures are redeemable by the Company at any time on or 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. The Company paid 6% agent's fee of CAD900,016 (equivalent to US$887,940) agent's legal and related expenses of CAD410,149 (equivalent to US$404,646) and other issue costs of CAD95,736 (equivalent to US$94,451), totalling CAD1,405,901 (equivalent to US$1,387,037).

14. CONVERTIBLE DEBENTURES - continued

Convertible debentures - principal amount of CAD15,000,000 - continued

The Company uses the residual value method to allocate the fair value of the convertible debentures between the liability and equity components. Under this method, the value of the equity component of CAD2,694,000 (equivalent to US$2,657,900) was determined by deducting the fair value of the liability component from the fair value of the entire convertible debentures. The fair value of the liability component of CAD11,153,000 (equivalent to US$11,003,593) was computed as the present value of future principal and interest payments discounted at a rate of 18% per annum. Debenture issue costs of CAD252,924 (equivalent to US$249,530) and deferred income tax expense of CAD341,330 (equivalent to US$336,750) were allocated to the equity component.

The principal amount of original convertible debentures outstanding as at June 30, 2014 was CAD15,000,000 (equivalent to US$14,050,000).

On March 20, 2015, the debenture holders approved a modification to the terms of the convertible debentures. The following modifications have been made and are effective July 1, 2015:

(i) The interest rate was increased from 10% to 11.5% per annum;
(ii) A retraction right was added whereby CAD5,000,000 is redeemable by the Company, at the holder's option, on October 31, 2015 and CAD1,500,000 is redeemable by the Company, at the holder's option, on each of October 31, 2016 and October 31, 2017. The redemption price is equivalent to 100% of the principal amount thereof to be retracted, together with accrued and unpaid interest on the principal amount of the debentures;
(iii) The maturity date was extended from October 31, 2015 to October 31, 2018;
(iv) The conversion price was reduced from CAD2.60 per share to CAD1.00 per share; and
(v) The restricted redemption period was extended to October 31, 2016.

The modification was considered an extinguishment of the existing convertible debenture and the recognition of a new convertible debenture as the modified terms were substantially different from the original terms. The carrying amount of liability and equity components of the existing convertible debentures on the date of approval of modification is CAD14,739,265 (equivalent to US$11,702,473) and CAD2,087,236 (equivalent to US$2,059,230), respectively. The Group engaged an independent valuer to carry out a fair value assessment on the liability component of the existing convertible debentures on that date, which is CAD13,711,246 (equivalent to US$10,886,261) at a discount rate of 27.4%. The value of the equity component of CAD43,969 (equivalent to US$34,910) was determined by deducting the fair value of the liability component from the fair value of the entire modified convertible debentures. As a result, a gain on extinguishment of the liability component of CAD1,028,019 (equivalent to US$816,212), being the difference between the fair value and carrying amount of the liability component together with any closely related embedded derivatives on extinguishment date, is recognised in the statement of profit or loss. Furthermore, the Company incurred transaction costs of CAD717,807 (equivalent to US$622,394) in relation to the modification, and recorded this against the gain on extinguishment of liability component, resulting in a net gain on extinguishment of CAD310,212 (equivalent to US$193,818) recognised in the statement of profit or loss.

14. CONVERTIBLE DEBENTURES - continued

Convertible debentures - principal amount of CAD15,000,000 - continued

The fair value of the liability component, as well as the early redemption embedded derivatives of the modified convertible debentures on the date of modification are as follow:

(i) Liability component is initially measured at fair value amounted to approximately CAD10,070,966 (equivalent to US$7,996,003), which represents the present value of the contractually determined stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option component, of 27.43% per annum;

(ii) In the opinion of the directors of the Company, the economic characteristics and risks of the early redemption options are closely related to the host debt contract of the convertible bonds. The fair value of early redemption options is determined using a Binomial Option Pricing Model. The variables and assumptions used in computing the fair value are based on the management' best estimate. The value varies with different variables of certain subjective assumptions.

Inputs into the binomial model used to determine the fair value of the early redemption options on modification date :

Share price	CAD0.62
Exercise price	CAD1
Option life	3.62
Volatility	93%
Risk-free interest rate	0.51%
Dividend yield	0%

(iii) The Company uses the residual value method to allocate the fair value of the convertible debentures between the liability and equity components. Under this method, the value of equity component of CAD5,798,071 (equivalent to US$4,603,470), is determined by deducting the fair value of liability component from the fair value of the entire convertible debentures.

15. INCOME TAXES

Income tax expenses are as follows:

	September 30,2015 (Unaudited) US$	September 30,2014 (Unaudited) US$
Current tax:		
PRC Enterprise Income Tax	1,476,354	1,906,697
Deferred tax:		
Current year	11,745	(262,774)
	1,488,099	1,643,923

15. INCOME TAXES - continued

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	Unbilled revenue	Plant and equipment	Total
	US$	US$	US$	US$
At June 30, 2014	3,321,738	(2,160,692)	733,336	1,894,382
Credited to profit or loss	-	(168,049)	583,249	415,200
Exchange realignment	62,520	(40,667)	23,529	45,382
At June 30, 2015	3,384,258	(2,369,408)	1,340,114	2,354,964
Credited to profit or loss	-	(102,103)	89,894	(12,209)
Exchange realignment	(137,572)	96,317	(54,476)	(95,731)
At September 30, 2015	3,246,686	(2,375,194)	1,375,532	2,247,024

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, 2014, June 30, 2015 and September 30,2015	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.

16. SHARE CAPITAL - continued

(b) Issued common shares - continued

Stock options - continued

As at September 30, 2015, the Company has stock options outstanding to directors and officers to acquire an aggregate of 1,755,000 (June 30, 2015: 1,755,000) common shares summarized as follows.

	Underlying shares	Weighted average exercised price CAD
Stock options outstanding at June 30, 2014	2,125,000	1.40
Issued during the period/year	1,755,000	0.61
Forfeited during the period/year	(2,125,000)	1.40
Stock options outstanding at June 30, 2015 and September 30,2015	1,755,000	0.61

Details of stock options outstanding:

Expiry date	Exercise price	Stock options outstanding		Stock options exercisable and vested	
		September 30, 2015	June 30, 2015	September 30, 2015	June 30, 2015
June 30, 2019	CAD0.61	1,755,000	1,755,000	1,316,250	1,170,000

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%

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, 2015 was US$11,070,371 (June 30, 2015: US$11,070,371).

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,	
	2015	2014
	(Unaudited)	(Unaudited)
	US$	US$
Earnings		
Earnings for the purpose of basic earnings per share (represented by profit for the year)	2,177,811	2,835,065
Effect of diluted earnings per share:		
Interest on convertible debentures (net of income tax)	384,529	378,908
	2,562,340	3,213,973
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	-	337,457
Convertible debentures	5,769,231	5,769,231
Weighted average number of common shares for the purpose of diluted earnings per share	31,189,296	31,526,753
Basic earnings per common share	0.09	0.11
Diluted earnings per common share	0.08	0.10

For the three months ended September 30, 2015, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options because the exercise price of those options was higher than the average market price.

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, 2015 (unaudited) US$	June 30, 2015 (audited) US$
Financial assets		
Loans and receivables		
Unbilled revenue	181,688,986	173,272,641
Accounts receivables	32,689,992	35,849,124
Restricted cash	8,749,260	10,358,730
Cash and cash equivalents	4,407,156	9,810,988
Deposits	8,819,828	9,582,795
Other receivables	1,999,980	648,442
Refundable deposits	560,125	583,859
Due from a related party	58,876	61,370
Total financial assets	238,974,203	240,167,949
Financial liabilities		
Other financial liabilities		
Bank loans	67,648,264	73,487,387
Bank notes payable	12,519,632	16,277,958
Accounts and other payables	19,349,208	15,451,814
Other loans	11,572,500	10,839,597
Convertible debentures	7,487,007	8,238,434
Financial guarantee contracts	3,132,257	3,132,257
Total financial liabilities	121,708,868	127,427,447

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.

20. FINANCIAL INSTRUMENTS- continued

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 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, 2014: 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$98,673 (September 30, 2014: increase/decrease in the Group's post-tax profit of approximately US$95,946). 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, 2014: 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$316,813 (September 30, 2014: decrease/increase in the Group's post-tax profit of approximately US$274,062). 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 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, 2015, revenue from the three customers accounted for 37% (September 30, 2014: 21%) of total revenue. The outstanding amounts owed by top three customers accounted for 39% and 27% (June 30, 2015: 46% and 22%) 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.

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.

20. FINANCIAL INSTRUMENTS – continued

Credit risk management– continued

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, 2015 and June 30, 2015.

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, 2015 and June 30, 2015. 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, 2015						
Bank loans	5.85	67,648,264			67,648,264	67,648,264
Bank notes payable		12,519,632			12,519,632	12,519,632
Accounts and other payables		19,349,208			19,349,208	19,349,208
Other loans	2.8	11,683,260	11,078		11,694,338	11,572,500
Convertible debentures	29.0	5,022,184	2,406,716	8,064,404	15,493,304	7,487,007
Financial guarantee contracts (Note)		54,830,781			54,830,781	3,132,237
		171,053,329	2,417,794	8,064,404	181,535,527	121,708,848

	Weighted average interest rate	Less than 1 year	1 - 2 years	2 - 5 years	Total undiscounted cash flows	Carrying amount
	%	$	$	$	$	$
At June 30, 2015						
Bank loans	6.2	73,487,387			73,487,387	73,487,387
Bank notes payable		16,277,958			16,277,958	16,277,958
Accounts and other payables		15,451,814			15,451,814	15,451,814
Other loans	2.8	10,465,777	568,340		11,034,117	10,839,597
Convertible debentures	29.0	5,447,407	2,610,491	8,747,208	16,805,106	8,238,434
Financial guarantee contracts (Note)		57,154,119			57,154,119	3,132,237
		178,284,462	3,178,831	8,747,208	190,210,501	127,427,447

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, 2015 and June 30, 2015, the Group has guaranteed the bank loans for other construction companies, in amounts totalling US$54,830,781 (June 30, 2015: US$57,154,119). No consideration has been specifically received by the Group for these guarantees.

During the year ended June 30, 2015, 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$3,132,000 (June 30, 2015: US$3,132,000) represented the amount of obligation under these contracts as at September 30, 2015.

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 30,2015 (unaudited) US$	June 30,2015 (audited) US$
Within one year	166,715	201,869
In the second to fifth years inclusive	-	2,013
	166,715	203,882

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

24. CLASSIFICATION

Certain comparative figures have been reclassified in the interim condensed consolidated financial statements, which have no effect on previous reported profit or equity, to conform with the current period's presentation.

25. SUBSEQUENT EVENTS

(a) On October 16, 2015, the Ontario Securities Commission issued a management cease trade order which imposed restrictions on all trading in and all acquisitions of securities of the Company by the Chief Executive Officer and Chief Financial Officer of the Company until all required filings have been made.

(b) On October 31, 2015, the Company successfully retracted and redeemed CAD5,000,000 of the 11.5% convertible debentures due on October 31, 2018.